

THE IDEA OF UNIVERSAL BASIC INCOME IN INDIA: AN ANALYSIS

Virender Kumar* and Shivani Kanojia[#]

Abstract

The idea of universal basic income (UBI) has been assuming great importance in today's world because the existing welfare schemes have failed in addressing the problem of poverty effectively. The existing schemes are generally mired in red-tapism, data manipulation, exclusion error, corruption, high leakages and high administrative and implementation costs. The system of UBI overcomes above issues through (i) its feature of being un-conditional and universal, and (ii) through transfer of a guaranteed income directly to the beneficiaries. In this context, the paper concludes that UBI can be a good alternative to all the existing welfare schemes to reduce poverty in India. However, the introduction of UBI currently faces many practical difficulties and hence it should be implemented only in a gradual manner.

Keywords: Universal Basic Income, Subsidies, Social welfare scheme, poverty.

1. Introduction

"I am now convinced that the simplest approach will prove to be the most effective -- the solution to poverty is to abolish it directly by a now widely discussed measure: the guaranteed income."

- Martin Luther King, 1967

The above statement defines the importance of guaranteed income for poverty alleviation. Universal Basic Income (UBI) is a form of guaranteed income in which all citizens or residents of a country regularly receive an unconditional sum of money, either from a government or some other public institution, in addition to any income received from elsewhere¹. UBI has three components namely universality, un-

* Assistant Professor, University School of Management and Entrepreneurship, Delhi Technological University, Delhi. Email: virender0202@gmail.com

[#] Student, B.A. (Hons.) Economics, Shri Ram College of Commerce, University of Delhi, Delhi. Email:shka1@hotmail.co.uk

¹ Source: <https://www.caasgroup.net/universal-basic-income-meaning-importance-and-limitations/>

conditionality, and agency². As the name suggests, UBI will be applied to all individuals, irrespective of income and age.

The same shall be provided without imposing any terms and conditions, and will give the recipients the right to decide and plan their expenditure on their own accord. Ideally, the basic income should be financed by the public sector undertakings or by replacing the existing sops provided by the government. Moreover, this system in some way has been evolved from the negative income tax model, where when a citizen's income falls below the exemption limit, the state steps in, and instead of taxing her income, it supplements it. There is, however, stark difference between the two models. For instance, the negative income tax model is conditional whereas UBI model is based on un-conditionality and universality.

The economic survey of 2016-17 has advocated the concept of UBI as an alternative to various welfare schemes in order to reduce poverty in India. The large misallocation of resources and the inability of current social welfare schemes in tackling the poverty effectively bring UBI to the spotlight for discussion. The survey points out that "the districts where the needs are greatest are precisely the ones where state capacity is the weakest and hence a more efficient way to help the poor would be to provide them resources directly, through a UBI". It is in this context that the idea of UBI needs to be debated. This paper, therefore, first analyzes the UBI as an idea and then tries to answer whether UBI is a good scheme to be implemented as an alternative to various social welfare schemes in India.

The paper is organized as follows. The following section analyses the UBI policy by discussing its pros and cons. Section 3 discusses the different views on UBI. Section 4 talks about some cases where UBI was implemented as a pilot project and discusses their outcome. Section 5 discusses the ways to implement UBI. Finally, Section 6 concludes and provides recommendations.

2. Analysis of UBI: Pros and Cons

Various politicians, economists, and institutions are debating about its pros and cons, its fiscal burden and its effect on the Indian economy. Here are some arguments supporting and opposing the Universal Basic Income.

2.1 Arguments in Favor of Universal Basic Income

² Source: Economic Survey 2016-17

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a) To begin with, UBI will treat the beneficiaries as agents, and will allow them to use the money in the manner they see best, for their benefits. It will entrust them with the responsibility to devise their own spending proportions for utilities and other goods. This will enable individuals to get a better hold of their money and increase their well-being. In this way, the Government will stand to respect, rather than dictate, individuals' choices.

