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## Mains Practice Questions

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**Q.** Examine the concept of universal basic income in light of its probable advantages and concerns in a developing country like India (250 words)

16 Apr, 2019 GS Paper 2 Social Justice

### **Approach**

- Describe in brief the concept of UBI.
- Give advantages of UBI in Indian context.
- Analyze concerns about UBI.

### **Introduction**

- Universal basic income is a periodic cash payment unconditionally delivered to all on an individual basis, without work requirement.
- UBI has three components: universality, unconditionality, and agency by providing support in the form of cash transfers to respect, not dictate, recipients' choices.

### **Body**

#### **Advantages of UBI**

- **Poverty and vulnerability reduction:** Poverty and vulnerability will be reduced rapidly.
- **Choice:** 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.
- **Better targeting of poor:** 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.
- **Insurance against shocks:** This income floor will provide a safety net against health, income and other shocks like present agrarian distress or economic slowdown.
- **Improvement in financial inclusion:** Transfers will encourage greater usage of bank accounts, leading to higher profits for banking correspondents (BC) and an improvement in financial inclusion.
- **Psychological benefits:** A guaranteed income will reduce the pressures of finding a basic living on a daily basis.
- **Equity and social justice:** UBI will promote the idea of equity and state welfare for the poor which are constitutional goals given under DPSPs.
- **Administrative efficiency:** A UBI in place of a numerous separate government schemes will reduce the administrative burden on the state. UBI is feasible only if the centre trims current subsidy and welfare expenditure ending schemes which are leaky and poorly targeted.

#### **Concerns associated with UBI**

- **High Fiscal cost:** Given the political cost of withdrawing UBI in case of failure once introduced, it may become difficult for the government to wind up. It will be difficult for government of the day to contain Fiscal deficit which may cause problems for economic stability.
- **Implementation problems:** Given the low financial access among the poor, a UBI may put too much stress on the banking system.
- **Conspicuous spending:** Households, especially male members, may spend this additional income on wasteful activities.
- **Moral hazard (reduction in labour supply):** A minimum guaranteed income might make people lazy and opt out of the labour market.
- **Gender disparity induced by cash:** 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.
- **Exposure to market risks:** Unlike food subsidies that are not subject to fluctuating market prices, a cash transfer purchasing power may severely be curtailed by market fluctuations. Under present system beneficiaries are provided food at subsidized price irrespective of market fluctuations.

### **Conclusions**

UBI is revolutionary concept especially in India considering India is facing challenges of poverty exclusion. If implemented effectively with view to avoid its disadvantages by focusing on reasonable percentage of population, UBI has potential to usher poverty free India.