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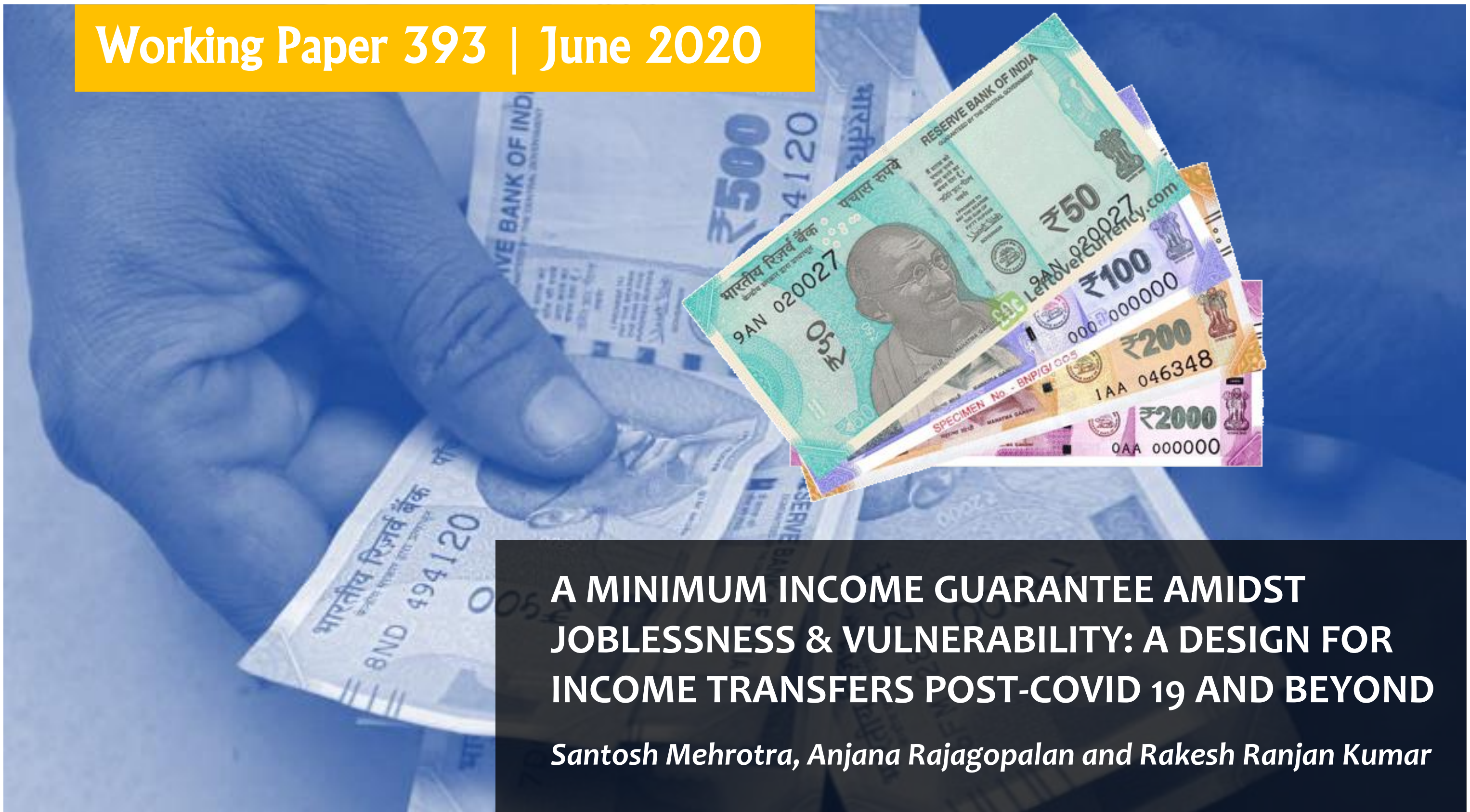