This can be explained by comparing individuals' choice under direct income transfer with individuals' choice under existing welfare schemes in the form of subsidy. We assume that individuals' preferences are convex and they have well behaved indifference curves. Each individual has income, M , which they want to spend on two goods, X and Y , with prices P_x and P_y respectively. Suppose under the existing welfare programs, the good X , has been subsidized at rate ' s ', implying that the price of good X for the consumer will be lower by ' s '. Here we compare the case of this quantity subsidy (s) that costs government C^* with the case of a direct income transfer which also costs the government C^* .

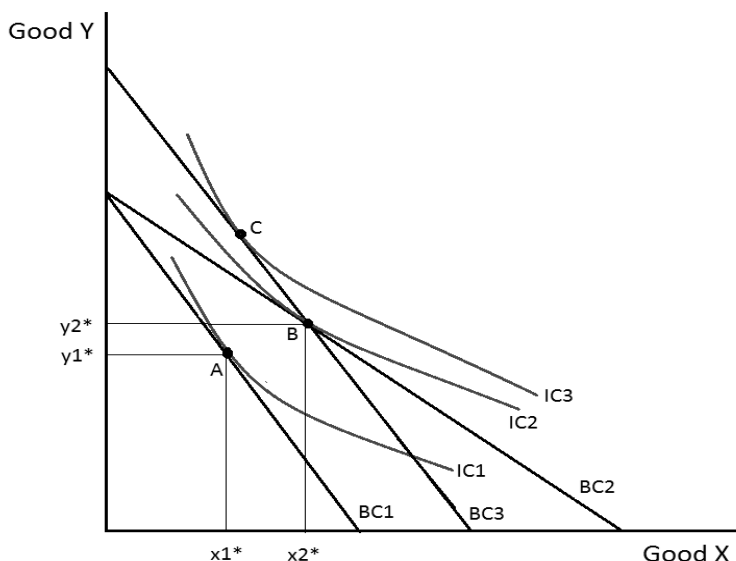
As can be seen in the Figure 1 below, with original budget constraint (BC1): $P_x X + P_y Y = M$, the optimum occurs at point A: (x_1^*, y_1^*) , represented by tangency point. However, with subsidy of ' s ' on the consumption of good X , the new budget constraint (BC2) given by: $(P_x - s) X + P_y Y = M$ which means it has become flatter and the optimum occurs at point B: (x_2^*, y_2^*) . In this case, the total cost (C^*) of subsidy to the government is $[s \times x_2^*]$.

Now suppose, instead of giving subsidy, government provides a direct income transfer of $[s \times x_2^*]$ to the individual. In this case, we have a new budget constraint (BC3) given by: $P_x X + P_y Y = M + [s \times x_2^*]$ and the new optimum occurs at point C. We can note that at point C, the consumer is operating at higher indifference curve (IC3) than at point B. This implies that individuals are better off under direct income transfer than under existing welfare schemes in the form of subsidy.

b) Secondly, as all individuals will be the beneficiaries, the exclusion error will be zero. This means that no poor citizen will be left out to receive such benefits and be deprived of this welfare. This will overcome the current scenario of the lack of access to government welfare programs by backward communities and ensure that the trickledown effect of the basic income grant is achieved. Unfortunately, presently, 27% of poorest fifth are denied their due of welfare, and 35% of the richest 1% benefit from

the subsidized food that they are not entitled to³. The Economic Survey of 2016-17 also reveals that the benefits of PDS did not accrue to 40% of the poorest 40% of the population in 2011-12.

Figure 1



c) Currently, there exist more than 1000 central and state government schemes, most of which are full of corruption. UBI can replace this plethora of programs, thereby removing the depravity associated with it. The level of leakages in present schemes is exorbitantly high and there is poor implementation of such schemes. The poorer the district, the poorer the administration and lower the benefits received by the people. According to NSS 2011-12, survey calculations, there is a shortfall of allocation of welfare to poorer regions, and hence, there is lower per capita income in these regions as compared to other districts⁴. Here, the Economic Survey’s logic for UBI is simple: Eleven of the central government’s 950 schemes account for 50% of total budgetary allocation. Seven of the top government schemes, the survey claims, suffer from acute misallocation of funds while ignoring the poorest districts in many states. Also, the implementation costs are huge, and a good amount of time and money has to be spent in distinguishing between the poor and the non-poor. However, UBI will resolve all such

