

UNIVERSAL BASIC INCOME [UPSC Notes GS III]

There is high growth and GDP numbers that the nation is witnessing. But this is not transforming the development of individual and personal empowerment. Despite rapid economic growth millions of people are unemployed and extremely poor, as can be seen in the last three decades.

There are large groups of landless labourers, agricultural workers and marginal farmers who suffer from multidimensional poverty. These groups have not benefited from economic growth. They were and still are the poorest Indians. Various welfare schemes have also failed to bring them out of penury.

Because people are getting poor, there is lack of basic amenities the idea of a universal basic income (UBI) is gaining currency globally.

It has supporters among the political left and right, and among proponents as well as opponents of the free-market economy.

Definition

UBI full form is Universal basic income has three components, agency (by providing support in the form of cash transfers to respect, not dictate, recipients' choices), unconditional and universality. It is built supposedly that a just or deserved community needs to guarantee a minimum income to each individual which they can count on to provide themselves basic goods, the necessary material foundation and a life of dignity. A universal basic income gives every person unconditional and universal rights. These rights require every individual to have basic income to fulfill their needs, just by virtue of being citizen of the country.

In short, A UBI requires the government to pay every citizen a fixed amount of money on a regular basis and without any conditionality's.

Current context

The National Democratic Alliance government has already unfolded a limited version of the UBI in the form of the Pradhanmantri Kisan Samman Nidhi Yojana (PM-KISAN) which promises ₹6,000 per annum to farmers who own less than 2 hectares of land.

Therefore is it important to expand this to other sectors? Is the question of the hour?

Why UBI is required?

- **Social Justice:** UBI is firstly a test of egalitarian society. Any society where all people do not earn income in equality, fails the test of justice. UBI propounds many of the basic values of a society that respects all individuals as equal. It promotes equality because it is anti-paternalistic, opens up the possibility of flexibility in labor markets. It promotes efficiency by increasing transparency in government transfers.
- **Poverty Reduction:** if the current financial system functions properly the UBI- Universal Basic Income may simply be the fastest way of poverty reduction.
- **Agency:** Our current welfare system, even when well intentioned, inflicts an indignity upon the poor by assuming that they cannot take economic decisions relevant to their lives. An unconditional cash transfer treats them as agents, not subjects. UBI liberates citizens from paternalistic and clientele relationships with the state. By taking the individual and not the household as the unit of beneficiary, UBI can also enhance agency, especially of women within households.
- **Employment:** UBI could open up new potentials for labor markets. It creates tractability by allowing individuals to have fractional or standardized engagements with the labor market without fear of losing benefits. They permit more non-exploitative negotiation since people will no longer be required to accept any working conditions, just so that they can survive.
- **Administrative Efficiency:** In India in particular, the case for UBI has been heightened because of the weakness of current welfare schemes that are riddled with misallocation, escapes and exclusion of the poor. When the trinity of JAM Jan-Dhan,-Aadhaar and Mobile is fully adopted the time would be apt for a mode of delivery that is administratively more efficient.

- Institutional credit: According to National Sample Survey Office (NSSO) data from the 70th round, institutional credits account for less than 15% of the total borrowing by landless agricultural workers; The figure for marginal and small farmers is only 30%. These groups have to borrow from moneylenders and adhatiyas at exorbitant interest rates ranging from 24 to 60%. As a result, they do not stand to benefit much from the interest rate subsidy for the agriculture sector.

Likewise, the benefits of subsidized fertilizers and power are enjoyed largely by big farmers. In urban areas, contract workers and those in the informal sector face a similar problem. The rapid pace of automation of low-skill jobs and formalisation of the retail sector mean the prospects of these groups are even bleaker.

The Conceptual Case against UBI

- Reduces the incentive to work: the levels at which universal basic income are likely to be pegged are going to be minimal guarantees at best; they are unlikely to crowd incentives to work.
- Detaches Income from employment: society already does this, but largely for the rich and privileged. Any society where any form of inheritance or accepting non-work related income is allowed, already detaches income from employment. So, receiving a small unearned income as it were, from the state should be economically and morally less problematic than the panoply of “unearned” income our societies allow.
- Should income be unconditional, with no regard to people’s contribution to society? Individuals as a matter of fact will in most cases contribute to society. In fact, UBI can also be a way of acknowledging non-wage work related contributions to society.

Benefits of UBI

- Reduces misallocation of resources across districts: a UBI will simply amount to a transfer of resources from above and need not be “accessed” by beneficiaries. In addition, by focusing on universality, UBI reduces the burden on the administration further by doing away with the tedious task of separating the poor from the non-poor.
- Reduces out of system leakage: Conceptually, a UBI reduces out of system leakage because transfers are directed straight to the beneficiaries’ bank accounts. The scope for diversion is reduced considerably, since discretionary powers of authorities are eliminated almost wholly.
- Exclusion error: Given the link between misallocation and exclusion errors, a UBI that improves allocation of resources should mechanically bring down exclusion error. Furthermore, by virtue of being universal, exclusion errors under the UBI should be lower than existing targeted schemes.

Apart from this, it will much more beneficial like it will act as an Insurance against Risk and Psychological Benefits, promotes financial inclusion, etc.

Some pros and cons of UBI are as mentioned below:

Administrative Efficiency: In place of plethora of separate Govt. schemes, UBI will reduce the administrative burden on the state	Implementation: seeing the current status of financial access to poor, UBI may too much pressure on the banking system.
Psychological Benefits: Guaranteed income reduces pressure of finding a basic living on a daily basis.	Market Risk Exposure: unlike food subsidy that is not subject to fluctuating prices, cash transfers purchasing power may severely be reduced by market fluctuation
Better Targeting of Poor: As all individual are targeted under UBI, Exclusion error i.e. poor being left out is	Gender Disparity: Gender norms may regulate the sharing of UBI within the household. Men are likely to

Zero though Inclusion error i.e. rich gaining the access is 60%	exercise control over UBI spending, which may not always be case in other in-kind transfers.
Improvement in financial inclusion: payment transfer encourages usage of bank account leading to higher profits for banking correspondents.	Fiscal cost given political economy of exit: once introduced, Government may find it difficult to end UBI in case of failure.
Credit: Increase in income will release the constraints on access to credit for those with low income.	Political economy of universality – idea for self-exclusion: opposition may arise from the provision of transferring to rich individual as it might seem to trump the idea of equity and state welfare of the poor.
Insurance against shock: guaranteed income will provide Safety net against health income and other shocks	

Guiding Principles for Setting up a UBI

- Gradualism: A guiding principle is gradualism: the UBI must be embraced in a deliberate, phased manner. A key advantage of phasing would be that it allows reform to occur incrementally – weighing the costs and benefits at every step.
- Legal and actual universality: It is important to consider ideas that could exclude the obviously rich i.e., approaching target from an exclusion of the undeserving perspective than the current inclusion of the deserving perspective like define the non-deserving based on ownership of key assets, Adopt a ‘give it up’ scheme , “name and shame” and Self-targeting etc.
- UBI and redistributive resource transfers to states: The UBI offers a possible way-around: a part of the redistributive resource transfers may be transferred by the center directly into beneficiaries’ accounts in the form of a pilot UBI programme.

The idea of a universal basic income (UBI) is gaining ground globally. It has supporters among the political left and right, and among proponents as well as opponents of the free-market economy. The income transfer scheme might be costly. However, the cost of persistent poverty is much higher.