A Preliminary Survey of the Theoretical and Practical Aspects of UBI and Assessing its Feasibility in the Context of the Indian Economy

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Abstract

We attempted a survey of UBI to understand the ideology and the theory underlying the UBI scheme and assessing the feasibility of implementing it in India. The paper started with a discussion of the origin of the concept and examined the background in which the UBI is being discussed in India today. The authors then highlighted various such UBI or quasi - UBI programs, which have already been implemented or are about to be implemented in different parts of the world. After discussing probable benefits of UBI, we raised several pertinent questions about its feasibility from multiple dimensions. The paper also delineated the results of UBI or quasi-UBI schemes wherever these have been implemented based on the conclusions of various researchers. In the absence of any concrete conclusions derived about the feasibility of such schemes, we forwarded our suggestions regarding UBI and various aspects related to it based on our understanding and deduction. We right away opposed the implementation of the UBI scheme merely as a political gimmick. Even if there is an imperative to implement such a scheme, it should have conditional implementation. We firmly believe that high growth and employment generation cannot be substituted on a permanent basis by UBI type programs in addressing pertinent economic problems.

Keywords : **distribution, income transfer, inequality, poverty, unemployment**

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The idea of universal basic income scheme (UBI henceforth) has gained currency in recent times in India and across the globe. Some or the other form of UBI is being discussed and floated by one or the other government. In India, the context is not difficult to find. It is basically the election season. India went to polls for the General Election of 2019. To woo voters, various political parties promised free gift of money. Across the globe, some countries are thinking to implement UBI basically to address the burning issue of unemployment, which has arisen due to technological advances ushered in by Industry 4.0 revolution.

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The idea of universal basic income (UBI) was first floated in developed countries right in the sixteenth century. Mishra (2019) stated that the earliest reference of the idea of basic income is found in the 16th century novel, *Utopia* (1516) by Thomas Moore in which he advocates ensuring some means of livelihood for every individual to avoid the poor from becoming, first a thief, and then a corpse. Other great thinkers like Thomas Paine, John Stuart Mill, Bertrand Russell, American activist Martin Luther King Jr., and economist Milton Friedman too have been supporters of one or the other form of UBI. Ranade (2019) used philosophical arguments to prove that philosophers like John Rawls and leaders like Mahatma Gandhi too have implicitly rendered their support to the idea of a certain basic income to every citizen. The current fashion of running guaranteed income schemes is in a way implicit recognition of the fact that generating jobs is becoming a Herculean task for governments. Capitalism, which is a widely prevalent economic system, has come under attack for reasons like rising inequality, youth unemployment, and frequent crises inflicting the economy. In this context, Saraogi (2019) strongly believed that UBI can come to the rescue of capitalism by addressing these issues. UBI can also be seen as a social safety net that aims at guaranteeing a dignified life for everyone. Such a social safety net becomes all the more important in current times characterized by uncertainties and rapid technological changes.

In the strict sense of the term, UBI is basically an unconditional transfer (not paternalistic) of a small amount of money from government to every citizen of a country on a monthly/periodic basis. No country has ever implemented UBI fully in its true form. What one gets to see is quasi or semi - UBI under implementation.

Methodology of the Study

The present study is descriptive and also uses deduction wherever required. We surveyed a number of reports, articles, and research papers to understand the nitty-gritties of UBI. Based on the conclusions emanating from various articles and related material, the authors have made an attempt to evaluate the feasibility of such a scheme in India and also raised a number of questions, both theoretical and practical, which demand explanations.

Summary of UBI/QUASI UBI Programs Conducted / Underway

(1) So far as our country is concerned, *Economic Survey of 2016 - 17* presented the idea of UBI for the first time. It was reported then that 950 schemes of Central government are in vogue, costing the government 5% of GDP. An alternate to this could be UBI.

(2) Richard Nixon, U.S. President, tried enacting a law of UBI in 1970. Trials of UBI in Denver and Seattle were a failure.

