

Universal Basic Income in India: The Rationale and Challenges

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Summary

Interest in a Universal Basic Income (UBI) in India grew with the publication of a chapter in the 2016-17 Economic Survey. A UBI is increasingly deemed to mitigate the effects of endemic poverty, with the potential to facilitate economic mobility and, eventually, development. This paper considers the challenges a UBI scheme is likely to encounter in India.

Introduction

The idea of a Universal Basic Income (UBI) gained currency in the mainstream discourse in India with the publication of the flagship Economic Survey 2016-17. What was floated as a trial balloon triggered an intense debate among scholars and practitioners. A UBI has three components: universality, unconditionality and agency (by providing support in the form of cash transfers to respect, not direct, recipients' choices).

A UBI, or the idea of a cash-based safety net, assumes urgency in view of India's poor response to traditional and targeted programmes. The Economic Survey acknowledged "India's record of targeting welfare programmes to the poor has been suspect. Targeting [has been] both inefficient and inequitable, a license to fraud that spawned an entire ecosystem of middlemen and petty abuse."¹

Rationale underlying the UBI

India has depended on subsidies and transfer payments to help the poor. More than 950 programmes sponsored by the central government account for five per cent of gross domestic product (GDP) by budget allocation. Most of these programmes are small, fragmented and plagued by administrative leakages.²

India has crafted a large, albeit leaky, expensive and unwieldy targeted public assistance programme structure encompassing needs from neo-natal care, and maternal and infant nutrition to schooling, programmes for the working poor and old age care. A few, such as the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA), have shown promise but, in the aggregate, there has been extensive misallocation of funds across districts, with poor districts suffering from low levels of state capacity in administering these schemes. Many of these programmes fail to reach the poor.

¹ Economic Survey 2016-17, Chapter 9, "Universal Basic Income: A Conversation With and Within the Mahatma" Ministry of Finance, Government of India.

² Ibid.

Conversely, subsidising essential consumer goods, including food and fuel, compels the poor to consume those goods, regardless of quality or costs. Corruption and waste in India's Public Distribution System is endemic, estimated at 40 per cent of outlay. Replacing these inefficient subsidies with cash transfers would ensure, at the very least, that the poor are getting the intended monetary benefit to empower recipients. Cash grants give choices to the poor.

The UBI programmes can be universal or targeted towards specific vulnerable goods. Targeting is notionally appealing but potentially riddled with identification problems. Thanks to advances in technology and mobile telephony, the Indian government today is better placed than perhaps before to cover most if not the entire, population. The UBI is, therefore, considered as an alternative to help overcome the failures of the current system. India's UBI proposals are confined to identify vulnerable economic groups, with the quantum of transfers conditional upon current incomes of potential beneficiaries.

In India, an income threshold, computed around the poverty line, is difficult to compute. Estimates of the number of people who fall below it are contentious issues. Underlying this challenge are concerns about the tens of millions of extremely vulnerable citizens who straddle either side of the notional poverty line. Since a large proportion of the population is concentrated in the low-income band, the slightest changes in the definition of the poverty line can result in a large number shifting in or out of groups designated to receive benefits. Any failures of restructured programs will render them extremely vulnerable. Furthermore, errors in *Aadhaar* cards have revealed the challenges of reaching the poor in remote rural areas.

Indian Proposals for a UBI

During the recently concluded elections in India, several variants of UBI schemes were proposed. These included the Congress Party President Rahul Gandhi's electoral promise for the 2019 Indian general elections of *Nyuntam Aay Yojana* (Minimum Income Scheme) or NYAY has gained considerable attention. The acronym 'NYAY' means justice in Hindi. Rahul proposed an assured floor of ₹6,000 (S\$120) per month for each family. The ruling Bharatiya Janata Party had similarly announced a conditional UBI for agrarian communities. The Chief Minister of Sikkim has promised the introduction of a UBI programme in 2022 if the state government is re-elected.