³ Source: <http://www.economist.com/news/leaders/21716027-india-should-replace-its-thicket-welfare-payments-single-payment-india-debates-case>

⁴ Source: Economic Survey 2016-17

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issues, because its ‘universality’ will do away with this messy task of identification. It will follow the mechanism of direct transfers to the bank account of the beneficiaries. These direct transfers will ensure that there is no encroachment by the intermediaries and bureaucrats on the grants to be received by people.

d) An increase in income will help financially instable people to gain access to credit provided by banks, which was earlier constrained due to low levels of income. It will release them from the sufferings produced by the moneylenders. In addition, greater use of bank accounts will lead to higher profits for banking correspondents (BC) and an improvement in financial inclusion. The JAM (Jan-Dhan, Aadhaar and Mobile) infrastructure can supplement the implementation of UBI and lead to greater efficiency and transparency. The Pradhan Mantri Jan Dhan Yojana has been successful in opening more than 26 Crore bank accounts⁵, which will ease the procedure for direct transfer of the grant. The Aadhaar and Mobile infrastructure can assist in maintaining identity records and easing transactions for individuals respectively.

e) The current labor market is terribly un-free because it relies on coercion, workfare, sanctions, draconian anti-labor legislation etc. The introduction of Universal Basic Income would create a much freer labor market (no more threat of destitution, sanctions or forced labor schemes, and much freer labor contracts between employers and employees).

f) In the increasingly precarious nature of today’s labor market for those in low-paid, low-skilled work, there is a growing wage inequality. UBI steps in to protect the interest of those workers. In general, UBI will act as a safety net against health, income and other shocks. It will help in eradicating poverty and vulnerability of socially and financially backward citizens. It is a guaranteed income that acts as a cushion to survive under extreme situations and maintains economic and financial security.

g) UBI will ensure that the people achieve basic capabilities in terms of health, education and minimum income. It will also ensure that people buy quality products for consumption instead of low quality subsidized products. In this way, it will help people achieve a minimum acceptable standard of living.

h) When government intervenes in the market to influence the prices, as in PDS, the outcomes are either unintended or less than optimal. Fertilizer subsidies, for example,

⁵ Source: http://www.business-standard.com/article/news-cm/26-03-crore-accounts-opened-as-on-21-december-2016-under-pmjdy-out-of-which-15-86-crore-accounts-are-in-rural-areas-and-10-17-crore-in-urban-areas-117010200221_1.html

have resulted in overuse of water which in turn has resulted in soil contamination. Poorly directed water and electricity subsidies in Punjab has created the problem of water-logging in some parts and led to a fall in the ground water level in others. UBI will not distort the price structure and thereby such results can be avoided.

i) It is also expected that UBI will lead to expansion of economy's output. Most existing welfare schemes in India are part of government's transfer payments to the public which, as per National Income Accounting, causes aggregate demand to increase and hence economy's output to expand. However, as existing welfare schemes suffer from corruption, leakages, wastages etc., the increase in aggregate demand and hence economy's output currently is less than the potential. UBI will also be part of government's transfer payments but since it will not suffer from above problems, we will expect relatively larger increase in aggregate demand and hence economy's output.

As per National Income Accounting, equilibrium output in any closed economy is given by:

$$Y = AD$$

$$\text{where } AD = \bar{C} + c(1 - t)Y + cTR + I + G$$

Y = economy's output, AD = aggregate demand, c = marginal propensity to consume, I = investment expenditure, t = income tax rate, G = government expenditure, \bar{C} = autonomous consumption expenditure and TR = transfer payments by the government.

Suppose transfer payments under UBI (TR_{UBI}) is equal to transfer payments under current welfare schemes (TR_{NoUBI}). However, as current welfare schemes suffer from corruption, leakages, wastages etc., the aggregate demand in this case (AD_{NoUBI}) would be lower than aggregate demand under UBI (AD_{UBI}). Hence, economy's output in the later case will be more than former. This implies that UBI is likely to result in expansion of domestic output.

