

Minimum Income Entitlement

We need to move away from the moral position that everybody must earn their living, and, if they are not able to do so, they are at the mercy of 'our' generosity. We, as a nation, need to commit that every adult citizen of the country is entitled to a minimum level of income, irrespective of his/her position in the economy. Once this is decided, the central government must issue an identity card to every citizen above the age of 18 with an electronic bank account number and transfer that minimum sum of money to each account every month.

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It has been more than a quarter of a century since India broke through the so-called 'Hindu rate of growth' and has been riding on a high growth path of 5.5 to 6.5 per cent per annum on the average. Yet the country is still straddled with mass poverty and double-digit unemployment. Deaton and Dreze (2002) estimated 26.3 and 12.0 headcount ratios for rural and urban India respectively for the year 1999-2000, with roughly about 1 per cent decline per annum on the average for both rural and urban areas since 1987-88. Even if we accept that growth has a positive impact on poverty, very few would argue that we should let growth take care of it, particularly for the rural areas. Furthermore, with globalisation, computerisation and robotisation of the world economy, the spectre of 'jobless growth' is here to haunt us. In such a scenario, many have been arguing that we should spend more on targeted poverty reduction programmes along with investments in job creation programmes, particularly in more 'labour-intensive' sectors. The minimum employment guarantee scheme is one of such programmes that tries to combine the policy of poverty reduction and job creation with

an added dimension of entitlement to work.

The problem with all the targeted poverty reduction programmes, however, is well known. Our delivery mechanism is bankrupt. The nexus of corrupt politicians, bureaucrats, and contractors is smart enough to circumvent all the precautionary and preventive measures thought up in New Delhi. This is why an increasing number of intellectuals and policy-makers have started to argue in favour of direct cash transfers to the poor instead of various subsidies and targeted poverty reduction programmes. But even in this case the problem persists, since the state needs to identify the poor, which opens the door for the corrupt politicians and bureaucrats to come to the party.

On the other hand, investment in so-called 'labour-intensive' technologies has several drawbacks. First of all, such jobs have low labour productivity and thus can afford only low wages. And a country with low wages will remain a poor country. Secondly, in most of the cases, 'labour-intensive' technologies are nothing but the technologies of the yesteryears. They are not only lower in labour productivity but their outputs are of lower quality as well. For example, a highway constructed by the 1970s technology with a lot of labour and

little heavy machinery will not be of the quality on which heavy vehicles could move with high speed. A conscious policy to move in favour of the so-called 'labour-intensive' technologies as a solution to our unemployment problem will most likely land us in a low level equilibrium again.

So what is the way out for us? I think the idea of entitlement is central to a long-term solution. But it is not the entitlement to work but rather entitlement to a living income. It is quite clear that with increasing computerisation and robotisation, it will become increasingly difficult to generate enough unskilled jobs for the rising population. On the other hand, any attempt to reject such technical changes would be counterproductive as it will not only lead to a fall in the rate of growth and quality of life but, more importantly, a negation of the possibility of liberation of the masses from the constraint of necessity and alienated labour. Marx considered the technological dynamism of capitalism to be the only redeeming feature of the system. Thus when it comes to a choice between productivity and employment, it would be self-defeating to choose employment from a long-term perspective.¹

So what can be done for the people that the system is going to increasingly leave out in the cold? First of all we need to move away from the moral position that everybody must earn their living, and if they are not able to do so then they are at the mercy of 'our' generosity. The minimum employment guarantee scheme is a move in the right direction to the extent that it claims entitlement to a minimum amount of work for a living. I, however, see a few problems with this position. First of all, as mentioned above, our delivery system is bankrupt and there is no reason to think that this time around it will be a different story. Secondly, providing income through job creation is extremely expensive, as every job requires accompanying investment in capital goods and raw materials. The argument that this is actually a cheap way of getting much-needed infrastructure for our rural economy is not necessarily convincing. If we need infrastructure, then why don't we simply have a policy of building quality infrastructure, which in turn will generate jobs? Why do we have to go through the circuitous route of building infrastructure through a scheme of job creation? The problem with the roundabout approach is that the building of infrastructure is not its primary goal; it is rather a by-product of the objective of

job creation. In this case, the accountability for the quality or even the completion of these projects would be rather low and the possibility of corruption rather high.

