Universal Basic Income

The persistence of high inequality and the prospect of job losses owing to automation in the advanced world has led several advanced economies to consider the idea of a universal basic income (UBI) to guarantee their citizens a minimum level of income support.

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The same idea seems to be gaining favour among a growing number of economists and policymakers in India, but for different reasons.

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Whether the UBI is effective?

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- It is not clear that the money actually reaches the poor. So the question is whether the UBI is a more effective way of reaching the poor that the current schemes that government employs.
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- We have historically focussed on individuals who are poor by virtue of accident of their birth — they are dalits, adivasis, etc.
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- But what is happening now is that the accident of birth has become less important than the accident of life.
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- People fall into poverty due to reasons like drought, declining opportunities in agriculture, disease and so on.
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- So the safety net provided by the government should be quite wide and that is why this UBI has some merit.
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What experts feel about UBI in India?

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- The idea of the UBI is even more relevant for India than for the advanced economies which have been considering it so far since governments in India tend to ‘mess up’ when it comes to distinguishing the poor from the non-poor.
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- The idea of direct cash transfers replacing leaky and price-distorting subsidies is not new, and had been proposed by the then chief economic advisor, Kaushik Basu, in the economic survey of 2009-10.
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- Basu had argued that providing direct cash transfers by bypassing a corrupt bureaucracy is a **more efficient way of helping the poor than providing subsidies.**
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- What makes the current proposal different is the ‘universality’ of the cash transfer, which means the government does not have to waste resources and time in identifying beneficiaries.
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What can be the acceptable level of UBI?

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- An acceptable level of the UBI could be an income equivalent of the poverty line (the Tendulkar committee poverty line), which is about Rs1,090 per month for each individual, in 2015-16 prices.
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- The total cost of providing this income to all Indians would amount to 12.5% of GDP, which is nearly equal to the size of the Union Government’s budget.
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- Thus, such a UBI which provides poverty line-equivalent income to all Indians does not appear to be feasible because of budget constraints.
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- A pilot study conducted by **UNICEF and the Self Employed Women’s Association (SEWA)** in a few villages in Madhya Pradesh in 2011 showed that a monthly unconditional grant of Rs300 to each adult and Rs150 to each child led to considerable improvement in their lives and reduced distress driven out-migration.
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What are the challenges involved?

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- One big challenge relates to the phasing out of food-related subsidies. Any plan to replace food related subsidies has to contend with the implications of such a move on food security of the country.
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- Whether farmers will continue to produce enough foodgrains in the absence of price incentives remains a big question.
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- Also, the argument that food markets may not work effectively in all areas of the country, requiring state-led distribution networks to provide in-kind food transfers is acknowledged even by many proponents of cash transfers, who advocate a gradual shift to cash transfers, starting with areas with well-functioning competitive markets.
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- The other big challenge relates to co-ordination between state and central governments. Any plan to phase out subsidies and tax exemptions (relating to the GST) will require an **extraordinary degree of co-operation between the states and the Centre.**
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Way Ahead:

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- The Shanta Kumar committee report on restructuring India's food procurement and distribution system, for instance, recommended a shift to cash transfers initially in the large cities.
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- Given that food subsidies are less regressive compared to others, it may make sense to retain food subsidies at least for a few years even while an UBI initiative is launched.
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- One proposal to circumvent the problem, of fiscal stress during an economic downturn, is the idea of a '**universal basic share**' mooted by the development economist Debraj Ray.
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- Under **Ray's proposal**, all individuals would be guaranteed a share of the country's GDP, which would ensure a relatively lower burden for the government when the economy slows down and tax revenue falls.
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