

COMMENTARY

Three reasons for universal basic income

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From [Mongolia ↗](#) to [Finland ↗](#) to [India ↗](#), we are seeing heightened interest in the idea of a universal basic income (UBI)—an unconditional cash grant given to every citizen, regardless of their employment status or wealth. The idea is controversial, receiving criticism from many [quarters ↗](#) including [Future Development \(https://www.brookings.edu/blog/future-development/2017/02/06/how-to-end-poverty-give-the-poor-cash-and-access-to-mobile-money-and-text-them-reminders-to-save-and-take-their-meds-not/\)](https://www.brookings.edu/blog/future-development/2017/02/06/how-to-end-poverty-give-the-poor-cash-and-access-to-mobile-money-and-text-them-reminders-to-save-and-take-their-meds-not/). I happen to be an advocate. To sharpen the debate, it's useful to distinguish three separate arguments for UBI.

1. *Efficient use of natural-resource rents.* Most of the oil-rich countries in sub-Saharan Africa suffer from poor public-spending outcomes. Gabon

and Equatorial Guinea, with per capita incomes of \$10,000 and \$20,000, have some of the lowest child immunization rates in Africa. The leakage rate for non-salary public spending in health in Chad is [99 percent ↗](#). One reason is that oil revenues go directly to the government without passing through the hands of the citizens. As a result, citizens may not know the magnitude of oil revenues. Furthermore, they may not have an incentive to scrutinize how the government spends the money since they don't think of it as "their money" (even though it is).

If instead the oil revenues are transferred directly to citizens, with government having to tax them to finance public spending, at least two changes [happen ↗](#). First, citizens will now know the magnitude of oil revenues. Second, they have a greater incentive to monitor how their tax money is being spent. Even without these changes, a simple transfer of 10 percent of oil revenues could effectively [eliminate ↗](#) poverty in several oil-exporting countries.

For the high-income countries of the Middle East such as Saudi Arabia and Kuwait, the argument is slightly different. They are currently transferring oil revenues through subsidies and public-sector employment (about 95 percent of the male labor force in Kuwait works in the public sector). This has to be one of the most inefficient ways of transferring oil revenues. The subsidies, especially energy subsidies, distort incentives and [corrode ↗](#) the economy. The large public sector

means that most of the labor force is engaged in low-productivity work. A program that reduces or eliminates subsidies, cuts public sector employment, and distributes oil revenues as cash transfers—something [Saudi Arabia](#) [↗] is planning to do—would enhance efficiency while still sharing oil revenues with the population.


2. *Improving the welfare of the poor.* Countries like India have a host of subsidies and transfer schemes aimed at helping poor people. Many of these programs fail to reach the poor. The leakage rate of India's Public Distribution System has been estimated at [40 percent](#) [↗]. Replacing these inefficient subsidies with cash transfers would ensure at the very least that the poor are getting the intended monetary benefit. But it could also be [empowering](#) [↗]. Subsidizing food or fuel or water implies that the poor have to consume these commodities, even if the quality is very low, to receive the benefit. By contrast, a cash transfer means that the poor person can choose how to spend the money. If the quality is poor, they have alternatives. There is also the question of whether the transfer should be universal or targeted to the poor. While targeting is preferable in principle, in practice there are so many problems in identifying the poor that a [universal scheme may do just as well](#) [↗]. Finally, thanks to technology, these cash transfers can be implemented at low cost. India's Aadhaar program, which issues universal ID cards that also serve as cash cards, covers a billion people, including [93 percent of the adult population](#) [↗].

3. *Adjusting to labor-saving technologies.* Advances in artificial intelligence, robotics, and other technologies have called into question [the future of work](#) ↗. The dilemma is that with these technologies productivity will increase but many people will lose their jobs (self-driving trucks are an example). Managing this transition is difficult from an economic, political, and moral viewpoint. A system where part of the increase in productivity is taxed, and then distributed as cash transfers to all citizens, whether they are working or not, could help resolve some of the tension. The programs being piloted or proposed in Finland, Switzerland, and [New Zealand](#) ↗ are essentially aimed in this direction. They challenge the basic notion that you earn your income by working in a job. While this notion has been around at least since the Industrial Revolution, perhaps it needs to be revisited in light of rapid changes in technology. We could envision a society where productivity is high enough that everyone receives a basic minimum income, and people choose to work on whatever they're good at (including not working at all).

When three, separate arguments lead to the same conclusion, perhaps universal basic income is an idea whose time has come.

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