2.2 Arguments against Universal Basic Income

a) The major concern with UBI is its fiscal implications. The government is likely to face huge fiscal burden as a result of UBI. Large amount of revenue will have to be generated to finance UBI scheme which will put lots of burden on tax payers. It is estimated that a transfer of 10000 per capita per annum under UBI will cost around 10% of GDP to the exchequer whereas all current welfare schemes putting together costs

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only 5.2% of GDP⁶. This means that even if UBI replaces all current welfare schemes, it will still cost huge amount to the exchequer. For similar reasons, Switzerland recently rejected the idea of minimum basic income given its enormous fiscal implications.

b) There is a grave concern that UBI will distort the labor markets, as an easy income in hand received regularly by workers will discourage them to work. This cash transfer will reduce the amount of labor supply because the workers can choose to give up their jobs without affecting the household income. There will be subsequent loss of production and slowed down economic activities in the country. Economists argue that due to fewer workers willing to work, cheap labor will not be available which will ultimately drive up the prices of commodities. As a result, the same basic income will prevent the recipients from easily affording the goods. This also raises the implications on the food security of the people of India. Will farmers produce enough food grains in the presence of a guaranteed household income, along with the absence of minimum price incentives?

c) An argument is drawn from the societal perspective that men in the house have greater control over the household income. This stereotype further highlights that the grant received will be spent by men on temptation goods such as tobacco, alcohol, etc. This becomes crucial because where earlier the welfare programs allocated funds for different utilities, UBI will end up substituting utilities with temptation goods. However, it brings some, if not more, relief to find that as the per capita consumption increases, the share of temptation goods in the total consumption falls (as per NSS 2011-12, Survey Calculations).

d) One unnoticed issue is that of inflation. While food subsidies are not subject to fluctuations in the market prices, the basic income is highly vulnerable to inflationary pressures. The purchasing power risk associated with it cannot be reduced, and thereby, will affect the real income of poorer households. The shock to the rich will be minimal or even nil. There is also a concern regarding what and how the level of the basic income will be determined. If the basic income that is being transferred is very less, then it might not lead to desired results. Hence, the basic income under UBI should be at a level that ensures a minimum acceptable standard of living for every individual in the society. However, it might be a very costly affair.

e) In addition, although there exists a banking infrastructure required for electronic

⁶ Source: <http://www.financialexpress.com/opinion/is-india-ready-for-universal-basic-income-benefit-would-lie-in-rationalising-existing-subsidies/589415/>

transfers, but its density in the rural areas is very poor. Reports say that less than 60% of the Jan Dhan Accounts are linked with Aadhaar⁷, which can lead to inconsistency in identification of individuals.

f) The income being 'universal' implies that everyone, including the rich, receive it. This may lead to opposition from many groups and raise questions regarding equity and state welfare for the poor.

g) Moreover, if and once UBI is established, then reversing the process and adopting the previous system will be next to impossible, if UBI fails to achieve the objective. The transition from the existing mechanism to the new one also will be challenging. In India, one must not forget that one size does not fit all, due to its enormity.

h) There is also a fear that the scheme might be abused by the political class to win elections. It might happen that the ruling party increases the basic income under UBI to appease the voters so that it can win elections. This will put a huge fiscal burden on the exchequer and hence the basic purpose of the scheme will get defeated.

3. Different Views on UBI

3.1 Automation and Unemployment and Role of UBI

"I think we'll end up doing universal basic income, it's going to be necessary", says Elon Musk, CEO, Tesla.⁸ Musk, along with a growing list of other tech executives, supports Universal Basic Income as a possible solution to the loss of jobs due to automation. The Silicon Valley, too, has an optimistic outlook on the purpose UBI will serve, and that it will enable them to develop more and more disruptive technologies. Soon, stores will become fully automated, robots will become our deliverymen and AI will replace programmers. Human skills might become obsolete. If people lost jobs, the demand for consumer goods will also fall drastically, threatening economies of recession around the globe.

