

The case for minimum basic income

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



PUJA MEHRA

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?

Puja Mehra is a Delhi-based journalist

Getting back on track

South African President Cyril Ramaphosa's visit to India helped further strengthen bilateral ties



RAJIV BHATIA

South African President Cyril Ramaphosa's visit to India last week was significant. Its value lay in strengthening the people-to-people aspect of the bilateral partnership, and focusing on the implementation of previous agreements signed by the two governments.

As the chief guest at the Republic Day celebrations, Mr. Ramaphosa followed in the footsteps of President Nelson Mandela, who played this role to perfection in 1995. The presence of a South African president at the parade was especially pertinent, as this year is the 150th birth anniversary of Mahatma Gandhi, a common hero to both countries.

Through the first Gandhi-Mandela Memorial Freedom Lecture, hosted by the Indian Council of World Affairs, Mr. Ramaphosa related the story of Gandhi's impact on South Africa, on Mandela, and the way the combined legacy of the two icons moulded the relationship between the two countries. He saw India and South Africa as "two sister countries separated by an ocean, but bound by history." Mr. Ramaphosa's message was that in view of the rich past of this special relationship, the two nations should strive harder to keep it strong and vibrant.

Defence and economic cooperation

As to the dialogue at the government level, there was a shared awareness that New Delhi and Pretoria had signed a large number of agreements, but it was now time to concentrate on implementation, since progress has been slow. The visit resulted in finalisation of a strategic programme of cooperation aimed at implementation in a time-bound manner.

Diplomatic sources have indicated that specific emphasis in the next three years would be on promoting defence and economic cooperation. On the former, the way was cleared last year when an agreement was reached to allow the South African public enterprise, Denel, to participate again in the procurement of military equipment by India. Earlier, for years, the company had stood blacklisted because of using agents to pay kickbacks. Its products and technology are world class, the reason why Delhi chose to devise a compromise. Defence cooperation extends to other areas too: maritime se-

curity, joint training exercises on sea and land, and provision of training facilities.

Despite promotion, bilateral trade and investment are yet to show robust and speedy expansion. A continuous process is under way to identify inhibiting factors. Some of them relate to the small size of the South African economy and its slow rate of growth. Lack of direct air connectivity and South Africa's rigid business visa regime are seen as discouragements. Mr. Ramaphosa agreed to reform the visa regime. He also identified a few sectors where India's investment would be most welcome, such as agri-processed goods, mining equipment and technology, financial sectors and defence equipment.

Multilateral groupings

India-South Africa cooperation in multilateral groupings came up for a close review, especially the India-Brazil-South Africa (IBSA) forum and the Indian Ocean Rim Association (IORA). New momentum is being imparted to IBSA, which has been 'displaced' by the larger grouping, BRICS, in recent years. The fact that Mr. Ramaphosa's talk was portrayed as one of the select events marking 15 years of IBSA



and that he met the Brazilian president just before his arrival in Delhi indicates that India may be willing to host the much-delayed IBSA summit this year. Prime Minister Narendra Modi and President Ramaphosa agreed on measures to further strengthen IORA. A specific decision was to enhance cooperation to harness the potential of the Blue Economy within the IORA framework.

The two leaders also witnessed the exchange of two new agreements of cooperation. These formally linked the Research and Information System for Developing Countries, a policy research institute in Delhi, and two premier South African think tanks – the Institute for Global Dialogue and the South African Institute of International Affairs. The three institutions have been entrusted with the task to conduct joint research and dialogue in 1.5 track format (i.e. involving officials and experts) on "areas to further promote practical cooperation with Africa."

In sum, the President's visit was a notable plus in the Modi government's record of deepening relations with Africa. As to the visitors, the Delhi sojourn should have sharpened their awareness of the desirability to pursue a more balanced Asia policy, factoring in the complex dynamics between India and China.

Rajiv Bhatia is Distinguished Fellow, Gateway House and former High Commissioner to South Africa

SINGLE FILE

A leader of the workers

George Fernandes' passionate trade union work helped mute violent conflict in democratic India

DEVAKI JAIN



George Fernandes was one of the most vivid characters in the Indian political landscape from the 1960s onwards. He was a passionate believer in worker unions and in the socialist order. Among the cohort of laid-back political activists those days, Fernandes was a fireball – articulate, courageous and outspoken. While some of that passion got diluted with increasing engagement in formal politics, his commitment to old-fashioned democracy and socialism could never be dampened. He was a workers' man, who, along with unionised hotel waiters, hawkers, and workers from the transport sector, could bring Bombay to a halt. In 1974, Fernandes famously led the largest railway strike that India has ever seen, which Prime Minister Indira Gandhi responded to by arresting or detaining thousands of trade unionists.

