Source : www.thehindu.com Date : 2019-04-05

PATHWAYS TO AN INCOME GUARANTEE

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

The idea of a minimum income guarantee (MIG) has caught up with political parties. A MIG requires the government to pay the targeted set of citizens a fixed amount of money on a regular basis. With the promise of the Nyuntam Aay Yojana (NYAY) by the Congress party, it is clear that the MIG is going to be a major political issue for the coming general election. A limited version of the MIG in the form of the PM KISAN Yojana is already being implemented by the NDA government at the Centre. State governments in Odisha and Telangana have their own versions of the MIG.

NYAY is the most ambitious of these MIG schemes. It promises annual income transfers of 72,000 to each of the poorest five crore families comprising approximately 25 crore individuals. If implemented, it will cost the exchequer 3.6 lakh crore per annum.

Several questions arise. Is there a case for additional spending of such a large sum on the poor? The answer is yes. Can government finances afford it? No. Even if the government can mobilise the required sum, is the scheme a good way of spending money on the poor? No.

Many landless labourers, agricultural workers and marginal farmers suffer from multi-dimensional poverty. Benefits of high economic growth during the last three decades have not percolated to these groups. Welfare schemes have also failed to bring them out of destitution. They have remained the poorest of Indians. Contract and informal sector workers in urban areas face a similar problem. Due to rapid mechanisation of low-skill jobs in the construction and retail sectors, employment prospects for them appear increasingly dismal.

These groups are forced to borrow from moneylenders and *adhatiyas* (middlemen) at usurious rates of 24-60% per annum. For instance, for marginal and small farmers, institutional lending accounts for only about 30% of their total borrowing. The corresponding figure for landless agricultural workers is even worse at 15%. There is a strong case for direct income transfers to these groups. The additional income can reduce their indebtedness and help them get by without falling into the clutches of the moneylender.

Maximum gambit: on Congress' minimum income pledge

However, the fiscal space is limited. The Congress's scheme will cost about 1.92% of the GDP. No government can afford it unless several existing welfare schemes are converted into direct income transfers, or the fiscal deficit is allowed to shoot up way above its existing level, 3.4% the GDP.

The welfare of the poor and downtrodden trumps concerns over the fiscal burden. Nonetheless, the form of an income transfer scheme should be decided carefully. We know very little about the aggregate effects of unconditional cash transfers at the large scale conceived under NYAY.

On the one hand, income transfers will surely reduce income inequalities and help bring a large number of households out of the poverty trap or prevent them from falling into it in the event of shocks such as illness or death of an earner. The poor spend most of their income, and a boost in their income will provide a boost to economic activities by increasing overall demand. On the other hand, large income transfers can be inflationary, which will hurt the poor more than the rich.

The effect of cash transfers on the workforce is also a moot point. In principle, the income supplement can come in handy as interest-free working capital for several categories of beneficiaries such as fruit and vegetable vendors and small artisans, and promote their businesses and employment. At the same time, large cash transfers can result in withdrawal of beneficiaries from the labour force. A MIG can also provide legitimacy to the state's withdrawal of provisions of the basic services.

There are very few studies on these issues. Existing studies have dealt with limited income transfers to only a small set of the poor. In the absence of empirical evidence regarding the aggregate effects of large income transfers, it will be irresponsible to dismiss the concern over such issues as elitist.

For one, the scheme should be launched in incremental steps. An income support of, say, 15,000 per annum can be a good start. This amount equals 30% of the annual income of marginal farmers; and more than one-fourth of the average consumption of the poorest 40% of households. Studies show that even a small income supplement can improve nutrient intake at high levels of impoverishment. Besides, it can increase school attendance for students coming from poor households. This would mean improved health and educational outcomes, which in turn will make the working population more productive. Moreover, with a modest income support the risk of beneficiaries opting out of the workforce will also be small.

Besides, a moderate income support can be extended to a larger set of poor households. For the lowest 40% (about 10 crore households), income is less than their consumption expenditure. In other words, on an average these households have to borrow to meet their expenses. These people can surely do with additional income support.

According to the Socio-Economic and Caste Census (SECC) 2011, around six crore households suffer from multidimensional poverty. These include the homeless, tribal groups, the landless, families without an adult bread-earner or a pucca house. Within this group it is almost impossible to exactly identify the poorest five crore households to be covered under the NYAY.

However, the SECC along with the Agriculture Census of 2015-16 can help identify a larger set of poor based on verifiable criteria; namely, multidimensional poverty, landlessness and the marginal farmer. Together, these criteria cover the bottom 40%, approximately 10 crore households. Drawing upon the experiences with the poor-centric welfare schemes such as MNREGA, Saubhagya and Ujjwala and PM-KISAN, datasets can be prepared and used to update the list of needy households.

For these 10 crore households, to start with, the scheme will require 1.5 lakh crore per annum. The PM KISAN Yojana can be aligned to meet a part of the outlay. Moreover, the tax collection would need to be increased by reintroducing the tax for the super-rich. Nonetheless, the required amount is beyond the Centre's fiscal capacity at the moment. Therefore, the cost will have to be shared by the States. Still the scheme would have to be rolled out in phases, as was done for MGNREGA.

All considered, no income transfer scheme can be a substitute for universal basic services. The direct income support to the poor can deliver the intended benefits only if it comes as a supplement to the public services such as primary health and education. This means that direct transfers should not be at the expense of public services for primary health and education. Moreover, universal health and life insurance are equally important, and so is the case with crop insurance. Each year, medical shocks and crop failures push many families into the poverty trap. The scope of Ayushman Bharat needs to be expanded to include outdoor patient treatments. The PM Fasal Bima Yojana can be made more comprehensive by providing free and wider insurance coverage.

There is a strong case for spending 3.6 lakh crore on the poor. But let’s do so carefully.

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