Targeted basic income transfer scheme

Why in news?

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- What PM Modi's speech of December 31 made clear was that **India was firmly moving away from the anti-poverty policies pursued by all previous governments.**
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- The new approach, made possible by technology, is to get away from the Amartya Sen-advocated in-kind income transfers to some version of cash transfers.
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What is an in-kind poverty alleviation policy?

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- Two major in-kind poverty alleviation policies in operation are the PDS and MGNREGA. **Both involve largescale government involvement.**
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- PDS – the government (FCI) involved in procurement, storage, transport and distribution of food.
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- MGNREGA – the government planning projects, employing people, on what is touted as the largest work programme in the world.
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What is the performance of PDS & MGNREGA?

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- Study after PDS study has proven, that only 50 per cent of food procured and stored by the government reaches anybody, rich or poor.
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- Where does this 50 per cent go? Towards the generation of black income for

corrupt officials, liquor manufacturers, food mills, etc.

- With the MGNREGA, where jobs are allocated to ghost workers and panchayat leaders.

How DBT will change the scenario?

- Helped by technology and Aadhar, the Direct Benefit Transfer (DBT) scheme has gathered considerable momentum over the last few years.
- **A logical expansion of the DBT is the policy of Universal Basic Income (UBI),** a guaranteed minimum income to all (population, adult, worker etc.,).
- The Economic Survey will contain a large section on UBI. For those interested in efficient redistribution of income, this news is extremely welcome.

Is Tendulkar definition now obsolete?

- **The defining line for the absolute poor should not be absolute** — it should increase with the level of per capita income and should include the lower middle class.
- The Tendulkar definition of poverty is now obsolete; **it captures too few of those deserving income transfers.**

How much do we need to transfer to reduce the poverty level?

- A poverty line some 22 per cent higher than the equivalent Tendulkar poverty line of Rs 1,250 for 2016-17 yields a national poverty rate of 20 per cent.

- The poverty gap is defined as the difference between the average consumption level of the poor and the relevant poverty line.
- To reduce this new absolute poverty level (20 per cent of population) to zero, **the government needs to transfer, on an annual basis, Rs 1 lakh crore (lc), only 0.7 per cent of GDP.**

Is this an efficient way?

- At present, via PDS and MGNREGA, the government spends Rs 1.75 lc (PDS 1.35 lc and MGNREGA 0.4 lc).
- The demonetisation policy will allow increased personal income tax collections, possibly around Rs 1 lc to Rs 1.5 lc annually. Thus, Rs 3 lakh crore is available with the government for redistribution if it decides to scrap PDS and MGNREGA.
- So, it is an efficient way for the government to eliminate poverty on an ongoing basis, and to help the lower middle class as well.
- Besides, if the government is serious about rooting out corruption, no better place to begin.
- **Without any strain on the budget, the government can transfer Rs 3 lakh crore to 265 million people,** or approximately Rs 1,000 per person per month.

Conclusion:

- Chief Economic Adviser Arvind Subramaniam has stated that the new Economic Survey will contain a large section on UBI.
- For those interested in efficient redistribution of income, this news is extremely welcome.

- If such a targeted basic income transfer scheme is announced in upcoming budget, it will be an economic and political masterstroke.

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