The great Budget "Cash for Votes" Scam – and other Cash Transfer Schemes*

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The big-ticket item in the "Interim Budget 2019-20" was the announcement of a cash transfer to farmers holding less than 2 hectares, of Rs 6,000 per household to be paid in three instalments of Rs 2,000 each. Estimated to cover around 120 million households, it is projected to cost Rs 75,000 crore over a year. Amazingly, the government also declared that it is providing this amount with retrospective effect from 1 December 2018, so that the first instalment would reach farmers' bank accounts by end March of the current financial year. Finance Minister Piyush Goyal stated that he has put aside Rs 20,000 crore in the current year for this purpose.

Several features of this announcement stand out. First, it is in clear contravention of the propriety of an Interim Budget, which is supposed to be simply a Vote-on-Account that covers projected taxes and spending until the next government is in place. It is not supposed to commit to significant additional spending for the future, and so this measure and the proposed income tax measures could even be illegal. Every government is allowed to present at most five full Budgets; since the Modi government presented its first Budget in July 2014, this would be its sixth Budget – which is precisely why it can only be an Interim Budget.

Second, this is the biggest indication so far of the current desperation of the ruling party. A Prime Minister who began by promising "development" and "jobs" as opposed to the "welfare" measures that he regularly denigrated (including the MNREGA that he tried to kill but was forced to continue) has now been forced to thump the table enthusiastically in support of a cash handout to a major constituency whose economic situation has deteriorated during his tenure. All the big expectations that his government would unleash massive growth dynamism so that there would be no need for an employment guarantee have been belied; instead, there is widespread rural distress and a serious crisis of rising open unemployment and poor quality job creation. The handout is blatant in its appeal to the farmers who will vote in the coming elections: here's some cash now, and if you re-elect us you will get more over the course of the coming year.

Third, this also betrays a severe lack of imagination in government circles. The proposal is in essence similar to the Rythu Bandhu scheme in Telengana, although that is more generous. In fact, the Rythu Bandhu scheme is now being questioned because it relies on land titles to determine the transfers, and excludes tenants and women farmers who constitute significant proportions (in some cases the majority) of farmers. The Budget Speech was vague about the beneficiaries, suggested that it would cover all those who are operating land – indeed, the number seems to be based on the Agricultural Census 2015-16, which suggested that there are 125 operational holdings of 2 hectares or less. But most tenancies in India are unrecorded, and land titles are also a mess in many places, while the government wants to hand over some money to farmers immediately, to get some electoral benefit. So it is likely, even inevitable, that the scheme will cover only those who have land titles, including absentee landlords who do not cultivate themselves, while the actual cultivators may get nothing.

Finally, while this involves a substantial budgetary outlay, it is a paltry amount for an individual farming household. It has been widely noted that it comes to only Rs 3.33 per day for a family of five people. But more importantly, in relation to average costs per hectare, the amount is pitiful. According to CACP estimates, average costs per hectare are Rs 30,000 for wheat and Rs 40,000 for rice (using the lower measure of A2+FL, or paid-out costs plus imputed costs of family labour, rather than C2 that also includes imputed rental costs of owned land and equipment, as farmers have demanded). Assuming double-cropping, we can say that costs per hectare vary from Rs 60,000 to Rs 80,000 – which means around Rs 140,000 per year for a farmer cultivating two hectares. So the promised largesse counts for less than 5 per cent of average costs for such a farming household.

This is only one of the reasons why this hasty, desperate and possibly illegal announcement may turn out to be a bit of a political self-goal by the ruling party. Certainly, the reactions in the farming community thus far have been less than effusive, and some have even argued that it is an insult. There is also the tone-deaf nature of this response: the enormous farmers' marches and protests across the country made very clear and specific demands about land rights, credit, inputs, water management and output prices – but none of those has got more than lip service.

Enter the Congress Party, with its own "game changer" announcement of a minimum income guarantee for all households across the country. Politically, it may have been a smart move, wrong-footing the government and taking the wind out of its sails even before the Budget announcement of a cash transfer for farmers. But it is evident that this proposal has not really been thought through either, and the somewhat contradictory explanations suggest that this was also hastily announced so as to dominate the policy discussion.

There are two ways to interpret this particular (still very general) proposal. Some spokespersons of the Congress Party have suggested that this will be an income top-up scheme, whereby families below a certain determined income will be provided an additional amount per month to make up the difference. There are many problems with this approach, which is essentially unworkable and even undesirable in the present circumstances.