According to a World Bank Research, automation threatens 69% of the jobs in India.⁹ Currently, there is a loss of 550 jobs a day in India due to automation. A PwC Report

⁷ Source: <https://www.pressreader.com/india/hindustan-times-jalandhar/20170204/281887298042704>

⁸Source: <http://basicincome.org/news/2017/02/elon-musk-reaffirms-ubi-prediction-world-government-summit/>

⁹Source: <http://www.worldbank.org/en/news/speech/2016/10/03/speech-by-world-bank-president-jim-yong-kim-the-world-bank-groups-mission-to-end-extreme-poverty>

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finds that 38% of US jobs will be automated and taken over by robots by 2030.¹⁰ If artificial intelligence will substitute humans, what will substitute their income? UBI. UBI will become essential in the times to come, to help people fulfill their basic necessities. UBI will protect the informal sector employees of India in the changing technological landscape.

Robert Reich - Professor of Public Policy at University of California warns that a future bereft of jobs may be looming. “Imagine a little gadget called i-Everything. This little machine will be able to do everything you want and give you everything you need.” He argued that, with fewer jobs, resources would need to be redistributed from those who own the technology of the future to the rest of us who want to buy it. According to Reich, a universal basic income “will almost certainly be part of the answer”.¹¹ Also, the technological breakthrough will require workers to gain expertise in operating high-end machines. This will shift the demand from low-skilled to high-skilled workers, leaving the low-skilled group financially unstable. This is where UBI will step in.

3.2 Perspectives of Left and Right on UBI

The Left and the Right Wings are both supportive of the idea of Universal Basic Income, but carry two different perspectives about it. Both Wings being the votaries of UBI does not necessarily mean that time is ripe for its implementation, but it is for its serious discussion. UBI is that one economic concept that has managed to bring together both the sides for its support. Though the two sides are the proponents of UBI, their ideologies and method of adopting it is different.

The Left Wing favors Universal Basic Income as way of eradicating poverty, removing social inequality and freeing workers from ill jobs. However, it believes that UBI should not be a substitute to the existing welfare programs. Rather, it should be an add-on to the current government schemes. Certain targeted schemes on important utilities should not be phased out. UBI should merge in to replace the very ineffective anti-poor schemes, but granted along with other major welfare plans.

The Right Wing, on the other hand, largely supports Universal Basic Income because of its simplicity. UBI will reduce administration complexities and decrease bureaucracy. This Wing supports UBI as a replacement of all existing benefits and schemes of the

¹⁰ Source: http://pwc.blogs.com/press_room/2017/03/up-to-30-of-existing-uk-jobs-could-be-impacted-by-automation-by-early-2030s-but-this-should-be-offse.html

¹¹ Source:http://www.salon.com/2016/10/03/robert-reich-why-it-is-time-to-start-considering-a-universal-basic-income_partner/

government. Through this, it will substantially condense the hassles of the government and also the problems associated with current leakages.

4. Pilot Studies on UBI¹²

4.1 India's Pilot Project, Madhya Pradesh

In 2011, SEWA, funded by UNICEF, conducted a pilot study of Universal Basic Income in 8 villages of Madhya Pradesh for 18 months. Professor Guy Standing, the founding member of Basic Income Earth Network and an advocate of UBI, played a pivotal role in this project. It targeted about 6000 recipients in total, in approximately 1700 households. It granted Rs.200 and Rs.100 to people aged above and below 18 years, respectively; these were later raised to 300 and 150 respectively. The money belonging to the children of a house was transferred to the children's mother's account. Both the organizations mediated with the Banks to open the accounts of all individuals in the villages, to ensure direct transfers. To assess and track performance, evaluations at various stages were carried out. The assessment reports included Baseline Survey, Interim Evaluation Survey, Final Evaluation Survey, Post-Final Evaluation Survey, etc. The outcome was positive and the potential of UBI to achieve optimal goals proved high. The effectiveness of UBI study in these villages was compared to those villages where no income grant was provided.

