Modifying the Nyuntam Aay Yojana to make it workable

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Sudipto Mundle

A minimum income guarantee scheme that uses a well-chosen exclusion list could be administratively and fiscally feasible

When a manifesto presents a game changing idea, like the Nyuntam Aay Yojana (NYAY), or the Congress's minimum income guarantee scheme, it is likely that whoever wins the elections will adopt it in some form because of its immense political potential, going forward. Recall Mahatma Gandhi National Rural Employment Gurantee Act. It is, therefore, important to seriously examine NYAY and consider possible revisions to make it more effective. Apart from the politics of it, two distinct aspects need to be considered: Administrative feasibility and the fiscal arithmetic. Let's start with the first. NYAY proposes a cash transfer of ₹6,000 per month, or ₹72,000 per year, to the poorest 20% of households. That sounds like a neat target on paper. But how do you actually identify the households who would qualify as among the poorest 20%? As Jean Drèze points out in a compelling but positive critique, in its present form, NYAY is not implementable (The Indian Express, 5 April 2019). Several national surveys have been conducted to identify and issue cards to persons "below the poverty line" (BPL), but the results have been embarrassing. Nearly half the poor households that should have had BPL cards were excluded, while households above the poverty line were included.

Because of these large errors of inclusion and exclusion, leakages and the huge cost of maintaining an administrative machinery for targeting, economists have often argued that it would be easier and cheaper to provide a minimum income to everybody. However, whatever the fiscal arithmetic, a universal basic income goes against the grain of conventional wisdom. The idea that even the rich should be entitled to a basic income appears absurd, even abhorrent, in the popular imagination. So, some form of targeting seems unavoidable. But the least costly way of doing this is not to construct a positive list of who should be included, but a negative list of who should be excluded, and provide income support to all those not explicitly excluded. Some states have adopted this approach in implementing the food subsidy programme. Local functionaries implementing the criteria will always try to game them to get a cut of the dole received by misclassified beneficiaries. Hence, the exclusion criteria should be as simple and transparent as possible.

The NYAY variant Drèze suggests is to include all the elderly, single women, and the disabled. However, that is an inclusion list, not an exclusion list, and perhaps not that difficult to game. What proportion of local functionaries would not be prepared to give a false certificate for a cut? Ghost "elderly persons", "disabled persons" and alleged single women would line up for the benefits.

My preferred alternative is the first step of excluding all males. Even the most ingenious functionary would find it difficult to game that exclusion criterion with a false certificate. Further, it would help rebalance gender power in our patriarchal society. The exclusion criteria should also exclude all women who are income tax payees or persons with cement-brick homes, power connections, telephone connections, and so on, at the addresses recorded on their voter ID cards. Further, women from a household that already has a listed beneficiary should be excluded. However, the existing list of male recipients of old age or disability allowances should be added as beneficiaries. These lists are unlikely to be significantly gamed because the current benefits are so paltry even by Indian standards. Subsequently, males not excluded by other criteria, but heading households with no women, should be included as beneficiaries on grounds of equity. There is potential for some gaming here. This targeting framework is not ideal, but likely to minimize errors of exclusion/inclusion.

Turning to the fiscal arithmetic, from a total female population of 650 million women (2011 Census), after factoring in all the female exclusions and male inclusions, let's say about 350 million people representing 350 million households (since by design there is only one beneficiary per household), qualify for income support. At ₹1,200 per person per month, or ₹14,400 per person/household per year, this would add up to about 3.3% of gross domestic product (GDP) at present. If the scheme is rolled out gradually, assuming 7% annual growth and indexing for inflation, by the time of the full roll out in the fourth year of the next government, it would amount to around 2.5% of GDP, but let's ignore that. How could such a scheme be financed?
Satadru Sikdar of the National Institute of Public Finance and Policy and I have recently estimated that the flow of merit subsidies through central and state budgets amounted to 4.6% of GDP in 2015-16. Other unwarranted subsidies, which should be wound up, amounted to another 5.7% of GDP. Assuming similar proportions apply today, and recognizing that approximately another 5% of GDP is foregone by way of tax exemptions and concessions in the central budget alone, fiscal space of over 10% of GDP is potentially available through rationalization and without any additional taxation. Less than one-third of that could finance the modified NYAY scheme I have proposed. The balance fiscal space of about 6.5% of GDP could be apportioned for greater spending on education, health, infrastructure and a reduction of the fiscal deficit.
So, financing the modified NYAY proposed here is not really a problem, provided the new government is serious about fiscal rationalization. We shall just have to wait and see.

Sudipto Mundle is an economist.