



## CH-9 UNIVERSAL BASIC INCOME: A CONVERSATION WITH AND WITHIN THE MAHATMA

### I. Introduction

- Poverty has been brought down from about 70 percent at independence to about 22 percent in 2011-12 (Tendulkar Committee),
- However “wiping every tear from every eye” is about a lot more than being able to imbibe a few calories.
- UBI has three components: universality, unconditionality, and agency (by providing support in the form of cash transfers to respect, not dictate, recipients’ choices).

### II. The Conceptual/Philosophical Case for UBI

- UBI is premised on the idea that a just society needs to guarantee to each individual a minimum income which they can count on, and which provides the necessary material foundation for a life with access to basic goods and a life of dignity.
- A universal basic income is unconditional and universal: it requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens.
- *Social Justice*: UBI is, first and foremost, a test of a just and non-exploitative society.
  - It promotes liberty because it is anti-paternalistic, opens up the possibility of flexibility in labour markets.
  - It promotes equality by reducing poverty.
  - It promotes efficiency by reducing waste in government transfers.
  - And it could, under some circumstances, even promote greater productivity.
- *Poverty Reduction*: more feasible in a country like India, where it can be pegged at relatively low levels of income but still yield immense welfare gains.
- *Agency*: 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.
- *Employment*:
  - It creates flexibility by allowing for individuals to have partial or calibrated engagements with the labour market without fear of losing benefits.
  - They allow for more non-exploitative bargaining since individuals will no longer be forced to accept any working conditions.
- *Administrative Efficiency*: weakness of existing welfare schemes which are riddled with misallocation, leakages and exclusion of the poor.
  - When the trinity of Jan-Dhan, Aadhaar and Mobile (popularly referred to as JAM) is fully adopted the time would be ripe for a mode of delivery that is administratively more efficient.
  - While Aadhar is designed to solve the identification problem, it cannot, on its own, solve the targeting problem. It is important to recognise that universal basic income will not diminish the need to build state capacity: the state will still have to enhance its capacities to provide a whole range of public goods.
  - It is a way of ensuring that state welfare transfers are more efficient so that the state can concentrate on other public goods.

### III. The Conceptual Case Against UBI

- The first is whether UBI reduces the incentive to work –
  - For one thing, the levels at which universal basic income are likely to be pegged are going to be minimal guarantees at best; they are unlikely to crowd incentives to work.
- The Second is a concern out of reciprocity.
  - If society is indeed a “scheme of social cooperation”, should income be unconditional, with no regard to people’s contribution to society?
  - UBI can also be a way of acknowledging non-wage work related contributions to society. In the current social structure, for example, homemaking contributions of women are largely unacknowledged economically, since they do not take the form of wage or contract employment.
  - It is important that UBI is not framed as a transfer payment from the rich to the poor. Its basis is rather different. UBI gives concrete expression to the idea that we have a right to a minimum income, merely by virtue of being citizens. It is the acknowledgment of the economy as a common project.
- All these arguments require that UBI be indeed universal, unconditional, and involve direct transfers.

### IV. Why Universalize?

- The Budget for 2016-17 indicates that there are about 950 central sector and centrally sponsored sub-schemes in India accounting for about 5 percent of the GDP by budget allocation.
- A large majority of these are small in terms of allocation with the top 11 schemes accounting for about 50 percent of total budgetary allocation.
- Food Subsidy or Public Distribution System (PDS) is the largest programme followed by Urea Subsidy and MGNREGS. The other programs include Crop Insurance, Student Scholarships, National Handloom Development Programme etc.
- One must acknowledge though that many of these schemes have diverse benefits beyond immediate poverty reduction – for instance, student scholarships have inter-generational consequences for individuals.
- Even leaving aside their effectiveness, considerable gains could be achieved in terms of bureaucratic costs and time by replacing many of these schemes with a UBI.
- But the most important question relates to the effectiveness of existing programme in helping the poorest.
- Consider the largest 7 central welfare schemes, PDS – food & kerosene, MGNREGS, the Sarva Shiksha Abhiyaan (SSA), the Mid Day Meal (MDM) scheme, the Pradhan Mantri Gram Sadak Yojana (PMGSY), the Pradhan Mantri Awas Yojana (PMAY) and the Swachh Bharat Mission (SBM).

### A Misallocation of resources across districts

- Consider the evidence on misallocation of the government’s resources. Misallocation captures the fact that the poorest areas of the country often obtain a lower share of government resources when compared to their richer counterparts.
- To quantify the intuition on misallocation provided above, we define a metric of misallocation which is the proportion of state’s funds allocated to the backward districts– these are districts that have the highest proportion of poor and which together account for 40 percent of the poor

- The allocations are regressive: under no scheme do these poorest districts receive 40 percent of the total resources – in fact, for the MDM and SBM, the share is under 25 percent
- One major explanation for misallocation is state capacity – resources allocated to districts are often a function of the district’s ability to spend them; richer districts have better administrative capacities to effectively implement schemes.

