The price of NYAY

Will Congress president Rahul Gandhi's proposed minimum income guarantee scheme, Nyuntam Aay Yojana,or NYAY, free India from poverty? Six economists deliberate.

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Q. Is a scheme promising Rs 72,000 a year to 250 million Indians below the poverty line economically viable?

A. # Jean Dreze: The proposal, as I understand it, is to pay Rs 72,000 a year to 50 million households. This would cost Rs 360,000 crore a year, or close to two per cent of GDP today. But if the scheme is rolled out gradually over five years and if the GDP continues to grow at around seven per cent per year in real terms, the cost will be more like 1.4 per cent of GDP at its peak. It's still a big commitment, but there are ways. Reducing subsidies for the privileged and raising taxes on the rich would be a good start, but the privileged are good at defending their privileges. Also, some are bound to seize NYAY as an opportunity to call for a rollback of other social programmes. Indeed, some already have. So, even if NYAY is viable in principle, it could end up squeezing India's fragile social sector and holding up other initiatives, such as universal healthcare.

Maitreesh Ghatak: The estimated cost of the scheme is Rs 3.5 lakh crore, if we multiply the promised Rs 6,000 per year by the number of people constituting the poorest 20 per cent households. This is, however, an overestimate since the above calculation assumes that the government will be paying the sum of Rs 6,000 to all the poor households under NYAY, as opposed to bridging the gap between the guaranteed monthly income of Rs 12,000 and the actual income, which is what the scheme intends to do. Even the maximal estimate is 2.14 per cent as a proportion of GDP. So, either more tax revenue needs to be raised or some wasteful expenditure needs to be cut. There is scope for both. For example, look at the fertiliser and petroleum subsidies, that is approximately one-third of the maximal estimate of the promised sum.

D.K. Joshi: Economic viability depends on the fiscal space available and how the scheme is structured in the broader fiscal context. So, more details are necessary to assess its impact. The NDA government has already deferred its fiscal target to accommodate its income support scheme, and that one is just one-12th the size of the package announced by the Congress. The fiscal situation of the states, in aggregate, is perhaps worse off. Therefore, for such a mammoth scheme to be viable, curtailing non-merit subsidies and welfare schemes will be necessary, or tax collections will have to rise massively, both challenging propositions.

N.R. Bhanumurthy: As some estimates suggest, the total cost of this scheme would work out close to two per cent of GDP. Its viability depends largely on whether this is going to substitute some of the existing schemes/ subsidies for the poorer sections or will it be an add-on. Overall subsidies, both explicit and implicit, would be about eight per cent of GDP. As the discussions around the implementation of Universal Basic Income (UBI) suggested, such schemes could be viable if they can substitute some of the existing anti-poverty programmes.

Ajit Ranade: It is economically viable only if some consolidation of all anti-poverty programmes is done. Some duplication and overlaps should be removed, leakages minimised, and hence net incremental burden on the fiscal situation would be smaller. The concept of a UBI, which is conceptually different from the present proposal, was introduced by the government a couple of years ago in its Economic Survey. Even then, the fiscal implication was worked out and it was deemed doable. As always, the devil is in the details. The concept of a direct cash infusion to the poor is not philosophically objectionable. There can be a debate on whether in cash or in kind is better. Maybe a mix of both would be optimum.

Devinder Sharma: Sure, this is economically viable, but it all depends on the intent behind it. If the government wants to really help them, then finding adequate money is never a problem. But I find it strange that this question is invariably asked whenever some allocations are made for the poor. No one asked such questions when the 7th Pay Commission was announced, which when implemented across the states, PSUs, colleges/ universities, will bring in an additional annual burden in the range of Rs 4.5 to Rs 4.8 lakh crore every year. Or when massive corporate bad loans worth Rs 3.17 lakh crore were written off by the banks between

2014 and 2018. Former Chief Economic Advisor Arvind Subramanian had even said that writing off corporate loans leads to economic growth. But, on the contrary, waiving farm loans for the poor farmers is viewed as credit indiscipline. This is a reflection of the inherent bias in modern economic thinking.

