

Universal Basic Income: An Idea Whose Time Has Come?

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Summary

Over the past three decades, inequality has grown across the developed as well as the developing world. Today, it is widely acknowledged as one of the most serious problems facing the global economy. Bleak prospects for job creation, falling real wages and increasing automation are all indicative of diminishing prospects for economic mobility. The idea of a Universal Basic Income (UBI) is to provide an unconditional periodic grant to all citizens to enable them to lead sustainable lives, while providing them the freedom to make choices that help cope with growing uncertainties in labour markets. This is the first of two insights on this theme. The second focusses on prospects for a UBI in India.

Introduction

The idea of a Universal Basic Income (UBI) has garnered interest across the political spectrum in recent years. The plan to give all citizens a regular modest cash transfer, regardless of their employment situation, social status, family position or other differentiating factors, has gained currency in developed as well as developing nations.

First proposed by Thomas Paine in 1797, it has since been advocated by economists and philosophers across the political spectrum, including Milton Friedman, James Buchanan, Pranab Bardhan, George Stigler, T N Srinivasan and Bertrand Russell.

Paid in cash rather than in kind, a UBI is an unconditional, individual entitlement, universal in scope, and does not impose any obligations on the recipient. A UBI is not a welfare payment or a dependency, but rather a social contract independent of economic status. It sets a floor on the minimum income for all citizens. There are variations, of course – conditional cash transfers may be tied to some social objectives, such as school attendance (*Bolsa Familia* in Brazil). Payments may also vary over time, tied to a price index or per capita income. The scheme is basic in the sense that it sets a floor on income needed for sustenance. In doing so, it frees the individual from survival worries, allowing for efforts focussed on enhancing capabilities by upgrading or acquiring new skills or embarking upon an enterprise. Proponents of the UBI contend that it imparts dignity to the individual and is part of a social contract that covers the entire population. For the individual, it can be a powerful instrument of liberation.¹

Relevance of UBI Today

The resurgence of interest in the UBI stems from concerns about distinct structural changes in the national as well as the global economy. Since the 1980s, starting with the United States

¹ “Basic Income: A Radical Proposal for a Free Society and a Sane Economy”, Philippe van Parijs and Yannick Vanderborgh, Harvard University Press, 2017, p. 12

(US), real wage growth has stagnated or fallen in many developed economies² with the share of labour in total income on a secular decline.³ Income and wealth inequality have increased, with diminishing prospects for fruitful jobs. These trends have spread to other developed as well as developing economies, including South Asia. Furthermore, automation is resulting in fewer new jobs in manufacturing as well as services. The trend expected to accelerate as applications of Artificial Intelligence render many white-collar jobs redundant. Despite rates of growth averaging between six and seven percent over the past fifteen years, few new jobs are being created in India, a period characterised as one of near jobless growth. Reports indicate that fewer jobs than anytime over the past forty years were created last year. Despite high rates of growth India has experienced the lowest rate of job creation in three decades.

Consequently, increasing numbers of workers are turning to welfare and unemployment insurance, and where no safety net exists, seeking recourse to work in the informal sector or are left to fend for themselves. In developing economies such as India, which lack safety nets, the challenge for workers is particularly severe. The rapid pace of technological change and the growing dominance of services in labour markets have altered socio-economic structures, creating a different configuration of winners and losers. Those with inadequate or outdated skills risk lapsing into lives with low pay, unemployment and uncertain job prospects.

Effects of Globalisation

While globalisation has benefitted economies, there are, of course, winners and losers. The evidence for increasing income inequality is compelling. Income inequality in the Organisation for Economic Co-operation and Development (OECD)⁴ states has risen to the highest level over the past 50 years; driven by globalisation, the erosion of the welfare state and technological change that has marginalised vast segments of the population with inadequate skills. The OECD characterises falling socio-economic mobility as a broken ‘social elevator’⁵ Intergenerational mobility in South Asia has been declining.