Outcome of Study: A majority of villagers did not prefer subsidies (covering rice, wheat, kerosene and sugar) as a result of the basic income experience. They chose cash transfers over subsidies. Many people used the money to improve their housing infrastructure by building roofs and walls, toilets, etc. They started making efforts to maintain a hygienic environment. This meant reduced number of diseases emanating from dirty surroundings, which indirectly reduces their expenditure on fighting such diseases. It was also reported that nutrition level improved, particularly among the Scheduled Castes (SCs) and the Scheduled Tribes (STs). Financial liquidity shifted people from ration shops with staple, adulterated food grains to markets with more fresh vegetables and fruits. It improved individuals' health and reduced illness to a great extent. Better medical facilities were availed from private healthcare services. Enhanced health augmented school attendance and enriched learning. This encouraged households to buy new shoes for their children and the transport facilities for school. The income grants generated entrepreneurial activities in the villages. People began

¹²Source: Basic Income Earth Network (www.basicincome.org)

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making small-scale investments into sewing machines, seeds, shops, equipment and so on. This helped in scaling up production, subsequently supplementing their household income. It also refuted the misconception that a basic income compels workers to opt out of the labor market. Guy Standing pointed out that “the grants led to more labor and work, with a shift from casual wage labor to more own-account (self-employed) farming and business activity”. Bonded labor reduced, local development increased. Spending on temptation goods, a wide concern, was not witnessed in these villages.

The overall amount of debt drastically fell. People repaid their loan amounts and were less dependent on the harsh moneylenders. Earlier, they had to borrow for short-term purposes, at high interest rates. But, they no longer carried the debt burden, and the savings were spent more constructively. The level of frustration decreased, subsequently leading to efficiency in work and improvement in mental health. The scheme led to equity. In most respects, there was a bigger positive effect for disadvantaged groups – lower-caste families, women, and those with disabilities. Women had a sense of freedom, a control over their own life and were less willing to accept the dominant behavior of men in the society. They had their own money, which gave them a stronger bargaining position in the household and a higher status in the society. The poor were no more left vulnerable to the atrocities and maltreatment by the people of higher strata. It indirectly gave the downtrodden a voice, a power and a position in the society. The basic income also makes them more rational in their decisions, more altruistic and innovative. The emancipatory value was greater than the money value. UBI proved to be ecologically sustainable.

According to Guy Standing, UBI will help individuals achieve interests higher than just pure and basic survival, taken from Maslow’s Hierarchy of needs. Without a guaranteed income, they strive to make a living to help them sustain themselves and their family. With the basic income, people are able to meet their basic needs and try to achieve further goals based on safety, love, esteem and so on. They try to invest into new skills, infrastructure, that helps in associating a value to them, increases their respect and social stature.

4.2 Brief of Some Pilot Studies around the World

Round the globe, governments have initiated pilot projects to assess the feasibility of this concept. The results have been similar but vary slightly according to the disposition of the economies and the kind of population. Another reason for the disparities of results is because of the manner in which these pilot studies have been implemented. Below is a glimpse of some of the many such studies conducted in several nations.

a) Canada: In 1974, a Canadian City introduced an experimental form of basic income, which was run for 5 years. On a positive note, the number of hospital visits reduced due to less mental health victims, domestic abuse and car accidents. However, there were two major drop-offs- teenagers and mothers. Teenagers were discouraged and demotivated to study and mothers were also satisfied with leaving their jobs.

b) Kenya: The pilot in Kenya ran for 12 long years, with fruition. Studies pointed out favorable results. The income was not spent on alcohol and tobacco. Significant reduction in depression level was reported. And, the livestock ownership increased by 50%. The money was spent on health, food, water, school fees, etc. People felt the need to work harder. Skill set was improved.

c) Finland: Launched in 2017, it offers basic income grant to 2000 randomly selected people receiving unemployment benefits from the government. Many basic income supporters are eagerly anticipating the results of this experiment, which will continue through December 31, 2018. Advocates claim that the level of stress will fall and believe that it will reduce poverty traps. Critics argue that it is bound to fail to test its viability, because it is being tested on the people who are already unemployed. This will not provide a holistic result on other aspects.

5. Ways for Implementation

Universal Basic Income raises questions over whether or not there is enough fiscal space in the economy to introduce it, its feasibility and effect on budgetary allocations and the Indian Exchequer, and whether it should act as a substitute or be a complement to some of the existing schemes.