### **B. Consequences of Misallocation: Exclusion of genuine beneficiaries**

- “exclusion error”– genuine poor find themselves unable to access programme benefits. If a state or a district with more poor is allocated very little resources, then it is almost certain that some deserving households would be excluded.
- Exclusion error from 2011-12 suggests that 40 percent of the bottom 40 percent of the population are excluded from the PDS11. The corresponding figure for 2011-12 for MGNREGS was 65 percent
- While substantial improvements in targeting efficiency are required from the 2011-12 levels, it may be useful here to acknowledge the improvements made in tackling exclusion errors in two of India’s largest social sector schemes, the PDS and MGNREGS.
- A 3600 household survey across six states<sup>13</sup> in India estimated the average percentage of PDS foodgrains received by beneficiaries (as a percentage of entitlements) at 92 percent for 201614.
- Similarly, the MGNREGS has changed considerably in the recent past. The improvements in monitoring technology, asset creation and job provision that has occurred in the scheme over the past 2 years.

### **V. How Can A UBI overcome These Issues?**

- *Misallocation to districts with less poor:*
  - The simplicity of the process also implies that the success of a UBI hinges much less on local bureaucratic ability than do other schemes.
  - UBI reduces the burden on the administration further by doing away with the tedious task of separating the poor from the non-poor.
- *Out of system leakage:*
  - UBI reduces out of system leakage because transfers are directed straight to the beneficiaries’ bank accounts.
  - The scope for diversion is reduced considerably, since discretionary powers of authorities are eliminated almost wholly.
  - Given the fewer avenues for leakages, monitoring a UBI would be easier than many other schemes.
- Last mile concerns remain, however. The JAM system could be used to provide funds to each individual directly into his or her account
- *Exclusion error:*
  - By virtue of being universal, exclusion errors under the UBI should be lower than existing targeted schemes

### **VI. Insurance Against Risk And Psychological Benefits**

- A study finds that the poverty component of vulnerability (risk of sudden income/consumption shortfalls) dominates the idiosyncratic and aggregate components, contributing as much as 80 percent to total vulnerability.

- More than 50 percent of rural households across India face one or more forms of shock, with the most prominent being aggregate shocks (crop loss, water borne diseases, loss of property, cyclones, drought, etc.).
- About 60 percent of individuals use personal savings to cope with these shocks. Government assistance comes a distant second with only close to 10 percent of individuals accessing it. The third most prominent option, at 6 percent, is borrowing from friends. In the face of such prominence of shocks, a guaranteed basic income can provide a basic form of insurance.
- Additionally, there are potential psychological benefits to be made from having a UBI.
  - The World Development Report (2015) argues that individuals living in poverty have (a) a preoccupation with daily hassles and this results in a depletion of cognitive resources required for important decisions;
  - (b) low self-image that tends to blunt aspirations;
  - (c) norms that may require investments in social capital to the detriment of private opportunities.
- Pre harvest Cash-strapped sugarcane farmers in Tamil Nadu performed worse in a series of cognitive tests (including 10 points lower on an IQ test) than they did after harvest, when they were likely to have very little loans and were cash-rich.
- A natural consequence of lower cognitive bandwidth is bad decision-making in the face of poverty, begetting more poverty.
- cash transfer programme in Kenya → there is a significant increase in the psychological wellbeing of recipients measured in terms of happiness, life satisfaction and stress.
- An assured income could relieve mental space that was used to meet basic daily consumption needs to be used for other activities such as skill acquisition, search for better jobs etc.

## VII. Improved Financial Inclusion

### A More profitable for Banks

- Calculations suggest that A UBI of INR 12000 per adult per year is expected to reduce the average distance from the nearest business correspondents to 2.5 km from 4.5 km at about half the UBI amount. This effect is even larger since a UBI is targeted at all individuals, not only adults.
- Financial inclusion in India has progressed substantially since the **Pradhan Mantri Jan Dhan Yojana (PMJDY)**.
  - According to Financial Inclusion Insights (FII – 2015), while ownership of bank accounts has increased to about 2/3rd of all adults in India, active use<sup>20</sup> has increased to about 40 percent.
  - Digging a little deeper, active use is higher amongst males, in urban areas and for those above the poverty line. We look at two constraints to active use: one, physical distance separating people from these bank branches; two, number of persons per bank.
- Distance: For 2015 in a majority of states people are 3-5 km away from any form of access point (bank branches, ATMs and BCs).
- Persons per bank: Number of persons per bank aggregated at the state level for the current year. The higher this number, the more the burden on the banking system – in other words, this number serves as an indicator of the size of the average bank's "catchment population".
- Taken together, the two graphs point to the fact that despite tremendous improvements in banking coverage, there is still some way to go before financial access to all poor is achieved.
- On the payments side, improving financial inclusion is both a demand and supply side

