

A SAFETY NET, POST COVID

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

In the post corona crisis situation, India has to address many problems, of which two stand out. First, the improvement of our healthcare system and second, the need for the institution of a scheme to provide minimum income support to the weak and vulnerable groups. In this article, we address the second issue.

There has been considerable discussion on [universal basic income](#) (UBI) in recent years. It is true that a universal scheme is easy to implement. Feasibility is the critical question. The Congress had suggested NYAY to help the poor. The problem with non-universal targeted programmes is the problem of identification. Narrowly-targeted programmes will run into complex problems of identification and give rise to exclusion and inclusion errors.

In order to avoid the identification problem, we have three proposals which meet the objective of providing a minimum basic income to the poor and vulnerable groups in both rural and urban areas. These are: One, give cash transfers to all women above the age of 20 years; two, expand the number of days provided under MGNREGA and three, have a national employment guarantee scheme in urban areas. In all the three proposals, there is no problem of identification. A combination of cash transfers and an expanded employment guarantee scheme can provide a minimum basic income.

On the proposal of cash transfers, one way of doing it will be to give it to all women say above the age of 20. This is an easily identifiable criterion because the [Aadhaar](#) cards carry the age of the person. The female population above the age of 20 is around 42.89 crore. Making available a minimum of Rs 4,000 annually as a cash transfer to all of them will cost Rs 1.72 lakh crore — 0.84 per cent of GDP. This is in addition to the income from an expanded MGNREGA as given below. The cost of the scheme to the government will be less if the well-off women choose not to take the cash transfer.

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**ESTIMATES OF EXPENDITURE FOR EMPLOYMENT GUARANTEE SCHEME
RURAL AND URBAN AREAS (RS CRORE)**

7	Expenditure on Wages (₹ Crores)		Expenditure on Wages and Materials (₹ Crores)	
	100 days	150 days	100 days	150 days
Rural	1,10,970	1,66,455	1,44,261	2,16,392
Urban	53,865	80,738	70,025	1,05,037
Total	1,64,835	2,47,193	2,14,286	3,21,429
% of GDP	0.81%	1.21%	1.05%	1.58%

Note: According to Second Advance Estimates of National Statistical Office.
Nominal GDP in 2019-20 is Rs. 209,94,739 crore.

The second and third approaches are expanding MGNREGA in rural areas and introducing an employment guarantee programme in urban areas respectively. At present, MGNREGA is availed of only for 50 days of employment, although the Act guarantees 100 days of employment. One way to help the poor and informal workers is to strengthen it. We have two proposals here. The first is to increase the number of days under the scheme from 100 to 150 in rural areas. The second is to introduce an Employment Guarantee Act in urban areas and provide employment for 150 days. In 2019-20, the government spent Rs 67,873 crore for providing 48 days of employment to 5.48 crore of rural households. Out of this, the wage expenditure was Rs 48,762 crore.

The government has increased the per day wage rate from Rs 182.1 in 2019-20 to Rs 202.5 in 2020-21. Using this wage rate, we estimate the expenditure for 150 days of employment to 5.48 crore households in rural areas and 2.66 crore households in urban areas — together they account for 33 per cent of total households in the country. As shown in the table, the total wage expenditure for 150 days is Rs 2.47 lakh crore (1.21 per cent of GDP) while total expenditure (wages and materials) is Rs 3.21 lakh crore (1.58 per cent of GDP) in 2020-21. It may be noted that this estimate includes the current expenditure of generating around 50 days of employment in rural areas which is already committed by the government. Therefore, the proposed additional expenditure for 150 days of employment in both rural and urban areas would be Rs 1.91 lakh crore (0.94 per cent of GDP) as wage expenditure and Rs 2.48 lakh crore (1.22 per cent of GDP) as total expenditure on wages and materials. In other words, the additional expenditure needed for our proposal is Rs 1.9 to 2.5 lakh crore, around 1 to 1.22 per cent of GDP.

Apart from expanding rural MGNREGA, we are proposing a nation-wide urban employment guarantee scheme to improve livelihoods. The design can be slightly different from MGNREGA. In urban areas, employment can be provided to both unskilled and semi-skilled workers as there is demand for the latter workers also.

The first proposal of providing cash transfers to women above 20 costs Rs 1.72 crore (0.84 per

cent of GDP). The total cost on MGNREGA for providing 150 days of employment in rural areas and the cost for 150 days of work for the Urban Employment Guarantee Scheme is around Rs 3.21 crore in a year (1.58 per cent of GDP). The total cost of the three proposals would be Rs 4.9 lakh crore or 2.4 per cent of GDP. A person working in MGNREGA and in the urban programme can get Rs 30,000 if 150 days are provided.

It may be noted, however, that the total expenditure of the proposals could be lower due to two reasons. First, the number of days availed by the employment guarantee programmes could be lower as it is a demand-based programme. This is happening even now. Second, on cash transfers, some women, particularly from richer classes, may voluntarily drop out of the scheme or alternatively, we can provide that everyone receiving cash transfer must declare that her total monthly income is less than Rs 6,000 per month. In addition, it may be noted that the government is already incurring a total expenditure of Rs 67,873 crore on MGNREGA.

The feasibility of raising an additional Rs 4.2 lakh crore is not an easy one. Some analysts have suggested that we can remove all exemptions in our tax system and that would give enough money. Apart from the difficulties in removing all exemptions, tax experts advocate removing exemptions so that the basic tax rate can be reduced. Perhaps, out of the Rs 4.2 lakh crore which is needed, Rs 1 lakh crore can come out of phasing out of some of the expenditures, while another Rs 3 lakh crore must come out of raising additional revenue. Some of the non-merit subsidies, another item of expenditure, can be eliminated.

To conclude, in the post-[COVID-19](#) situation, we need to institute schemes to provide a minimum income for the poor and vulnerable groups. For this purpose, we propose here cash transfers for women, increasing MGNREGA from the present 100 days of work to 150 days in rural areas and the introduction of 150 days of work as an urban employment guarantee scheme. This will cost around 2 per cent of GDP and will help the poor, informal workers, including the migrant workers, significantly reducing poverty.

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