Research⁶ suggests that the effects of globalisation on the lower middle class and the “working poor” have been ambiguous.⁷ Free trade “boosted productivity and output, and contributed to rising real labour compensation”, but also “negatively affected the share of income accruing to labour in the advanced economies”. The main beneficiaries are those with higher level skills – widening the gap between the skilled and the unskilled. However, technological progress, including automation, is estimated to have had a more significant

² ILO, “Global Wage Report 2018-19”. ILO. <https://www.ilo.org/global/research/global-reports/global-wage-report/2018/lang--en/index.htm>.

³ IMF World Economic Outlook, April 2017. <https://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017><https://www.imf.org/en/Publications/WEO/Issues/2017/04/04/world-economic-outlook-april-2017>.

⁴ <http://www.oecd.org/social/inequality.htm>.

⁵ OECD 2017, “A Broken Social Elevator? How to Promote Social Mobility”, OECD. <http://www.oecd.org/social/broken-elevator-how-to-promote-social-mobility-9789264301085-en.htm>

⁶ IMF, 2007, “World Economic Outlook”, Globalization and Inequality, October 2007. <https://www.imf.org/en/Publications/WEO/Issues/2016/12/31/World-Economic-Outlook-October-2007-Globalization-and-Inequality-20354>.

⁷ Ibid.

impact on rising income inequality over the past two decades, than globalisation. More than a quarter of jobs in the US are at “high risk” of being automated in the next two decades.

Even in rapidly developing economies such as China and India that have succeeded in lifting hundreds of millions out of poverty, inequality has grown. While incomes have grown across the board, the gap between the rich and the poor is widening, and economic mobility amongst the lowest quartiles has stalled.⁸

The onset of the fourth industrial revolution, with ever increasing automation and deployment of artificial intelligence, will lower the demand for labour, limiting opportunities to niche segments and to those well-versed in new technologies.

In order to sustain the broader social contract on globalisation, it is incumbent upon the state to step in and compensate those who have lost from globalisation, trade liberalisation and technological unemployment. In countries such as India, the main beneficiaries have been skilled workers in high tech and information technology sectors.

The adjustment period, as we move towards the fourth Industrial revolution, is fraught with uncertainties. Some trends are evident.

1. Income inequality is widening.
2. Other than highly skilled workers, and those in niche sectors, employment prospects for those in traditional manufacturing are bleak. Many developing economies, including India, are deindustrialising before experiencing industrialisation.
3. Despite growth, fewer jobs are being created in both developed as well as developing economies.
4. Many of the jobs on offer are in the ‘gig economy’. These are deemed contractual work that does not offer certainty about stability of earnings or provide health or retirement benefits.
5. The traditional welfare model is not working, nor is it sustainable – though the precise circumstances differ across developed and developing economies.

Financial pressures on the welfare state have intensified because of the growing numbers turning to the state for support for basic sustenance. The increased fiscal pressures and competition for a small number of jobs, is resulting in increasing hostility towards immigrants and refugees. It may not be off the mark to suggest that the rise of populists such as Donald Trump, Matteo Salvini and Viktor Orban, and the growing appeal of protectionist and interventionist right-wing and left-wing populism, including the move towards Brexit, is reflective of a backlash to globalisation.

⁸ World Bank 2019, “Fair Progress: Economic Mobility Across Generations of the World”. <https://openknowledge.worldbank.org/handle/10986/28428>.

Universal Basic Income

A UBI rests on the belief that from a moral and practical standpoint, it is incumbent upon the state to ensure adequate income support without impeding the process of change. The inadequacies of the traditional welfare states have become apparent in the age of massive and persistent structural change brought about by technology, global trade and demographic shifts. A UBI offers the promise of unconditional security of sustenance, freeing the individual from survival concerns to make decisions to enhance long-term prospects. Although the UBI pathway endows individuals with the agency and freedom to deal with these challenges, the crucial task is to design a safety net that provides economic security with sustainable fiscal outlays.

Friedman⁹ (1962) argued that, “the advantages of ‘the negative income tax’ (similar to a conditional UBI) are clear. Directed specifically at the problem of poverty, it gives help in a form most useful to the individual, namely, cash. It is general and could be substituted for the host of special measures now in effect.” Friedman highlighted the UBI’s substitution and bundling effects: its capacity to substitute for less efficient welfare programmes and to bundle them into a single programme – the payment.