(3) As reported by Mathew (2019), Scotland has started a basic income pilot scheme spread over the next two years, in a few areas, to look at different options. So have the Netherlands, Spain, and Kenya.

(4) Around 77% people said *'NO'* to UBI in Switzerland in a referendum conducted in 2016 asking people whether all citizens should be given 2500 francs per month. These people strongly believed that the social security system in Switzerland is adequate.

(5) In a project undertaken in Finland, 2000 people were given $ 634 per month during 2017-18 but none of them could find jobs for themselves.

(6) Some cities in the Netherlands have launched municipal-level trials.

(7) Three case studies have been discussed in a MIT report titled *'UBI in Developing Economy'*, authored by Banerjee, Niehaus, and Suri (2019). It covers Madhya Pradesh of India, Namibia, and Iran. But there is no evaluation of the results.

(8) Mathew (2019) reported that Sikkim is likely to become the first state in India to roll out UBI. Sikkim's ruling party, the Sikkim Democratic Front (SDF), has decided to include UBI in its election manifesto ahead of the Assembly elections later this year and aims to implement the scheme by 2022.

Probable Benefits of UBI Scheme

The following are the important expected benefits from full-fledged implementation of UBI :

(1) It would strengthen economic liberty of people as they would be free to use the money the way they like.

(2) It would act as an insurance against unemployment.

(3) It will help solve the poverty and inequality problem.

(4) A lot of time, energy, and cost of bureaucracy would be saved as many other schemes will have to be scrapped for implementing UBI. This will lead to increased efficiency of government functioning. It would be able to pay attention to more important matters like provision of basic facilities and technology development.

(5) Corruption is expected to decline as this scheme will cover all individuals instead of a select section and it would be implemented with the help of digital technology.

(6) It has the potential to increase productivity of poor people by providing them the necessary money to purchase inputs which can lead to increased output.

Some Questions That Need to be Answered

(1) Ideologically speaking, will not the UBI scheme interfere with the free working of market forces and distort market driven results? Will it not increase all types of inefficiencies ?

(2) Does this scheme have a moral justification ?

(3) The biggest problem is about identifying the beneficiaries - should it be for all or for a targeted section? Even if it is meant for a narrow targeted section, the government will have to answer the question regarding the method adopted for selecting the beneficiaries.

(4) Will it not lead to the creation of fake accounts and pilferage, that is, corruption? (Specially, in a country like India marred by and notorious for corruption).

(5) Is India adequately financially included ? Do we have sufficient number of bank branches and ATMs for running this scheme ?

(6) Does the UBI or quasi-UBI scheme have the potential of solving the problem of poverty on a permanent basis ? Does it not make the beneficiaries permanently dependent on the state for a steady flow of income ?

(7) If distributed to all citizens equally, will not the relative position of all with respect to nominal purchasing power remain the same ? How will it then lead to the achievement of the primary goal of reduction of poverty ?

(8) Will not UBI take money from the poor and give it to everyone, increasing poverty and depriving the poor of the needed targeted support (especially if all other schemes are merged into UBI)?

(9) Increase in aggregate demand due to UBI scheme will lead to a price rise if not matched by a corresponding increase in aggregate supply. There needs to be a matching mechanism to ensure an increase in aggregate supply, which is not present in the UBI as it aims at elevating living standard to some minimum level. Developing countries' problems are more due to supply side bottlenecks rather than deficiency of aggregate demand. Is there anything in the UBI that directly leads to an increase in aggregate supply ?

(10) Will not the free gift of money to poor families lead to an increased expenditure on liquor and tobacco? This is generally the belief and there is a sound reason to believe that this is what generally happens.

(11) Should the existing welfare programs like MGNREGS be stopped altogether? Should the money being spent elsewhere be diverted to a single UBI scheme? The government will have to work out on the cost aspect of shifting from multi-program to a single program. Would not reduction of benefits elsewhere in order to finance quasi-UBI or UBI amount to no net addition to poor people's income?

