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ENSURE A MINIMUM INCOME FOR ALL

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

The idea of a universal basic income (UBI) is gaining ground globally. It has supporters among the political left and right, and among proponents as well as opponents of the free-market economy. A UBI requires the government to pay every citizen a fixed amount of money on a regular basis and without any conditionalities. Crucial to the appeal for such a demand — for a UBI — is that millions of people remain unemployed and are extremely poor, despite rapid economic growth in the last three decades. The National Democratic Alliance government has already unfolded a limited version of the UBI in the form of the Pradhanmantri Kisan Samman Nidhi Yojana (PM-KISAN) which promises 6,000 per annum to farmers who own less than 2 hectares of land. Going by media reports, the election manifesto of the Congress Party may announce an even more ambitious version of the scheme.

The UBI is neither an antidote to the vagaries of market forces nor a substitute for basic public services, especially health and education. Besides, there is no need to transfer money to middle- and high-income earners as well as large landowners.

However, there is a strong case for direct income transfers to some groups: landless labourers, agricultural workers and marginal farmers who suffer from multi-dimensional poverty. These groups have not benefited from economic growth. They were and still are the poorest Indians. Various welfare schemes have also failed to bring them out of penury.

A case in point is the access to institutional credit issued by banks and cooperative societies. According to National Sample Survey Office (NSSO) data from the 70th round, institutional credits account for less than 15% of the total borrowing by landless agricultural workers; the figure for marginal and small farmers is only 30%. These groups have to borrow from moneylenders and *adhatiyas* at exorbitant interest rates ranging from 24 to 60%. As a result, they do not stand to benefit much from the interest rate subsidy for the agriculture sector. Likewise, the benefits of subsidised fertilizers and power are enjoyed largely by big farmers. In urban areas, contract workers and those in the informal sector face a similar problem. The rapid pace of automation of low-skill jobs and formalisation of the retail sector mean the prospects of these groups are even bleaker.

An income support of, say, 15,000 per annum can be a good supplement to their livelihoods — an amount worth more than a third of the average consumption of the poorest 25% households, and more than a fourth of the annual income of marginal farmers.

This additional income can reduce the incidence of indebtedness among marginal farmers, thereby helping them escape moneylenders and adhatiyas. Besides, it can go a long way in helping the poor to make ends meet. Several studies have shown that at high levels of impoverishment, even a small income supplement can improve nutrient intake, and increase enrolment and school attendance for students coming from poor households.

In other words, income transfers to the poor will lead to improved health and educational outcomes, which in turn would lead to a more productive workforce. It seems to be a good idea to transfer the money into the bank accounts of women of the beneficiary households. Women tend to spend more of their income on health and the education of children.

The effect of an income transfer scheme on unemployment is a moot point. In principle, cash

transfers can result in withdrawal of beneficiaries from the labour force. However, the income support suggested above is not too large to discourage beneficiaries from seeking work. In fact, it can promote employment and economic activities. For instance, income receipts can come in handy as interest-free working capital for several categories of beneficiaries (fruit and vegetable vendors and small artisans), thereby promoting their business and employment in the process.

Moreover, such a scheme will have three immediate benefits. One, it will help bring a large number of households out of the poverty trap or prevent them from falling into it in the event of exigencies such as illness. Two, it will reduce income inequalities. Three, since the poor spend most of their income, a boost in their income will increase demand and promote economic activities in rural areas. Nonetheless, an income transfer scheme cannot be a substitute for universal basic services. The direct income support to the poor will deliver the benefits mentioned only if it comes on top of 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. If anything, budgetary allocation for these services should be raised significantly. Programmes such as the Mahatma Gandhi Rural Employment Guarantee Scheme should also stay. With direct income support, the demand for the programmes will come down naturally. However, in the interim, it will serve to screen the poorest in the country and give them a crucial safety net.

If basic public services are maintained, there is limited fiscal space for direct income support. It will have to be restricted to the poorest of poor households. The Socio-Economic and Caste Census (SECC) 2011 can be used to identify the neediest. Groups suffering from multidimensional poverty such as the destitute, the shelter-less, manual scavengers, tribal groups, and former bonded labourers are automatically included. The dataset includes more than six crore landless labourers. It also includes many small farmers who face deprivation criteria such as families without any bread-earning adult member, and those without a pucca house.

The other needy group, small farmers, missing from the SECC can be identified using the dataset from the Agriculture Census of 2015-16. Together, these two datasets can help identify the poorest Indians, especially in rural India. However, many households such as marginal farmers belong to both datasets. The Aadhaar identity can be used to rule out duplications and update the list of eligible households.

As an approximation, the number of eligible households is 10 crore. That is, even in its basic form, the scheme will require approximately 1.5 lakh crore per annum. The PM-KISAN Yojana can be aligned to meet a part of the cost. Moreover, the tax kitty can be expanded by reintroducing wealth tax. Nonetheless, the required amount is beyond the Centre’s fiscal capacity at the moment. Therefore, the cost will have to be shared by States. States such as Telangana and Odisha are already providing direct income support to their farmers. These States can extend their schemes to include the ‘non-farmer poor’. The other States too should join in.

The income transfer scheme is costly. However, the cost of persistent poverty is much higher.

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