Fernandes was also a fearless dissenter. He was an anti-Emergency crusader. He spent the Emergency years in prison and even contested the 1977 elections from there. He won by a huge margin. The Janata Party was then elected to power and he was made Industries Minister in the government led by Morarji Desai.

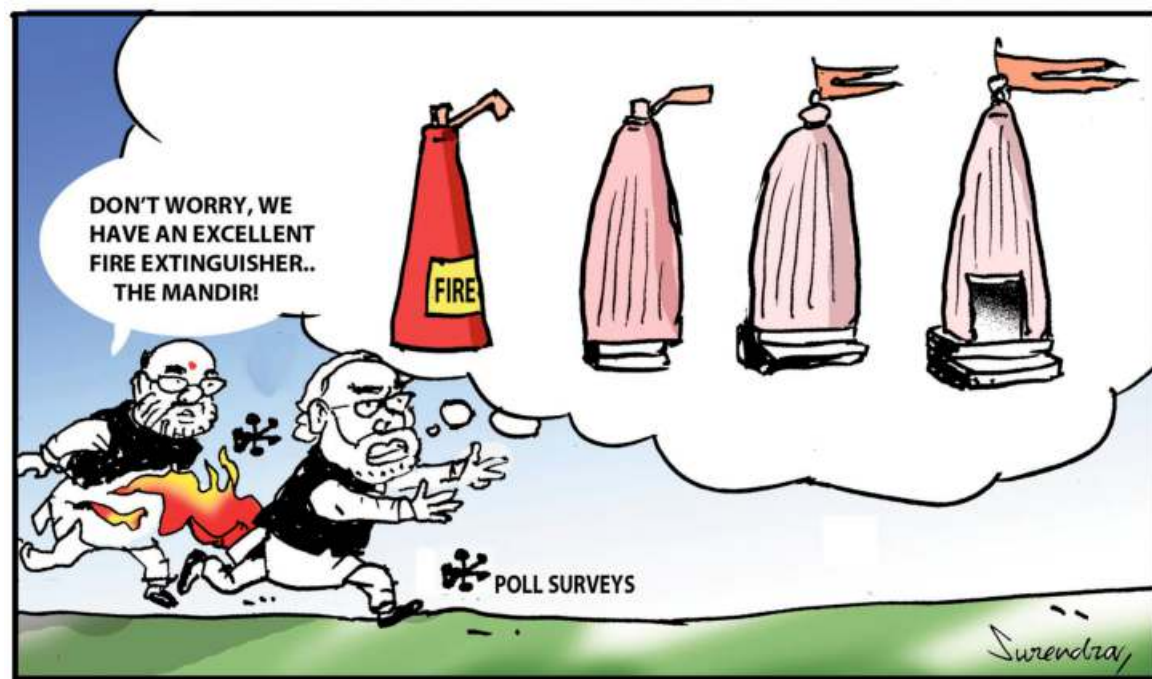
But power corrupts. His induction into formal politics did not sit well with his personality or his actions. As Defence Minister, Fernandes was embroiled in the Kargil coffin scam. The *Tehelka* expose on the murky defence deals of the National Democratic Alliance forced him to resign.

But his downfall is not how we should remember Fernandes. We should remember him because he belonged to an era where leaders represented economic groups rather than castes or families. We should remember him because while at present there are many political and social leaders who may term themselves as being of the people, Fernandes was truly a man of the people.

And we should remember him because the worker in India today, whether in the formal or informal sector, is under threat. Unions face challenges right from getting themselves registered. The recent proposal to amend the Trade Unions Act of 1926 was met with protests – unions said that the government was trying to interfere in their functioning. In this era, we should remember stalwarts like Fernandes who understood that unless workers, like other professionals, are able to assert and organise power and negotiate the terms of their employment, there will be feudalism.

Worker unions were not only a vital institution for democratic India to thrive, but it was due to their propagation, aided by people such as Fernandes, that violent conflict was muted. His passing should be a reminder to support existing unions and build more unions.

The writer is an economist



FAQ

GST revenues going off target

With tax rates being cut regularly, experts fear collections will fall further

TCA SHARAD RAGHAVAN

What is the problem?