(12) How will the government finance huge expenditure which is called for in implementation of this scheme? Will the implementation of UBI in its true sense increase deficits and lead to a departure from the path of fiscal consolidation ? How will the government provide for the needed money to run the UBI if the cost of it exceeds the cost incurred in totality in administering various welfare programs in vogue ?

(13) If UBI is funded through higher indirect taxes, will it not result in inflation ?

(14) Problem of moral hazard is associated with the UBI. Assured income will lead to reduced incentives to work, or failure to build or create durable assets. It will lead people to drop out of the labor force as they will be guaranteed certain fixed sum of money. Will such laziness on the part of the beneficiaries not impact long term GDP growth of the country ? Will not the UBI affect risk-taking and entrepreneurship ?

(15) In a mammoth country like India, it would be a gargantuan challenge to think of the design of this scheme, to think of the administrative apparatus required to implement it, and equally daunting is the task to take its feedback and make necessary changes. Is the government well equipped to handle these challenges ?

(16) Once implemented, it will become a monstrous political tool in the hand of politicians. It will be grossly misused to win elections by increasing the amount periodically only leading to compete it with the system of deficit financing for the position of 'worst economic idea.'

(17) Rajagopalan (2019) raised a very pertinent question about the governments becoming lax to undertake structural reforms required to unshackle economic growth if UBI is implemented as people may not complain about jobs or poverty as they will be getting free money from the government.

Countering the Doubts / Questions Raised About UBI's Feasibility on the Basis of Empirical Results

(1) So far as the very first question of UBI type schemes interfering in the smooth functioning of market forces and leading to suboptimal results for the economy as a whole is concerned, Saraogi (2019) opined that direct income transfers interfere the least with capitalism's price mechanism as compared to price controls, quotas, and licensing. There is merit in Saraogi's argument. In UBI, the decision to use the money so transferred is left to the recipients and it is assumed that the recipients behave rationally with respect to spending of that money, thereby producing optimal result in terms of enhanced social welfare and without distorting the functioning of markets. Ghatak and Maniquet (2019) opined that UBI might be more appropriate in those developing countries wherein the scheme could help circumvent the imperfections of government institutions in charge of helping the poor.

(2) On the question of the scheme having moral justification, Bera (2019) advanced three ethical reasons to support it. First and foremost, he believes that whatever wealth and income we have is due to the efforts of previous generations. So whatever we inherit privately is also a type of public inheritance and from it everyone has a right to earn an equal dividend. Secondly, such a scheme enhances the freedom of individuals to say no to exploitative and oppressive relationships. It also emancipates people to take control of their lives to a certain extent. And finally, it provides basic security which is a human right.

(3) Bera (2019) advocated basic income for all as he ardently believes that any quasi form of it requires targeting and selection and, therefore, there are chances of high exclusion errors. On the other hand, UBI involves direct transfer to an individual, which reduces a lot of administrative costs and is a lot more transparent and minimizes corruption.

(4) Maira (2019) strongly opined that such schemes treat only the symptoms of the disease and not the root cause. Policy makers must focus on the reforms required in the economy to produce good jobs to provide good incomes by doing good work. Only this can alleviate poverty in the long run. In the same vein, Ghatak and Maniquet (2019) strongly believed that UBI cannot provide a long-term solution to the problem of poverty. Maira (2019) quoted Edmund Phelps, a Nobel laureate in economics, who has been a consistent critic of UBI. He said, "What matters to people is not just their total receipts; it is the self-support from earning their own way. The solution is not to endow workers with a UBI – that way leads to dependency, unfulfilment, depression and marginalization" (p. 15). He wants employers to employ more number of less-skilled workers and pay them well. Maira (2019) also quoted Dani Rodrik, another eminent economist, who advocates reforms that will induce firms to employ more numbers of less-skilled workers. He said, "To increase productivity of firms, too often governments subsidize labor-replacing, capital-intensive technologies, rather than pushing innovation in socially more beneficial directions to augment rather than replace less skilled workers" (p. 15). There is merit in the arguments of both these leading economists. Mander (2019) too toed the same line when he argued that :

