Decoding Universal Basic Income*

A recent headline in *Quartz*, an otherwise serious media agency, claims that Jammu and Kashmir is the first state in India to “commit to a universal basic income” (UBI). A glance at the original source quickly negates this claim: it is based on nothing more than “seeds of a thought” (*sic*) from the finance minister of J&K about possible cash transfers for a small minority of poor households. This is not a commitment, and it is not UBI anyway.

Premature Articulation

There have been other cases of active promotion of UBI in the business media in recent weeks. For instance, reference is often made to Finland as “the first country with UBI”, yet Finland has gone no further than a tiny pilot scheme of unconditional cash transfers for 2000-odd recipients. Clearly, UBI has become a subject of half-truths if not post-truths.

But let’s leave propaganda aside for now, and look at UBI proposals on their own merits. Two influential proposals have been made recently. Pranab Bardhan, citing National Institute of Public Finance and Policy (NIPFP) estimates of “non-merit subsidies” to the tune of 9 per cent of GDP, argues for the bulk of this to be spent on UBI instead. With a little top-up from reduced tax exemptions, he proposes a basic income of Rs 10,000 per person per year at a cost of 10 per cent of GDP. On a more modest note, Vijay Joshi proposes spending

*January–February 2017.

3.5 per cent of GDP on a UBI scheme where everyone from aam aadmi to Ambani gets a cash transfer equivalent to one-fifth of the poverty line. Even 3.5 per cent of GDP is ambitious: about three times as much as public expenditure on health care, and more than ten times the cost of the National Rural Employment Guarantee Act (NREGA).

I have liked the idea of UBI for a long time. In countries (like Finland) that can afford a generous UBI and also have first-rate public services, it has two attractive features. First, UBI is a foolproof way of safeguarding the right to dignified living. Second, it gives people the option to live without working (or rather, without doing paid work) if they are willing to settle for a simple life. And why not?

As far as India today is concerned, however, UBI proposals strike me as a case of premature articulation. To start with, the said NIPFP estimates go back to a study published in 2003 and based on 1998–9 data – almost twenty years old. More recent work, also at NIPFP, produces a much lower estimate of non-merit subsidies – about 5 per cent of GDP in 2011–12. That suggests an even lower figure today (perhaps 3.5 per cent or so), bearing in mind that petroleum and fertiliser subsidies have sharply declined in recent years, as a percentage of GDP. Note also that many of these subsidies are implicit (for instance, railway tickets sold below transport costs), and that the bulk of the non-merit subsidies are given by state rather than central governments. Recovering this so-called "fiscal space" is not going to be easy.

Further, why should the bulk of this fiscal space (such as it is) be claimed by UBI alone? There are many other urgent claims on public expenditure – education, health care, environmental protection, essential infrastructure, to name a few. Mobilising 3.5 per cent of GDP for UBI is bound to take many years under any plausible script, not to speak of 10 per cent (if it is advisable at all).

Meanwhile, should the limited resources available for cash transfers be used to kickstart UBI at a very low level of "basic income", or are there better options? I believe there are. Universal maternity entitlements and social security pensions would be a good start. If UBI "is really an extension of the idea of pension", as Bardhan aptly points out, then why not begin with pensions? Maternity entitlements, for their part, are due since 2013 under the National Food Security Act.

Incidentally, India already has one of the closest things that any country has by way of UBI, though it is not quite universal and the transfers are in kind not cash: the public distribution system (PDS). There is no plausible scenario whereby the Indian government would retain the PDS along with a cash-based UBI scheme. Therefore, the main question a low-level UBI proposal would raise is whether, when, and how the PDS should be replaced with cash transfers. The sobering results of recent attempts to do that in Puducherry and Chandigarh suggest that it would be unwise to go beyond these pilot areas for the time being. Earlier experiences of messy transition to bank payments of NREGA wages, and of chaotic imposition of biometric authentication on the PDS, reinforce the need for great caution in these matters.

It is often pointed out that UBI has supporters on both the right and the left. This shared support, however, comes from incompatible perspectives. For the left, UBI is part of a comprehensive social security system that would also include universal health care, free education, good public services, some transfers in kind (e.g. school meals) and other forms of social support. For the right, especially in India, UBI is an adjunct of deep cuts in other social programmes such as the PDS and NREGA. Some UBI advocates have already made an explicit case for dismantling both.

Finally, UBI proposals need to be distinguished from what the Government of India is likely to do with them. It is not difficult to imagine how these proposals might be reduced to a half-baked scheme of targeted cash transfers with no legal safeguards and no indexation to the price level, combined with closing the PDS and possibly NREGA as well. Indeed, highly targeted schemes of the sort envisaged by the finance minister of J&K (or, say, by Surjit Bhalla) are already passing for "UBI".