A MINIMUM INCOME GUARANTEE AMIDST JOBLESSNESS & VULNERABILITY: A DESIGN FOR INCOME TRANSFERS POST-COVID 19 AND BEYOND

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Key Highlights

- The three pre-requisites for an unconditional MIG to the poor were not in place ten years ago: *appropriate identification of poor; bank accounts with every poor household; beneficiaries who could be biometrically identifiable/cross-checked.* Today, they are in place and it is administratively feasible now.
- There is urgent need for a demand stimulus to the economy post-pandemic collapse of output and jobs. MIG could offer cash transfers in no case higher than Rs.8000 per annum on a medium term basis (except temporarily for a few months in 2020 due to the post pandemic economic shock, when monthly transfers could be Rs 2500 per month).
- The coverage of the MIG as per Socio Economic and Caste Census, which would be the main mechanism for identifying beneficiaries, would be 62.4 percent of all households of India. It is expected to cover 70 percent of rural households and around 40 percent of urban households. By comparison, PM KISAN, the cash transfer made provision for Rs 6000 annually (since February 2019), is only expected to cover around two third of landowning farmer families.
- Overall the expenditure on MIG as per the graded payment will be less than Rs. 70,000 crore, or just 0.34 percent of the GDP (at 2019-20 prices).

EXECUTIVE SUMMARY

The COVID19 pandemic and lockdown adversely impacted millions of households that are vulnerable and deprived. Many such households would slip into poverty as a result of loss of income and livelihoods. As employment is highly skewed towards the informal and unorganized sector, without the protection of social security, an adverse economic shock can bring households to their knees. Unemployment, already at a 45 year high in 2018, reached 27 percent in April 2020, and which will fall after some economic recovery, will certainly remain high in post-COVID19 times along with a collapse in output and incomes. Given the limited nature of the stimulus, employment growth will take longer to recover. Is a Minimum Income Guarantee (MIG) one solution the government needs to finally consider, to protect marginalized and deprived households, with a view to raising consumption demand?

Universal Basic Income (UBI) in India came into common parlance with the Economic Survey in 2016-17. It proposed Quasi UBI along with the JAM trinity, linking Jan Dhan Accounts, Aadhar and Mobile. There were many proposers of UBI in India, both for the universal and targeted versions. For instance, there were suggestions for a minimum weekly income of Rs 13,000 per year to all adults in lieu of subsidies and welfare programs (Banerjee, 2016), or an annual transfer of Rs. 13,432 to every adult so that everyone's income is at least above the poverty line (Ghatak, 2016). Similarly, a universal inflation-indexed transfer of Rs 10,000 per annum, which is 75% of the poverty line (2014–15) to every individual was also proposed (Bardhan, 2016). More recently, the proposals suggest transfer of Rs. 18000 per household per annum that is one-third of current consumption of poorest 40% households (Subramanian, 2019). Other similar views suggest an Inclusive Growth Dividend (IGD) which is to be pegged at

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1% of GDP per capita, as an universal basic income transfer to all individuals (Ghatak and Muralidharan, 2019). But are such transfers feasible and implementation friendly?

The *three* pre-requisites for an unconditional MIG to the poor were not in place ten years ago: *appropriate identification of poor; bank accounts with every poor household; beneficiaries who could be biometrically identifiable/cross-checked.* Today, they are in place and it is administratively feasible now. Why is MIG-type cash transfer for the poor needed, especially now, post-Covid?

The latest NSS All India Debt and Investment Survey (2013) shows over 70% rural population has one or more standing loans and nearly 74% of farmer households were in debt. These debts heavily constrain their expenditure on non-essentials, especially manufactures, reducing effective demand for manufactures, leading in turn to low investment in manufacturing. Thus, the poor's never-ending debts impact not only human well-being but have macro-economic consequences. The strong case for MIG derives from the fact that the poor rarely accumulate assets and if they do, they are lost to droughts, floods, displacement by projects, catastrophic health expenses, etc. They need cash debts to meet consumption as well as contingency needs; they rarely borrow for productive purposes. Non-routine consumption can push them further into debt and poverty. A minimum income guarantee will empower households, giving them some fungible funds, especially if given to women.

We propose not a universal but a target minimum income. By contrast, a UBI also requires a substantial financial commitment and cannot be financed without cutting other social welfare schemes and non-merit subsidies. Thus it is better to have a targeted MIG scheme instead of a universal one. Also, a MIG per household has to be kept low, due to fiscal constraints of governments. And finally we propose a graded MIG, where income guaranteed should be proportional to deprivation suffered.

One major problem with targeting is how to target without a beneficiary being misidentified, resulting in exclusion-inclusion errors. Our approach is to identify households that are directly verifiable, and face observable deprivations or vulnerabilities. We assume that every reasonably well-off household will be excluded, and we then progress to include households based on their relative level of deprivation. Any attempt to ***identify beneficiaries*** of MIG based on incomes is a risky exercise in any economy with extremely high share of informal incomes and employment. The NYAY design (suggested in early 2019) for this (and other reasons) was inappropriate.