> My fundamental worry about this proposal, or indeed about any proposal for income transfers is that they in effect supersede the most fundamental way of assisting most households to overcome their poverty. This is through the assurance of respectable, well-protected and decently-paid work. (p. 11)

Rajagopalan (2019) is correct when she said that the real solution to poverty is sustained economic growth. Only that can alleviate poverty in the long run without putting additional fiscal burden on the government. Rajadhyaksha (2019) too toed the same line when he quoted a number of reports of Planning Commission and economists and concluded that guaranteed basic income is not a solution to mass poverty.

(5) *Economic Survey 2016-17* stated that there is no statistical evidence that increase in income leads to increased expenditure on liquor and tobacco. The main findings of the Survey was that goods like alcohol, tobacco, and paan (temptation goods) form a smaller share of overall budget or consumption as overall consumption increases. This is an indication that an increase in income from UBI alone will not necessarily lead to an increase in consumption of temptation goods. According to Bregman (2013), a major study by the World Bank demonstrated that in 82% of all researched cases in Africa, Latin America, and Asia, alcohol and tobacco consumption actually declined.

(6) Ghatak and Maniquet (2019) advocated that UBI should be complemented with other income support policies. In fact, they believe that UBI would be effective only when complemented with other income transfer policies.

(7) As regards the fears of inflation raising its head due to UBI, a lot of evidence obtained is contrary to it. In context of the basic income pilot study carried out in Madhya Pradesh in between 2009-13, Kaul (2019) pointed out that "villagers' increased purchasing power led to local farmers to plant more rice and wheat, use more fertilizer and cultivate more of their land. Their earnings went up, while the unit price of food went down" (p. 8).

(8) As regards distribution of free money under the guise of UBI or quasi-UBI, Kaul (2019) poignantly stated that :

> Anyone opposing basic income on this ground (free money) should also oppose all wealth inheritance and all other forms of income that are not derived from productive activity…They should oppose all the selective tax breaks….which mostly benefit the affluent who have done nothing to 'earn' them. (p. 8)

(9) As regards free money distribution making people lazy and leading to their dropout from labor force, there is evidence from different parts of the world contrary to this. A research paper published by The Centre for Social Justice (2018) pointed out, "The extent to which UBI disincentives work is dependent on its generosity. The Alaska Permanent Fund pays out $2000 annually, and analysis has shown that it has little to no effect on the supply of labor" (p. 18). In this context, Kaul (2019) pointed out that, "In the Canadian Mincome experiment, mothers with newborns stopped working because they wanted to stay at home longer with their babies, and teenagers worked less because they weren't under much pressure to support their families, which resulted in more teenagers graduating" (p. 8). This is the kind of withdrawal from the labor force which is good in the long run. On the other hand, guaranteed income trials in the United States in the 1960s and 1970s found that the people who received payments worked fewer hours. Ghatak and Maniquet (2019) expressed the fear that UBI, by providing a steady flow of income, is likely to adversely affect risk-taking and entrepreneurship.

Macroeconomic Theory and UBI

The correct starting point of analyzing the macro impact of UBI or quasi-UBI schemes would be to start with aggregate demand equation as shown below :

$$AD = C + I + G + (X - M)$$

where, AD is aggregate demand, C is consumption expenditure, G is government expenditure, X is export earnings, and M is import payments.

UBI has the potential of increasing C through an increase in G. The scope of increased expenditure of government leaking out of the country through increased M is very much limited as any such scheme is basically meant to benefit the downtrodden whose marginal propensity to import would be insignificantly smaller.

