

The idea and rationale for a Universal Basic Income (UBI) scheme for India has finally found a mention in this year's Economic Survey 2016-17, albeit as a topic for discussion only. The section on UBI has provided an explanation for the concept, its various benefits as well as challenges. Globally too, the concept has attracted greater attention in recent times driven by the anticipation that technological disruption (robotic automation and artificial intelligence, others) would cause mass unemployment (extensive job losses) globally and especially in advanced economies. Hence, governments across countries are deliberating the option of UBI to provide citizens a guaranteed amount of income, irrespective of their economic or employment status.

While in the developed economies it is being viewed as a solution to deal with technology-induced unemployment (projected to grow), in other economies, it is perceived as a means to reduce inequalities and increase consumption demand. For India, the UBI has been proposed as an unconditional uniform stipend (cash) which could be paid to citizens through direct transfers to their bank accounts, which could empower the poor to make their own economic decisions and choices while promoting social justice. The UBI scheme would also be easier to administer compared to the myriad of welfare programs currently being administered by the government. It is seen as potential solution to the problem of misallocation, leakages and corruption that plague the country's current social welfare programmes and streamline distribution of aid to the poor. As India adopts rapidly evolving technologies, UBI would also aid in addressing expected unemployment arising from obsolescence of workforce.

### Conceptual case for Universal Basic Income

Universal Basic Income is premised on the idea that a just society needs to guarantee to each individual a minimum income which they can count on, and which provides the necessary material foundation for a life with access to basic goods and a life of dignity. A universal basic income is, like many rights, unconditional and universal: it requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens.

## Rationale for Universal Basic Income

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India at present has many different welfare programs administered by the government that are targeted at the poor; currently there are around 950 central sector and centrally sponsored sub-schemes in the country accounting for 5.2% of the GDP by budget allocation (Budget 2016-17). In addition, there are more schemes at the state level and most of them have been in force for a long period of time. Implementation of these schemes is riddled with various problems including misallocation, targeting-inclusion and exclusion errors; leakages- wastage and inefficiencies (corruption) in the delivery system; no uniformity in implementation across states as richer and better administered districts are able to implement more effectively; higher administrative costs; some of these schemes involve subsidies which distort resource

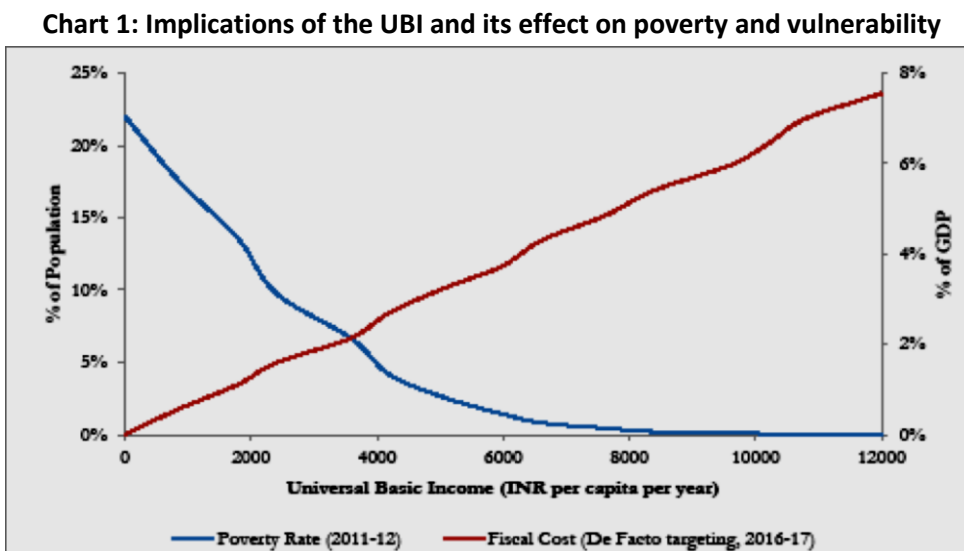
allocation (water, electricity subsidies) - non-poor benefit relatively more from the subsidies; amongst others.