Seen in this light, there is a real danger of UBI becoming a Trojan horse for the dismantling of hard-won entitlements of the underprivileged. The recent wave of pro-UBI propaganda in the business media (generally hostile to ambitious social programmes) is suspicious in this regard. These issues, in my view, need greater attention in the lively debate on UBI among development economists.

UBI in the Economic Survey

The Economic Survey 2016–17 includes a much-awaited presentation of the finance ministry's thinking on universal basic income. Desisting from specific recommendations, the survey comes to the mild conclusion that UBI "if not ripe for implementation is ripe for serious discussion". But there is certainly a tone of enthusiasm in the chapter on UBI.

The chapter begins with an upbeat discussion of the idea of UBI, and then gets a little entangled in the fiscal maths. In their enthusiasm for UBI, the authors make somewhat simplistic arguments for it. For instance, it is asserted that UBI benefits the poorest by minimising exclusion errors. However, universalisation is bound to come at a cost – either lower per capita benefits, or less spending on other schemes, or higher taxes. Depending on who bears that cost, the argument may or may not be correct. Similarly, UBI is presented as a way of rectifying the current imbalance of social spending across districts: the poorest districts' share of social spending is typically less than their share of poverty. Quite likely, however, UBI would fare worse than many existing schemes in that respect.

Coming to the options, what the survey discusses is not really UBI but what might be called quasi-universal income top-up (QUIT). Let me explain. It is an essential part of the principle of UBI that the transfers involved should cover the basic costs of subsistence – hence the term "basic income". If UBI provides less than that, it is often called "partial basic income". In this case, since the proposed transfers are tiny in per capita terms (less than half of the Tendulkar poverty line), "income top-up" would be more accurate.

Quasi-universal (the term is used in the survey itself) refers to the fact that while universality may be the ideal, in practice, the transfers will be less than universal. The survey first suggests something like 75 per cent of the population, identified by including all those who do not meet simple exclusion criteria. Later, various ways of further reducing the costs are discussed, such as restricting the coverage – initially at least – to women, to specific groups, or to urban areas. It is not difficult to see how further restrictions might reduce QUIT to a targeted income top-up.

In the quasi-universal variant with 75 per cent coverage, UBI (read QUIT) costs as much as 4 to 5 per cent of GDP. Here the survey hits a roadblock, and initiates a worrying shift in thinking about how UBI is to be financed. As mentioned earlier, it seems that the potential savings from non-merit subsidies were overestimated in recent UBI proposals. In the Economic Survey, therefore, fiscal space is sought not so much in reducing subsidies (also because "taking away subsidies to the middle class is politically difficult for any government") as in phasing out a range of welfare schemes that are held to be ineffective. A partial list of possible target schemes is given, including items like midday meals and ICDS, but the survey fails to clarify whether they are really ineffective, if so why, whether they can be improved, and so on. Since the extent of this fiscal space is hard to assess, the authors discuss various UBI options in general terms without backing a specific proposal.

It is in this argument for pruning other welfare schemes that the most simplistic argument for UBI (or rather, for cash transfers) is invoked. Other schemes are construed as "transfers in kind", and cash transfers are held to be superior because they give people "agency", i.e. they allow people to decide what to do with the transfers. However, there are arguments for in-kind transfers too, and further, many welfare schemes are not just transfers in kind. For instance, school meals are both excellent in-kind transfers and also a constructive activity with valuable aims such as nutrition education, employment generation, and social equity. Similarly, the National

Rural Employment Guarantee Act is not a scheme of in-kind transfers (in fact, wages are paid in cash). Aside from income support, it serves other useful purposes such as asset creation, women's empowerment, and environmental protection. Most of the eleven target schemes mentioned in the survey are of that nature.

There is a serious blind spot here. During the last fifteen years or so, India has developed the semblance of a social security framework. Aside from essential health and education services, this framework has five pillars as things stand: employment guarantee in rural areas; the public distribution system; child development programmes (including the ICDS); social security pensions; and maternity entitlements. Far from being wasteful, these programmes play a critical role in protecting people from deprivation and also help to create a better society. This framework (enshrined in legal guarantees) needs to be consolidated, not demolished.

This is not to deny that there are many wasteful schemes and subsidies, or to dismiss the idea of universal basic income. But the fiscal space available from pruning wasteful schemes and subsidies is more restricted than many advocates of UBI claim. And UBI, if and when desirable, must be planned as an extension or modification of the existing framework, not as an alternative to it. UBI is an idea whose time will come, but that time is still quite distant as far as India is concerned.