

Interview

"Income support schemes do not correct market failures": Economist



PUJA MEHRA



A pond being deepened in Tamil Nadu, under the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA). File photo: B. Jothi Ramalingam

There is a proliferation of income support schemes on the Indian public policy landscape. Add to this two more by the principal national parties contesting the 2019 Lok Sabha elections. Earlier this year, the Union government headed by Prime Minister Narendra Modi Government announced and implemented the PM-KISAN (Pradhan Mantri Kisan Samman Nidhi), which provides income support of Rs. 6,000 a year financed fully by the Central government to landed farmers owning up to 2 hectares. In its manifesto for the 2019 Lok Sabha polls, Modi's party, the Bhartiya Janta Party (BJP), has promised to extend the scheme to all farmers by dropping the land ownership criteria. In Odisha, Naveen Patnaik government has introduced the KALIA (Krushak Assistance for Livelihood and Income Augmentation). It provides income support up to Rs 25,000 a year to small and marginal farmers with less than 5 acres of land, landless agricultural households and labourers, and sharecroppers. Both these formulations followed in the footsteps of Telangana's Rythu Bandhu that provides investment support of Rs. 4,000 per acre per farmer per season for purchase of inputs like seeds, fertilisers, pesticides, labour, and other investments. The latest income support proposal is the Congress party's promise of NYAY (Nyuntam Aay Yojana) in its manifesto for the 2019 Lok Sabha elections. Conceived as a minimum income guarantee, the NYAY promises unconditional transfer of Rs. 72,000 annually to 20 per cent of the poorest families for reduction of poverty in the country. [Shubhashis Gangopadhyay](#), Dean, Indian School of Public Policy and Research Director, India Development Foundation, Gurugram, discusses the economics behind the income support schemes and their implications for the voter in an interview with [Puja Mehra](#), journalist. Excerpts:

There seems to be a political consensus in favour of income support schemes. How do you place such schemes in the context of public policy?

Income support is essentially to enable households to afford goods and services that are available in the market and necessary for a minimum quality of life. You are giving people purchasing power to access services in the market. Wherever the market works and is efficient, this is all right. The whole idea behind giving income supplements is that the policy maker does not know what each household needs. And, therefore instead of telling you what you need I give you money to be able to afford whatever you need.

Talking in terms of cash versus non-cash transfers?

For goods and services that can be efficiently provided through markets, cash transfers are always better than transfers in kind. However, markets are not always

efficient for example, in health or education. These cannot be done through improvements in purchasing power alone.

Why not?

As efficiency in the provision of these services precludes the market, accessibility to the market becomes restricted. Therefore, additional purchasing power is not the best solution if the problem to be solved is improved access for poor people to services that are public goods.

What will injection of additional purchasing power in the selected or targeted segments of the population then do?

I am looking at the long-term consequences. Remember, it is very difficult for me to argue that if I give somebody more money that person will be worse off. Unless I can say a person's actions consequent to the receipt of money will give rise to responses in the market place, or in society, that will come back and bite the person. There could be other social, psychological, or moral reasons for not giving money, which I am not talking about. I am just talking about the economic reasons. It's always good to give money.

Now, let's take the illustration of MNREGA [Mahatma Gandhi National Rural Employment Guarantee Act]. In MNREGA, we are saying that if you come and ask for work, then the state will give you up to Rs 10,000 over the year. Suppose I do this repeatedly. A person who needs this every year repeatedly comes to work.

Now, what does poverty do to a person? It means you don't know where your next meal is going to come from. Whether you will be able to feed your children their

MNREGA is a safety net to buy food and cover minor survival expenses. It is not a poverty elimination solution.

next meal. What does MNREGA offer to the poor? Under MNREGA, the poor agree to put in hard manual labour work for 10 hours for money that is enough to buy food and cover minor survival expenses. This ensures survival. But does it end poverty? MNREGA is a safety net. It is not a poverty elimination solution.

For as long as they work for MNREGA, they will have food. No work could at times mean no food. This means that the poor get locked in MNREGA forever just to be

able to survive. Their children will not really break out of this trap easily either. That's because they will not be able to afford to get any training/skilling/education/opportunities with which to earn much higher than MNREGA wages. Their earned incomes (as against MNREGA wages) would not be much better than what their parents make over and above MNREGA wages. So, in this form, MNREGA can keep the poor trapped in poverty generation after generation. The poor will be able to earn wages for food and basic needs. But not much more.

The manifesto of the Congress party promises an upgraded MNREGA without spelling out what that will be.