Before going any further, let us recapitulate. I have argued above that (i) poverty is still a problem that needs to be dealt with specifically; (ii) we should expect the persistence of high unemployment, particularly among the unskilled population; (iii) targeted poverty reduction programmes are usually ineffective due to corruption and inefficiency; and (iv) encouraging labour-intensive technologies is a poor long-term strategy. This brings us back to our original question, what needs to be done?

As I have suggested above, we as a nation need to commit that every adult citizen of the country is entitled to a minimum level of income irrespective of his/her position in the economy, say Rs X per month. Once this is decided, the central government must issue an identity card to every citizen above the age of 18 that contains not only the citizen's address and identity but also an electronic bank account number at a bank near the citizen's address. On the 1st of every month the finance ministry should simply transfer Rs X in all those electronic accounts. Such a scheme not only minimises the possibility of corruption in income transfers but also encourages people to come forward to get their voter card and increase their participation in the democratic process. Furthermore, these accounts should be programmed in such a way that if there is no withdrawal from an account for a year then that account holder should be presumed dead and the total money in that account should automatically revert back to the finance ministry; so that there is no administrative cost or possibility of corruption in maintaining the current list of recipients.

The obvious questions that I must address immediately are: where does the government get so much money? And what is the rationale of transferring so much money to the rich and well-to-do? Obviously, the government gets most of its money through taxes. If the government is not in a position today to transfer Rs X per month to the rich and well-to-do, all it has to do is to modulate its tax rates slightly so that it gets back with one hand what it is giving with the other. It is true that there are many rich and well-to-do who do not pay income taxes, particularly in the agricultural sector. The government should, of course, try to get them within the income tax structure, but even without such a move,

it is easy to know certain capital and consumption goods that are mainly purchased by this class and not the poor. Well-modulated indirect taxes on such goods can also be used to get back the money that was transferred to them in the first place. These people will not mind such tax rate modulation, as it does not change their current post-tax income levels.

My back of the envelope exercise shows that India has roughly 600 million people above the age of 18. Taking 15 as the average headcount ratio for the total population below the poverty line and Rs 500 per month as the poverty line on the average in current prices, we arrive at Rs 5,40,000 million per year that needs to be transferred to the poor at the rate of Rs 500 per month per adult citizen. This turns out to be about 2 per cent of the NNP at current prices and 11 per cent of the total budget outlay for the year 2004-05. Given that about 9 per cent of the total budget is allocated for various subsidies, it is quite clear that the amount needed to bring all adults comfortably out of poverty is well within the reach of the government. The question is only of political commitment. My scheme leaves out poor children. I think the policy of mandatory education with the midday meal programme should, to some extent, take care of the children of school-going age; and given that most poor adults do have some income, the additional Rs 500 should go a long way in covering their poor dependent infants and children.

Before I close, let me respond to a couple of questions that might come to the reader's mind. First, it may be argued that there is a large proportion of the population that is not poor but also does not fall in the income tax paying category and that indirect taxes may not be able to recoup all the income transferred to such groups. In such a situation the programme will result in deficit spending by the government, which is not desirable from the macroeconomic perspective. It is true that it might take some time for the government to discover the correct modulation of direct and indirect tax rates and, to some extent, the government might have to go for deficit spending for some years.

