

Universal Basic Income in India

Meaning “The International Monetary Fund (IMF) defines *UBI* as “A cash transfer of an equal amount to all individuals in a country.”

Like many rights, UBI is **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*.

Components UBI has three components:

1. **Universality** → it is universal in nature.
2. **Unconditionally** → there are no preconditions attached with the cash transferred to the beneficiary.
3. **Agency** → Respecting the poor person’s decision making ability and not having a paternalistic attitude towards them.
4. **Cash transfer** – instead of in-kind transfer.

UBI in India (Evolution and Status)

- A radical option to bring down poverty was proposed by The Economic Survey of India 2016-17.
- **Slight variation of UBI** – Mahatma Gandhi National Rural Employment Guarantee Scheme, launched in 2006, government guarantees unemployed rural adult, mainly landless families, 100 days of paid work or payment in the absence of work.
- The Survey has advocated the concept of UBI as an **alternative** to the various social welfare schemes.
- **Government Experiments** → conducting 2 important studies testing UBI in Delhi and Madhya Pradesh – this experiment gave 100 randomly selected households Rs.1000 per month → showed numerous improvements in health, productivity, and financial stability; better food security and lower rates of malnutrition in female children –An overall improvement in health and lifestyle.
- **Sikkim** will become the *first Indian State* to introduce UBI- The *Sikkim Democratic Front(SDF)* it plans to implement the scheme by **2022**.
- **Fiscal Cost of Implementing UBI**: A UBI that reduces poverty to 0.5 per cent would cost between 4-5 per cent of GDP, assuming that those in the top 25 per cent income bracket do not participate. (Vs the existing subsidies cost about 3 percent of GDP)

Global Evolution of UBI
<p>1) Thomas Paine → Intellectual architect of American Revolution → proposed that a “ground rent” of 15 euros be paid to everyone upon turning 21 and 10 euros paid upon turning 50 –to prevent invidious distinctions.</p>
<p>2) Last 100 years Basic income was first <i>taken up by the left</i>.</p> <p>1960’s → Martin Luther King endorsed the idea → <i>Experiments</i> run in <u>New Jersey, Iowa, North Carolina, Indiana, Seattle, Denver and Manitoba</u>.</p> <p>Political winds shifted → basic income hunkered down on the far left during Reagan-Thatcher era.</p>
<p>3) 21st Century Finland, Canada, GoDirectly : Explained below in detail</p>

Need/Arguments for UBI in India

Problems with present welfare schemes	Rational behind such a proposal
<ul style="list-style-type: none"> ✓ Administrative Inefficiency : Large Number of <u>schemes</u> → 950 central sectors and centrally sponsored sub-schemes in India account for about 5% of the GDP by budget allocation. Replacing these schemes with UBI, costs could be reduced. ✓ Misallocation of resources across districts → poorest areas of the country obtain <i>lower share of government resources</i>. This results to <i>errors or inclusion of wrong persons and exclusion of</i> 	<ul style="list-style-type: none"> ✓ Better targeting of poor → <u>exclusion error is zero</u> though inclusion error is 60% ✓ Choice → UBI <i>treats beneficiaries as agents</i> and entrusts citizens with the responsibility of <i>using welfare spending</i> as they see best. ✓ Insurance against shocks & reduce psychological stress of finding a basic living on a daily basis ✓ More productivity: e.g, Small farmers can now undertake to farm on their own land

- genuine poor.* – In 2011-21, estimate suggest that **40%** of the bottom 40% of the population are **excluded** from PDS
- ✓ Human labour is being increasingly substituted by technology, the **wage income is being reduced drastically** → reduced the purchasing power

- instead of working as agro labourer
- ✓ **Flexibility in the Labour market** → *gives more bargaining power to the individual*
 - ✓ **Social Justice** → *respects all individuals as free and equal*
 - ✓ **Promotes Liberty** → *Anti-paternalistic* in nature
 - ✓ **Financial Inclusion**

UBI Globally

- **GiveDirectly** – It is a US non-profit organization that has recently established the world's largest UBI experiment in Kenya. Now transfers funds to people in Kenya, Uganda, and Rwanda → using *end-to-end electronic monitoring and payment technology.* → the impact per \$1000 distributed included encouraging increases in earnings, assets, and nutrition spending. There was *zero percent impact on alcohol and tobacco spending.*
- **Experiment in Finland** – On Feb.8, 2019, preliminary results of Finland's *2 year experimental design* of their UBI.
 - Results; small 2% boost in the self-employed, where proportion of people with earnings from self-employment went from 42.85% to 43.70%
- **Canada** – Ontario experiment was a generous version of UBI. → Low income people participated, their benefits replaced unemployment insurance, the State pension and disability payments → In 15 months, the Government shut down the program (target was for 3 years) because of its high costs.

Benefits of UBI in India

- **Basic Income to empower women** -- There's a lack of women in the public labour force and presence of a large informal sector. -- UBI would help Indian Women get greater financial independence and enhance gender equality.
- **Benefits for the Informal Sector work** : More than 90% of the Indian population works in the informal sector → no benefits or pensions- they have no access to retirement savings, health benefits, or financial security. → UBI would help them have some financial security.
- **Financial Inclusion** -- Incorporating UBI through direct transfers would bring more people into the *formal banking system* → Increases rural access to formal credit → Helps farmers from the trappings of informal credit indebtedness.
- **Practicability** : Circumstances that keep people trapped in poverty are varied-their risks are varied too. → The State is not in the best position to determine which risks should be mitigated and how priorities are to be set.
- **Administrative efficiency** : When the trinity (Jan-Dhan, Aadhar and Mobile) JAM is fully adopted, the time would be ripe for a mode of delivery that's administratively more efficient
- **High Poverty and Inequality** – Poverty ratio was 22 percent in 2011-12 as per Tendulkar Committee. India's richest 1 % now held a huge 58 % of the country's total wealth → rising income inequality