The Design of a UBI

The introduction of a UBI or a variant warrants careful analysis. A UBI could be immensely beneficial for the vulnerable by placing a secure floor on living standards and offering the flexibility needed, for those on the margins, to advance their prospects. However, the challenges and vulnerabilities in India are formidable and immense. The design of a UBI should factor in the distinctive institutional structures, the importance of existing programmes for vulnerable beneficiaries and the fiscal constraints. Any UBI programme or a variant in India should address the following concerns.

Challenge of Identification of Beneficiaries and Measurement of Incomes

The belief that the transfer of cash to bank accounts will reduce leakages rests on the assumption that *Aadhaar*-based biometric authentication will allow technology to sift out fraudulent claimants and reduce leakages. However, evidence from MNREGA reveals a high failure rate of biometric authentication as well as false targeting. Of course, over time, identification accuracy can be expected to improve but there is a long transition period between when programmes are executed and their effectiveness monitored and tested, and the results used for further refinement of delivery methods.

The identification of households is just the first problem. The Socio-Economic and Caste Census conducted in 2011-12 did not even attempt to measure the incomes of households. Instead, it used multiple criteria to estimate poverty, which, in turn, became the basis for identifying possible beneficiaries of schemes intended for the poor.

At a more basic level, none of the nationwide surveys thus far collate household income. Research studies and government audits show that many deserving below the poverty line households and individuals are side-lined or crowded out of programmes. Targeting thus has been inefficient and inequitable, giving rise to an ecosystem of middlemen and abuse. Conversely studies have shown that the larger the coverage, the lower the leakages – suggesting that programmes with universal coverage are more effective. The poor benefit from wider coverage.

Measurement of Incomes

Estimating incomes or even proxies, such as consumption, poses immense challenges in India. Incomes in the massive informal sector, where poor households are concentrated, are seasonal, volatile and not recorded for official purposes. Informal economic activity precludes meaningful measurement of incomes. Furthermore, about half of the workforce is self-employed, with non-wage income accounting for a significant proportion of earnings. Demarcation of a demographic group based on an income threshold or economic activity (for example, agriculture) will require estimating the incomes of everyone — a logistically, analytically and administratively complex process. The most recent income survey was conducted in 2011-12.

Administrative and Technical Viability

The JAM trinity – *Jan Dhan* (Universal Bank accounts), *Aadhaar* (Bio-metric identity) and Mobile phones – offers a technological foundation for effectively executing transfer payments. However, this is still at a formative stage and, as mentioned earlier, fraught with problems of mis-identification, bypassing authentic claimants. The poorest live in remote areas and lack recourse to banking and often mobile phones as well as competitive retail markets needed to avail of benefits, or to seek redress if marginalised by the system.

Competitive federalism offers useful insights into prospects for a UBI scheme. The effectiveness of targeting is contingent upon a state's administrative and implementation capabilities. States such as Andhra Pradesh, Tamil Nadu and Karnataka, which are considered

amongst the most efficient, will have higher take-up ratios amongst targeted beneficiaries than poorer states like Bihar or Jharkhand.

Competitive Markets

Rural markets are improving. Even a partial UBI requires competitive markets where recipients of the UBI grants can exercise consumption choices. If markets are limited and sellers exercise monopolistic powers, the value of cash is quickly eroded. In the absence of competitive markets and monitoring, special interest groups can easily hijack public assistance programs.

Fiscal Viability

The UBI should ideally be budget-neutral, but with the volume of outlays that may be required in India, this would be a challenge. The thorny issue of allocation of expenditures between states and the Union government will also need to be addressed in the design of the program. Social welfare programs in India are delivered primarily through deeply flawed subsidies, of food, fertilisers and fuel. These disproportionately benefit the relatively well-off to the detriment of the interests of the poor. Over the past decade, India has managed to successfully reduce expenditures on subsidies to 1.5 per cent of GDP in 2016-17 from 2.5 per cent in 2013-14. There still remains vast scope for improvement.

The UBI is too expensive

India spends a lot on protecting the poor. However, studies have repeatedly shown that subsidies benefit the non-poor more than the poor. A UBI may well be more cost-effective than India's flagship programmes, the Public Distribution System (for subsidised food) and the MNREGA, a workfare programme that aims to be self-targeted to poor people. Cutting these and replacing them with some form of UBI would almost certainly have greater impact on poverty.

