Making sense of NYAY

Writer- Jean Drèze (professor at the Department of Economics, Ranchi University)

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"It is best read as a political promise for social security. There is more than one way of redeeming it."

Guaranteed minimum income is a powerful idea that has already made some headway in various countries. Some European countries, for instance, guarantee a minimum income to their citizens. This requires extensive data collection as well as an effective cadre of welfare officers and social workers tasked with enquiring into the circumstances of people who claim to need income support.

It would be nice if India could achieve something similar, but the obstacles are daunting. Starting with the financial burden, a recent brief of the World Inequality Lab by Nitin Bharti and Lucas Chancel presents some useful figures. The authors essentially estimate the "minimum-income gap", that is, the gap between minimum income and actual income summed over all households with actual income below the minimum. With a minimum income of Rs 72,000 per year, the gap turns out to be 1.3 per cent of GDP. This information is helpful, but it does not tell us much about what it would cost to guarantee a minimum income of Rs 72,000 per year to everyone. All it says is that if this could be done through perfectly targeted and costless top-up transfers, it would cost 1.3 per cent of GDP.

In an earlier avatar, the Congress party's minimum income guarantee (MIG) proposal was based on this sort of top-up model. The idea was that the government would simply fill the gap — if any — between minimum income and actual income, household-wise. This is impractical, if only because it requires household-specific income data that are virtually impossible to collect, at least for now. It also creates obvious incentive problems. One possible response is that the basis for calculation of the gap should not be actual income but some sort of "imputed income" — an estimate of what a household is expected to earn based on observable characteristics such as education and land ownership. Imputed-income estimates, however, are bound to lack precision, leading to large inclusion and exclusion errors.

For these or other reasons, the top-up formula was dropped and NYAY was announced: Uniform cash transfers of Rs 72,000 per year, equivalent to Rs 6,000 per month, to the poorest 20 per cent households — about 50 crore households based on 2011 census data. Initially, an impression was created that NYAY "guaranteed" Rs 12,000 per month, because most households earn at least Rs 6,000 on their own, but this is incorrect. In fact, Bharti and Chancel estimate that 33 per cent of households earned less than Rs 6,000 per month in 2011-12, and the corresponding proportion today may not be much lower. In short, NYAY is a targeted cash-transfer scheme that guarantees Rs 6,000 per month to the recipients — nothing more, nothing less. It can also be thought of as a massive non-contributory pension scheme.

Naturally, the NYAY proposal is more expensive than the top-up formula. It requires Rs 360,000 crore per year, or close to 2 per cent of today's GDP. If NYAY is rolled out over five years, and India's real GDP continues to grow at 7 per cent per year or so, the cost will be around 1.4 per cent of GDP at its peak. If that really goes to the poorest households, NYAY would seem like a good idea. How the NYAY recipients are to be identified, however, is an unresolved puzzle.

Identifying the poor used to be the main purpose of the so-called "below poverty line" (BPL) surveys. The record of BPL surveys, however, is dismal: Three national surveys suggest that about half of all poor households in rural India did not have a BPL card in 2004-5. In recent years, for the purpose of identifying the recipients of food subsidies under the National Food Security Act, some states have adopted a different approach, known as the "exclusion approach". In this approach, well-off households are excluded using simple and transparent criteria, and everyone else is eligible by default. This approach seems to work much better than the BPL surveys, but mainly when the proportion of households to be excluded is relatively low — say 20 or 25 per cent. Excluding 80 per cent, as NYAY requires, is another matter.

The targeting problem is all the more serious as the income transfers being proposed under NYAY are much larger than anything ever delivered to BPL households. Shocking as it may sound, Rs 6,000 per month is the sort of salary that many informal-sector workers earn in the poorer states — say chowkidars or domestic workers. People struggle, bribe, cheat and fight for this sort of job. Selecting 20 per cent of households for an unconditional monthly pension of Rs 6,000 is likely to be a chaotic exercise.

Perhaps the way forward is to read NYAY as a political commitment to a massive pension scheme, equivalent to cash transfers of Rs 6,000 per month to the poorest 20 per cent households, and explore possible variants of this formula. To illustrate, one possible variant would involve individual pensions of Rs 1,200 per month for 25 crore persons, instead of Rs 6,000 per month for 5 crore households. The NYAY pensioners could include all elderly persons, single women and disabled persons who do not meet well-specified exclusion criteria. That would add up to something like 12 crore persons, leaving substantial room for other vulnerable categories. This would not be perfect, but it would have a chance to work at least.