However, deficit spending in our case may not be as problematic as it has been made out to be. In a growing economy the government would feel the burden of domestic debt only when debt service charges rise faster than revenue. Assuming that revenue is a direct function of the GDP, it is quite clear that the government

would feel the burden of debt only when the rate of interest is higher than the rate of growth of GDP. In our case, the economy is growing faster than the rate of interest, thus debt will not be a problem. In fact it will be easy to pay it off. Unfortunately it seems we have bought the argument that applies to the western economies of today without much critical reflection. Since the mid-1970s the growth rate of western economies has slowed down and interest rates have increased considerably. Thus in their case, the rate of interest is higher than the rate of growth, and therefore government debt is a serious problem. But our case is the opposite. We need not get overly concerned about deficit spending. We should keep in mind that during the period between the second world war and the OPEC crisis most of the western economies were in a similar position as ours today. They were experiencing a high rates of growth with low interest rates and they used this opportunity to build their social security net through continuous deficit spending [see Pasinetti 1997 for details]. We should not miss our chance to do so simply because the practical situation for the west happens to be different now.

Lastly, my proposal might be criticised from an equity perspective. Since I am proposing an equal amount of money transfer to all the poor irrespective of how poor they are, it obviously violates the equity postulate. This is true. The philosophical position behind my proposal, however, has nothing to do with equity or even poverty. My argument is that with increasing robotisation of the capitalist economy the market for labour-power will increasingly shrink, leaving a large number of proletariats out in the cold. The system can politically survive only by incorporating certain socialist values. An entitlement to a minimum level of income for every citizen amounts to declaring that a part of the total capital of the nation is socialised and thus every citizen is entitled to an equal share of the dividend out of this socialised capital. I am proposing this as a practical poverty removal programme only as a first step. Hopefully with continuous growth and increasing income we may soon be in a position to commit about 10 per cent of our net national income to be distributed equally to every citizen.

Interestingly, my proposition fits well with one of the basic postulates of the general

equilibrium theory, which is the foundation of the ideology of the 'market economy'. The seminal paper on general equilibrium by Arrow and Debreu (1954) assumes that the consumer's initial endowment is such that she can insure her survival even if she is deprived of all opportunity to trade. This is the foundation of the assumption of 'voluntary exchange'. Marx's indictment of capitalism centred on this point, as he argued that the proletariat did not have a choice of withdrawal from the market given that they had no other means of income than to sell their labour-power. My proposal is an attempt to correct this lacuna of the system and set the 'market economy' on an even keel. [17]

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Note

- 1 If the choice, however, is between productivity and environmentally friendly technologies, then I think it would be in our long-term interest to choose environmentally friendly technologies, as the marginal cost of environment is going to rise exponentially in the future and consumer preferences are also expected to shift in favour of products of environmentally friendly technologies.

Women Power Connect

Women Power Connect (WPC) has been set up with the aim to lobby the Indian Parliament and Government on women's issues. WPC is composed of organizations and individuals working on women's issues in India. WPC is registered under the Indian Societies Registration Act. WPC has a vacancy in its office in New Delhi for:

Executive Director - reporting to Governing Body of WPC.

Job responsibilities

- Managing the organisation
- Recruiting, training and supervising a high-caliber team at the secretariat
- Managing income and expenditures
- Drafting reports for Governing Body and donors
- Organizing training and orientation programmes
- Representing WPC at meetings, fundraising and expanding membership and dissemination of information at all levels
- Performing other duties as requested.

Qualifications

- Master's degree in development, management or relevant field with minimum 10 years of progressive work experience
- Sound understanding of gender issues, women's movement and Indian electoral process
- Experience in managing projects, grants, and people
- Commitment to the highest professional and ethical standards
- Excellent written, presentation, communication and networking skills in English and Hindi with good working knowledge of computers
- Willingness to travel as and when required.

Please email your resume to:

wpcexcdir@yahoo.co.in **on or before July 15, 2005.**

References

- Arrow, K J and G Debreu (1954): 'Existence of an Equilibrium for a Competitive Economy', *Econometrica* 22, pp 265-90.
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- Pasinetti, L (1997): 'The Social 'Burden' of High Interest Rates' in P Arestis, G Palma and M Sawyer (eds), *Capital Controversy, Post-Keynesian Economics and the History of Economics: Essays in Honour of Geoff Harcourt Volume One*, Routledge, London, pp 161-69.