As per the Economic Survey 2016-17, the expenditure of the government on the existing welfare schemes including Public Distribution System, LPG, Fertilizers, railways etc. is 5.2% of the GDP. If the level of the basic income has to be equivalent to the poverty line, then it will cost 12.5% of the GDP. This will amount to about 95% of the total Union government expenditure, which means that this cannot practically be implemented. However, if the amount of UBI is equal to the income granted under the pilot project conducted by SEWA and UNICEF, it will cost 5.1% of the GDP and can be considered as a viable option to execute. The outcomes of that study had proved that the amount was sufficient to induce desirable behavioral changes among the recipients and their quality of living.¹³ The CEO of Niti Aayog, Amitabh Kant, has proposed that UBI

¹³Source: <http://www.livemint.com/Sundayapp/ACG8sI4BvWzWBCH3orUMjO/Is-it-time-for-a-universal-basic-income-in-India.html>

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should be implemented as an interest free loan (for entrepreneurial and other support) for an initial few years, after which the money has to be repaid and regenerated for the government.¹⁴

This can diminish the fiscal burden for the government to a certain extent. However, the only risk associated with this is the default on such loans, which may end up creating a fiscal trap for the government. The basic income can also be funded by taxing bad things like pollution, excessive wealth of individuals, financial transactions etc. There is also a talk that UBI should be implemented as a Universal Basic 'Share' (of the GDP) instead of Universal Basic 'Income'.¹⁵ This is because, unlike food subsidies that are not subject to fluctuating market prices, a cash transfer's purchasing power may severely be curtailed by market fluctuations, affecting drastically the real income of the poor. As the GDP increases, an increase in inflation is also reported. Hence, a 'share' can aid the inflation risks associated with the cash transfer.

The Economic Survey of 2016-17 has proposed certain ways in which the implementation can occur. It has mentioned some measures to target the exclusion of the rich, from benefiting from these transfers. Some of them are discussed here.

a) A 'Give it up' approach was discussed, wherein those households/individuals who do not wish to avail the UBI transfers can choose to opt out of the scheme on their own accord. This can help in reducing the benefit transfer to richer families, but only to a very limited extent, as not everyone is generous and no one dislikes an additional income in hand.

b) A 'Name and Shame' approach can be adopted, wherein the list of all UBI beneficiaries will be publicly displayed. As a result, it will shame those rich individuals who avail such government support additionally. This can tarnish their image in their society and organization, and ultimately compel them to move out of this set-up.

c) If the government mandates regular verification of the identity of the beneficiary, then there will be a cost in terms of discomfort and inconvenience associated with it. For the poorer individuals, the benefit of that income will be greater than this cost. For them, the value of such an amount is high. But for the richer individuals, the opportunity cost of the regular identification is high. There will be less incentive among them to follow

¹⁴Source: <http://indianexpress.com/article/business/economy/universal-basic-income-scheme-eco-survey-to-weigh-on-cost-benefit-of-ubi-4488437/>

¹⁵ Source: <http://www.livemint.com/Sundayapp/ACG8sl4BvWzWBCH3orUMjO/Is-it-time-for-a-universal-basic-income-in-India.html>

this system and they will not find it worthwhile their time. As a result, naturally, they will exit from availing this benefit.

d) Define the non-deserving based on ownership of key assets such as automobiles or air-conditioners or bank balances exceeding a certain size. However, this will require time and money to distinguish between the deserving and the non-deserving, just as the current system requires the distinction between the poor and the non-poor. Deciding the criteria is also difficult.

e) The 'Universal' Basic Income can be initially introduced as 'Targeted' Basic Income. It can start off by transferring amounts to certain vulnerable groups like widows, orphans and the poorer elderly people. This can be used to measure its effectiveness before its ubiquity. These groups are easily identifiable and the scope of providing benefits is high. But a drawback is that these groups of people are less likely to have access to bank accounts and are further away from the JAM frontier.

f) Introducing a choice between the existing programs and UBI will induce the administrators of the current schemes to improve their performance. For example, if there are malpractices in a fertilizer outlet and the consumers are affected by it, then the consumers would prefer to shift to UBI, booking losses for the outlet. Thus, this will help in reducing corruption and leakages. But a major disadvantage of this proposal is that those are already out of the purview of the current system will not even have a choice to avail the UBI benefit. And, the non-poor who are using the present schemes will wrongly continue to prosper. Administratively also, this method is flawed and cumbersome.