Q. What do you think will be the challenges in implementing such a scheme?

A. # Jean Dreze: Aside from financing, the main challenge is to identify the poorest 20 per cent households. As of now, no one seems to have the faintest idea of how this is to be done. According to Praveen Chakravarty, one of the brains behind NYAY, a committee and data science will take care of that. This cuts little ice. The record of poverty measurement committees in India is dismal, and data science has become an all-purpose buzzword. There is a risk that NYAY will take us right back to the days of the infamous Below Poverty Line surveys, when the poor were identified using a hit-or-miss scoring system. Today, we can do better, but it will still be hit-or-miss. That jars with the idea of income guarantee. Further, high inclusion and exclusion errors would drastically reduce the benefits of NYAY. In the end, it may or may not contribute more to poverty reduction than, say, universal pensions for the elderly, single women and disabled persons.

Maitreesh Ghatak: Other than funding, operationalising the implementation will be the biggest challenge. As we know, most of the poor live in rural areas and the unorganised sectors and we do not have a direct way of verifying their incomes, such as through payroll or income tax. There will be incentives to underreport income to receive more under this scheme. Also, the non-poor will try to benefit from it.

D.K. Joshi: The biggest administrative impediments for any income transfer scheme will be identification of the poorest among the poor and enabling electronic direct transfers to them to check leakages. Sure, the Jan Dhan-Aadhaar-Mobile (JAM) trinity can be leveraged for this, but many in the category are unlikely to be connected. The relatively well-off states with better IT infrastructure will have an implementation edge over the poorer ones. The challenge will be in reaching those that need support the most.

N.R. Bhanumurthy: The biggest challenge in implementing the scheme is about defining and identifying who is poor. We are aware about the controversy of estimating poverty numbers. We are still not clear whether we have to look at the Tendulkar Poverty Line or the one estimated by the Rangarajan Committee. At present, we only have poverty numbers that are dated. The scheme appear to assume about 20 per cent are below the poverty line.

Ajit Ranade: We do not have accurate and authentic data on income of people. In a country where more than 90 percent of the workforce is in the informal, non-registered sector, it is almost impossible to get authentic information on income. So, ensuring that beneficiaries are properly identified and leakages are minimised is the main challenge. The other challenges are implementation details, like ensuring everyone (especially the poor) have bank accounts, ensuring cash withdrawal is easy, ensuring exit from the programme is also well designed, i.e. if a person goes above the poverty line, then he or she ceases to be a beneficiary.

Devinder Sharma: Although Rahul Gandhi is still to spell out the delivery mechanism that is expected to provide Rs 6,000 every month to the 20 per cent poorest households in the country, the task of identifying the real beneficiaries will certainly be an administrative nightmare. Estimating the income level of the poor to draw out the real beneficiaries will of course be a

cumbersome process. But I am sure as the scheme progresses, since it is to be implemented in a phased manner, it will be possible to iron out the bottlenecks and remove other hurdles. It has to be planned in such a manner that it turns out to be inclusive.
Take a lesson from Telangana, which launched the much talked about Rythu Bandhu scheme, providing direct financial support twice a year to farmers. In 2018, the Telangana government transferred Rs 5,257 crore to over 5.1 million farmers for kharif, or autumn crop season. Not a small achievement. Before launching the scheme, Telangana officials had moved in swiftly across the districts to set the land records right and to remove other hiccups. If the will is there, a suitable pathway can always be created.

Q. Would NYAY address the issue of rural distress and can it boost the economy?

A. # Jean Dreze: A big injection of purchasing power in rural areas would probably help revitalise the rural economy and create employment in the informal sector. Whether it boosts the economy as a whole depends largely on how NYAY is financed. The best-case scenario is that it will be financed by reducing wasteful or regressive subsidies and will enhance human capital. In which case it would be a good economic investment, aside from protecting people from poverty. But NYAY could also reduce investment in physical or human capital, for instance if it leads to a large fiscal deficit and higher interest rates. So once again, much depends on the nuts and bolts. What is worrying is that the Congress seems to be committing itself to a Rs 3.6 lakh crore project without a clear roadmap.

Maitreesh Ghatak: Only partly. There is a crisis of livelihoods at present due to the sluggish growth in agriculture which reflects low prices for agricultural products, stagnant rural wages, and choking-off of migration options in terms of urban informal jobs due to demonetisation and the Goods and Services Tax (GST). Such a scheme can only address the basic issue of subsistence by providing a floor and not a long run path out of poverty.