Structure of the Indian Economy

Two distinct characteristics of the Indian economy heighten the challenge of implementing a UBI programme. Firstly, India is still overwhelmingly rural, with a patchy infrastructure and connectivity issues – though these are improving over time. Secondly, as mentioned earlier, over 80 per cent of Indians are employed in the informal sector, where measurement of incomes, prices, and expenditures are challenging. This complicates the task of identifying beneficiaries as well as the appropriate quantum of benefits.

Unanswered Questions

One of the benefits of the UBI is notionally at least the effects on work incentives are neutral. The implicit objective is to get population to graduate from the programme. The administrators need to give considerable attention to ensuring that the UBI does not introduce labour market distortions.

UBI Experiments in India

Although there have been few pilot studies, the results indicate that UBI programmes in India have helped improve nutrition, as well as health and education outcomes, and encouraged investments in productive assets. A United Nations International Children's Emergency Fund and Self Employed Women's Association pilot UBI programme in the rural areas of Madhya Pradesh over an 18-month period in 2010-11, covered about 6,000 individuals in about 12 villages.

The targeted adults received unconditional amounts of ₹200 (S\$4) per month and children ₹100 (S\$4) per month, with the amounts later raised to ₹300 (S\$6) and ₹200 (S\$4) respectively. An unconditional basic income was paid every month to all individuals within a village, without any conditions. The amounts were estimated to be between 20 to 30 per cent of incomes of the poorest families. Funds were disbursed through banks or cooperative accounts. A follow up study³ revealed that the UBI scheme enhanced food sufficiency and nutritional intake, while improving access to health services and education. Beneficiaries were found to increase investment in sanitation and access to drinking water. Another pilot scheme in Bihar, one of the poorest states in India, found that a small UBI basic income had a stronger impact on local poverty than the labour earnings from MNREGA.⁴ Contrary to popular fears, giving people cash "did not lead to a net reduction in adult work". Nor did it result in increased consumption of designer goods.

The UBI has been found to work as an insurance against economic shocks, such as water borne diseases, crop loss, and weather aberrations, etc. Persistent financial constraints constrain the ability to make decisions and impair cognitive abilities. It also catalyses financial inclusion and eases access to formal credit channels.

The introduction of a UBI programme would require extensive testing, with pilot schemes in different parts of the country in different settings, with a concentration in the most deprived districts in Uttar Pradesh, Bihar and Madhya Pradesh. The lessons would help inform policy design.

Conclusion

Health and education services are intrinsic to raising longer-term prospects for any society. India has been lacking in both areas. In fact, expenditures on education as well as learning standards have been falling over the years⁵. A UBI will be meaningful if accompanied by a commitment to raising health and education standards.

The intent of a UBI is to offer a secure, stable foundation for the poorest families, enabling them to plan with a modicum of economic security. Research across the globe has shown the beneficial consequences of basic economic security for long-term decision-making. The

³ SEWA-UNICEF (2014), "A Little More, How Much it Is Piloting Basic Income Transfers in Madhya Pradesh".

⁴ Murgai, Rinku, Martin Ravallion and Dominique van de Walle (2016), "Is Workfare Cost Effective against Poverty in a Poor Labor-Surplus Economy?", *World Bank Economic Review*, 30(3). <https://academic.oup.com/wber/article-abstract/30/3/413/2449742?redirectedFrom=fulltext>.

⁵ See Annual ASER reports 2008-2018. <http://www.asercentre.org/Keywords/p/348.html>.

success of a UBI programme would be reflected in how many and how quickly citizens graduate from the programme. For that to occur, the provision of basic services is critical to socio-economic mobility and overall development.

Notionally, a UBI programme is politically feasible, socially desirable and financially sustainable. It has the lowest likelihood of being appropriated by special interest groups and enables people to act as sovereign consumers in competitive, open and free markets. However, it presents formidable challenges relating to its implementation and administration. UBI will not solve the challenges of poverty, deprivation and constrained socio-economic mobility. Its parameters, contours, scope and size will have to be fine-tuned as results of Indian studies become available. But it is indubitably a reform that can help with development.

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