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Universal basic income: an idea whose time has come?

While the academic debate gathers momentum in high-income countries, a discourse on UBI has also surfaced in a relatively poor country like India

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Marx would have been pleased. Contrary to his prediction, the communist revolution never happened in advanced capitalist countries. However, the libertarians in these countries have now come together with the socialists and communists around the idea of a universal basic income (UBI). It is not quite the imagined utopia of the *Communist Manifesto*, "from each according to his ability to each according to his needs." But were it to come into existence, UBI would certainly be an important step towards that utopian dream.

The basic idea of a UBI is that everybody should be given a basic minimum income as an entitlement and not as compensation for work. Even libertarians, generally wary of free riders and government handout programmes, agree that in the 21st century it would be unbecoming of civilized society to let people die of hunger and malnutrition simply because they could not find a job. In most advanced countries, social security systems are in place, but caveats apply and many are excluded. The UBI would be completely unconditional.

Those on the left feel that the introduction of a UBI would help to partly offset the rapid rise in inequality observed in recent years. Those on the right feel that if a safety net has to be in place, the UBI would be the simplest and most effective.

At the Cato Institute, a conservative US think tank, scholars like Michael Tanner and Matt Zwolinski have argued that the present American welfare system is a disaster. Federal and state welfare programmes together spend around $1 billion annually, yet 16% of the population remains below the US poverty line. Zwolinski has proposed replacing all the existing programmes with an unconditional Basic Income Guarantee of $10,000 per year for every American over 21 years. He argues this would be cheaper, less paternalistic, less intrusive, and entail less bureaucracy and rent-seeking.

A third strand of thinking on UBI—associated with leading entrepreneurs at the technological cutting edge of American capitalism in Silicon Valley—stems from the potential obsolescence of work in a robotized world. As robots take over more and more of the tasks hitherto performed by human beings, robotized production systems will be capable of producing goods of mass consumption on an almost unlimited scale. On the other hand, human workers no longer required or paid to do most jobs would lack the purchasing power to buy these goods of mass consumption.

This points to a fundamental contradiction of the market system in advanced capitalist societies. If mass consumers lack the purchasing power to buy the goods produced for mass consumption, whether for reasons of income inequality or work obsolescence, then the markets for mass consumer goods will collapse. The only way out of this impasse of chronic under-consumption is to revisit the link between income and work, hence UBI.

The idea has, of course, not gone unchallenged. And even as the academic discussion continues, the issue has also spilled over into the political space. Recently, the Swiss electorate voted against the idea of a UBI, but Canada, Finland and the Netherlands are now reportedly considering a referendum on the issue. While the academic and political debate gathers momentum in high-income countries, a discourse around the idea of UBI has also surfaced in a very different context—namely, a relatively poor country like India.

Pranab Bardhan, a highly respected Berkeley economist, originally suggested the idea of a UBI for India five years ago and has reiterated those ideas in an article published through Project Syndicate earlier this year, in June. Subsequently, Vijay Joshi, another highly reputed Oxford economist, published his excellent study, *I ndia's Long Road: The Search for Prosperity*, where he has also proposed the idea of a UBI. Though there are some differences of design in their proposals, the essential idea of an unconditional basic income for all Indians is common to both.

Two weeks ago, journalist Swaminathan S. Anklesaria Aiyar wrote about their proposals in *The Economic Times*, and copied the piece to his email mailing list. There was an immediate outburst of comments and counter-comments, but the discussion has remained confined to his mailing list. However, the subject is far too important for the discussion to remain so confined; hence this article. It assesses their proposals from three angles: administrative and technical viability, fiscal affordability and political feasibility.

Starting with administrative and technical viability, Bardhan and Joshi's idea of universal coverage is not based on any grand principle. It is simply a practical matter of administrative viability. Targeting sounds great in principle; only the poor should have social protection. However, identifying millions of Below Poverty Line (BPL) families across the country and monitoring that targeted benefits are actually reaching them requires a huge and costly administrative apparatus. Moreover, wherever discretion is allowed in deciding who qualifies for some benefit—for instance, eligibility for BPL status—rent-seeking and misclassification are bound to flourish. Thus, according to several official studies and surveys, most recently the Shanta Kumar committee report, nearly half the subsidized foodgrains distributed through the targeted public distribution system (TPDS) for BPL families do not reach the intended beneficiaries.

UBI would completely do away with targeting and all the challenges that come with it. It would be simpler, easier to administer, prone to less discretion, hence less rent-seeking, and have zero misdirection since everyone would be an eligible beneficiary. Leakages would also be minimized if UBI is administered using the JAM (Jan Dhan Yojana, Aadhaar and mobile connectivity) trinity, the IT-enabled technological innovation. According to reports, Aadhaar has pretty much covered the entire population and the Jan Dhan Yojana extends to about one billion people. It is already being used for some direct benefit transfers, such as subsidies for cooking gas, and about half the bank accounts have already been linked to Aadhaar. Once the entire JAM package is complete, administering direct UBI transfers will become much simpler and more transparent.

The second consideration is fiscal affordability. Here, the two proposals diverge but both claim affordability along with fiscal prudence. Using 2014-15 as the base year for his calculations, which would be inflation indexed, Bardhan set the unconditional UBI at Rs10,000 per head per year, or about three-fourths of the poverty line for that year. For a population of 1.25 billion estimated for that year, this would work out to about 10% of gross domestic product (GDP). He claims this 10% could be financed without additional taxation through savings elsewhere.

My colleagues and I at the National Institute of Public Finance and Policy (NIPFP) had earlier estimated that total subsidies, both implicit and explicit, amount to about 14% of GDP, an estimate that is now being updated. Bardhan argues that two-thirds of these are "non-merit" subsidies which should be eliminated. That would free up 9% of GDP. Revenue foregone on account of tax exemptions and concessions is estimated at about 6% of GDP. Recognizing that this figure may not be robust, and that some of the revenue foregone is actually desirable, he says that even if only half of these tax expenditures were curtailed, that would yield another 3% of GDP. Thus, potential fiscal savings of 12% of GDP could be available as against the 10% of GDP required for his UBI proposal. It would be fiscally quite affordable, and without any additional taxation.

Joshi's proposal is more conservative. Also adopting 2014-15 as his base year, and taking the poverty gap—the distance between the (Tendulkar) poverty line for that year and the average income of the population below the line—as his basis, Joshi sets the UBI at only Rs3,500 per head per year. That's what it would take, on average, to bring those below the Tendulkar poverty line above it. This is about a third of Bardhan's UBI and hence adds up to a total bill of only 3.5% of GDP, against Bardhan's 10%.

For its financing, Joshi uses the NIPFP subsidy estimates of non-merit subsidies, barring the food subsidy, factors in some savings from curtailing foregone revenue, sale of public sector equity, winding up of dysfunctional, non-merit, government programmes, etc., and also arrives at total fiscal savings of at least 10% of GDP, possibly even 12%. Allowing a set-aside of 2% for reducing the fiscal deficit and another 2% for additional public investment, the balance 6% of GDP would more than cover the required 3.5% for his UBI proposal.

The third, and most challenging, aspect of the UBI proposal is its political feasibility. Bardhan and Joshi both recognize that this is indeed a tough call, particularly since their financing schemes involve elimination of existing benefits to some powerful interest groups. I recall asking Jay Panda, one of the most interesting and best informed among our young parliamentarians, at Joshi's book launch whether the idea of a UBI would have any political traction. His response was that it may, but would require much more discussion. The moot question is whether politicians like him would be prepared to put the idea of UBI on the agenda for political discourse.