If you reform MNREGA what will it do? One way to do it is, suppose I said: 'I will give you Rs. 15,000 but you have to go out and skill yourself; you don't have to work'. You give the wage earner the option of joining the reformed MNREGA instead of the old MNREGA if he so wants. In the reformed MNREGA option, you make MNREGA wages conditional not on hard manual labour, but there is a new condition, which is that he will have to agree to skill himself. We have to remember that markets for skills come up nearly overnight since India has a tremendous deficit of skilled workers. So, once the person is skilled, he would stand a better chance of earning market-linked wages and breaking out of poverty. He can plan his career like those people do who are not trapped in poverty.



Dr. Shubhashis Gangopadhyay

Why has this not been attempted so far – because there is no way for the person to skill himself and the state is typically useless at it.

We will then have to worry about how the skilling is ensured in the right ways and all that. But that is how we start solving problems. First, we decide what we want to do. Then we decide how to implement it. Sometimes what we want to do may just not be feasible. Then we don't do that. Then we do the next best thing. That's how public policy is carried out.

India will at some point or the other have to crack this problem because without it poverty will never end. People cannot be kept out of poverty by giving cash. Poverty reduction needs sustainable livelihoods. And so the problem that public policy needs to and should resolve is: 'How to supply the appropriate skills imparting infrastructure.' This is a good quality challenge to solve than what NYAY hopes to crack – which is how to identify the bottom 20 per cent of the population income-wise. Since there is no available data set to do this efficiently, there is simply no way to do it that will not involve certification by corrupt, rent-seeking government officials at the low levels.

NYAY and PM Kisan will, therefore, expose the poor to harassment while also keeping them in poverty. They will help the poor only to survive. Not to break out of poverty. Therefore, instead of the NYAY, a superior way of reducing poverty would be to upgrade the NREGA and offer the upgraded version as an option to the poor.

The job we give in MNREGA is a self-selective mechanism. You and I, even if we are out of jobs for a year, will not draw money under MNREGA. But the poor person who needs the money will immediately go for it. Therefore, the job skill required in MNREGA has to be very low. Now if I was to say

The way to make sure they will break out of poverty is if they have skills that the market will reward them for.

that I will give you MNREGA if you want to work but you also have this [picking up a skill] option then what is the thought process behind this. It cannot be done easily, but if we work on his suggestion at least the goal of poverty reduction would be in the realm of what is possible. Right now, there is no hope to reduce poverty.

The whole idea of public policy and society is to improve the quality of life. By giving this money, I am preventing the person from dying or doing forced migration to the city. But are we really giving the person a better quality of life compared with spending the money that will allow the person to get skilled? Two things will happen probably. The person will get a job requiring higher quality skills than MNREGA demands and the exchequer will save the money required to pay for the MNREGA wages.

So, now I ask the question: Can I implement this? Is there a market for skill training? If not, what do I need to do as a policy maker? To me that is good thinking. But just the transfer for money with no other condition other than who is eligible and who is not is not the way a society should be thinking about this. While the poor are better off with the NREGA even in its current form than without it, the NREGA can at best only help them to survive. It is not a solution that can make the poor break out of the trap of poverty. The way to make sure they will break out of poverty is if they have skills that the market will reward them for. That's exactly what poverty is preventing them from acquiring. But this is not enough. Additionally, the other conditions for poverty reduction are provision of quality health and education to the poor.

Would not an unconditional cash transfer instead of MNREGA do two things: One, it will take care of basic needs of the recipient, and two, it will allow the recipient to use the labour and time saved by not having to work in MNREGA for generating additional income?

Absolutely. That is indeed the thought process behind this. In the abstract, what you are saying is perfect. You will give me Rs. 6,000 per year in PM-KISAN and Rs 6,000 a month in NYAY.

Let's take the Rs. 6,000 annual payment. With that anything that you said is not feasible. It's too little. Next question is Rs. 6,000 per month. Now, in any point of time there will always be the bottom 20 per cent. Therefore, we are saying that if you pay income tax or if you have travelled abroad you will not get it. So on and so forth. We can bring in all those usual criteria. But the majority of the labour force is in the informal sector, mainly in agriculture. Where are you going to catch these people?

You mean how will their eligibility be determined?

We don't have income data. Every year there will be 20 per cent. Either you are allowing this till eternity. Or, a process has to be developed.

At the moment, is there any possibility of constructing a framework for determining eligibility?

The problem in India is first you come up with an idea and then determine if its implementation can be efficient. Then you forget very soon that you have a very bad idea.