- While on the demand side, there is a need for behavioral change on the part of account holders so that they use their accounts more often,
- on the supply side, banks need to find it profitable to provide access to banking services. Increasingly, banks have been making use of BCs to provide last mile access to banking.
- A Taskforce on an Aadhaar-Enabled Unified Payment Infrastructure recommended increasing commissions to BCs in order to make them profitable.
- A very plausible hypothesis is that as a UBI is provided to individuals, there will be an endogenous increase in the volume of transactions and revenue from government transfers along with a corresponding decrease in per unit fixed costs, thereby increasing the profitability of BCs and expanding their coverage.
- To achieve universal financial inclusion (access to a BC), transfers can be as low as INR 4800 per capita per year though commissions need to be high at 10 percent. A higher UBI would in turn require a lower commission. Equivalently, at 90 percent financial inclusion, an increase in transfer from INR 4800 per capita per year to INR 12000 per capita per year can lead to a reduction in the distance between an account holder and the nearest BC from 4.5 km to 2.5 km. As can be seen, even at a commission level of 1 percent a higher UBI can dramatically improve financial inclusion.

### **B Access to Formal Credit**

- It is evident that as one moves along the consumption spectrum, the proportion of farmers taking informal loans falls and formal loans take over.
- It shows that as the UBI amount increases the probability of releasing the credit constraint imposed by consumption expenditure falls. A caveat to this finding though is that this income threshold itself might get pushed up as a UBI is universal in nature, dampening the effect of UBI on releasing credit constraints.
- Detractors of UBI argue that, as a cash transfer programme, this policy will promote conspicuous spending or spending on social evils such as alcohol, tobacco etc. One can define consumption on alcohol, tobacco and paan as consumption on 'temptation goods'.
- The main finding is that these goods form a smaller share of overall budget/consumption as overall consumption increases .

### **IX. Moral Hazard: Would A Ubi reduce Labour Supply?**

- Studies find that No significant reduction in labour supply (inside and outside the household) for men or women from the provision of cash transfers.
- This finding is also in line with that of Alzua, Cruces and Ripani (2010) where they find non-significant, small and negative effects of three Latin American programs on adult employment.

### **Where is the fiscal space to finance a UBI?**

- The first few rows of Table 2 are the subsidies for the non-poor/middle class households, equivalent to about 1 percent of GDP. Next listed are the government subsidies that account for 2.07 of the GDP (2014-15 actual). The corresponding figure for the states in 2011-12 is 6.9 percent.
- The subsidies for fertilizer, petroleum and food constitute the largest amounts. Previously, the chapter argues that the government runs a plethora of schemes—the top ten centrally sponsored or central sector schemes (not including subsidies) cost the state about 1.4 percent of GDP (2014-15 actuals).

- The remaining 940-odd sub-schemes account for 2.3 per cent of the GDP. Further below in the table, we list the other government expenditure: spending on education, health, pensions, police, defence and interest payments<sup>28</sup>.
- Here, it is clear that the magnitude of middle-class subsidies would be roughly equal to the cost of a UBI of INR 3240 per capita per year provided to all females. This will cost a little over 1 percent of the GDP – or, a little more than the cost of all the middle-class subsidies.
- However, taking away subsidies to the middle-class is politically difficult for any government. It is clear that while the fiscal space exists to start a de facto UBI, political and administrative considerations make it difficult to do this without a clearer understanding of its larger economy-wide implications.

### **C Guiding Principles for Setting up a UBI**

- Below are three principles that could help guide thinking in this direction.

#### **i. De jure universality, de facto quasi-universality**

- Define the non-deserving based on ownership of key assets such as automobiles or air-conditioners or bank balances exceeding a certain size.
- Adopt a ‘give it up’ scheme wherein those who are non-deserving chose to opt out of the programme just as in the case of LPG and are given credit for doing so.
- Introduce a system where the list of UBI beneficiaries is publicly displayed; this would “name and shame” the rich who choose to avail themselves of a UBI<sup>35</sup>.
- Self-targeting: Develop a system where beneficiaries regularly verify themselves in order to avail themselves of their UBI – the assumption here is that the rich, whose opportunity cost of time is higher, would not find it worth their while to go through this process and the poor would self-target into the scheme. The issue with an approach of this sort is that it conflicts with the essence of JAM, whose appeal lies in its direct, costless transfer of the state’s welfare subsidies to beneficiaries’ accounts.

