

Universal basic income in India: A policy analysis

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Abstract

There have been speculations that the BJP government might lay the foundations of Universal Basic income in India. This was one of the major themes of the Economic Survey 2016-17. Universal Basic Income Scheme can be a viable alternative to the plethora of state subsidies intended for poverty alleviation, as noted in the Economic Survey 2016-17. The idea of everyone getting a basic income every month in their bank account sounds all kittens and rainbows but it comes with a cost. The cost is ending all the existing welfare schemes like MNREGA and Mid-day Meal schemes. Also, there won't be any in kind transfers of food and no subsidies on fertilisers or electricity. The fiscal deficit of the country might also increase.

Like all economic policies, a basic income also has its pros and cons. This paper analyses the need of a Universal Basic Income in India and the costs involved in implementation of the same. We have tried to explain the concept of universal income, its relevance in the Indian context, and some of the challenges pertaining to its application as a viable policy.

Keywords: universal basic income, development, poverty, growth

Introduction

A basic income is a form of social security in which all citizens or residents of a country receive a regular, unconditional sum of money, either from a government or some other public institution, in addition to any income received from elsewhere ^[1]. This means that it does not matter whether a person is a farmer, an architect or a multimillionaire businessman; they are entitled to receive a monthly basic income as a part of welfare. The concept of UBI has been gaining traction in the west for quite some time, but has only been discussed in India since the last few years. The economists have mixed views on the idea of a guaranteed basic income. Some believe that it can enhance the economic growth of a country by putting an end to corruption and bureaucratic red-tapism while others believe that the idea is not economically feasible. UBI, if implemented can prove to truly transformative if can help uplift the marginalised sections of the society or it might end up as another policy failure of the government.

This paper has been divided into three sections. Section 1 analyses the implementation of the scheme in other countries. Section 2 highlights the importance of basic income in India. In the final section we look at some problems of implementing UBI in India and also make suggestions for the implementation of UBI in India.

1. UBI: Around the World

Many a countries around the globe are thinking of or already implementing some form of basic income while others have rejected the idea and some have scrapped similar moves.

Switzerland held a referendum on the issue in the June 2016, the first country to do so. The proposal on the ballot entailed that every Swiss citizen, irrespective of their circumstances, would receive a sum of CHF 2500 (\$

2585) per month per adult and CHF 625 (\$645) per child. An overwhelming majority of the people (77%) voted against the measure, which already did not have any major political party backing it. Ralph Kundig, one of the lead campaigners of the initiative, conceded that there was little chance of the initiative getting passed but he said that "just getting a broad public debate started on this important issue is a victory". One of the main grouses people had regarding the plan, among other things, was the high amount proposed, which reflected high cost of living in Switzerland. Swiss authorities estimated that the proposal would require an additional outlay of CHF 25 billion ^[2] (\$ 25.85 billion) annually, which might need significant tax increases or spending cuts, both the ideas considered non-starters by most people.

Some nations, particularly the wealthier ones, have been toying with prospects of implementing some form of basic income program for some time. And now, the Canada's largest province, Ontario, has announced that it will begin a three-year pilot program this summer. Under the plan, Ontario will provide a basic income to as many as 4,000 randomly chosen low-income households in the cities of Hamilton and Thunder Bay as well as in the rural community of Lindsay. The money will be provided to participants whether they work or not, and welfare recipients as well as and working poor families will be included ^[3]. The amount paid will vary between C\$ 17000 to 24000 per annum, depending on number of people in household. The entire program is expected to cost around \$150 million. There is significant support for the program in Ontario, with the provincial government already allocating the funding for it in the current budget. An example of the program, already underway, is in Kenya. Give Directly, a New York based non-profit is spearheading the program in western Kenya. Although

the organisation's broader goal is to reach around 200 villages; the program began as a single village pilot, in October 2016, to iron out the initial glitches. As detailed in the report on the pilot on Give Directly's website ^[4], it began with direct transfers to 95 people in the village. They received 2280 Nigerian shilling (about \$23) per month and they were guaranteed this income for 12 years, no strings attached. As detailed in the report, before the payments began, many people in the village were living on less than \$0.75 a day; afterwards, no one was. For 45% of the village's residents, the first month's basic income payment was the largest amount of money they'd ever had. The program has had a significant impact on villager's lives, many of whom said that they are much better-off now than they were before the payments began. The experiences of the countries with basic income have been mixed, with differing perspectives among different populace. Swiss rejected the idea via a referendum, whereas Canadians are relatively upbeat about the prospects of their plan. The Kenyan experiment has shown some promising results with talks about expanding the program to more villages. Even though the concept is fairly basic and straight forward, the implementation has to be tailored according to the local needs and existing infrastructure. It definitely isn't one size fits all.

2. Why India needs UBI?

According to the World Bank estimates, 179 million people in India are still living below the poverty line. The living standards of the rural poor in India are far from satisfactory. We believe that the UBI is important for India because the existing welfare schemes have not been able to bring about any substantial changes in the living conditions of the marginalised sections of the society.

