

# Universal Basic Income

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## Manifest Pedagogy

Rajiv Gandhi's Statement, "for every 1 rupee that the government spends only 15 paise reaches the poor", truly reflects the need for UBI. Also recent issues of farmer's distress and DBT 2.0 are important both for prelims and mains. Moreover, whether given the fragile debt and fiscal deficit scenario along with falling collections under GST put a question whether we can muster the resources required for universal principle allocation to everyone who needs it.

## **In news**

Agriculture Distress and Income Support to Farmers

## **Placing it in syllabus**

Planning and mobilization of resources

Inclusive Growth

## **Static dimensions**

1. What is UBI?
2. Subsidies – Targeting and Leakages
3. Choice to consumers
4. Condition Based Transfers
5. Bolsa Familia (Brazil Model)

## **Current dimensions**

1. Usefulness of DBT
2. Savings through UBI
3. Basic Needs and Poverty Line

## 4. India @75 (Niti Aayog Report)

### **Content**

#### **What is it?**

Universal basic income (UBI) is a model for providing all citizens of a country or other geographic area with a given sum of money, regardless of their income, resources or employment status. The purpose of the UBI is to prevent or reduce poverty and increase equality among citizens.

A universal basic income is a regular, guaranteed income paid by the government, universally and unconditionally, to all citizens. It is a cash payment that aims to replace the often confusing array of assistance that states offer to citizens and place spending decisions in the hands of recipients.

#### **Global Scenario**

- Elsewhere in the world, there have been several small-scale experiments with implementing a universal basic income, but they have met with limited success.
- In April 2017, the government of Ontario in Canada announced a pilot project involving 4,000 people that would have cost 150 million Canadian dollars (US\$113 million).
- The project ended abruptly after a year when the local government changed and the new administration described the program as expensive and unsustainable.
- In Finland, an experiment with universal basic income ended in December after completing its two-year trial run, and there are currently no plans to continue the program. The trial included a US\$630 monthly payment to 2,000 unemployed citizens.
- In the United States, meanwhile, the concept has been floated in Stockton, California, by its young mayor.
- Other countries either partially supported or conducted

partial experiments include; Namibia(2008), South Africa, Macau(2008), south Korea, Iraq, Iran(2010), Belgium, Bulgaria, Czech Republic, France, Germany, Greece, Hungary, Iceland, Ireland, Netherlands, Norway, Poland, Spain, Australia , New Zealand, Brazil and Switzerland etc

## **Advantages**

1. **Poverty and vulnerability reduction:** Poverty and vulnerability will be reduced in one fell swoop
2. **Better targeting of poor:** As all individuals are targeted, exclusion error (poor being left out) is zero though inclusion error (rich gaining access to the scheme) is 60 percent
3. **Insurance against shocks:** This income floor will provide a safety net against health, income and other shocks.
4. **Improvement in financial inclusion:** Payment – transfers will encourage greater usage of bank accounts, leading to higher profits for banking correspondents (BC) and an endogenous improvement in financial inclusion. Credit – increased income will release the constraints on access to credit for those with low income levels
5. **Psychological benefits:** A guaranteed income will reduce the pressures of finding a basic living on a daily basis.
6. **Administrative efficiency:** A UBI in place of a plethora of separate government schemes will reduce the administrative burden on the state

## **Disadvantages**

1. **Conspicuous spending:** Households, especially male members, may spend this additional income on wasteful activities.
2. **Moral hazard (reduction in labour supply):** A minimum guaranteed income might make people lazy and opt out of the labour market

3. **Gender disparity induced by cash:**-Gender norms may regulate the sharing of UBI within a household – men are likely to exercise control over spending of the UBI. This may not always be the case with other in-kind transfers
4. **Implementation:** Given the current status of financial access among the poor, a UBI may put too much stress on the banking system.
5. **Fiscal cost given political economy of exit:** Once introduced, it may become difficult for the government to wind up a UBI in case of failure.
6. **Political economy of universality – ideas for self-exclusion:** Opposition may arise from the provision of the transfer to rich individuals as it might seem to trump the idea of equity and state welfare for the poor.
7. **Exposure to market risks (cash vs. food):** Unlike food subsidies that are not subject to fluctuating market prices, a cash transfer's purchasing power may severely be curtailed by market fluctuations.

**What should India do?**

### **Guiding Principles for Setting up a UBI**

Conceptually, a well-functioning UBI can be designed. How should one go about attempting to implement the same in a country as vast and complex as India? There exist, when translating the idea into reality, tensions that tug in opposing directions: there is the pull of universality, the need to contain fiscal costs, the difficulty of exit from existing programmes and the need to introduce a system that is not beyond the admittedly constrained ability of the Indian state to implement things at scale.

Below are the principles that could help guide thinking in this direction:

**De jure universality, de facto quasi universality**

If universality has powerful appeal, it will also elicit powerful resistance. The popular reaction to demonetization reveals a deep sense that the well-off gain from and game the current system to their advantage. In that light and keeping in mind fiscal costs, the notion of transferring even some money to the well-off may be difficult.

It is, therefore, important to consider ideas that could exclude the obviously rich i.e., approaching targeting from an exclusion of the non-deserving perspective than the current inclusion of the deserving perspective. And there are a number of possibilities here. Below, is a list of four:

1. Define the non-deserving based on ownership of key assets such as automobiles or air-conditioners or bank balances exceeding a certain size.
2. Adopt a **'give it up' scheme** wherein those who are non-deserving chose to opt out of the programme just as in the case of LPG and are given credit for doing so.
3. Introduce a system where the list of UBI beneficiaries is publicly displayed; this would **"name and shame"** the rich who choose to avail themselves of a UBI.
4. **Self-targeting:** Develop a system where beneficiaries regularly verify themselves in order to avail themselves of their UBI – the assumption here is that the rich, whose opportunity cost of time is higher, would not find it worth their while to go through this process and the poor would self-target into the scheme. The issue with an approach of this sort is that it conflicts with the essence of JAM, whose appeal lies in its direct, costless transfer of the state's welfare subsidies to beneficiaries' accounts.

**Guiding principle is gradualism:**

**The UBI must be embraced in a deliberate, phased manner.** A key advantage of phasing would be that it allows reform to occur incrementally – weighing the costs and benefits at every step.

Yet, even gradualism requires a roadmap. Here, below are different approaches of gradually adopting a UBI. The eventual goal of each approach is to inform the path towards a de facto UBI.

1. **UBI for women:** Women face worse prospects in almost every aspect of their daily lives – employment opportunities, education, health or financial inclusion. Simultaneously, there exists plenty of evidence on both, the higher social benefits and the multi-generational impact of improved development outcomes for women. A UBI for women can, therefore, not only reduce the fiscal cost of providing a UBI (to about half) but have large multiplier effects on the household. Giving money to women also improves the bargaining power of women within households and reduces concerns of money being splurged on conspicuous goods.
2. **Universalize across groups:** Another approach is to phase in a UBI for certain vulnerable groups – widows, pregnant mothers, the old and the infirm – first. This would serve as a means for the state to make good of its promise – sometimes mandated by law – to support the most vulnerable<sup>37</sup>. Furthermore, these are easily identifiable groups of individuals
3. **Choice to persuade and to establish the principle of replacement, not additionally:**

Rather than provide a UBI in addition to current schemes, it may be useful to start off by offering UBI as a choice to beneficiaries of existing programs.