D.K. Joshi: There is no doubt that the rural economy needs support. Such schemes will give a consumption boost to the economy since the poor have a high marginal propensity to consume, so such monies will be spent quickly. That, in turn, will have inflationary implications. The point is, any long-term, sustainable solution to rural distress will have to go beyond income schemes. To structurally change the rural landscape, unshackling agricultural markets and material disintermediationespecially ensure that it's the farmers who earn higher margins and not the middlemenalong with creation of durable job opportunities beyond farms, are essential.

N.R. Bhanumurthy: As we understand, the scheme is meant to cover both rural and urban poor. The proposed scheme, if implemented efficiently, could potentially address the rural distress. At present, the sharp fall in the private consumption, especially in the rural areas, is a great cause for concern for overall growth revival. Declining inflation also points towards weakening growth. In such a situation, the proposed scheme could help in boosting the economy.

Ajit Ranade: It will certainly help address rural distress. To some extent, it gives purchasing power to the poor, who spend all their income on consumption (and not savings), which tends to boost the economy.

Devinder Sharma: Investing in rural areas is the only viable long-term solution to many of the problems India faces hunger, poverty, youth unemployment, forced migration and climate

change. The promise of Rs 72,000 per year to the poorest points to a significant shift in economic thinking moving from credit to income support. More money in the hands of the rural poor means more demand will be created, and more demand will reignite the wheels of the industry, thereby boosting economic growth. Considering that there has been a decline in casual farm labour to the extent of 40 per cent between 2011-12 and 2017-18, and with the non-farm wages shrinking in the last five years, the job crisis in rural areas is certainly explosive. Combined with the steeply declining farm incomes, which have already touched the lowest in 14 years, rural India is crying for attention. More so at a time when public sector investment in agriculture has remained abysmally low, hovering between 0.3 to 0.5 per cent of GDP between 2011 and 2017. Rural India, therefore, is the future. In fact, I have been saying for long that addressing rural distress, beginning with revival of agriculture, alone has the potential to reboot the economy.

Q. What are the long-term implications of such a scheme on poverty reduction?

A. # Jean Dreze: In the long term, India is very likely to become a high-income country, but we know from the experience of high-income countries that this is not a guarantee of freedom from poverty, unless the country also builds an effective social security system. That is where it becomes important, today, to build the right foundations for social security. NYAY must be evaluated from that perspective.

Maitreesh Ghatak: Having more cash will help the poor to not just subsist but also cope better with risk and relax the borrowing constraints faced by them. This will partly help them improve their economic conditions, but, in the long run, it's jobs, skills, and productivity growth that can ultimately reduce poverty.

D.K. Joshi: Sure, effective implementation will reduce poverty, but it will come at a cost.

N.R. Bhanumurthy: My guess is that the scheme fits in well with the long-term goal of eradicating poverty, which is part of the Sustainable Development Goals (SDGs) and India is committed to achieving this goal. Irrespective of the political party forming the government, this goal should become part of the public policy based on evidence. However, there is also a need for a sunset clause, which may be difficult.

Ajit Ranade: Long-term issues are fiscal sustainability (and affordability) and incentive effects. Once such a scheme is introduced, it's difficult to discontinue it. In the longer term, the aim of economic policy is to promote inclusive growth, i.e. growth of high-quality, well-paying jobs. The anti-poverty dole scheme is to help the poor temporarily while they transit out of poverty. Thus, such schemes should have a well designed and executed exit criteria. India has a history of anti-poverty programmes, none of which has had a dramatic impact as much as any achieved by strong economic growth. The most dramatic reduction in poverty was between 2004 and 2014, when economic growth was high.

Devinder Sharma: In the long term, direct income support is one of the major effective instruments to fight poverty. The Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) in that sense is a classic example. It has to be, of course, accompanied by a set of economic reform measures, including investments in education, health and rural infrastructure. Providing more money to the poor, who carry dreams and aspirations like any other person, gives them the opportunity to explore their entrepreneurial talents.

To be born in and live with debt is virtually like living in hell. Normally the poor, which includes farmers, are born in debt and die in debt. A direct income support will provide them the opportunity to exit this debt cycle and have long-term consequences in making poverty history.

