



Universal Basic Income

This editorial is based on [The Universal Basic Income debate](#) which was published in The Financial Express on 14/06/2023. It talks about the idea of Universal Basic Income and discusses though it's not a panacea for all the problems of India, but a promising idea that deserves serious consideration and experimentation.

For Prelims: [Universal Basic Income](#), [MGNREGA](#), [DBT](#), **Negative Income Tax**, [Niti Aayog](#)

For Mains: UBI - Pros & Cons, Feasibility and Alternative methods

Whether or not to provide a [universal basic income \(UBI\)](#) is an idea that does not appear to go away. If an earlier Chief Economic Advisor (CEA) Arvind Subramanian proposed it as a “conceptually appealing idea” in the Economic Survey for 2016-17, the current CEA, V Anantha Nageswaran, has disposed of it, stating it was not necessary for the country. Not so long ago, a UBI was also recommended in a report on inequality commissioned by the Economic Advisory Council to the prime minister. A member of [NITI Aayog](#) also backed the provision of a quasi-universal basic rural income.

The current CEA feels that a UBI is not needed, as India needs to focus more on economic growth to take care of the aspirations of its people, adding that it should not be on the agenda over the near-term.

What is the idea of Universal Basic Income?

- [Universal Basic Income \(UBI\)](#) is a social welfare proposal in which **all the beneficiaries regularly receive a guaranteed income** in the form of an unconditional transfer payment.
- The goals of a basic income system are to **alleviate poverty and replace other need-based social programs** that potentially require greater bureaucratic involvement.
- UBI is typically intended to reach all (or a very large portion of the population) with no (or minimal) conditions.

What are the Pros and Cons of UBI?

- **Pros:**
 - **Poverty Alleviation:** Reduces poverty and income inequality by providing a minimum income floor for everyone, especially the most vulnerable and marginalized groups. It can also help people afford basic needs such as food, health, education, and housing.
 - **A Health Stimulus:** Improves physical and mental health by reducing stress, anxiety, and depression associated with poverty and financial insecurity. It can also enable people to access better health care, sanitation, and nutrition.
 - **Simplified Welfare System:** Can streamline the existing welfare system by replacing various targeted social assistance programs. This reduces administrative costs and

eliminates the complexities associated with means-testing, eligibility requirements, and benefit cliffs.

- **Enhancing Individual Freedom:** UBI provides individuals with financial security and greater freedom to make choices about their work, education, and personal lives.
- **Economic stimulus:** Injects money directly into the hands of individuals, stimulating consumer spending and driving economic growth. It can boost local businesses, create demand for goods and services, and generate employment opportunities.
 - It can empower people to pursue entrepreneurship, take risks, and engage in creative or socially beneficial activities that may not be economically viable otherwise.

▪ **Cons:**

- **Cost and Fiscal Sustainability:** UBI is very expensive and would require higher taxes, spending cuts, or debt to finance it. It could also create inflation, distort the labor market, and reduce economic growth.
- **Creates Perverse Incentives:** Decreases motivation to work and reduces productivity and efficiency. It could also create a culture of dependency, entitlement, and laziness. It could also discourage people from acquiring skills, education, and training.
 - The current Chief Economic Advisor has objected to UBI as it creates “perverse incentives” in dissuading people from making their own efforts to seek income-generating opportunities.
- **Inflationary Pressures:** It could contribute to inflationary pressures. If everyone receives a fixed amount of money, it may drive up prices for goods and services as businesses adjust their pricing strategies to capture the additional income available in the market.
- **Potential for Dependency:** UBI may create a reliance on government support, and there is a risk that some individuals might become complacent or dependent on the basic income, leading to reduced motivation for personal and professional growth.

Why is UBI not Feasible in India?