My worry is that they will prescribe criteria that will involve some sort of certification by low-rung government officials that will bring into play the usual problems of state capacities constraints and rent-seeking and harassment.

You are agreeing then that this cannot be made efficient. Anything that cannot be made efficient should not be done.

Poverty is not understood widely. What is poverty? Critics of welfare policies, especially from the middleclass, say often on social media: 'Why can't the poor just work hard; why should the government give the poor money?' An assumption such critics make sometimes is that the poor are poor because they are not working hard.

Suppose someone from the technology sector asks this question, immediately ask why this person is not becoming as rich as Narayan Murthy or Nandan Nilekani. If they are in the manufacturing sector, ask why they are not becoming as rich as Anand Mahindra or Kiran Mazumdar Shaw.

Because everybody tries but only some will be successful. That is part statistical, part luck. But even when we [the middleclass] fail to become Narayan Murthy, we still have a good life. So, it is not simply a question of working harder to become richer. The poor gets into a cycle from which the poor cannot come out. MNREGA makes the poor better off compared to without the MNERGA. But, it doesn't take away the poor's poverty.

The poor's child – unless in luck, and, in India, thanks to the education ecosystem, the child will never go to college – will probably be a skilled worker. A skilled

carpenter or plumber like his or her parent. But will also give all the rent that he or she could earn because of this skill to the labour contractor! Why? Because the person will be operating in the informal sector.

So, one is on the slow lane.

One is on the non-moving lane. Someone goes out, you get in. You are waiting for the most skilled plumber in your neighbourhood to drop dead. That is what poverty is. We plan our careers. The poor person plans the next day. And sometimes this morning for this evening.

As an economist, I will distinguish between the poor, as we understand, and the deprived. All poor people are deprived. But not all deprived people are poor. Women are a big example of this.

When you say deprived what do you mean?

Deprivation in things that make up the fundamental existence: health, education, freedom from hunger. These are things that we as a society have a responsibility to ensure for all its members. Hence my disagreement with income supplements. You cannot say to a poor person here's some cash to compensate for your lack of access to healthcare. If we are in a society and I am unhealthy, it is not my problem alone. It's your problem too. Health is not something where I can say that you are infected with TB [Tuberculosis] but let's not administer treatment for it to you.

It's not like any other product in which there is a choice to consume it or not consume it. So, it is not a usual market. Health is one area where market fails. Most importantly, it fails because of asymmetric information. Doctor has more information than the patient. When I take someone to a hospital if they say the person must be put into the ICU [Intensive care unit] with a ventilator [for which] this will be the cost, instead of questioning the doctor, I run to get that money.

So, the market just does not work. How are we addressing this? Here health is a deprivation factor. All poor people face it. Even some of us [non-poor] face it. In using the income supplement, we are trying to solve the problem in very much the same way as we do by saying I am providing you with health insurance. That does

not take away the reason why the market is failing. It does not correct the market failure.

So, what is it that we are trying to solve? Apart from trying to do something that looks good, and showing empathy, are we really trying to solve the problem?

Let me give you an analogy: Suppose Pakistan attacks us, coming through Kashmir. There are many rich people in Kashmir. Suppose government says that the fiscal deficit is a big problem so we can't protect all Kashmiris. We'll protect the poor. Let the rich protect themselves. If we protect only the poor and the rich are not protected it will be bad for the poor. If we protect only the rich and not the poor it will be bad for the rich. In other words, if you are protected it is not only good for you it is also good for me. It is for all or none.

Security is a public good. You are saying we are failing to see health as a problem only for the poor. Not as a problem for the whole nation.

The minute we think like that this debate about whether health should be in the private sector or the public sector will go away because we don't have the debate on the military or the police. If we believe health is a national priority, everybody must get health. The entire idea is built on better military is good. We don't say better military for who. Private hospitals for the rich. Poor hospitals for the poor. Why do we think like that? If we were to say everybody who is ill will get free treatment whether you are rich or poor because I do not discriminate against you as a citizen, only then we will solve this problem.

This feeling comes about because of targeted policies. Us versus them. My money is being used. Why are you not working harder. I never question why is this poor

If we were to say everybody who is ill will get free treatment whether you are rich or poor, only then we will solve this problem.

person coming into parks built with taxes. Why? Because the tax that was used to build the park was not collected to build the park; it was

collected to do many things of which the park is one. The only way to avoid this thought process is if you make everybody pay involuntarily and that is where the tax system comes into play.

