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Freedom Team of India

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Come on, liberals: Let's change India!

Eliminating poverty – a liberal solution

[Sanjeev Sabhlok](#)

The number of people living below the poverty line declines dramatically when even a few policies of freedom are introduced in a society. This has also been India's experience, post-liberalisation. The number is reduced considerably but there will still be some who continue to be below the poverty line. Such cases, some people argue, can be taken care of by private charities because of their belief that there can be no role for a government in directly doing anything about poverty. However, such is not the liberal view.

The liberal understands that poverty will continue to arise through random bad luck, bad decision-making, and a combination of both. The liberal realises that markets treats those who can't contribute economic value as outcasts, and charities have no capacity to reach out to the remotest corners of a vast country like India. Therefore, the liberal calls for an ongoing role for government in this area as part of equal opportunity. We need a social insurance program to identify the poor protect them from starvation.

It is important to emphasise that this 'social minimum', the product of the social insurance scheme, does not amount to coercive charity or redistribution of wealth, but is a safety net available to everyone should things go wrong. There are many other good reasons for having the social minimum which I have discussed in my draft manuscript of *The Discovery of Freedom*¹ (I invite your thoughts on this manuscript). Suffice it to note that while the liberal society vigorously protects us from coercive socialist redistribution, it also leads us to a humane society with its commitment to reasonable equal opportunity.

Need to top up the incomes of the poor

Milton Friedman proposed a solution to poverty through a negative income tax (NIT) model This is a direct solution where incomes of those living below the poverty line are topped up to reach the poverty line. (It is worth noting here that the poverty line must include an amount for private health insurance: I'll outline in a separate article how free markets can provide health in the free society). The NIT must, of course, be linked to a *requirement to work* condition so that able-bodied persons do not get paid if they avoid work. The best way to ensure that no frauds take place is to keep the poverty line extremely low, barely sufficient to ensure extremely frugal dignity; no more.

But instead of this simple system, for decades our socialist model has churned out one poverty 'alleviation' programme after the other, purportedly to reduce poverty but, taken together with a range of subsidies, intended to steal taxpayer wealth and transfer it to corrupt politicians, bureaucrats, and even the middle classes and rich farmers. Very little of that money has ever gone to the poor.

¹ <http://www.sanjeev.sabhlokcity.com/discovery.html>

While exploring the NIT idea in the year 2000, I made many rounds of the Finance Ministry and Planning Commission to collect data and talk to senior people there about it. My preliminary calculations suggested that if the money spent on subsidies and poverty alleviation programmes was directly transferred to the poor, there would be no poverty left in India. (Here I may add that even if, upon further analysis, it is found that NIT is not cost-neutral, relevant funds must still be found since banishing poverty is vital for a free society.)

Thus there has never been a shortage of funds for poverty elimination in India. What has prevented that from happening is the keen desire of Indian socialists to line their pockets and pay off particular constituents such as rich farmers. Socialism has thus sustained (and at least partially created) poverty in India for six decades.

How the NIT would work

The NIT would be implemented in seven simple steps:

1. Identify those who may need assistance during a given year, preferably in advance of the actual requirement, such as on estimated income based on previous year's income tax returns (all families would need to lodge returns).
2. Find how much is needed to meet the gap between expected income of those identified in step 1, and the poverty line. This gap should be small, for even the poor earn above acute starvation.
3. Impose a tax (insurance premium) on the community sufficient to meet this gap. In early stages, money can be borrowed against future revenues since poverty will drop significantly after policies of freedom are introduced. This way, the tax burden can be evenly distributed over a number of years.
4. Transfer the precise amount identified in step 2 directly to those identified in step 1 through an automated, fortnightly payment into their bank account (with women in a family getting half the amount).
5. At the end of the year, use the income tax return to automatically adjust what was paid out. For overpayments a refund could be obtained or future payments reduced.
6. Audit those receiving NIT funds to ensure they have been participating in the market to the best of their ability.
7. Once implemented, stop all poverty alleviation programmes and abolish all policies that try to equalise people's incomes or subsidise anyone.

I have provided more details on this system in my book, [Breaking Free of Nehru](#) and elsewhere. Many of the above steps can be outsourced to the private sector, with checks and balances ensured through independent government regulators who would be responsible directly to Parliament for the integrity of this process. Basically, we'll need to use independent systems and not our existing bureaucracy. Also, for every one per cent permanent reduction in poverty, MPs and MLAs should get a permanent one per cent increase in their base salary. That would get them involved in this process and also link their pay with performance. Similar programmes have been working in the USA (earned income tax credit) and Australia (family benefits scheme) for decades. We can use the lessons learnt in these countries to avoid their excesses and pitfalls.

When I discussed this idea with Swaminathan S Anklesaria Aiyar and others in 2000, I found myself facing numerous objections in response to which I wrote a 14-page paper (available on the internet²). I'll just touch upon one issue here, related to the difficulty of delivering steps 1 and 2. During 1986-88 I created a fully computerised and validated survey of household income of all registered voters in selected villages in Assam. I believe that by using the technology available today (e.g. photographs of villagers' houses), it should be possible to identify the poor and estimate their incomes with far greater accuracy today. Therefore I am convinced that it is feasible to determine incomes for each poor household in India with a fair degree of accuracy (particularly since the concerned person would, be personally liable for the veracity of their income declarations).

² <http://www.indiapolicy.org/debate/Notes/NIT-paper.PDF>

Freedom Team of India

Finally, a quick update on the Freedom Team (FTI, <http://freedomteam.in/>). On 1 July 2009 FTI became a legal entity, as a Trust created in Indore. An outreach effort was thereafter launched with a number of talks and discussion. These received extensive media coverage.³ FTI is thus now well established as a forum for liberal leaders. I invite you to consider joining or otherwise supporting the team.

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³ <http://freedomteam.in/blog/outreach-indore-09>