

## **How to Deliver a Real Minimum Income Guarantee to India's Citizens\***

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The Congress Party's recent declaration that if voted to power, it will seek to ensure a minimum income to 20 per cent of the poorest households in the country is laudable in intent. It also brings back policy attention to the penury and insecurity that continue to plague much of India's population, and particularly the most destitute. But as presented, it is completely unworkable – and if the Congress Party is really serious about this goal of eliminating poverty, it will have to think of a different way of reaching it.

Consider the broad outlines of the scheme that was announced. The proposed minimum income has been set at Rs 12,000 per month. This is a remarkably high level, given that minimum wages in most states are well below this and even the remuneration by central government to anganwadi workers and ASHAs is less than one third this amount. The bottom 20 per cent of households are to be provided a cash transfer directly into their bank accounts, of a maximum of Rs 6,000 per month (or Rs 72,000 per year) which presumably will bring them up to this level. Around 50 million households are expected to benefit from this.

The fiscal costs of this are not as much as might be imagined. At Rs 360,000 crore, the maximum anticipated expenditure amount to just under 2 per cent of GDP. This is only one-third of the amount that is regularly given away as tax concessions to corporates and rich individuals, and there are many ways of raising such an amount that are available to a committed government. Of course, if this is to replace any other government spending then the matter becomes more problematic, because other welfare schemes (like maternity benefits, scholarships, etc.) have different and very specific purposes. That is why the statement of one Congress spokesperson that other schemes will be “rationalised” raises major concerns.

The criticisms of this scheme are not about cost: rather they are about the workability of the scheme and the possibility of other and better ways of using such fiscal resources. The identification of households is just the first problem. Contrary to what is being claimed, the Socio-Economic and Caste Census conducted in 2011-12 did not even attempt to measure the incomes of households. Instead, it used a variety of other metrics to estimate multidimensional poverty, which in turn became the basis for identifying possible beneficiaries of schemes intended for the poor.

Incomes are notoriously hard to measure or estimate: the few surveys (such as the India Human Development Surveys) that have tried to measure income have done so for a much smaller sample (not a full census of all households) and on the basis of a long, time-consuming questionnaire that requires additional estimations by investigators. In any case, incomes change over time. Those who were classified as poor in 2011-12 may not be so today, while others may have become poor in the meantime.

Trying to measure incomes today would obviously face the problem of respondents wanting to game the system by reporting incomes lower than those they actually receive. With self-employed workers (currently around half of the workforce) such

measurement becomes even more difficult if not impossible. Even regular and casual paid workers in informal work often have incomes that vary by week and month. To establish the bottom 20 per cent would require estimating the incomes of everyone – a logistical nightmare, and an administratively expensive and oppressive process.

Then the process of delivery of these cash incomes to the identified poor would pose another set of massive problems. The poorest and most destitute people in the country tend to live in far flung and more backward regions, without poor access to basic banking and other infrastructure. Those fondly believing that the JAM trinity (Jan Dhan, Aadhaar and mobile telephony) would somehow provide a technological fix to this problem have clearly refused to look at and learn from the massive exclusions and other problems created by Aadhaar in other public service delivery, including cash transfers.

Instead of embarking on a massive administrative exercise with uncertain benefits, it is possible to think of another combination of public interventions that would actually ensure minimum income to a much larger proportion of the population. This is another trinity – and arguable a more desirable one: universal basic services, universal employment guarantee and universal pensions. In other words, provide good quality public services (including in health and education) for all, including through a significant expansion of regular public employment in these services; provide 100 days of work at the minimum wage to all adults (not per household, but to every adult man or woman) in both urban and rural areas and include some skilled work and training elements in such employment; and provide universal non-contributory pension at half the minimum wage to the elderly and those who cannot work because of disability.

This combination would actually be much more effective in ensuring a minimum income guarantee to all adults – and therefore to households as well. It would be more democratic because it would be universal in scope, with self-selection in work driving the employment in public works programmes. It would enable more extensive and better quality delivery of public services, which in turn would generate a better quality of life for the entire population, and create a healthier and more educated population. It would be less unequal in scope and not create divisions between people and disaffection because of unwarranted inclusion or unjustified exclusion of some in an income transfer scheme. It would ensure social security and dignity to those who cannot work any more because of old age or disability.

All this would create significant multiplier effects that would lead to major secondary increases in economic activity. So there would be a major positive impact on employment both directly and indirectly – and this would encompass skilled work as well. So job creation – such a major concern in today's economy – would also be galvanised.

The total costs of such a combination are only about three times the proposed income guarantee scheme for the poorest, but it would affect the bulk of the population, ensure better health and education access and create the grounds for a more equal society. Because of multiplier effects on income, the government would get more tax revenues that would make the net costs much lower.

If the Congress Party – or indeed any party – is serious about eliminating poverty, then this combination is more feasible, more effective, and a more just solution.

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