Value of marginal propensity to consume (MPC) of society too is an important factor determining the success or failure of UBI. Higher the value of MPC and therefore of investment multiplier, more effective would be UBI in increasing aggregate demand and assuming that there is spare capacity in the economy and that the conditions are ripe for increase in investment, it will have a positive impact on the GDP growth rate. It is through this that aggregate supply and employment will get a boost conditioned to the absence of frictions in the economy. This is likely to be the case as the scheme is intended to benefit the downtrodden the most and the MPC of such a section generally tends to be higher.

From another macro dimension, one can think of the UBI as a program in the nature of injecting liquidity on a continuous basis. This has the potential of making the economy free of any liquidity crises and keeping at bay recessionary periods. This would prove to be a big plus for developed capitalist countries which are frequently inflicted by one or the other crisis mainly traceable to under consumption.

Conclusion

It is quite clear from the above discussion that the UBI scheme has not been implemented in its true form anywhere. Therefore, it would be unrealistic to pass any judgment about its feasibility or otherwise. Moreover, socioeconomic, political, geographic, demographic, and cultural conditions vary a lot from one place to another. So, it would really be illogical to generalize the results of UBI.

Recommendations

First and foremost, we strongly oppose any kind of UBI if it is purely based upon political considerations aimed at winning polls. We also oppose such schemes if they are to damage the economy and destabilize it in any manner. Instead, the government should focus on providing good jobs to a majority of job seekers. For this to happen, it should encourage labor-intensive technologies. One appealing argument made by Roy and Kelkar (2019) is that rather than spend money on a UBI, the state should focus on supplying public goods and using resources better for ensuring delivery of quality primary education, health, and law and order. This does make sense politically and economically. Provision of public goods of high quality at reasonable rates to economically weaker sections of the society will enhance their employability and efficiency and enable them to earn a reasonable income on their own to keep them above the poverty line. This will automatically ensure a dignified life for them, which should be the ultimate goal of any policy.

Labor market reforms should be introduced, but at the same time, care should be taken to see that in the guise of reforms, the firms do not end up exploiting laborers by paying them less than what they deserve and also make them work under highly unsatisfactory conditions. Regulations to this end too need to be implemented along with endowing flexibility to the private sector employers.

If there is a genuine need to implement such a scheme, then in a country like India, it would not augur well to implement UBI in its pure form for a variety of administrative, social, economic, and political factors. Instead, on a pilot basis, the government can implement UBI in select areas, which are highly underdeveloped and where the poverty rates are skyrocketing. The experiment should be carried for at least 3 years and then the results should be evaluated for extending this scheme to other areas. A prerequisite to implement such a scheme successfully would call for expanding bank branches across the length and breadth of the country and also giving a big push to financial inclusion.

Apart from considering economic factors while designing and evaluating UBI or quasi-UBI, the researchers need to focus on the socio-cultural factors as well. Money spending is affected by cultural traits and norms prevalent in the society and not merely dependent upon economic factors. In countries like India where the socio-cultural factors in rural areas dominate economic decisions, it would be apt to fully account for these factors in designing a model for UBI. In this context, we are of a strong opinion that such a scheme needs to be tailor-based.

The contents of such a scheme need to differ based on various conditions prevalent at the ground level.

As local conditions vary significantly across a nation and globe, it would be too risky to generalize the success or failure of different aspects of UBI based on case studies pertaining to some towns or regions. Therefore, the governments should not hurriedly jump to vague conclusions.

Limitations of the Study

We would honestly like to admit that the literature review undertaken for the said theme is limited. No concrete conclusions have been arrived at. The present paper is more in the nature of a canvass of survey on the quasi-UBI schemes in vogue in different regions. The paper poses more questions and raises more doubts than it answers. Even the suggestions forwarded are on the strong beliefs and more in the nature of hypothetical statements. But they do provide scope for future research.

Scope for Future Research

Those interested in this area can find out more of such schemes implemented anywhere and study all their aspects in detail to arrive at certain generalized conclusions which can be useful for policy purposes. Researchers can design macro model of UBI or quasi-UBI and carry out simulation for cost benefit analysis of the same.

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