Let’s talk about a supplemental income

There has been a lot of discussion on universal basic income (UBI) in both developed and developing countries. The primary objective is to enable every citizen to have a certain minimum income. The term ‘universal’ is meant to connote that the minimum or basic income will be provided to everyone irrespective of whatever their current income is. The adoption of a universal basic income can impose a burden on the fisc which is well beyond the capabilities of most developing countries, including India. In discussing the applicability of the concept of basic income to India, three questions arise. The first is whether it should be ‘universal’ or ‘restricted’; the second is what the level of minimum income is and how this is to be determined; and the third is about the financing mechanism for implementing such a scheme.

‘Time ripe for discussions on Universal Basic Income’

Above all, there is a philosophical question, whether support to vulnerable sections should be in the form of goods and services or as cash. Cash gives the discretion to beneficiaries to spend it any way they like. But it is assumed they would be wise in their discretion. On the other hand, the provision of services or goods directly to beneficiaries may be directed to achieve certain objectives in terms of nutrition or health or education. In the provision of services, the concern is about leakages and quality of service. Some countries have adopted a middle path of conditional transfers, which means that transfers in the form of cash are subject to the condition that they are spent on meeting defined needs.

However, as far as India is concerned, we are not starting with a clean state. There are a whole lot of services provided by the state, and it would be impossible to knock them off and substitute them with general income support. We need to think of income support as a supplement to services already provided even though a hard look at some of the provisions is absolutely essential. Poor quality of services from government-run institutions has become a matter of concern.

The price of fiscal folly

Coming to the concept of the UBI, it is necessary to first decide whether income supplements should be ‘universal’ or limited to certain easily identifiable groups. Most calculations involving the provision of income to one and all are beyond the capabilities of the present Central government Budget unless the basic income is fixed at too low a level. It is extremely difficult to cut so-called implied subsidies or hidden subsidies in order to fund resources, as some proponents argue. These supports range from subsidised bus fares to subsidised power tariff. The attempt must be to think in terms of reducing the number of beneficiaries using easily definable criteria. Elaborate exercises for identification will defeat the purpose. It is true that a universal scheme is easy to implement. Feasibility is the critical question. There is also the consideration of fairness. But strict targeting will run into complex problems of identification.

The issue whether the scheme should be universal or restricted depends on the level of basic income that is proposed to be provided. If we were to treat the cut-off used to define poverty as the minimum income, then the total fiscal burden would be enormous. This apart, there is no consensus regarding what that cut-off should be. Our analysis using different poverty lines shows that poverty is concentrated around the poverty line. In fact, more than 60% of the total poor lies between 75% of the poverty line and the poverty line. Therefore, what is needed is a supplement to fill the poverty gap. One alternative would be to determine the required income supplement from the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). The total annual income supplement can be equivalent to 100 days of the wages prescribed under the MGNREGS. This is equivalent to 20,000 per year. This amount can be treated as the income

supplement.

The hidden agenda of benevolence

The next question is who the beneficiaries should be. Here again, it is difficult to cover the entire population. Even providing one person per household with this income will mean 5 lakh crore per annum, which is 3.3% of GDP. Perhaps what is feasible is a scheme which limits the total expenditure to around 1.5 to 2% of GDP, which is between 2 lakh crore and 3 lakh crore. We need to evolve a criterion which can restrict the total cost to this amount. One way of doing it will be to limit it to all women above the age of 45. This is an easily identifiable criterion because Aadhaar cards feature the age of the person. However, this is only one alternative. But others may be thought of. Restricting the beneficiaries to the elderly or widows or those with disabilities may have only a limited impact. Making available a minimum of 20,000 per year for almost 10 crore people — which means a total expenditure of 2 lakh crore — must make a dent on poverty since at least half of them would be for the poor or people a little above the poverty line.

The feasibility of raising even 2 lakh crore is not easy. Some analysts have suggested that we can remove all exemptions in our tax system which would give us enough money. Apart from the difficulties in removing all exemptions, tax experts advocate removing exemptions so that the basic tax rate can be reduced. Perhaps, out of the 2 lakh crore which is needed, 1 lakh crore can come from the phasing out of some of the expenditures while the remainder must come from raising additional revenue. Perhaps, one can phase out the MGNREGS, which will realise close to 40,000 crore. The employment scheme is very akin to the proposed scheme. Fertilizer subsidies are another item of expenditure which can be eliminated. Perhaps, requesting higher income groups to forego supplemental income will reduce the expenditure, as has been done successfully in the case of cooking gas.

To conclude, introducing the UBI is unrealistic. In fact, the concept of a basic income must be turned essentially into a supplemental income. Such a scheme will be feasible provided we restrict the beneficiaries to groups which can be easily identified. This restriction essentially comes from fiscal compulsions. Regarding finances, it is not easy to remove all implicit subsidies. The design for financing the scheme has to be viewed in a more pragmatic way. Restricting the fiscal burden to 1.5 to 2% of GDP seems desirable and feasible. Half of this can come from phasing out some of the existing expenditures while the other half can come by raising fresh revenue. Lastly, the proposal here refers only to the income supplement that can be provided by the Central government. Similar efforts can be made by the respective State governments, if they so desire.

C. Rangarajan is a former Chairman of the Economic Advisory Council to the Prime Minister and a former Governor, Reserve Bank of India. S. Mahendra Dev is Director and Vice Chancellor, Indira Gandhi Institute of Development Research, Mumbai

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