Other variants are also possible, for instance a mix of household and individual pensions. Politicians need simple slogans, and "Rs 72,000 per year for the poorest 20 per cent" serves that purpose, but it is important not to let this slogan shut the door to other ways of redeeming the political commitment underlying the NYAY proposal.

Minimum Income Scheme (NYAY)

- Recently Congress has promised to give the help of Rs 72,000 per annum to the poorest 20 per cent of the country's population and it has been named the 'Minimum Income Scheme'.
- According to the Congressional calculation, there are about five crore families earning less than 12,000 in the country.
- The average number of beneficiaries is 25 crores, which is around 20% of the country's population, by the average of five men per family.

main point

- Assuming the Congress figures as the base, the annual expenditure of Rs 3.6 lakh crore will be given to the Rs 72,000 per year for 5 crore families.
- According to rough estimates, this is 1.3 percent of the country's total GDP and 13 percent of the current annual budget.

Prime Minister Kisan Samman Nidhi (PM- Kisan) Scheme

Why in the discussion?

- Recently, Prime Minister Kisan Samman Nidhi (PM-Kisan) scheme was launched in Gorakhpur on February 24, 2019 by Prime Minister Narendra Modi.
- This scheme has been implemented by the Indian government throughout the country for increasing the income of small and marginal farmers and for their golden future.
- Prime Minister Narendra Modi has launched the Prime Minister Kisan Samman Nidhi (PM Kisan) scheme of Rs. 75,000 crores.
- The announcement of the Prime Minister Kisan Samman Nidhi Yojana (PM-Kisan) was made on the interim budget 2019-20 on February 1, 2019.
- Under this scheme, 6000 rupees per year will be given to small and marginal farming families of joint holding / ownership of upto 2 hectares.

main point

- This amount will be given in three installments of each beeing the amount 2000 rupees.
- This amount will be transferred directly to beneficiaries' bank account through direct benefit transfer. DBT will ensure transparency in the entire process and save farmers time.
- The Prime Minister-Kisan Yojana is a Central Sector Scheme of 100 percent financing from the Indian government. This scheme has been effective from 01.12.2018 for transfer of benefits to eligible beneficiaries.
- The existing land ownership system will be used for identification of beneficiaries in the States / UT (Union territories). Those who have their names in the land records till 01 February 2019 will be considered eligible for the benefit of this scheme.

an objective

- The objective of the Prime Minister-Kisan scheme is to provide financial assistance in the financial needs of the SMF in achieving various inputs to ensure proper crop health and suitable yield according to the estimated agricultural income at the end of each crop cycle.
- This will save them from getting entangled in the clutches of the monej lender for the fulfillment of such expenses and their regularity in agricultural activities will also be ensured.

Who will not get the benefit?

- If one or more members of a farmer's family are in the following categories, formerly or currently employed in an institutional post, existing or former minister, minister of state, Lok Sabha-Rajya Sabha, former or current members of the Legislative Council, before Municipal Corporations or Existing mayor and district panchayats in existing or former chairperson of scheme, they will not get the benefit of this.
- In addition to the existing or retired employees of the Central and State Governments, regular employees of the local bodies (in which multi-tasking staff-category four-group D employees are not included) will not get the benefit of this scheme.
- All retired employees or pensioners who have a monthly pension of Rs 10,000 or above will also not get the benefit of this scheme.

Expected Questions (Prelims Exams)

1. Consider the following statements in the context of Nyuntam Aay Yojana (NYAY):-

1. It is a targeted cash transfer scheme which gives the guarantee of Rs. 6000 per month to beneficiaries
2. Every year 20% poor family will get its benefit.

Which of the above statement is/are correct?

(a) Only 1 (b) Only 2

(c) 1 and 2 Both (d) Neither 1, Nor 2

Expected Questions (Mains Exams)

Q. How the Nyuntam Aay Yojana (NYAY) will prove better in economically empowering the workers work in unorganised sector? Discuss.

(250 Words)

Note: Answer of Prelims Expected Question given on 4 APR. is 1(b), 2 (a)