

Comment

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# Mainstreaming the multitudes

## A Clinton-era experiment holds enlightening lessons for policy makers

Do subsidies and welfare programmes benefit the poor and the needy, or do they merely drain a country's coffers. The latest issue of *The Economist* has a very interesting report on one of the most controversial experiments carried out in the US, and which holds out several lessons for India.

It goes back to a law that President Bill Clinton signed into law in 1992. The law - based on Clinton's presidential campaign to "end welfare as we know it" - required the states to push welfare recipients into jobs.

The law also gave the states incentives to shrink the number of welfare cases. It forced them to limit families to five years or



### Way to go

**Doles should be time-bound. Offer attractive fiscal incentives to people who pay taxes**

**Make the community responsible for improving the lot of the backward in their respective parishes**

**Focus on special schemes only for the crippled and the destitute, and the children from such families**

less of federal money. Instead, the federal funds were converted into block grants, and the states were given flexibility to spend it as they saw fit. The programme was aimed at discouraging people from taking a free ride "on the wagon".

Undoubtedly, there were critics. They attacked the programme as being insensitive, and of forcing a capitalist-banker approach on needy masses. But the last few years have begun showing up some results.

Initially, the numbers of welfare cases peaked. But after 1994, the drop became visible. Welfare cases fell by 60% over the next decade, from 5 million to 2 million families. "Instead," *The Economist* points out, "welfare mothers found work, and the biggest increase by far was among those who had never been married". The government also introduced a new fiscal weapon - it sharply increased the earned-income tax credit (EITC), which helps low-income workers by

adding federal money to their wages.

That made work more rewarding, and many single mothers were quick to give it a try. Today, almost everybody agrees that America has largely won the battle against lethargy and gloom, notwithstanding the fact that around 10-15% of America's former welfare recipients continue to wallow in the muck. This segment is neither working nor on welfare. Nevertheless, the American experiment does throw up a few ideas that India's policymakers ought to consider.

First, doles should be time-bound. Unless people know that the handout is going to end some day, they are rarely encouraged to get off the dole. Instead, what should be done is to provide people with ideas on how to prepare for the days when the dole will dry up.

Second, introduce fiscal incentives for people who begin paying taxes, by rewarding them for a few years - once again a time-bound measure.

The initial dole will encourage people to adopt a lifestyle that they would find hard to give up. The additional incentive - given against taxable income - will encourage them to earn more, and even declare such earning in order to get the tax-indexed dole. Third, make the community responsible for the people who do not become productive or learn to get off the dole. It might make sense to peg the quantum of money the community - or the elected representative - gets from the government to the incremental taxes the community pays to the government through higher incomes.

It would be a better way re-introducing the MPLAD (the Local Area Development fund for Members of Parliament) scheme that is currently in force. The new method will compel elected representatives to devise new ways by which the laggards in the 'parish' can get educated, and learn new skills in order to become more employable, and to climb the rungs of economic growth. It will also help enlarge the tax net. In addition to the above it will be necessary to introduce special programmes to educate women - because that would indirectly allow entire families to get educated as the girl child becomes a mother and guides her children through life.

Likewise, there should be programmes aimed at covering the crippled and those who are addicted to drugs and alcohol. More significantly, the children of such families need to be focused on.

It is my belief that all these measures will, cumulatively, cost the government far less than the indirect subsidies it offers people through subsidised kerosene and food through fair-price shops under the public distribution scheme. But changing the dole system will require tremendous commitment and political will. Those qualities are rare with Indian governments. And that, alas, will remain India's Achilles' heel.

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