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PERSPECTIVE

Income Support Through Cash Transfers and Employment Guarantee Schemes During the Pandemic Times in India

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1 Introduction

Responding to the shocks and vulnerabilities of the poor and marginalized through social policy has been one of the major functions of the governments all over the world. Policies related to social protection assume importance in this context, as they would directly deliver support to the needy. An important justification for public interventions in social protection programmes has been an improvement in the welfare of the poor and equity. Recent research has shown risk and vulnerability justification should be added since the poor do not have formal instruments for risk mitigation and coping. There are two main arguments for having social protection. One is an ethical or philosophical argument that safety net to the poor and vulnerable is important for its own sake (intrinsic value), particularly during shocks. The second one is that social protection can be considered as an investment for growth (instrumental value).

Similar to the rest of the world, the coronavirus pandemic affected both lives and livelihoods in India. The economic shock was much more severe in India, for two reasons. First, pre-COVID-19, the economy was already slowing down, compounding existing problems of unemployment, low incomes, rural distress, and widespread inequality. Second, India's large informal sector is particularly vulnerable.

There has been an unprecedented shock to the labour market. The lockdown has choked almost all economic activity. But the worst affected are the bottom of the pyramid, particularly the informal workers including migrants. In urban areas, the pandemic has led to widespread losses in jobs and incomes for informal workers. Unemployment has increased from 8.4% in March to 27% in April 2020. There was a loss of 122 million jobs. Out of that, the small traders and casual labourers (daily wage labourers) lost 91 million jobs.

Large part of this article is borrowed from Rangarajan and Dev (2020).

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The only asset workers have is labour. They have to be compensated when we tell them not to work during the lockdown. Developed and developing countries have introduced or enhanced several social safety net programmes such as food transfers, cash transfers, employment programmes, prepaid vouchers, and wage subsidies. Informal workers, particularly the self-employed, and the casual workers need income support.

In the post-corona crisis situation, India has to address many problems out of which two stand out. First is the improvement of our health care system, and second is the need for the institution of a scheme to provide minimum income support to the weak and vulnerable groups. In this article, we only address the issue of income support.

There has been a considerable discussion on Universal Basic Income (UBI) in recent years. It is true that a universal scheme is easy to implement. Feasibility is the critical question. Congress party has suggested Nyuntam Aay Yojana (NYAY) to help the poor. The problem with non-universal targeted programmes is the problem of identification. Narrowly targeted programmes will run into complex problems of identification and give rise to exclusion and inclusion errors.[1] If NYAY is introduced, there will be a lot of problems in villages and towns due to narrow targeting.

In order to avoid the identification problem, Rangarajan and Dev (2020) suggested three proposals to meet the objective of providing a minimum basic income to the poor and vulnerable groups in both rural and urban areas. These are: (a) The first one is to give cash transfer to all women above the age of 20 years. (b) The second one is to expand the number of days provided under MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act). (c) The third one is to have the National Employment Guarantee Scheme in urban areas. In all the three proposals, there is no problem of identification. A combination of cash transfer and an expanded MGNREGA can provide a minimum basic income.

2 Cash Transfer to Women

On the proposal of cash transfer, one way of doing it will be to give it to all women say above the age of 20. It is a kind of quasi-universal benefit scheme. This is an easily identifiable criterion because the Aadhar Cards carry the age. The female population above age 20 is around 42.89 crore. Making available a minimum of Rs. 4000 as cash transfer to all of them will cost Rs. 1.72 lakh crores—0.84% of GDP. This is in addition to the income from expanded MGNREGA as given below. The cost of the scheme to the government will be less if the well-off women choose not to take the cash transfer.

[1] Targeting costs can be classified into four types. They are administrative, incentive (dead-weight), disutility and stigma, and political. For a discussion on costs of targeting, see Sen (1995). Dreze and Sen (1989) say that there are broadly three ranges of options for targeting, depending on the programme. They are: administrative selection, market selection and self-selection.

Table 1 Jobs created under MGNREGA till 7 July 2020. *Source*: Financial Express, 8 July 2020

States	Person days till 7 July 2020 (crore)	Person days till 7 July 2020 as percentage of 2019–2020
Telangana	10.36	97
Andhra Pradesh	15.85	79
Gujarat	2.52	71
Uttar Pradesh	14.46	59
Bihar	7.25	51
Madhya Pradesh	9.47	49
Odisha	5.38	48
All India	123.36	47

3 Expanding MGNREGA

The second and third approaches are, respectively, expanding MGNREGA in rural areas and introducing employment guarantee in urban areas. At present, MGNREGA is availed of only for 50 days of employment although the Act guarantees 100 days of employment. The objective of the scheme is to enhance livelihood security in rural areas by providing at least 100 days of guaranteed wage employment in a financial year to every household. According to the scheme, the primary objective is employment creation. But, providing basic income should be added to the objectives of the programme. MGNREGA has secondary benefits such as creation of assets for agriculture and rural development; more participation of women (more than 50% of workers are females); helping the marginalized sections like SCs and STs; reducing distress migration; and involvement of panchayats.[2] A study done by the Indira Gandhi Institute of Development Research (IGIDR) on assets created in Maharashtra shows 87% of the works exist and function and over 75% of these are directly or indirectly related to agriculture under NREGA (Narayanan et al, 2014). An overwhelming 90% of respondents considered the works very useful or somewhat useful; only 8% felt the works were useless.

One way to help the poor and informal workers is to strengthen the MGNREGA. Our proposal is to increase the number of days under the scheme from 100 to 150 days in rural areas. Nearly 40 million migrants have returned to villages. There is a significant increase in demand for MGNREGA during the COVID period.

