



# The case for minimum basic income

Posted at: 31/01/2019

## **It will address inequality, alleviate rural distress and include the urban poor**

- The Modi government will present its last Budget tomorrow.
- Conventionally, the Budget presented in an election year is a vote on account, aimed at providing funds for the government to function until the formation of new government.
- However, in recent times, the convention has been followed loosely.
- It won't be surprising if the Modi government announces an income support scheme to mitigate rural distress in its interim Budget, in response to Congress President Rahul Gandhi's promise of providing minimum basic income to the poor, if voted to power.

## **Some encouraging results**

- The cynicism over the avant-garde policy tool of minimum income seems overblown.
- A pilot project conducted between 2010 and 2013, covering 6,000 beneficiaries in Delhi and Madhya Pradesh, yielded encouraging results.
- It confirmed that at high levels of impoverishment, even the smallest income supplement can improve nutrient intake, school enrolment and attendance of female students, and reduce incidence of indebtedness.
- There are other questions, too:
  - Why income support and why now?
  - What are the operational and design imperatives?
  - And how much fiscal space can be opened up in a sustainable and serious way?
- Let's look at these concerns.

## **Why income support?**

- The reforms since 1991 have largely bypassed agriculture and other segments of the economy that engage poor and rural Indians.
- While incomplete economic liberalisation and technological advances

have led to growth in national income, all individuals have not gained equally.

- Besides equity, there's also an urgent need to address rural distress, which is largely a consequence of policy failures such as ineffective procurement and perverse trade and pricing policies that have in times of bumper harvests led to gluts, depressed market prices, and aggravated farmer losses.
- So, it is only fair that the government pays reparations to farmers in some form.
- At least two States, Telangana and Odisha, are already experimenting in a limited way with income support schemes, focused on the farm sector.
- Last year, the Budget had promised compensatory payments to farmers equal to the gap between depressed market prices and the minimum support prices (MSPs) announced.
- But MSP-based payments distort price signals to farmers on what to produce and how much in the subsequent season.
- The advantage of a minimum income guarantee is that it will also cover the urban poor, who are not covered in these schemes.
- While job guarantee programmes, such as the Mahatma Gandhi National Rural Employment Guarantee Scheme, lock up beneficiaries in low-productivity work, income supplements allow them to continue to look for better employment options.

### **Opening up fiscal space**

- Income supplements can be transferred into Jan Dhan or Post Office accounts.
- Beneficiaries can be selected through the Socio-Economic Caste Census (the last round was conducted in 2011, the results of which were released in July 2015).
- Healthcare, education, water conservation, environment and other merit subsidies need to be preserved and improved and should not be reduced to fund income transfers.
- Taxpayers must realise that agri-prices, and therefore farm incomes, are not free market-driven.
- They are kept artificially low, through pricing policy instruments, so that inflation does not erode the rest of the population's purchasing power.