Since the trickle-down theory has failed to make an impact, a trickle-up is desperately required.

Q. How does the promised NYAY compare to the existing government welfare schemes?

A. # Jean Dreze: At the moment, India is developing a semblance of a social security system based on a few major schemes and laws, notably the Employment Guarantee Act, the National Food Security Act, child nutrition schemes, social security pensions and maternity entitlements. All of them have significant flaws, but with the partial exception of the Employment Guarantee Act, they are steadily improving in many states. The natural way forward seems to be to consolidate these foundations rather than jump ship and put so many eggs in the NYAY basket. On the other hand, there are resilient gaps in the current safety net, partly because the employment guarantee act is not working as well as it should. Some sort of NYAY-like scheme or law could fill the gaps, but it should be well integrated with other interventions rather than being construed as an alternative.

Maitreesh Ghatak: This scheme is an unconditional cash transfer scheme targeted at the poor, i.e., to receive it, they don't have to do anything. Cash transfers have their pros and cons as compared to in-kind transfers, like the PDS, and to conditional cash transfer schemes, like the MNREGA, under which you get paid only if you work and so it is self-targeting. But, on the other hand, it is not ideal for the poor who are unable to work, like children, the elderly and the disabled.

D.K. Joshi: This income transfer scheme gives spending flexibility to the recipient unlike other welfare schemes which are directed.

N.R. Bhanumurthy: There are various social welfare schemes and some, like those implemented by the ministry of rural development, are very successful. But the focus of the existing schemes is largely the rural poor and very few schemes target the urban poor and the few that do have limited resources and success. NYAY, if implemented efficiently, could have a huge impact, especially on the urban poor.

Ajit Ranade: For addressing issues of school attendance and malnourishment in children, we have the mid-day meal scheme, which has been doing well. Similarly, as a proxy for unemployment insurance in rural areas, we have the MNREGA which, too, has been doing well. In fact, women's participation rate is more than 50 per cent in MNREGA, which helps their political mobilisation as well. The DBT (direct benefit transfer) for cooking gas subsidy is also helpful. So quite a few of the existing government schemes are effective, but we did not yet have an explicit cash infusion for reducing poverty. Other schemes, like loan waivers, are not as desirable since they punish credit discipline and might raise the expectation of future repeated waivers.

Devinder Sharma: NYAY is not like any welfare scheme we are familiar with. It's an income augmentation scheme and should be considered as a powerful mechanism to revitalise economic activity in rural areas, thereby reducing rural to urban migration. It will reduce inequality, rural distress and pull out masses from abject poverty. Unlike the existing 950

central government schemes, direct income support alone has the potential to reboot the rural economy and, if executed well, it may change the face of the Indian economy leading truly to Sabka Saath, Sabka Vikas.

Q. Do you think NYAY will help Congress earn big electoral dividends?

A. # Jean Dreze: That is far from obvious because there are gainers and losers and many people may not be clear whether they stand to gain or lose from NYAY. If you think in terms of 20 per cent gaining and the remaining 80 per cent paying for it, NYAY does not sound like an electoral winning proposition. But some of the 80 per cent may feel they are winning too in so far as it helps them live in a more decent society. And if NYAY is financed with a wealth tax on the rich, it might appeal to large sections of the population. Still, from the point of view of electoral chances as well as of human development, I feel that universal healthcare deserves at least as much consideration as NYAY.

Maitreesh Ghatak: I am sure it will help them in the rural areas, especially among the poor. However, given all state-specific issues in a country as vast and diverse as India, as well as all the non-economic considerations that play a role in voting, it is hard to predict whether the electoral dividends will be big or moderate.

D.K. Joshi: (Did not want to speculate)

N.R. Bhanumurthy: As history suggests, populist measures just before the elections could influence voting behaviour.

Ajit Ranade: It's not clear if the voter will be wooed by the anti-poverty dole announcement. All voters know that today's promises are tomorrow's taxes, so they see a link between promises and increased fiscal burden. But it does send a signal that anti-poverty [measures] through direct cash is a priority for the Congress. The BJP, too, has a similar strategy, as demonstrated by the PM KISAN scheme.

Devinder Sharma: Well, that depends on how the Congress is able to take the message to the masses.