India's reasonably robust Socio-economic and Caste Census (SECC,2011-13) is useful for identifying households with one or more of seven deprivations; each deprivation is based on observable, directly verifiable household characteristics, providing a much better indicator than 'income'.

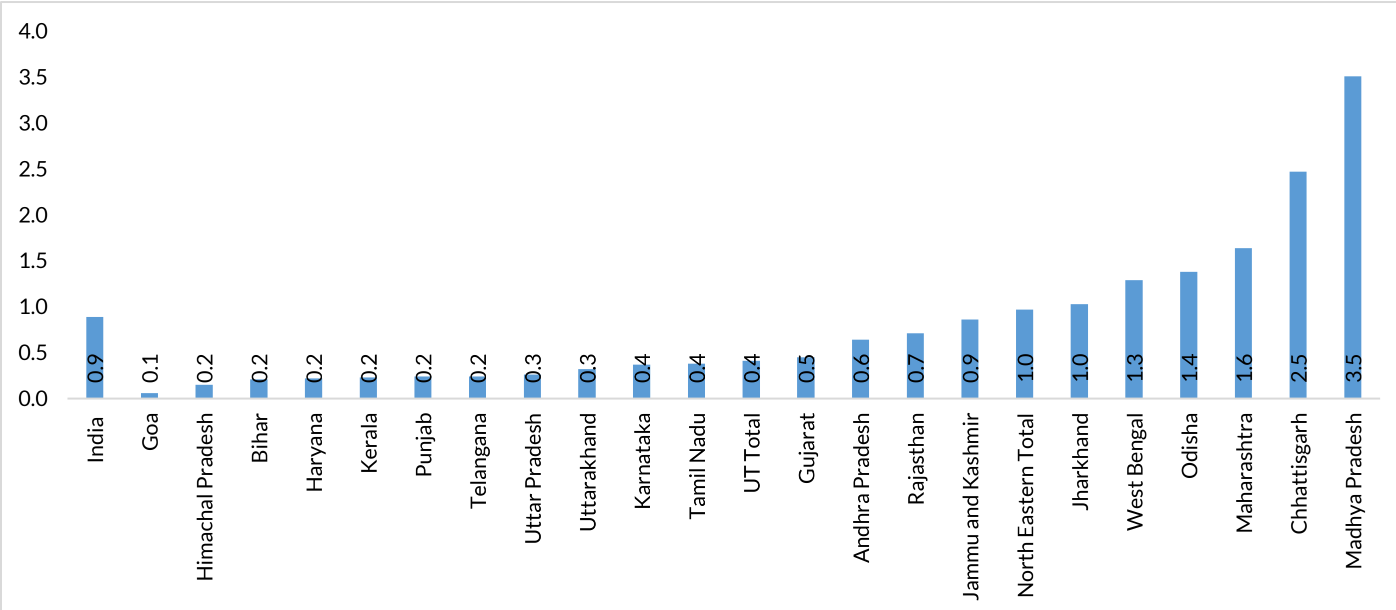
The SECC provides data for *all* households in the country. First we exclude households that fall under the automatically excluded category (based on certain observable criteria). After this exclusion, we proceed to include households as beneficiaries; for this purpose we include four categories in rural areas. The first category of rural households that will receive a MIG are *automatically included households since they suffer extreme vulnerability*. The second category includes rural households with *more than one of seven deprivations.* The third category of rural households includes those that *face just one deprivation*. The fourth category includes rest of non-excluded households that *do not report deprivation in any of 7 parameters* (given that deprivation parameters are not comprehensive), yet do not belong to

Table: The state of Indebtedness of Farmers in India

Percentage of Indebted Agricultural Households for each Size Class of Land Possessed		
Size Class of Land Possessed (Ha)	Percentage of Indebted Agricultural Households	Estimated Number of Agricultural Households (000)
< 0.01	41.9	2,389
0.01 - 0.40	47.3	28,766
0.41 - 1.00	48.3	31,481
1.01 - 2.00	55.7	15,457
2.01 - 4.00	66.5	8,434
4.01 - 10.00	76.3	3,301
10.00 +	78.7	370
All Sizes	51.9	90,201

Source: All-India Debt and Investment Survey, 2013 (NSS 70th Round)

Figure: Percentage of Automatically Included Rural Households across States



Source: Socio Economic Caste Census, 2011, Note: Please refer Table1 for parameter for determining Automatically Included Households

the automatically excluded households. We then proceed to identify urban beneficiaries of a minimum income guarantee (who are slum-dwellers, and some vulnerable non-slum dwelling households).