The Economic Survey has presented UBI as a single scheme which could replace this myriad of welfare programs with a simple unconditional cash transfer to every citizen paid at regular intervals. It states that as the transfer would be done directly to the accounts of the beneficiaries there would be reduction in system leakages and reduce misallocation (deal with exclusion errors) to districts with less poor and given the universal nature of the scheme it would reduce the administrative burden and costs associated with it. However, last mile connectivity would still remain a concern as beneficiaries would have to access their bank accounts.

## Cost of Implementing UBI

The cost for implementing the UBI, which will replace all other welfare schemes could be around 4.9% of GDP, according to the estimates provided by the Economic Survey. This would be lower than the current cost of welfare programme, which, as mentioned earlier, is about 5.2% of GDP. The cost has been arrived at by considering certain assumptions. Considering that eliminating poverty completely could be a costly affair, the survey has selected a target poverty level of 0.45% and has computed the 2011-12 consumption level of people at this threshold level. Based on this level of consumption, the amount of fixed income or stipend required to bring an individual above the poverty line of Rs. 893 per month (Tendulkar Poverty Line for 2011-12) has been calculated, which has worked out to be Rs. 5400 per year. After taking into consideration the effect of inflation, the minimum income amount for the year 2016-17 has been estimated to be Rs. 7620 per individual per year. The survey however has assumed a quasi-universality rate of 75% while arriving at the total cost of implementation of the scheme.

The graph captures the UBI for various poverty levels and the associated fiscal costs.



The survey has further suggested that the UBI amount would have to be revised from time to time as its real value would depend and vary according to the prevailing inflation in the economy. The survey therefore proposes indexing it to prices so that the amount gets revised periodically.

Prerequisites for successful implementation of the UBI, however, would be the functional trinity of Jan-Dhan, Aadhaar and Mobile (JAM) which could be used to provide funds to each individual directly into his or her account and an understanding on the share of Centre and State in the funding of UBI, the survey adds. It suggests that initially, a minimum UBI could be funded wholly by the Centre and gradually the Centre could adopt a matching grant system wherein the Centre matches the State for every rupee it spends in providing a UBI.

## Views on the UBI Scheme

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As with any new idea, the UBI has also received its fair share of remarks in favor and against the concept. Those in favour view it as giving the individual freedom to spend with dignity, independent of his/her capability to earn in the absence of employment. They believe it would also reduce poverty and inequalities. As individuals would be paid as per the UBI scheme (not households) it could enable women empowerment and possibly contribute to effective spending on children (nutrition and education) and their businesses. UBI could also relieve a part of the credit constraints for self-employed small producers amongst the poor.

### Two sides of the debate on UBI

Positive	Negative
<ul style="list-style-type: none"> <li>• Poverty and vulnerability reduction</li> <li>• Choice - Individual could spend as per his/her choice</li> <li>• Better targeting of poor</li> <li>• Insurance against shocks</li> <li>• Improvement in financial inclusion</li> <li>• Psychological benefits - reduce pressure of finding a basic living</li> <li>• Administrative efficiency</li> </ul>	<ul style="list-style-type: none"> <li>• Conspicuous spending - spending on wasteful activities</li> <li>• Moral hazard (reduction in labour supply)</li> <li>• Gender disparity induced by cash</li> <li>• Implementation- stress on the banking system</li> <li>• Fiscal cost given political economy of exit</li> <li>• Political economy of universality – ideas for self-exclusion</li> <li>• Exposure to market risks (cash vs. food)</li> </ul>

## UBI - Potential Issues

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While advantages of the UBI scheme are quite apparent, the critics of the scheme have also raised some valid points against it. The survey proposes that UBI replaces the welfare schemes such as MNREGA, Pradhan Mantri Gram SadakYojana, Pradhan MantriAwasYojana, National Health Mission, Swachh Bharat Abhiyan, SarwaSikshaAbhiyan, Mid-Day Meal Scheme, LPG Subsidy, Food Subsidy, Fertilizer Subsidy and every other centrally sponsored scheme and sub schemes in operation in the country. One major

advantage of having numerous welfare schemes in place is that in case a scheme fails to deliver, the other schemes can compensate for that loss.