Challenges/Arguments against of UBI in India

- **Implementation Challenges** Potential Cost of UBI → Cost of UBI would be too high.
 - Determining of UBI amount isn't a one time exercise → It's real value tends to be determined by inflation in the economy.
- **Issues in Centre-State co-operation on cost sharing of the program**
- **Inadequate financial inclusion** : As per World Bank, there are only 20 ATMs for every 1 lakh population. Around 1/3rd of the Indian adults remain unbanked
- **Wasteful spending**: Households may spend this additional income on temptation goods such as alcohol, tobacco, etc.
- **Cash-induced gender disparity**: In our patriarchal society, men are likely to exercise control over the spending of the UBI which may not always be the case with respect to other in-kind transfers.
- **Fiscal burden**: due to the large size of the population. Furthermore it may become difficult for the government to wind up a UBI in case of failure.
- **Inflation**: The fiscal burden caused by UBI may prompt the government to increase taxes → result in inflation → reduce

the purchasing power of the people

- Issues with Cash transfer Model

- Evading State's responsibility:** Cash transfer → the govt would be withdrawn from the responsibility of providing basic services like health, education, nutrition, and livelihood → privatization of basic services → large scale exclusion of poor and marginalized
- Agriculture:** The experience of PDS in Tamil Nadu and Chhattisgarh shows that in-kind transfers are twice as effective in increasing calorie intake compared to equivalent cash transfer. Similarly, the agricultural crisis is unlikely to be resolved by income transfers, where addressing pricing, procurement, and other structural issues are essential.

Objections to the Universal Basic Income:

OBJECTION	REPLY TO EACH OBJECTION
(i) UBI reduces the incentive to work → Decrease in economic activities and in result decrease in economic growth rate.	This argument is vastly exaggerated. For one thing, the levels at which universal basic income are likely to be pegged are going to be minimal at best. So they are unlikely to affect the incentives to work.
(ii) Should income be detached from employment	Society already does this, but largely for the rich and privileged. Any society where any form of inheritance or accepting non work related income is allowed, already detaches income from employment
(iii) The third is a concern out of reciprocity . If society provides UBI to a person, what it would get in return?	Individuals as a matter of fact will, in most cases, contribute to society through various ways. In fact, UBI can also be a way of acknowledging non-wage work related contributions to society e.g. work done by women in homemaking is largely unacknowledged and unpaid.

Way Forward for UBI in India

- Economic Survey proposed 3 alternatives**

- ❖ Quasi-universality –targeting bottom 75% of the population → The cost is 4.9% of GDP.
- ❖ Targeting only women – As women face worse prospects with respect to employment opportunities, education, health or financial inclusion
- ❖ Certain vulnerable sections –like widows, pregnant mothers, the old and the disabled. → However, it will also face the problem of 'exclusion error' in the beneficiaries identification

- JAM (Jan Dhan-Aadhaar-Mobile) Trinity can be utilized** to provide funds effectively to each individual directly into his or her account. However, authentication failures in Aadhaar are as high as 49% + around 60% of Jan Dhan accounts remain inactive as of now + issues in mobile network connectivity especially in rural areas = Exclusion of beneficiaries.

Hence the success of UBI depends largely on the success of an efficient mode of delivery such as JAM Trinity.

A behavioural change is necessary on the part of account holders so that they use their accounts frequently.

- Economic Survey points out that UBI should be **indexed to inflation for revision**.

- UBI is **not a substitute for state capacity**. It is a way of ensuring that state welfare transfers are more efficient

- Given the costs attached, universal basic income would be **viable only if it replaces existing welfare schemes**.

- UBI shall **not be framed as a transfer payment from the rich to the poor**. The idea of UBI is that we have a right to a minimum income, merely by virtue of being citizens.

- In the light of these observations, it is **better to have a mix of a UBI scheme and the existing subsidy schemes**. The subsidy schemes which are working fairly should not be disturbed and only those subsidy schemes which are not working effectively must be replaced by the DBT. (For instance, in Puducherry and Chandigarh people were happy with the existing PDS, but the PDS was replaced by the DBT scheme. It proved counterproductive)

MAINS PRACTICE QUESTION

In Indian welfare model, various subsidies are provided. “Why not to have one universal basic subsidy” that covers everything and let people decide how they want to spend it. In this context, critically analyze the rationale of UBI in India. Also suggest the practical way out to implement this idea in India ? (250 Words, 15 Marks)

Exam Time Revisionary Notes

- UBI is a system of *cash transfers of an equal amount to all individuals in a country*.
- Three components of UBI → Unconditionally, Universality and Agency.
- UBI in India → Economic Survey of 2012-13, MNREGS –slight variation of UBI, System will be implemented in Sikkim by 2022.
- Need for UBI → Problems with present welfare schemes, Leakages, Bureaucracy, better targeting of poor, Flexibility in the Labour market, Social Justice and removal of anti-paternalistic approach.
- UBI globally → GiveDirectly in East Africa, Finland’s 2 year experiment, and Canada’s experiment in Canada.
- Benefits of UBI → basic income to empower women and informal sector, financial inclusion, administrative efficiency.
- Challenges → Implementation problems, Centre-State co-operation, might reduce beneficiaries’ incentive to work, and reciprocity
- Way Forward → Three alternatives, Not a substitute for state capacity, viable only if it replaces existing welfare schemes, can be quasi-universal, A UBI for women only, not a transfer payment from the rich to the poor, better to have a mix of a UBI scheme and the existing subsidy schemes