#### **ii. Gradualism**

- A guiding principle is gradualism: A key advantage of phasing would be that it allows reform to occur incrementally – weighing the costs and benefits at every step. Yet, even gradualism requires a roadmap.
- It may be useful to start off by offering UBI as a choice to beneficiaries of existing programs. In other words, beneficiaries are allowed to choose the UBI in place of existing entitlements.
- It gives people agency, not only in that they have greater choice, but importantly because they have greater power in negotiating with the administrators who are currently supposed to be giving them benefits.
- This threat, expressed or latent, will then provide incentives to the administrators of existing programs to improve their performance.
- In the case of a fertilizer outlet, for example, the dealer knows that if he diverts the rice for his own purposes, he faces the threat of exit – beneficiaries will switch to a UBI. This, in turn, will reduce the quota of fertilizers allocated to his outlet.
- However, there are at least two concerns with the process listed above:
  - one, by allowing the UBI as a choice over current entitlements, it reinforces all the current problems with targeting. This also ensures continuity of the misallocation problem with richer districts having a greater access to welfare benefits; furthermore,

- those excluded from the system will be unable to give anything up to avail themselves of the UBI; those well-off who are currently (wrongly) included will continue to have the right to be included

### ***UBI for women***

- Women face worse prospects in almost every aspect of their daily lives – employment opportunities, education, health or financial inclusion.
- Simultaneously, there exists plenty of evidence on both, the higher social benefits and the multi-generational impact of improved development outcomes for women.
- A UBI for women can, therefore, not only reduce the fiscal cost of providing a UBI (to about half) but have large multiplier effects on the household.
- Giving money to women also improves the bargaining power of women within households and reduces concerns of money being splurged on conspicuous goods.
- The UBI could also factor in children in a household to provide a higher amount to women.
- This addition, though, has three potential problems – one, it may not be easy to identify the number of children in a household; two, it may encourage households to have a greater number of children; and three, phasing out boys from beneficiary list once they reach a certain age (say 18 years) may not be easy to monitor and undertake.

### *Universalize across groups*

- Another approach is to phase in a UBI for certain vulnerable groups – widows, pregnant mothers, the old and the infirm – first.

### **UBI and redistributive resource transfers to states**

- As Chapter 13 documents, a number of state governments receive large amounts of transfers that may not prima facie increase growth or consumption.
- The UBI offers a possible way-around: a part of the redistributive resource transfers may be transferred by the centre directly into beneficiaries' accounts in the form of a pilot UBI programme.
- However, aid receiving states may be harsh testing grounds for a UBI. These states also often comprise the poorest and the most backward districts, saddled with limited state capacity.

### *UBI in urban areas*

- The discussion above may give credence to the idea of a UBI for urban areas first, as these areas are less likely to suffer from poor banking infrastructure and lack of individuals with bank accounts.
- The urban areas have an additional benefit – in rural areas, the poor often depend on the state for sustenance, a condition that makes introducing a disruption like the UBI in these areas tricky.
- The pilot exercises of direct beneficiary transfer (DBT) in lieu of PDS – not exactly a UBI – in Chandigarh and Pondicherry offer a cautionary tale.
- DBT was introduced and rolled back within two months in Pondicherry, only to be reintroduced. Despite some evidence on reduced leakages, independent evaluations emphasize the need for an improved digital financial infrastructure, even in these relatively urban settings<sup>40</sup>.

### **D Prerequisites**

### **i. JAM**

- Crucial to the success of the UBI is effective financial inclusion. Nearly a third of adults in India still do not have a bank account and are likely to be left behind.
- These are also likely to belong to the poorest social groups – women, SCs, STs, the ageing and the infirm – who benefit most from state-funded subsidies.
- Currently, as per official records, there are 26.5 crore Jan Dhan accounts (21 percent of the population) across the country.
- While Aadhaar coverage speed has been exemplary, with over a billion Aadhaar cards being distributed, some states report authentication failures: estimates include 49 percent failure rates for Jharkhand, 6 percent for Gujarat, 5 percent for Krishna District in Andhra Pradesh and 37 percent for Rajasthan<sup>41</sup>. Failure to identify genuine beneficiaries results in exclusion errors.
- Another problem is leakages – while there exists, in the Indian context, rigorous evidence supporting universalization of in kind transfers to reduce leakages, it is not clear if a universal cash transfer will necessarily result in lower leakages.
- The success of the UBI hinges on the success of JAM<sup>42</sup>.

### **ii. Centre-State Negotiations**

- The UBI amount will be a crucial factor in ensuring the success of such a programme. A key federal question will be the centre-state share in funding of the UBI.
- This would, like the GST, involve complex negotiations between federal stakeholders. Initially, a minimum UBI can be funded wholly by the centre. The centre can then adopt a matching grant system wherein for every rupee spent in providing a UBI by the state, the centre matches it.

## **XI. Conclusions**

- If, as appears to be the case, that thinkers on both the extreme left and right have all become its votaries, then UBI is a powerful idea whose time even if not ripe for implementation is ripe for serious discussion.