Moreover, all welfare schemes are not aimed at poverty reduction and hence pro-poor. For instance, subsidies on food and fertilizers benefit incomes of farmers and also aid in providing food at reasonable rates to people. In the event of situations like drought, famine, crop loss, natural and man-made disasters, in-kind benefits like food subsidy (PDS) are more effective than cash transfers. Similarly, MGNREGA provides employment to people and at the same time leads to creation of capital assets; the mid-day meal scheme provides children with food leading to improvement in nutrition levels. Objective of some other schemes involving provision of subsidies and tax exemptions is to stimulate growth or exports and be instrumental in bringing about a structural change. Similar is the case with schemes related to education and healthcare which would have an impact across generations.

In the event of the subsidies being removed, the government would have to ensure education and health to all citizens at nominal prices. The country could also witness increase in rail fares and water and electricity bills as well as fuel prices. Rise in fuel prices could make them expensive/unaffordable for the poor, who may then revert back to traditional fuels for cooking. Discontinuation of welfare programmes could lead to higher prices of essential commodities including food, thus effectively reducing the real income for the individuals.

The UBI scheme is also expected to address the problem of targeting. However, with the proposal to adopt a quasi-universal approach (targeting only 75% of the population), the issues with targeting would still continue. On the contrary, if the scheme is implemented on a universal basis, it will lead to substantial reduction in the amount of per person income in case the overall outgo is maintained at the level achieved under the quasi-universal approach. On the other hand, if the income per individual is maintained at the present proposed level, then the overall outgo would increase substantially which would be economically unfavorable. Also, in case the scheme is made universal, even the rich and wealthy would receive cash transfers. It could also lead to diversion of spending away from crucial areas such as infrastructure, education and healthcare which are critical for long-term inclusive growth.

One other major argument against basic income is that the poor may spend it on alcohol, drugs and other unwanted activities; though this argument has been refuted by the findings of the pilot study conducted in rural Madhya Pradesh through the Self Employed Women's Association in 2011 - 'Madhya Pradesh Unconditional Cash Transfer Project'. Under this project, over 6,000 individuals were provided with the 'basic income' for duration of 12 to 18 months. Experiences across the world on the use of unconditional cash transfers have also shown that expenditure has been made on worthwhile goods and services.

## Challenges in Implementation of the Scheme

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The proponents and those in favor would all agree that while the idea is well appreciated it does face various challenges and practical difficulties in implementing the scheme nationwide. With the implementation of Aadhaar and JAM, a large proportion of the country's population has access to banking. However, given the relatively low density of banks and banking networks in remote rural areas, many of the individuals may not be able to access the money credited to their accounts. The smart phone

penetration in the country may aid in tiding overall the problem of lower density of bank branches, however the costs associated with online transactions could prove to be costly for the rural household beneficiaries.

Computation of the UBI has been done on the basis of the poverty line as per Tendulkar Committee. In India even though the official poverty line is very low, around one-fifth of the population still falls below the BPL. Also, the line differs for urban and rural areas. In India, majority of the workers are in the informal sector and largely self-employed without any income data which could render testing (for poverty) difficult.

There could be resistance with respect to discontinuation of the welfare schemes, as it is easy to introduce schemes in the country, but difficult to exit them. Concerns remain whether UBI would replace all the welfare programs in place or just supplement them. In the event of welfare schemes and UBI being implemented on parallel lines, it could lead to unsustainable budgetary burden.

Lastly, the idea of 'one size fits all' does not apply and depending on the situation, different schemes could work out best. Ready access to markets would play a crucial role in the implementation of UBI.

Globally, while countries and states have implemented basic income schemes or schemes similar to that (please see Annexure-International Experiences), there is no precedent of a major economy implementing a UBI scheme and hence India would have to learn on the work.