Apart from these, for UBI to be implemented in its full capacity and operations, it is imperative that more Pilot Studies are conducted in different States over the next few years, as was conducted in Madhya Pradesh. This will help provide a better result of its impact as States differ in the number of rural households, number of people below the poverty line, price levels, occupation of the majority population, its demographics, per capita income levels etc.

6. Conclusion and Recommendation

Though there are many valid concerns but with superseding benefits of better implementation, reduced corruption, reduced leakages, less administrative costs, less red-tapism, better targeting, improved social well-being, the UBI concept can certainly flourish in the Indian economy. Many pilot projects on UBI across the world including the one in Madhya Pradesh have shown positive results and highlighted the benefits of

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direct income transfer in improving the welfare of poor people. The Economic Survey 2016-17 talks about many ways of implementing UBI in India but the introduction of UBI currently faces many implementation or practical difficulties. First, not everyone in the economy currently has full access to banking facilities; there is still a large section which is cut off from formal banking. Second, the UBI seeks to replace all existing welfare schemes including the major ones such as MGNREGA, PDS, Food Security Act, Fertilizer Subsidies, Mid-day Meal Scheme etc. However, replacing all such welfare programs will not be easy as it will impact the large section of society and thereby it will have huge political and social implications. Third, as pointed out earlier, there is a concern that the introduction of UBI will put enormous fiscal burden on the exchequer. Even if UBI replaces all the existing welfare schemes, there will still be a need for large amount of funds to support it. Although, there is a talk of making UBI a targeted scheme but the identification of beneficiaries may cost the government big money and the process is likely to suffer from corruption, red-tapism, exclusion error and inclusion error. Fourth, there may be a strong political opposition to UBI especially on the issues that it will replace all the existing welfare schemes. Leftist and Centralist, for example, may want UBI as a complement to the existing welfare schemes and not as a substitute, as proposed by the Economic Survey. This may create huge political differences, making it difficult to implement the policy. Moreover, with political differences, it would become difficult to execute any plan of phasing out current welfare schemes which requires exceptional degree of cooperation between central government and state governments. Fifth, given that UBI will make use of technology in identifying and directly transferring the funds to the beneficiary, the required technology should be full-proof and should not suffer from any glitches. However, currently we find many examples of system failures as was noticed in Rajasthan, Chhattisgarh, Gujarat and Jharkhand where large number of Aadhaar linked beneficiaries of PDS had to go without their entitlement because of lack of connectivity infrastructure, unreliable fingerprints and false rejection rates¹⁶. Sixth, the opinion of public should also be taken before implementing such an important policy. In 2011, a survey of rural households in nine states observed that about 66% of all respondents preferred in-kind transfer (food) over cash. Another survey conducted in Bihar in 2012 on the performance of Mukhyamantri Balika and Balak Cycle Yojana discovered that more than 50% respondents preferred in-kind cycle transfer over cash¹⁷. The public opinion is important

¹⁶ Source: <http://www.livemint.com/Opinion/Poqiry3v7owbBg9YFIqRVK/Universal-basic-incomes-policy-design-dilemmas.html>

¹⁷ Source: <http://www.livemint.com/Opinion/Poqiry3v7owbBg9YFIqRVK/Universal-basic-incomes-policy-design-dilemmas.html>

because for a policy of this kind to be successful, the support and the agreement of public is a must.

These practical difficulties need to be addressed first before policymakers try to implement the complete UBI policy. As a solution, the introduction of UBI should be done in a gradual manner. But a point to be considered is that if the UBI system fails, then the transition back to the schemes system can have cataclysmic effects on India's economy and the poorer population in particular for a certain period of time. The policymakers must, therefore, evaluate all its pros and cons with accurate measures and statistics, before bringing this paradigm shift.

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