Even though the official data for Goods and Services Tax (GST) collections in January will be released on February 1, several news agencies have been reporting that the GST collection for January 2019 will come in at ₹94,000-96,000 crore, which is lower than the year's average and far lower than what experts estimate the government should be getting. The average collection between April and December was ₹96,782 crore. The collections crossed the ₹1 lakh crore mark only twice in the nine months under consideration. Even this was lower than the ₹1.1 lakh crore tax analysts say the government should be collecting.

Given that the GST Council cut rates on a number of items and services in its December 22 meeting,

the likelihood of January's revenue being even lower than December's low of ₹94,726 crore is very high. If this is the case, it would mark the third consecutive month of falling GST revenue.

Why is this happening?

The GST Council, in its 31st meeting on December 22, cut rates on almost 20 categories of goods and a number of services. As a result, only one common-use item – cement – was left in the highest tax slab of 28%. The reason for the creation of the 28% slab was to offset the lower collections from the items that were made exempt from GST or put in the lowest slab of 5%.

Naturally, a reducing number of items in the 28% slab will result in lower collections. The way to offset lower rates is to increase the number of people paying tax. That is, compliance has to increase. However,

analysis by *The Hindu* of GST data has shown that compliance has, in fact, been falling. The data show that while the number of people required to file monthly returns has grown 32% from July 2017 (when GST was implemented) to about 98.5 lakh in November 2018, the number of people not filing these returns has grown 167% during that time. In other words, the number of non-filers is growing faster than the tax base itself.

The government seems to have identified another reason for falling revenues: businesses generating fake invoices to claim higher input tax credits than they should be receiving. The tax officials are now starting to look at this in a deeper manner and examining how to plug the leaks.

The root of this problem is that the government doesn't have an easy and accessible way to match the

invoices of sellers and buyers and catch discrepancies. That system will likely be rolled out from April 2019 onwards, but there is no official clarity on what it will involve.

Why is this worrisome?

Falling GST revenues themselves are a worrisome prospect because they put pressure on government finances, and especially on other sources of revenue. Direct tax collections have been growing at a robust rate for most of this financial year. But this also means that the government will be hard pressed to reduce personal income tax rates in the General Budget of 2019-20.

Weak GST revenues also limit the government's ability to provision enough resources for any budgetary support it might decide to give the agricultural sector or to small and medium businesses.

FROM THE HINDU ARCHIVES

FIFTY YEARS AGO JANUARY 31, 1969

Recovery for Annadurai after set-back

Mr. C.N. Annadurai, Chief Minister, whose condition continues to cause anxiety, made a miraculous recovery from a near-crisis condition which set in shortly before 6 p.m. yesterday [January 31, Madras]. Mr. Annadurai had to be given artificial respiration at 6-15 p.m. when he was near collapse. Rumours were spread that his end was near and the people became agitated. These rumours were, however, set at rest by a bulletin issued at 7-15 p.m. which said the Chief Minister was rallying and responding to treatment. A bulletin issued at 3 a.m. said: "The Chief Minister's condition is better now than what it was at 9 p.m. (yesterday). His blood pressure is sustained at a satisfactory level. Other physiological recordings are all much better. Yet his condition causes a certain amount of concern."

A HUNDRED YEARS AGO JANUARY 31, 1919

The Sedition Bills.

Commenting on new repressive legislation, the 'Maharashtra' (Nagpur) exhorts all-Indian members to remember the history of the Press Act and the Defence of India Act. The Press Act was expressly intended for the suppression of anarchist propaganda. Mr. Gokhale and others replying on the solemn official promises supported the Act, but repented afterwards when it was too late. Promises were broken and the Act was abused. The Defence Act was a war measure undertaken to suppress enemy plots and secret intrigues. Was it not used against Mrs. Besant and many others engaged in peaceful constitutional agitation. Who can guarantee that the new laws will not be similarly abused. We cannot sell our liberties and birthright for a hundred Montagu Schemes. The paper publishes the names of Indian members and urge the people to hold protest meetings everywhere and pass resolutions appealing to the Indian members severally and collectively to oppose the measure tooth and nail.

CONCEPTUAL

Beveridge curve

ECONOMICS

This refers to a graphical representation that shows the relationship between the unemployment rate (on the horizontal axis) and the job vacancy rate (on the vertical axis) in an economy. It is named after British economist William Beveridge. The Beveridge curve usually slopes downwards because times when there is high job vacancy in an economy are also marked by relatively low unemployment since companies may actually be actively looking to hire new people. By the same logic, a low job vacancy rate usually corresponds with high unemployment as companies may not be looking to hire many people in new jobs.

MORE ON THE WEB

Can India handle more tigers?

<http://bit.ly/HandlingTiger>