



Pathways to an income guarantee

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There is a compelling case for spending Rs.3.6 lakh crore on the poor, but it must be done carefully

- 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, promises annual income transfers of Rs.72,000 to each of the poorest five crore families comprising approximately 25 crore individuals.
- If implemented, it will cost the exchequer Rs.3.6 lakh crore per annum.
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Important questions

- 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.
- 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.
- 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.

Shape of the scheme

- 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.
- 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.
- For one, the scheme should be launched in incremental steps.

- 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.

Identifying beneficiaries

- 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.

Not a substitute for services

- 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.