Evaluation of Universal Basic Income

What is the issue?

- The idea of a universal basic income (UBI) is gaining ground globally.
- Here is an evaluation of its necessity, target group and possible outcome in India.

Should it necessarily be universal?

- Millions of people remain unemployed and are extremely poor, despite rapid economic growth.
- A UBI thus requires the government to pay 'every citizen' a fixed amount of money on a regular basis and without any conditionalities.
- But it is to be understood that the UBI is neither a remedy to the uncertainty with the market forces nor a substitute for basic public services, especially health and education.
- Besides, there is less need for transfer money to middle- and high-income earners as well as large landowners.
- With limited fiscal space for direct income support, it will thus have to be restricted to the poorest of poor households.
- In this context, there is a strong case for groups such as the landless labourers, agricultural workers and marginal farmers who suffer from multi-dimensional poverty.

Why do these groups need income support?

- These are the groups that have not benefited from the economic growth in the past three decades.
- They were and still are the poorest Indians, and various welfare schemes have also failed to bring them out of poverty.
- One issue is that the access to institutional credit issued by banks and cooperative societies is highly imbalanced.
- Institutional credits account for less than 15% of the total borrowing by landless agricultural workers, and 30% for marginal and small farmers.
- These groups have to borrow from moneylenders at exorbitant interest rates ranging from 24 to 60%.
- As a result, they do not stand to benefit much from the interest rate subsidy for the agriculture sector.

- Likewise, the benefits of subsidised fertilizers and power are enjoyed largely by big farmers.
- In urban areas, contract workers and those in the informal sector face a similar problem.
- The rapid pace of automation of low-skill jobs and formalisation of the retail sector has made the prospects of these groups even weaker.

How will it help them?

- **Livelihood** - An income support of, say, Rs. 15,000 per annum can be a good supplement to their livelihoods.
- This additional income can reduce the incidence of indebtedness among marginal farmers and thereby help escape from moneylenders.
- Basic income can help bring a large number of households out of the poverty trap or prevent them from falling into it.
- **Health and education** - Several studies have shown that at high levels of impoverishment, even a small income supplement can improve nutrient intake.
- It is also likely to increase enrolment and school attendance for students coming from poor households.
- Notably, transfer of money into the bank accounts of women of the beneficiary households would have a better result in health and education of children.
- In other words, income transfers to the poor will lead to more productive workforce with improved health and educational outcomes.
- **Employment** - The income support suggested above is not too large to discourage people from working.
- In fact, it can actually promote employment and economic activities.
- E.g. the income can work as interest-free working capital for several categories of beneficiaries like the fruit and vegetable vendors and small artisans

- Moreover, an overall boost in spending will increase demand and promote economic activities in rural areas.
- With income support and thereby better education and health, basic income might reduce income inequalities.

How are public services still significant?

- An income transfer scheme cannot be a substitute for universal basic services.
- The income support to the poor will deliver the benefits only if it comes on top of public services such as primary health and education.

- This means that direct transfers should not be at the expense of public services for primary health and education.
- Budgetary allocation for these services should be raised significantly.
- Programmes such as the Mahatma Gandhi Rural Employment Guarantee Scheme should also stay for some time.

How to meet the fiscal requirement?

- With rough estimation of the number of eligible households to be 10 crore, the scheme will require approximately Rs. 1.5 lakh crore per annum.
- The PM-KISAN Yojana can be aligned to meet a part of the cost.
- Nonetheless, the required amount is beyond the Centre's fiscal capacity at the moment and so the cost will have to be shared by the States too.

Source: The Hindu