Commentary

Universal Basic Income: A Disturbing Admission

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Economists have been debating the desirability of introducing a universal basic income (UBI) in India. Debates about the UBI have focused on its efficacy as an instrument of poverty alleviation; its superiority relative to existing instruments, including MGNREGS, subsidies and the PDS; and on whether or not fiscal space exists to make the UBI workable. The Economic Survey engages in this discussion. It correctly points to the support for this idea from all ends of the ideological spectrum. But there is a gloomy assumption regarding the future of Indian political economy underlying this consensus that votaries and opponents of the UBI have ignored, or avoided.

First, let me clarify certain confusions that have emerged in the debate so far. The argument over whether the UBI could be financed by ending all other forms of transfer and subsidies is a facile one.

Governments have multiple policy objectives, which involve public expenditure. To secure a particular objective, governments choose between different alternative methods of public service delivery. Thus, if it is the objective of the government to provide universal basic health care, then governments may choose to do so by setting up a fully funded public health care system, or by purchasing the necessary services from the market and providing them (with or without a user charge or ceiling) to its citizens, or by paying insurance premiums for particular individuals. A UBI would only substitute for one of these choices when the government decides that increasing the purchasing power of all citizens by a certain amount would be sufficient to purchase the desired amount of health care from the market. This assumes that such health care is indeed available at a price consistent with the UBI. Similar arguments can be made for other public services that the government may wish to provide and the UBI would then substitute for individual subsidies. However, when there are supply constraints, this approach would be misguided and it would be a brave and fool hardy economist who would argue that the supply side conditions across India are such that a UBI could substitute for government's commitment to provide a consistent level of merit goods across India.

India's price subsidies are dysfunctional because they do not meet their intended objectives. But they do not have ending poverty as a common objective, though it is politically convenient to argue that they are pro-poor. Food and fertilizer subsidies are meant to benefit incomes of farmers and provide limited cheap food to all those who want it. Both may help the poor, but no same person would argue that they would end poverty. Most other subsidies, tax exemptions, etc., are meant to stimulate growth or exports or effect structural change, not end poverty. Even the MGNREGS is confused in its objectives; the intention appears to provide employment in public works to those who want it with an added aspiration

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that such employment would create capital assets. If the objective were to merely compensate for lack of employment opportunity then the simplest thing to do would be to transfer income worth a 100 days minimum wage to those unable to find work for that period. The latter may be poverty reducing; the former cannot be justified on poverty alleviation grounds.

The UBI is nothing if it is not universal. Hence, those who argue for a targeted basic income as an instrument of poverty alleviation are not talking about a UBI, but about an income subsidy to the poor. Development economics has acknowledged for some time now that handouts to the poor are not a solution to the problem of poverty, but merely an instrument to alleviate it, when economic growth does not do so. Participation in growth is what ends poverty, handouts are invoked when this does not happen.

In its simplest form, the UBI is a negative income tax. Imagine that every adult Indian has a PAN number. Every month some Indians pay taxes, and some Indians receive a credit of money from the government into a bank account to which their PAN is linked.

This neatly captures the essence of the UBI to use taxation to alter the income distribution created by market forces such that those getting less from engaging in economic activity are given some income which is taken from those getting more. This intervention by the State reduces income inequality.

Analytically, this is the only credible reason why, effectively, a universal lump sum transfer should be used as a policy instrument, something that is learnt very early—in fact at the undergraduate level, by economists. The idea behind this is encapsulated in the second theorem of welfare economics: when an economy reaches its steady state, that is, the growth rate at which labour and capital are fully and efficiently utilized, governments can use fiscal policy to change the income distribution by taxing the rich to give to the non-rich without compromising on growth. This recognizes that markets may fail to secure a desired income distribution even when resources are fully and efficiently employed, so the State must intervene to correct this without disturbing pareto efficiency, and this can be done using lump sum transfers.

Now here is the rub: The second theorem of welfare economics applies when resources are fully employed. For developing and emerging economies like India, this is not the case. Hence, the focus on steady, high-growth incomes rise as economic activity increases, productivity rises and wages and profits both increase. The benefits of growth ensure an increase in everyone's income and living standards. This has been the case with every historically successful development transformation. Thus, if India grows at 8 per cent a year in real terms, and incomes of all rise by at least 6 per cent a year, then the real incomes of *all* Indians would *at least triple* by 2035. And India will not be in steady state by 2035.

As long as the above minimum condition is met, the case for a UBI that corrects the income distribution is not persuasive. If growth is at least as inclusive as the minimum condition requires, then government intervenes in income distribution only for microeconomic reasons to provide social safety nets for the small minority that is unable to participate in growth and, therefore, reap its benefits. Taxes are used to provide "merit goods" (say, health and education) that society judges can be more equitably provided by government than by the private sector, and public goods that are produced for national benefit, such as defence and justice.

Given the 20 year timeframe that it will take for the benefits of 8 per cent real growth to enable the purchasing power of all Indians to rise such that the overwhelming majority are able to earn enough to stay out of poverty and to purchase merit goods (either collectively through taxation or individually through the market), it would be reasonable to propose a correction in the income distribution that does not entirely exclude present generations. This argument for intergenerational preference to be corrected in favour of present generations vis-à-vis future ones has been made by Dr Vijay Joshi in this seminar. It is, without doubt, a credible one. However, this would mean advocating for a UBI that is self-limiting and temporary, which is not what is advocated by any of its proponents.

The political consensus around the UBI thus reflects a disturbing admission; India will triple its GDP in 15 years, but there is no expectation that this will lift all boats. Growth is expected to hugely benefit the minority who possess the human and financial capital to produce it and earn incomes from it—the rest, much more than half the population, will require a permanent transfer from this minority. (The alternative interpretation—that there is an ideological consensus that India will grow at far less than 8 per cent a year—is too depressing to contemplate.) This is an admission that our growth path will be inherently unequalizing, which the Prime Minister stated that vision of one *decent* job in every household will not come to pass; for if it did, then the UBI would not be necessary for most Indians! The Economic Survey touches upon this in a footnote saying that we cannot expect income and employment to move together any longer. But we must face reality in more than a footnote. The cross-ideological support for UBI is an admission that inclusive growth is not a realistic part of the future India story, and the State will therefore need to intervene continuously and massively to correct the income distribution even before the economy is at full potential.