

## Universal Basic Income

### What is a Universal Basic Income?

- A universal basic income (UBI) is an unconditional and universal right. It requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens.
- The Economic Survey (ES) 2016-17 says the time has come to think of UBI for a number of following reasons
- **Social Justice** - A UBI promotes many of the basic values of a society which respects all individuals as free and equal.
- **Poverty Reduction** - Conditional on the presence of a well-functioning financial system, a Universal Basic Income may simply be the fastest way of reducing poverty.

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- **Agency** - The poor in India have been treated as objects of government policy. An unconditional cash transfer treats them as agents, not subjects.
- By taking the individual and not the household as the unit of beneficiary, UBI can also enhance agency, especially of women within households.

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- **Administrative Efficiency** - It is a way of ensuring that state welfare transfers are more efficient so that the state can concentrate on other public goods.

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### What are its basic principles?

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- The main features of UBI are that it **should be universal and not targeted**, it should be unconditional and not tied to work or employment, and it should be in cash.
- UBI is envisaged as a **method of redistribution of resources** from the rich to the poor.

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- It is envisaged as **providing all persons** (especially, the poor) with an income to lead a dignified life, with basic needs taken care of.
- The UBI proposed in the ES is hostile to each of these objectives.

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## **What are the flaws in proposed UBI?**

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- The first wrong committed by the ES is that its proposal constitutes an attack on welfare schemes.
- The ES wants **UBI not to supplement, but to replace, all existing social welfare schemes.**
- European scholar Mr. Parijs says, that while fighting towards greater income security, we must not neglect the importance of providing people with quality basic education and health care.
- It is thus technically and ethically wrong to compare the costs and benefits of UBI with those from a range of subsidies relating to food and nutrition (PDS, school meals, ICDS), education etc., as is done in ES.
- The second wrong is, the argument that the UBI should also **replace all current in-kind** (such as food subsidies) **and cash transfers** (such as maternity benefit).
- The third wrong, is the ES's assertion that "**UBI is not framed as a transfer payment from the rich to the poor.**"
- A basic income needs resources. Thus, the comparatively rich would need to pay both for their own basic income and for much of the basic income of the comparatively poor.
- While the basic income is given to all, the manner in which the basic income is funded has to ensure that society transfers resources from the rich to the poor.
- The ES also **does not propose any new resource mobilisation** or taxation to meet the goal of UBI.

- Rather, it says the existing programmes will have to be cut to fund the universal basic income. There is no intention of making the rich pay for the basic income.

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## **What are the justifications provided by ES?**

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1. UBI reduces the incentive to work - The levels at which universal basic income are likely to be pegged are going to be minimal guarantees. Thus they are **unlikely to crowd incentives to work**.

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2. Should income be detached from employment? Any society where any form of inheritance or accepting nonwork related income is allowed, already detaches income from employment.

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3. Should income be unconditional, with no regard to people's contribution to society? Individuals, in most cases contribute to society. In fact, UBI can also be a way of acknowledging non-wage work related contributions to society.

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## **What a genuine UBI would entail?**

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- UBI equivalent to the expected income transfer under MGNREGA itself would cost Rs. 510,000 crore.
- This is more than 10 times the allocation in the current Budget for MGNREGA (Rs. 48,000 crore).
- **Resource mobilisation has to increase ten-fold** for India to afford the universal basic income without cutting back on other social welfare programmes.
- Unless the government seriously increases tax resources, the proposal for a universal basic income is at best a fantasy idea.

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| Favor   | Against   |
|---|---|
| <b>Poverty and vulnerability reduction</b><br>Poverty and vulnerability will be reduced in one fell swoop.  | <b>Conspicuous spending</b><br>Households, especially male members, may spend this additional income on wasteful activities.  |
| <b>Choice</b><br>A UBI treats beneficiaries as agents and entrusts citizens with the responsibility of using welfare spending as they see best; this may not be the case with in-kind transfers.  | <b>Moral hazard (reduction in labour supply)</b><br>A minimum guaranteed income might make people lazy and opt out of the labour market.  |
| <b>Better targeting of poor</b><br>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 <sup>3</sup> .   | <b>Gender disparity induced by cash</b><br>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. |
| <b>Insurance against shocks</b><br>This income floor will provide a safety net against health, income and other shocks.   | <b>Implementation</b><br>Given the current status of financial access among the poor, a UBI may put too much stress on the banking system.  |
| <b>Improvement in financial inclusion</b><br>Payment – transfers will encourage greater usage of bank accounts, leading to higher profits for banking correspondents (BC) and an endogenous improvement in financial inclusion.<br>Credit – increased income will release the constraints on access to credit for those with low income levels. | <b>Fiscal cost given political economy of exit</b><br>Once introduced, it may become difficult for the government to wind up a UBI in case of failure.  |
| <b>Psychological benefits</b><br>A guaranteed income will reduce the pressures of finding a basic living on a daily basis.  | <b>Political economy of universality – ideas for self-exclusion</b><br>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.         |
| <b>Administrative efficiency</b><br>A UBI in place of a plethora of separate government schemes will reduce the administrative burden on the state.   | <b>Exposure to market risks (cash vs. food)</b><br>Unlike food subsidies that are not subject to fluctuating market prices, a cash transfer's purchasing power may severely be curtailed by market fluctuations.                        |

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**Source: Economic Survey & The Hindu**

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