



## Think Universal Basic Capital

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(The editorial is based on the article “Think universal basic capital” which appeared in The Hindu for 30th January 2019. In this editorial we’ll see how a Universal Basic Capital would benefit India more than a Universal Basic Income.)

**“A simplistic universal basic income (UBI) will not solve the fundamental problems of the economy”** - this sentence sums up the most thoughtful answer to whether or not India needs a UBI at this juncture of the economy?

### Three Pointers for India’s Economy

- **India’s GDP is growing quite well** (though there are disputes about whether it grew faster under the present or previous governments).
- **India needs to do much better to improve overall human development**, in which it continues to be compared with countries in Sub-Saharan Africa. Even its poorer sub-continental neighbours are improving health and education faster.
- **Benefits of India’s economic growth must trickle down much faster** to people at the bottom of the pyramid: to poorer farmers, landless rural labour, and hundreds of millions of workers living on the edge in low-paying, ‘flexible’ forms of employment with no social security.

### **Economists seem to be offering three solutions to the economy’s structural problems:**

- **That there is no problem** - [that is to say that problems will always be there, and that we need to solve them one by one in the short-term, instead of making big plans for the future which will span over long periods of time]
- **More privatisation.**
- A UBI to be **provided by the state.**

### Background to a UBI in India

- A lot of economists in India are juggling with statistics to prove that the **Indian economy is doing quite well**. It is providing enough jobs, they say. And, **statistically, poverty has reduced a lot**.
- However, even these economists admit that a lot more must be done to **improve education and health care**, and to address the **persistent informality and small scale of enterprises** that are providing most of the employment in the country.
- An ideological solution, accompanied with evidence that the government is unable to provide them, is **more privatisation of public services (as U.S. President Ronald Reagan said, government is not the solution, it is the problem)**.
- However, the **private sector is structurally not designed** to provide affordable public services equitably.
- **Milton Friedman** (an American economist who received the 1976 Nobel Memorial Prize in Economic Sciences), said, **the business of business must be only business**. Businesses must be run with a profit motive. They cannot take on the burden of subsidising citizens who cannot pay for their services.

## Disruption in the Economy and Universal Basic Income

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- **Structural forces** within the global economy have been driving down wages and creating insecure employment while increasing the mobility of capital and increasing incomes from ownership of capital.
- **'Industry 4.0'** (a name given to the current trend of automation and data exchange in manufacturing technologies. It includes cyber-physical systems, the Internet of things, cloud computing and cognitive computing) , which has not yet spread too far, is expected to worsen these problems.
- **An economic consequence of declining growth of wage incomes** will be reduction of consumption. Which will create problems for owners of capital and automated Industry 4.0 production systems. For, who will buy all the material and services that these systems will produce? Therefore, the UBI has appeared as a silver bullet solution. It will be an income provided to everybody by the very state that the capitalists say should get out of their way, and to whom they are unwilling to pay more taxes.

## Why UBI

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- The beauty of a 'universal' basic income, its proponents say, is that it **avoids messy political questions about who deserves assistance**.
- It also side-steps the challenge of actually providing the services required: **education, health, food, etc.**
- Just give the people cash: **let them buy what they need**.

## Will UBI Work

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- Even if a UBI is given, the cash will not provide citizens with good quality and affordable education and health, because neither the government nor the private sector is able or willing to serve them.
  - This will **not solve the basic human development** problems that must be solved.
  - Some economists who were proponents of UBI have even begun to dilute their simplistic concept of UBI to make it financially and politically feasible.
  - They propose a **QUBRI (quasi-universal basic rural income), targeted only at poorer people in the rural areas**. Their scheme is no longer universal.
  - First, it will **exclude the not-so-poor in rural areas as morally it should**. Political questions about who should be included will have to be addressed.
  - Second, it **will not cover the masses of urban poor working for low and uncertain wages**.

Therefore, some other schemes will have to be drawn up for the urban sector, and entitlement and measurement issues will have to be addressed for these schemes too.

- All the schemes, rural and urban, could be cash transfer schemes, which Aadhar and the digitisation of financial services will facilitate.
- However, this still begs the question about how to provide good quality public services for people to buy.

## A Simple UBI will Not Work

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- A simplistic UBI will **not solve the fundamental problems** of the economy.
- An unavoidable solution to fix India's fundamental problems is the **strengthening of institutions** of the state to deliver the services the state must (public safety, justice, and basic education and health), which should be available to all citizens regardless of their ability to pay for them.
- The institutions of the state **must be strengthened also to regulate delivery of services** by the private sector and ensure fair competition in the market.
- The building of state institutions, to deliver and to regulate, will require stronger management, administrative, and political capabilities, not better economists.

## Way Forward

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- **Economic inequality matters**
  - Some economists say that inequality does not matter so long as poverty is being reduced. In fact, some even say that **inequality is necessary to reduce poverty**. So long as the people have bread, why should they complain if the rich are eating more cake, they imply.
  - However, **economic inequality does matter because it increases social and political inequalities**. Those with more wealth change the rules of the game to protect and increase their wealth and power. Thus, opportunities for progress

become unequal. This is why **economic inequality must be reduced to create a more just society.**

- In the present economic system, people at the top can make more profits by driving down prices and wages for people at the bottom. They may then recycle a small portion of their profits back as philanthropy, or corporate social responsibility. Or, if they were willing to, which they are not, pay the state more taxes to provide services, and even a UBI, to people at the bottom.
  - Tiny enterprises have very little clout compared with large capitalist enterprises; and individual workers have little power compared with their employers. Therefore, terms of trade remain unfair for small enterprises, and terms of employment unfair for unorganised workers.
  - The solution is the **aggregation of the small into larger associations, cooperatives, and unions.** Aggregations of small producers, and unions of workers, can negotiate for more fair terms.
  - An **alternative approach**
    - A better solution to structural inequality than UBI is **universal basic capital, or UBC**, which has begun to pop up in international policy circles.
    - In this alternative approach, **people own the wealth they generate as shareholders of their collective enterprises.**

**Amul, SEWA, Grameen,** and others have shown a way.
    - Some economists go further and also **propose a 'dividend' for all citizens**, by providing them a share of initial public offerings on the stock market, especially from companies that use 'public assets', such as publicly funded research, or environmental resources. **[this is new, and very important to know]**
  - Three better solutions to create more equitable growth than the ones on offer are:
    - Focus on **building state capacity beginning with implementation of the recommendations of the Second Administrative Reforms Commission.**
    - Strengthen the **missing middle-level institutions for aggregation** of tiny enterprises and representation of workers.
    - The creativity of economists could be better applied to **developing ideas for UBC than UBI.**
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