Does the urgency of the rural distress and purchasing power lost to a series of shocks to the economy provide some reason for income supplements better designed than PM-KISAN and NYAY? Or, should we just focus on the basics, the deprivation factors?

We are a transforming society. We need to think of a society which will be hugely different from what we have seen before.

The first thing we need to do is to build a society which is enabling. [This] means the young generation is trained in such a way that they can fit into whatever society we transform ourselves into. We cannot give little amount of money and say our problem is solved. We have to give enough money so that the choice is meaningfully doable. The reason I would focus on health and education is because if we resolve individual resourcefulness, we will be well placed to handle the problems when they come.

So, focus on human capital.

Human capital needs to be built. Human capital is not built in educational institutes. Educational institutes improve the potential for building human capital. But human capital really is built in the workplace. That immediately brings me to labour market policies which today is just not discussed because it is considered leftism or market fundamentalism. Why? Because the only discussion we are having for the labour market is hiring and firing or no firing and only hiring.

Precisely. No one talks about bargaining power for the labour.

That's right. That's what I am saying. People who are saying hire and fire are crying for the SMEs [small and medium enterprises]. People who say no are for the casual labourer. They are all crying but they are solving nobody's problem.

To get to the specifics, how should we think about health, education and labour?

Health and education are derived from the human capital approach. Focus is on the individual. The young generation. This requires leadership because you have to sell this story to the employers and the labour unions. Not just sell but maybe rewrite the story after talking to them because unless everybody comes together this cannot be worked out. Everybody has to buy into this story. At what cost they buy, resolving

labour market problems, rules etc., is not an end in itself. It is a means to solve the overall problem. There needs to be a discourse on this. It cannot be solved by experts alone. Because it involves behavioural changes. This is how public policy needs to be done.

What's wrong with the agriculture economy?

Babasaheb Ambedkar wrote an article in 1918, a hundred and one years ago. What he wrote about then is exactly what is going on today in agriculture. When government says it is going to double farmers' income in five years, the easiest way to do that is to halve the number of farmers. We have too many people in farming. Can you really survive on less than 2 hectares? What's the point of giving that person Rs 6,000 or Rs 12,000?

You should in fact discourage people from farming.

Yes, and find them productive employment elsewhere.

Without PM-KISAN what would I have done? I would have sold off the land and gone off to the city. We need the land to be transformed. We need industrialisation, urbanisation and bigger and mechanised farms. The entire process is being halted by things like PM-KISAN. Think about the long term consequences. We have half the workforce in farming and that has to be brought down. We are making all efforts to make sure it doesn't happen. In agriculture, if I look at demand elasticity and combine it with (even a) 10 per cent income elasticity, any productivity increase will reduce farmer incomes!

The argument made most often, especially by Finance Minister Arun Jaitley, for farmers is that their productivity needs to be increased. Mr. Rahul Gandhi is proposing a big push for processing farm produce. Are Mr. Jaitley and Mr. Gandhi thinking about the agriculture problem the way they should?

In agriculture, the only thing you can do is get people out of agriculture. To solve the problems of agriculture, focus on non-agriculture sectors. That is precisely what Ambedkar was talking about. The young do not want to farm. Why are we telling them to go back to farming?

Manufacturing, worldwide, is in trouble. Much of the services is out of reach because of training required. Government will have to invest in education and training. What is happening today? Higher education is free. Schooling is not. And, whenever we talk of skilling, we talk about spending money in 3-month or 6-month training programmes!

As a nation, can we operate on services alone? If we want to be leaders in the new generation of technology, we have to focus on manufacturing also. Services without manufacturing does not work

in an era of AI [Artificial Intelligence] and IOT [Internet of Things]. Are we

We require public policy that will encourage investors to invest in R&D and workers to invest time and effort in remunerative human capital growth.

going to wait for others to design and develop new service integrated products for the software coding to be outsourced to us? We require public policy that will create an ecosystem where investors want to invest financial resources in R&D and labour market regulations that encourage workers to invest time and effort in remunerative human capital growth. That is good public policy.

[**Puja Mehra** is a Delhi-based journalist. She won the Ramnath Goenka Excellence in Journalism Award in 2008 and 2009 for her stories on the impact of the Lehman Brothers' collapse-triggered financial meltdown and the subsequent global economic downturn on the Indian economy. She was formerly a Senior Deputy Editor at *The Hindu*. Puja's first book, *The Lost Decade (2008-18): How India's Growth Story Devolved Into Growth Without a Story*, has been published by Penguin Random House. She can be contacted at puja.mehra@gmail.com].