Thus, Universal Basic Income as an idea is well received and appreciated. However, given the challenges and issues concerning its implementation it needs to be well discussed amongst the various stakeholders to work out the appropriate scheme for India. As the survey states, UBI is a powerful idea whose time even if not ripe for implementation is ripe for serious discussion.

## Annexure: International Experiences

### Alaska

Alaska's Permanent Fund Dividend (PFD) also known as Alaska Dividend is the closest policy to basic income in the world today. It has been paying dividends to all citizens (residents who have lived within the state for a full calendar year and intend to remain a resident of Alaska) of Alaska since 1982. The Alaska Permanent Fund (APF), a portfolio of diversified assets, was created in 1976 and the government annually invests small part of the state's oil revenue in the fund. PFD derived from the returns of the APF's investments is essentially universal, individual, non-conditional, uniform, regular, and provided in cash. The annual payment fluctuates from year to year in line with the markets and is small relative to the measures of poverty.

### Iran

In 2010, Iran became the first country to introduce basic income to its citizens, a policy that emerged as the country reformed its system of oil subsidies. It shared some features with the Alaska model in that it was based on oil as a natural resource. Oil subsidies were partially cut by raising prices of fuel products and the Iranian government decided to earmark part of the net proceeds (oil revenues) to finance an unconditional cash transfer program to every Iranian residing in the country and was equivalent to around US\$40-45 per month. However, the scheme started facing difficulties within a year of introduction and the comparatively well-off citizens (2.5 million) were asked to voluntarily opt out. These withdrawals did not prove effective in halting Iran's growing budget deficit and another 3.3 million Iranians were removed from the programme (based on assessment of their financial situation) in January 2016. Later in April 2016, the government approved a bill that would result in loss of cash payment to one-third of the Iran's population (would be cut off between September 2016 and March 2017).

### Brazil

Brazil was the first nation in the world that has passed a law on basic income; its National Congress approved a law to institute an Unconditional Citizen's Basic Income. The BolsaFamilia (Family Grant) programme was launched in October 2003, by combing 4 different cash transfer programmes that had been implemented till then. This includes The *Bolsa Escola* (School Grant), the *BolsaAlimentação* (Food Grant), the *AuxílioGás* (Cooking Gas Grant), and the *CartãoAlimentação* (Food Card) programs. This scheme mainly targets children and women as beneficiaries and families must ensure that children attend school and are vaccinated and regular health check-ups are also recommended. The scheme has enabled a reduction in poverty and a World Bank survey finds that it did not discourage working, but in fact encouraged harder work and entrepreneurship.

The ReCivitas Institute, a non-governmental organization based in Brazil has also undertaken projects in basic income in Brazil. During 2008 to 2014, 100 residents of the Quatinga Velho village were given a basic income of 30 Brazilian Reais (about US\$ 9) per month, in cash. ReCivitas launched a new project, Basic Income Startup In January 2016 and as of January 16, 14 residents of Quatinga Velho have basic incomes of 40 Reais that they will retain for at least 20 years.

## **Namibia**

In Namibia, a Basic Income grant pilot project was carried out (at Otjivero), wherein all residents received a basic income. The project results were excellent, and resulted in reducing child malnutrition, better clothing, transportation, reduction in crime and rise in entrepreneurship, resulting in a local multiplier effect. In spite of the outstanding results, the approach has been changed and a programme called Harambee Prosperity Plan has been launched.

## **Swiss referendum**

In June 2016, Switzerland held a vote on basic income (the first country to do that). The proposal was to guarantee every adult citizen and long-term resident an unconditional monthly income of 2,500 Swiss Francs and each child an income of 625 Swiss Francs. The higher amount reflects the high cost of living in the country. The referendum was overwhelmingly rejected with little more than three-quarters (77%) of the voters opposing the plan. The reasons for rejecting the referendum and included concerns on budgetary implications, against the principle of giving people money for doing nothing.