The relevance of a UBI today is reflected in the number of pilot programmes and policy statements. In India, the Congress Party has announced a partial UBI covering the bottom quintile of the population. The ruling Bharatiya Janata Party had similarly announced a conditional UBI for agrarian communities. In the lead up to the 2020 US Presidential campaign, Democratic Party contenders, Bernie Sanders and Andrew Yang have put forth cases for the UBI as an equitable form of socio-economic insurance, with Yang making it a central plank of his campaign. Former Greek Finance Minister Yannis Varoufakis contends that a UBI is “liberty’s main prerequisite in an age of obsolete labour.”¹⁰ Long before the concept acquired its name, India’s first Prime Minister Jawaharlal Nehru urged planners to “focus efforts on providing an assured minimum income to every Indian within a reasonable period of time.”¹¹ The security provided by an assured basic income imparts a sense of stability and better cognitive reasoning and decision-making with a longer-term perspective over a preoccupation with the immediate present. The benefits for cognitive development and better decision-making are well documented.

Interest in a UBI has extended to developing economies as well. Aside from experiments conducted in the US, Finland, the United Kingdom and other OECD economies, Brazil, Kenya and India have launched trial programmes. By 2015, 130 countries had experimented with a modified version of a UBI, while 63 have initiated conditional cash transfer programmes.¹² Brazil launched the largest and, arguably, the most successful long-running conditional cash transfer programme, the ‘Bolsa Familia’, which reduced the poverty rate by over 27 per cent

⁹ Capitalism and Freedom (1962).

¹⁰ Y Varoufakis, “Universal Right to Basic Capital Income” Project Syndicate, 31 October 2016.

¹¹ Quoted in “Srinivasan, T N and Pranab Bardhan (1974), “Poverty and Income Distribution in India”, Statistical Publishing Society, Calcutta.

¹² World Bank (2015), “The State of Social Safety Nets 2015”. <http://documents.worldbank.org/curated/en/415491467994645020/The-state-of-social-safety-nets-2015>.

in the first five years, with over 80 percent of benefits going to the poor. *Bolsa Familia* helped improve school attendance, nutritional intake, and even lower suicide rates in the favelas.

The UBI has also drawn criticisms from across the political spectrum. The Left worries that a UBI would compromise the struggle to improve people's working lives, legitimise prevailing inequities, erode hard-won collective-bargaining rights (reflected in the rise of companies such as Uber, Deliveroo, etc., the 'gig' economy that redefine terms of employment), undermine the foundation of the welfare state, encourage passive citizenship, and promote consumerism. The right points to the challenge of raising revenue to fund such schemes without burdening the private sector, and to disincentives for the supply of labour and loss of productivity due to the loss of work incentives. Table 1 summarises the arguments on either side of the divide. The UBI places an intertemporal fiscal burden on a nation, as working generations fund a larger fiscal burden and an ever growing number of retirees. In developing economies such as India, where existing safety nets are inefficient and subsidies distort prices, a UBI has the additional advantage of leaving relative prices unaffected, thus minimising distortions, and generating support for structural reforms. This can potentially ease populist pressures in politics.

Pre-requisites for a UBI

An effective UBI programme requires strong institutions, with well-functioning markets and public provision of basic goods like education and health services. At the minimum, a UBI is contingent upon:

- a) Open transparent competitive markets. Their absence can result in exploitation of recipients through exercise of monopoly powers;
- b) An efficient administration able to effect low cost and timely transfer of funds to the beneficiaries and in case of conditional cash transfers; and
- c) Efficient provision of public services: A UBI is intended to take care of basic needs, with gaps in vital basic services such as health and education filled by the state.

