

The case for minimum basic income

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



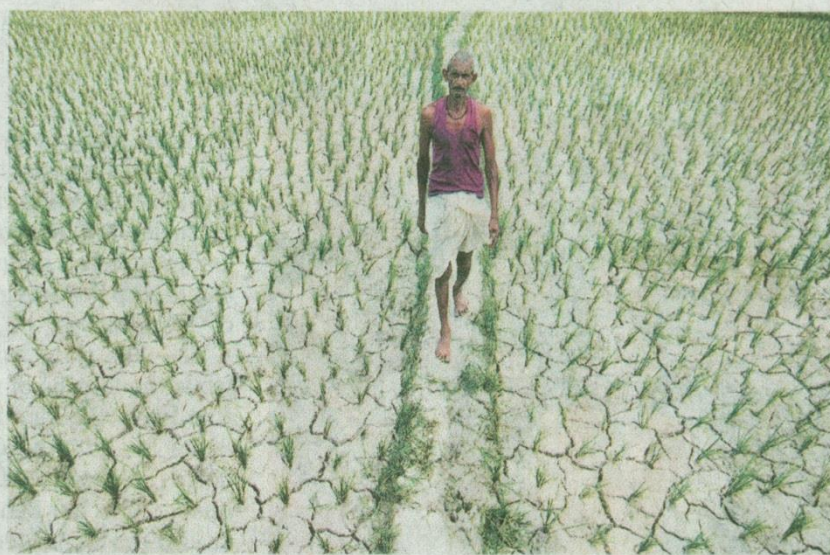
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The Modi government will present its last Budget tomorrow. Conventionally, the Budget presented in an election year is a vote on account, aimed at providing funds for the government to function until the formation of new government. However, in recent times, the convention has been followed loosely. In 2014, for instance, the Manmohan Singh-led government's interim Budget announced the One Rank, One Pension scheme and allocated ₹500 crore for its rollout. By no means was this an emergency measure that could not have waited until the completion of the election. The Budget also announced cuts in excise duties on some items, including small cars and capital goods, in the hope of reviving consumption and investments. Therefore, 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. The study showed that consumption of pulses went up by 1,000%, fresh vegetables by 888%, and meat by 600% among the beneficiaries. This evidence challenges the commonly held views that welfare payments are an affront to the dignity of the beneficiaries and that they are used for questionable purposes, such as for buying alcohol.

There are other questions, too: Why income support and why now?



"Rural distress is largely a consequence of policy failures." A parched paddy in Tezpur in Sonitpur district of Assam in 2006. ■ RITU RAJ KONWAR

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. The disproportionate share of gains from the reforms have gone to middle-class and rich Indians. This unevenness in development calls for a superior economic growth model. Until that happens, redistributive policy interventions such as income transfers can improve equity. Income transfers are not to be confused with doles or unemployment benefits. They are unconditional income supplements to compensate for policy failures and ease the economic anxieties of the less advantaged. In the West, economists are advocating universal basic income to fight inequality and slow wage growth, allay fears that immigrants will take away jobs, and advance automation.

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. In Telangana, the government is providing farmers income support payment at the rate of ₹10,000/ha (₹4,000/acre). However, this model, the Rythu Bandhu, benefits the biggest landowners the most, including those who lease out their land. Tenants, sharecroppers and landless labourers, the most vulnerable, are out of its coverage. Its success depends on reliable land records.

Odisha's recently notified KALIA (Krushak Assistance for Livelihood and Income Assistance) irons out these creases. It proposes to transfer ₹5,000 in cash per season (₹10,000 per year for double-cropped land) to the State's 30 lakh marginal farmers, leaving out the two lakh large farmers. It promises cash grants of ₹12,500 each to the State's 10 lakh landless households. The hope is that they will use this money to rear goats or poultry and farm mushrooms or honey. Fisherfolk are covered too, and will receive the investment support for buying fishing nets and allied equipment.

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.

Rythu Bandhu and KALIA are superior policy interventions. Plus, they do not suffer from the moral hazard and limited reach of farm loan waivers. Waivers penalise farmers who repay loans on time and benefit only borrowers from banks.

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

And are these schemes feasible politically, operationally and fiscally? 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).

Increasing the fiscal deficit hurts the poor, for it sparks off inflation and cannot be the way to fund income transfers. Is there really a paucity of funds or judiciousness in spending? In 2017-18, the Centre and the States collected more than ₹5 lakh crore through various taxes, royalty payments and dividends from producers and consumers of petroleum products. Streamlining distortionary and demerit subsidies, such as on urea (₹70,000 crore annually), can open up significant fiscal space. Healthcare, education, water conservation, environment and other merit subsidies need to be preserved and improved and should not be reduced to fund income transfers.

If the wealth tax that the government had abolished in 2015 is reintroduced as a fair and easy-to-collect levy on the super-rich, selling politically to the middle class an income support scheme for the poor will be easier. 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. Will Mr. Modi bite the bullet?

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