- **Affordability:** India is an emerging nation with a large population but limited resources. It may be very costly to provide a basic income to each and every citizen, especially at a level that is sufficient to meet their basic needs.
 - The Economic Survey of 2016-17 estimated that a UBI of Rs. 7,620 per year for every Indian would cost about 4.9% of GDP, which is more than the combined expenditure on food, fuel, and fertilizer subsidies.
 - To finance UBI, the government would have to either raise taxes, cut other spending, or increase borrowing, all of which have negative consequences for the economy and society.
- **Political Feasibility:** India has a complex and diverse political system, with multiple levels of government, parties, and interest groups. It may be difficult to build consensus and support for UBI across different stakeholders, such as politicians, bureaucrats, beneficiaries, and taxpayers.
 - There may also be resistance from those who benefit from the existing welfare schemes or those who oppose redistribution on ideological grounds.
- **Implementation Challenges:** India faces many challenges in delivering public services and transfers effectively and efficiently. There are issues of identification, targeting, delivery, monitoring, and accountability that affect the quality and reach of the existing programmes.
 - UBI would require reliable data, technology, and institutions to execute it properly and avoid leakages, corruption, and exclusion errors.
 - Moreover, India has not achieved a Universal Aadhar enrolment yet so it could be problematic in beneficiary identification and target-based delivery of service.
- **Behavioural Effects:** UBI may have unintended or undesirable effects on the behaviour of the recipients or the society at large.
 - For example, UBI may reduce the motivation to work or acquire skills, leading to lower productivity and efficiency.
 - It may also create a culture of dependency, entitlement, or laziness among the recipients.
 - It may also discourage people from participating in social or civic activities that contribute to the common good.

What Alternatives can India Take in Place of Universal Basic Income?

- **Quasi UBRI:** QUBRI is a variant of universal basic income (UBI), which is defined as a transfer that is provided universally, unconditionally, and in cash. The idea was proposed by former Chief Economic Adviser to provide a direct cash transfer of Rs 18,000 per year to each rural household in India, except those which are “demonstrably well-off” to tackle agrarian distress.
- **Direct Benefits Transfers (DBT):** This is a scheme that transfers subsidies or cash directly to the bank accounts of the beneficiaries, instead of through intermediaries or in-kind transfers. DBT aims to improve the efficiency, transparency, and accountability of welfare delivery, as well as to reduce leakages and corruption.
 - Schemes like [PM Kisan](#), [Pradhanmantri Jan Dhan Yojana](#) etc are fine examples of success of DBT.
- **Conditional Cash Transfers (CCT):** This is a scheme that provides cash to poor households on the condition that they fulfil certain requirements, such as sending their children to school, immunizing them, or attending health check-ups. CCT aims to improve the human capital and long-term outcomes of the poor, as well as to incentivize behavioural change.
- **Other Income Support Schemes:** These are schemes that provide cash or in-kind assistance to specific groups of people who are in need, such as farmers, women, elderly, disabled, etc. These schemes aim to address the specific vulnerabilities and challenges faced by these groups, as well as to promote their empowerment and inclusion.
- **Employment Guarantee Schemes:** India already has a successful example of this with the [MGNREGA](#). Such schemes provide a legal guarantee of employment to rural households for a certain number of days in a year. Expanding and strengthening such programs can ensure that individuals have access to job opportunities and can earn a livelihood.
- **Skill Development and Training:** Investing in skill development and vocational training programs can equip individuals with the necessary skills to secure sustainable employment. By focusing on skill enhancement, the government can enable individuals to find suitable jobs and improve their income prospects.
 - Effective implementation of schemes like [PM Kaushal Vikas Yojana \(PMKVY\)](#), [Deen Dayal Upadhyaya Grameen Kaushalya Yojana \(DDU-GKY\)](#) and PM Rojgar Pratsahan Yojana (PMRPY) etc.
- **Universal Basic Services:** Instead of focusing on providing a universal basic income, India can prioritize the provision of essential services such as education, healthcare, clean water, and sanitation. By ensuring access to these services for all citizens, the government can improve the overall standard of living and reduce inequality.
- **Asset-Building Policies:** These are policies that aim to help low-income people accumulate assets such as savings, education, housing, or business capital. They may include matching funds, tax incentives, subsidies, or grants for asset accumulation. The advocates of asset-building policies argue that they can enhance the long-term economic security, social mobility, and empowerment of low-income people better than UBI, and that they can foster a culture of saving and investment.
- **Inclusive Development:** Focus on creating more opportunities and capabilities for people to participate in and contribute to the economy and society, rather than providing them with a fixed amount of money. Inclusive development also addresses the structural causes of poverty and exclusion, such as discrimination, lack of access to education, health, infrastructure, and social protection.

Drishti Mains Question:

Examine the merits and demerits of Universal Basic Income (UBI) and provide your opinion on its feasibility and effectiveness in the Indian context.