Table 1: Arguments for and against UBI schemes

For	Against
<ul style="list-style-type: none"> • Transparent and simple welfare system, eliminating leakage, wastage, and corruption. • Administrative efficiency, simple implementation and lower overall cost of the current means-tested social welfare benefits. • Equitable system as all citizens are eligible. • Lump-sum transfer gives freedom to spend on what are most needed to welfare recipients. • Help reduce poverty, or even eradicate poverty depending on the basic income level. • Potentially boost consumption and growth. 	<ul style="list-style-type: none"> • Concerns on feasibility and financial viability; question of sustainable fiscal burden • Should basic income be given at current budget-neutral level, it may be insufficient. • Misuse of basic income for drugs, gambling, and potential enlargement of informal sector. • Reduces incentives to work • Requires administrative expertise • In the absence of competitive markets, rent seeking activities surface; UBI grants will be less effective

Source: Compiled from Economic Survey 2016-17 and World Bank 2015

Experiences with the UBI

UBI programmes are underway in several countries across the world – in Latin America, Asia and Africa. No nation has yet implemented a full-scale UBI model. Table 2 provides a synopsis of some ongoing trials of UBI programmes. As few programmes have been completed, it is not possible to draw up a systematic evaluation of cash transfers. However, from the limited experiences¹³ thus far, it seems conditional cash transfers result in improved school performance, while differences in nutritional intake and other indicators are insignificant between conditional and unconditional schemes are needed. Some pilot studies on the UBI yield encouraging results with useful insights but the limited scale of these projects precludes broader conclusions.

An independent study¹⁴ which surveyed the results of a ‘GiveDirectly’-funded randomised control trial in Kenya, where unconditional cash transfers (UCTs) were given to poor rural households in 655 villages over a period of two years, found “significant impacts on economic outcomes and psychological well-being.” They concluded that, “UCTs have broadly ‘positive’ welfare impacts, with little evidence for ‘negative’ effects such as increases in conflict or temptation good consumption.” More research on incentive structures, administrative efficacy and longer-term changes is needed to draw robust inferences.

¹³ “Relative Effectiveness of Conditional and Unconditional Cash Transfers for Schooling Outcomes in Developing Countries: A Systematic Review”, (2013), S Baird et al.

¹⁴ “Short-term Impact of Unconditional Cash Transfers to the Poor: Experimental Evidence from Kenya”, Haushofer, J and J Shapiro (2016). Quarterly Journal of Economics 131(4).

Table 2: Some UBI programmes across the world

Country	Time	Number of Beneficiaries	Amount / month	Coverage
Finland	2017-19	2,000	Euros 560	Full UBI
Canada	2018-	3,500	Not defined	Full UBI
Iran	2010- present	50-72 million (most Iranian households)	Pound sterling 35	Modest to Full UBI
Kenya (GiveDirectly)	2016-	26,000	Kenyan Shilling 2,280 (18 pounds)	Modest to Full UBI
US (Y Combinator)	2017-	Stage 1: 100 Stage 2: 2,000-3,000	US\$1,000 – 2,000	Full UBI
South Africa	1997 -	11 million	US\$15	Modest UBI

Source: Compiled from Economic Survey 2016-17 and World Bank 2015

Interestingly, several technology billionaire founders of companies at the forefront of technical change, perhaps prescient of impending labour market conditions, advocate the UBI. These include Elon Musk, Chris Hughes (co-founder of Facebook) and Sam Altman (founder of the accelerator Y-combinator). Concerns about the rise of automation and artificial intelligence, with their potential to disrupt labour markets and generate large-scale unemployment and massive inequalities of wealth, will strengthen the case for a UBI. In the developing world, interest in a UBI arose from the low rate of job generation and increasing automation that is also characterising production in middle- and low-income countries. In India, despite high rates of growth, job generation over the past five years is at its lowest over the past three decades.

Conclusion

While there is a consensus on the overall benefits of globalisation and free trade for efficiency and growth, globalisation generates clear winners and losers. Widening income inequality and uncertainty about jobs has engendered considerable insecurity across developed and developing economies, with bleak hopes for growth in jobs.

Notwithstanding substantial administrative capabilities and other institutional pre-requisites, a UBI offers the prospect of an assured flow of income that will keep the most vulnerable from falling through the cracks, and offer the cushion needed to enhance capabilities to deal with uncertain labour market conditions arising from the growth of automation and the fourth industrial revolution.

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