There are a plethora of subsidies, from fuels and fertilizers to various grants, but millions of Indians are still not able to make both ends meet. A lot of these subsidies do not even reach the intended recipients because of the involvement of various middle men and bureaucratic inefficiencies. Corruption is rampant in implementation of these schemes and, more often than not, the entire benefits of the programs do not reach the target population. UBI involves direct transfers of money to the bank account of the intended person, thereby removing middlemen; the money is directly received by the beneficiary which prevents leakages and eventually reduces the cost of the programs. It will ensure a much simpler, leaner, and a transparent welfare system. Currently, there are hundreds of schemes and subsidies being provided by either the Central or the state governments. Replacing these schemes with a single basic income will make administration easier and help end bureaucratic red tapism. UBI is easier to implement and the benefits of this approach cannot be denied.

A basic income will also bring about efficiency in the system. This is based on the premise that the people in need know what they need better than the government. Even years of state benefits provided in the form of material subsidies haven't achieved the results that were expected of them. Thus, providing money rather than things means that what the poor get accords more closely with what increases their utility ^[5]. A basic income will

guarantee a steady income stream and shield those who are vulnerable against the problems of seasonal employment or something like a bad crop season for the farmers. If people have a source of income to rely on during the times of economic hardships, it will, to a certain degree, help in poverty alleviation.

In India, apart from its anti-poverty potential, it can also be a substantial measure to improve autonomy (say, of adult women, three-quarters of whom do not earn income) and dignity by giving workers an escape ladder from socially despised occupations (scavenging, waste-carrying, prostitution, etc) ^[6]. Basic income will provide equal opportunities to everyone, though the outcome might differ.

A basic income might also help create a roadmap for growth and development as this will provide people with the means to attain better education and to invest in skill development. This in turn will enable them to get better jobs and help in economic growth of the country.

3. Problems of Implementing UBI in India

There certainly exist numerous hurdles in the way of making UBI a reality in the country, as every policy has its share of pros and cons, and its opponents and proponents. There are various arguments; political, social, and economical that might hamper or facilitate the process of making it a reality. We here focus on the ones that make it seem that it's not implementable in the first place.

Political compulsions and a desire of each politician to outmanoeuvre the others are among the chief reasons for policy paralysis anywhere and India is no different. As Finance Minister, Mr. Arun Jaitley said at a conference at IIT, Delhi, "I have always expressed to him (chief economic adviser in the finance ministry Arvind Subramanian) the fear that once he moots ideas like the Universal Basic Income, we will be landing in a situation where people will stand up in Parliament and demand continuation of the present subsidies and over and above that, let's have the Universal Basic Income, something that the budget will not be able to afford ^[7]. If it isn't politically feasible it's not going to be implemented, however strong the case for it might appear.

But that is just one side of the argument. Politics alone cannot and should not be blamed. Another major concern is the economic aspect. Government needs to come up with revenue to fund social programs, it cannot keep on borrowing forever, and there lies the main argument of the advocates of fiscal prudence against such a scheme. An acceptable level of the UBI could be an income equivalent of the poverty line (the Tendulkar committee poverty line), which is about Rs1090 per month for each individual, at 2015-16 prices. The total cost of providing this income to all Indians would amount to around 12.5% of GDP, which is nearly equal to the size of the Union Government's budget ^[8]. So, even a UBI scheme that provides people with just the poverty line income might not appear to be feasible on account of budgetary constraints.

And then, there other aspects that might constrain any such scheme. Some people argue that giving people free money might reduce incentive to work, although such

claims seem to be grossly exaggerated and not backed by any studies or proofs otherwise. Another common refrain, a favourite among the critics, is that poor cannot manage their money and that is why they are poor. They argue that the recipients would just fritter away their money on things like alcohol and drugs, and squander away perfectly good opportunities of using it for their betterment. Again, these claims are largely unsubstantiated and not corroborated by any solid evidence. But perceptions matter and these notions need to be dispelled in order to gain broad, across the political lines, support for any program involving UBI or anything similar.

The Way Forward

It's apparent that there are quite a few problems which prevent the implementation of UBI currently in India. But, UBI can prove to be immensely beneficial for the country if done right. What is needed is a practical and pragmatic approach, one that balances the various conflicting and dichotomous views and brings them together into a cohesive piece of policy that might help as many people as possible. We have to bear in mind that the primary measure of assessment of UBI is not that it is perfect but if it can have a meaningful impact upon the status quo.

Evidently, it has been established that UBI is not a one size fits all approach and it needs to be tailored according to idiosyncrasies of our system if it were to be a viable policy alternative. One of the starting points can be a targeted system of payments, a basic income that is not, strictly speaking, universal. People, who are living below the poverty line or a certain other clearly defined threshold, are to receive a fixed amount in their bank accounts at regular intervals. This way the program will benefit those who really need it and not those who can do just fine without the assistance. This approach will help substantially reduce the cost of the program, which will eventually make it more palatable to a broader coalition.

UBI may not be implementable at this point of time in the country but it can be a feasible alternative to a bloated welfare system sometime in the future. Turning it into a working policy that can get through the parliament will require significant political will and a great deal of planning; keeping everyone's interests in mind and working the minute details.

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