MIG could offer cash transfers in no case higher than Rs.8000 per annum on a medium term basis (except temporarily for a few months in 2020 due to the post pandemic economic shock, when monthly transfers could be Rs 2500 per month). In normal times, the automatically included rural households with highest vulnerability should be provided, we propose, Rs.8000 annually; rural households with multiple deprivations are to receive Rs.6000 annually; rural household facing just one type of deprivation to receive Rs.4000 annually; while the rest of rural non-excluded households that were considered for deprivation to be offered Rs.3000 annually. Also, in the case of urban areas, slum households are considered for MIG and Rs.3000 per household has been proposed.

In addition to slum dwellers in urban areas, we propose an additional category of urban households for better targeting based on Census data. We consider homeless urban households and propose a transfer of Rs.8000 per annum. While Rs.6000 per single-elderly household is proposed, it is enhanced to Rs. 8000 for rest of the households that have only elderly members. For households with more than one differently-abled person Rs 8000 per household and for remaining differently-abled person household Rs.6000 has been proposed. Female-headed households belonging to the category of widowed, divorced and separated along with non-married female headed household aged above 50, has been allocated Rs. 6000 annually.

The coverage of the scheme as per SECC would be 62.4 percent of all households of India. It is expected to cover 70 percent of rural households and around 40 percent of urban households.

The fiscal cost of the MIG for rural households for graded transfer will be Rs. 56,900 cr (0.28 percent of GDP). For urban beneficiaries MIG for graded transfer will be Rs. 12, 502 cr (0.06 percent of GDP). Overall the expenditure on MIG as per the graded payment will be less than Rs. 70,000 crore, or just 0.34 percent of the GDP (at 2019-20 prices).

By comparison, PM KISAN, the cash transfer made provision for Rs 6000 annually (since February 2019), is only expected to cover around two third of landowning farmer families. Also, it is exclusionary in nature since it leaves out landless labourers, tenant farmers and agricultural workers that are deprived and underprivileged, despite being in greater need of income support. Our coverage is much more inclusive than that of PM-KISAN, and if our proposed MIG (70 percent rural and 40 percent urban coverage) at a cost of Rs 69402 crore, was to replace PM KISAN (budget Rs. 60000 cr), the incremental expenditure would be just Rs. 9,402 cr. Our MIG proposal would cover almost all the PM KISAN beneficiaries. If MIG focuses only on priority households (60 percent rural and 20 percent urban coverage) at a cost of 56,900 cr, there would be no additional expense to be undertaken.

We propose a gradual but graded MIG, whereby a minimum of Rs.6000 is provided to beneficiary household per annum, linked to the Consumer Price Index. This amount is equivalent to 20% of household annual expenditure of the bottom decile of rural households (14% in urban areas). Such an amount would not cause a leftward-shift of the labour-supply curve, but nonetheless reduce household vulnerability.

With such low fiscal cost, MIG should not constrain expenditure on public health, education, or infrastructure, increases in which are critical to India's structural transformation. It is expected that there would be steady increase in the tax to GDP ratio, once the economy recovers post-Covid19, hence the expenditure proposed can be financed from the growth in tax collection.

The MIG would be a strong response to the post-Covid pandemic slowdown and rise in unemployment. At minimal fiscal cost, it would raise aggregate demand and relax vulnerable household's consumption constraints at the margin, at a time of falling income during the worst economic crisis India has faced since independence. The proposed income transfer would eventually play an important part in ensuring wellbeing of beneficiary households. There is no country that has embraced UBI comprehensively. However India can implement a structured targeted income transfers along with convergence with other schemes.

Along with a commitment to Social Insurance (old age pension, death/disability insurance, and maternity benefit) for all within a timeframe of 10 years, this Minimum Income Guarantee will ensure that the State commits to a social contract with its poor and vulnerable citizens that its rapidly growing economy, will enable well being for all its citizens. However, that social contract, which became normal 75 years ago in Europe after the Second World War, will be incomplete without a simultaneous commitment by the Indian state to quality public health and education for all.

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