Around 2.2 lakh households have completed their 100 days as provided under the Act till the first week of July 2020. In June and July 2020, MGNREGA created half the jobs in all of FY 20 (Table 1). It created more than 70% of the jobs in states like Telangana, Andhra Pradesh, and Gujarat.

Our third proposal is to introduce a nationwide Employment Guarantee Act in urban areas and provide employment for 150 days. Urban areas have been more affected due to the pandemic. The design can be slightly different from the MGNREGA. In urban areas, employment can be provided to both unskilled and

[2] On benefits of employment guarantee schemes, see Dev (1995, 2011).

Table 2 Estimates of expenditure for the employment guarantee scheme in rural and urban areas (Rs. crores). *Source*: Author's calculations

	Expenditure on wages (Rs. crores)		Expenditure on wages and materials (Rs. crores)	
	100 days	150 days	100 days	150 days
Rural	110,970	166,455	144,261	216,392
Urban	53,865	80,798	70,025	105,037
Total	164,835	247,253	214,286	321,429
% of GDP	0.81	1.21	1.05	1.58

semi-skilled workers as there is a demand for the latter workers also. Kerala state already has a scheme in urban areas called Ayyankali Urban Employment Guarantee Scheme introduced by the Left Democratic Front (LDF) government as part of the 11th Five Year Plan.

4 Financial Implications

The Government of India has increased wage rate per day from Rs. 182.1 in 2019–20 to Rs. 202.5 in 2020–21. Using this wage rate, we estimated the expenditures for 150 days of employment to 5.48 crore households in rural areas and 2.66 crore households in urban areas—together they are 33% of total households in the country. As shown in Table 2, the total wage expenditure for 150 days is Rs. 2.47 lakh crores (1.21% of GDP) while total expenditure (wages and materials) is 3.21 lakh crores (1.58% of GDP) in 2020–21 (Table 2). It may be noted that this estimate includes the current expenditure of generating around 50 days of employment in rural areas which is already committed by the government.

Therefore, the proposed additional expenditure for 150 days of employment in both rural and urban areas would be Rs. 1.91 lakh crores (0.94 of GDP) as wage expenditure and Rs. 2.48 lakh crores (1.22% of GDP) as total expenditure on wages and materials. In other words, the additional expenditure needed for our proposal is Rs. 1.9–2.5 lakh crores—around 1 to 1.22% of GDP.

5 Total Cost of the Three Proposals

The first proposal of providing cash transfers to women above 20 costs Rs. 1.72 crore (0.84% of GDP). The total cost of the expenditure on MGNREGA for providing 150 days and 150 days for Urban Employment Guarantee Scheme would cost Rs. 3.21 crore in a year (1.58% of GDP). The total cost of the three proposals would be Rs. 4.9 lakh crores or 2.4% of GDP. A person working in MGNREGA and urban programme can get Rs. 30,000 if 150 days is provided.

It may be noted, however, that the total expenditure of the proposals could be lower due to two reasons. First, the number of days availed of by the employment guarantee programmes could be lower as it is a demand-based programme. This is happening even now. Second, on cash transfers, some women particularly from richer classes may voluntarily drop out of the scheme or alternatively we can provide that everyone receiving cash transfer must declare that her total monthly income is less than Rs. 6000 per month. In addition, it may be noted that the government is already incurring the total expenditure of Rs. 67,873 crore on MGNREGA.

6 Fiscal Space

The feasibility of raising an additional 4.2 lakh crore is not an easy one. Some analysts have suggested that we can remove all exemptions in our tax system and that would give enough money. Apart from the difficulties in removing all exemptions, tax experts advocate removing exemptions so that the basic tax rate can be reduced. Perhaps, out of the Rs. 4.2 lakh crore which is needed, Rs. 1 lakh crore can come out of phasing out of some of the expenditures and another Rs. 3 lakh crores must come out of additional revenue raising. Some of the non-merit subsidies are another item of expenditure which can also be eliminated.

It is true that the combined (Centre + States) fiscal deficit could go up to 10% of GDP or more in FY21. However, demand-side measures like relief and stimulus are needed when livelihoods collapse due to pandemic. If monetization of fiscal deficit needs to be resorted to given the extraordinary circumstances, an end date must be specified by which time the process will be stopped and there must be complete transparency about every step of the process including the total amount of money printed and the specific uses of the funding as decided by the government. Most importantly, there must be a well-planned, well-defined exit strategy which is crucial. The government has to return to fiscal stability norms in the medium term.

Another issue is the implementation of the income support schemes. Sending cash transfers to 43 crore of women is a challenge. There are exclusion errors even in Jan Dhan accounts. All are not covered including many of the migrants. Some other channels have to be created for cash transfers to the excluded population. In other words, both IT-based and traditional channels have to be used. State capacity is particularly weak in less developed states. Employment guarantee schemes have a few implementation problems such as delayed wage payments and not able to meet the demand, etc. The 'last mile' problems have to be corrected for the implementation of cash transfers and employment programmes.

To conclude, in the post-COVID-19 situation, we need to institute schemes to provide a minimum income for the poor and vulnerable groups. For this purpose, we propose here cash transfers for women, increasing MGNREGA from present 100 to 150 days of work in rural areas, and introducing 150 days of work as an urban employment guarantee scheme. This will cost around 2% of GDP and will help the poor, informal workers including migrant workers. Creating fiscal space should not be a problem for these income support programmes.

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