First, how is the government going to determine the income of every household? We do not have such data at present, and they are almost impossible to collect for the vast majority of people who work in unorganised activity. It has been claimed that the Socio-Economic and Caste Census undertaken in 2012 can provide the basis for this, but that is absurd, because the SECC did not even try to measure incomes, and used other indicators to determine poverty. Household surveys that have attempted to measure income (such as the India Human Development Surveys for 2004-05 and 2011-12) come with many caveats and are extremely expensive and time-consuming to undertake, making them next to impossible to undertake for the entire population.

In any case, any survey attempting to do this would also be susceptible to being gamed, as the incentive would be for every household to understate its income so as access more cash transfers from the state. But even if incomes could be determined for each household for a particular year, such incomes would obviously change over time, and need not be accurate reflections of the conditions of the household in future periods.

Second, what is the "acceptable" minimum income standard that would be used? Would it vary across states (as it should, given different price levels)? Would that not create problems and contradictions across states vying for shares of the Central allocation for this? Would this minimum standard change according to the other public services being provided (such as for nutrition, sanitation, health and education) and their costs? And how would this be determined?

Third, would this cash transfer scheme be at least partly financed by cutting other services and welfare schemes? This is a hugely important issue, because a government that provides income with one hand and takes away important public services and provisions with the other is doing the citizen no favours. In fact, it is likely that such an effort would actually make people worse off, as the cash handouts would not keep pace with rising prices of necessary goods and services. There is reason for concern on this issue, given that the Economic Survey a few years ago that argued in favour of such cash transfers did so on the basis of cutting other welfare schemes and so-called "demerit" subsidies, and even suggested that this would enable greater fiscal "savings".

Any subsidy or welfare scheme has to be considered on its own merits. Many of them serve particular purposes, which cannot be subsumed under one "basic income" scheme. For example, maternity entitlements mandated by the National Food Security Act 2009 (which the government has still not fully implemented!) are specifically intended to substitute for paid maternity leave for women who do not get such benefits because they are not in formal employment. Scholarships to students are designed to ensure greater inclusion and access of economically and social deprived young people to education at all levels. And of course, public provision of good quality health and education services is not only necessary to ensure universal access, but because these are sectors plagued by information asymmetries that allow consumers to be duped.

The implementation of cash transfers is significantly weakened by the idea – currently pervasive in official circles – that leakages and corruption can be prevented through the simple expedient of Aadhaar linkage, which is supposed to automatically weed out duplications and "undeserving" beneficiaries. The experience with Aadhaar linkage in the food security and employment programmes is dire: many of the most marginalised and impoverished people have been deprived simply because their biometrics do not match, or there are spelling mistakes in their cards, etc. The government celebrates these as "savings", but in fact they have mostly been denial of entitlements to disadvantaged people. Meanwhile, all sorts of diversion and corruption continue, because they occur among intermediaries in other ways that cannot be plugged by the Aadhaar linkage.

It is evident that a system of minimum income guarantee that relies on varied cash transfers to individual households is neither workable nor desirable. But there is another way of thinking about ensuring a minimum income guarantee that would ensure better conditions as well as more employment. This is the combination of universal basic services, universal employment guarantee and universal pensions.

Universal basic services would rely on state provision of good quality public services in health, education, etc., which would ensure more access, reduce inequalities and increase public employment. Universal employment guarantee to every adult in urban and rural areas for 150 days would be a means of ensuring a basic income to all citizens that is not household-based, does not require any measurement of incomes and provides the dignity of work rather than a handout. Employment schemes can be designed to provide goods and services that improve productivity and the quality of life for all, therefore improving supply conditions as well. Pensions for the elderly and others who cannot work for reasons like disability, at half the minimum wage, would take care of those who could not take advantage of the employment guarantee.

Obviously, this combination would require a lot of fiscal resources. But so does any scheme of cash transfer that provides a meaningful basic income, rather than a tiny pittance. This combination of universal basic services, public employment guarantee and pensions would generate a lot more direct employment. Therefore, it would also have significant multiplier effects that would further add to economic activity and employment – creating what Hyman Minsky had called a "bubbling up" of growth rather than a "trickle down". This in turn would also generate more tax revenues, so the net public spending would be much less. And there are ways of raising revenues through wealth and capital gains taxes as well as inheritance taxes, that need to come back to the Indian fiscal policy discussion.

The Modi government's proposed cash transfer to farmers is a poorly imagined scheme that is likely to have little positive impact. But there is an alternative scheme to regenerate the economy and employment – ad this is what needs to get more political traction.

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