A modified UBI policy may be more feasible

Maitreesh Ghatak

Professor of Economics, London School of Economics

The idea of a Universal Basic Income (UBI) keeps surfacing from time to time. A recent report by the International Labour Organization talks about how jobs growth has been lagging globally due to automation and Artificial Intelligence, and notes the massive problem of youth unemployment in India. The phenomenon of jobless growth, where productivity rises but job creation lags and contributes to the alarming trend in inequality, has rekindled interest in a UBI as a component of a social safety net across the world.

There was a fair bit of discussion surrounding UBI in India a few years ago, with scholars and policymakers debating whether it is worth replacing some inefficient welfare schemes with direct income transfers to the poor. The idea gained significant attention after the 2016-17 Economic Survey of India recommended considering UBI as a potential policy. It was argued that investments in the JAM (Jan-Dhan, Aadhaar, Mobile) infrastructure have also made it feasible to implement direct benefit transfers (DBTs) to beneficiary bank accounts.

A UBI and modifications

Whether it is a tool to deal with unemployment or with poverty – and the two are not unrelated – a question that often comes up is this: should India adopt some version of UBI to deal with these challenges?

Now, a policy can be debated in terms of feasibility and desirability. Something that is feasible may not be the most desirable policy as one may have different policy priorities. The argument that we should have policies to boost employment growth or deal with the slack demand for mass consumption goods that comes with rising unemployment or that we need universal basic services are all valid points. But as critiques of a UBI, they are misplaced, as at best, it is a policy to help people cope with the consequences of unemployment. Policies need to be evaluated with respect to the specific problems that they are designed to address, which in turn correspond to specific social objectives. For example, investing in better transportation is a great policy to improve productivity and mobility, but it is not fair to criticise it as it will not directly deal with poverty. So, a UBI should be evaluated as a safety net policy.

At the same time, something that is desirable may not be feasible from a budgetary point of view. Even if one were to agree that a UBI is indeed desirable as a social safety net policy, it may not be feasible given budgetary constraints. The real question is this: is a modified and less ambitious version of a UBI worth exploring?

In this context, some terminological confusion prevails. It might appear that some forms of a UBI already exist in India, such as cash transfer schemes for farmers and women. While these are cash transfer schemes, a UBI, by definition, must be universal, i.e., not targeted to any specific group. A comparison with other forms of safety net policies is fair, and indeed necessary. These could be policies that are targeted to specific demographic groups such as women or the elderly, or those that are contingent on certain socio-economic criteria being met (farmers, the unemployed, the poor), or those that are in-kind rather than cash (the Public Distribution System) or those that are conditional on being willing to work (Mahatma Gandhi National Rural Employment Guarantee Scheme or MGNREGS) or sending children to school (mid-day meals).

For a given budget devoted to direct transfer schemes or social safety net policies, the choices are determined by various considerations. Is the goal to provide a safety net or minimum consumption support or long-term poverty alleviation? Are certain groups more vulnerable and require more assistance? Is it a remote rural area where in-kind assistance would be more helpful to the poor? Does limited state capacity mean inclusion and exclusion errors make means-tested programmes not very effective to target the poor, or, in addition, be subject to bureaucratic delays, glitches and corruption?

State and central schemes

In recent years, India has already implemented income transfer schemes as part of its anti-poverty strategies, especially in the agriculture sector. In early 2018, Telangana launched the Rythu Bandhu Scheme (RBS), which gave farmers unconditional payments of ₹4,000 per acre. This approach was soon replicated at both the State level (the KALIA or Krushak Assistance for Livelihood and Income Augmentation programme in Odisha), and at the national level (the Pradhan Mantri Kisan Samman Nidhi Yojana, or PM-KISAN). The PM-KISAN, of 2018-19, initially provided ₹6,000 per year to small landholding farmers, but was later expanded to cover all farmers, excluding income-taxpayers and those not engaged in farming. By 2020-21, the scheme aimed to cover around 10 crore farming households, with an estimated cost of ₹75,000 crore, roughly 0.4% of GDP.

Despite the programme's scale and relative success, issues such as inclusion and exclusion errors persist, mainly due to logistical challenges such as Aadhaar verification and rejections by banks. It is to overcome limitations such as these that the proposal to make them universal, covering all citizens, has been proposed.

Universal income transfers offer several advantages. They reduce administrative costs associated with targeting and minimise exclusion errors. Since the transfers are universal, fewer intermediaries are involved, lowering the chances of leakage. Universal transfers also avoid work disincentives often associated with targeted programmes.

A common reaction to such a proposal is to question why the wealthy should also receive a basic income. However, this viewpoint misunderstands how tax and benefit systems operate. In any advanced economy, individuals pay taxes and receive some form of government support, such as child benefits, depending on their circumstances. What ultimately matters is their net income. Similarly, wealthier individuals would pay far more in taxes than the amount they would receive from a UBI.

A possible scheme

However, where the case against a UBI scheme in India has validity is financial feasibility. UBI proposals often suggest large transfers, amounting to 3.5%-11% of GDP, which would either require cutting other anti-poverty programmes or drastically raising taxes. A more feasible approach would be to adopt a limited universal income transfer scheme. This writer, with economist Karthik Muralidharan, has explored such a policy that is pegged at 1% of GDP per capita. This would provide approximately ₹144 per month to every citizen (or roughly ₹500 a month a household), which works out to be similar to that of PM-KISAN. It can be implemented simply by roughly doubling the budget for PM-KISAN and making it universal, which means it would reach not only farmers but also landless labourers, who are often poorer. If one thinks the amount is too little, recall that the Tendulkar poverty line, at 2022-23 prices is around ₹1,500 a month in rural areas and ₹1,850 in urban areas – or an average of ₹1,600.

This approach could also simplify implementation by reducing eligibility verification costs. However, there are still logistical challenges such as ensuring access to cash-out points (COPs), minimising network and biometric authentication failures, and addressing issues with electronic payment devices. These last-mile delivery problems need to be addressed to ensure the success of universal income transfers in India.

Given the fiscal constraints that State and central governments face, it is natural to be sceptical of new policies when other policies that are somewhat similar are already in place. But in my view, having a modified UBI policy, as described above, as a base to which other transfer policies can be added, as and when appropriate (targeted at women), and feasible is a good model. For example, the MGNREGS provides 100 days of employment but may exclude those unable to work, such as the elderly or the disabled. Combining MGNREGS with a modified UBI scheme could ensure comprehensive coverage for different vulnerable groups. The COVID-19 pandemic underscored the point that income and in-kind transfers are complementary. For example, income is critical during supply chain disruptions, and food access is essential when people lack purchasing power.

As a core issue is financial feasibility, what may work best in India is using a modified policy as a base to which other transfer policies can be added as and when appropriate