

# A HASTY UBI ROLL-OUT CAN DO MORE BAD THAN GOOD

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

Speculations are rife about a big announcement by the Narendra Modi government to assuage the rural economy before the 2019 general elections. Sections within both academia and policy making believe that a Universal Basic Income (UBI) scheme is a better way to do this. The idea has gained traction after the Telangana Rashtra Samithi (TRS) is supposed to have made electoral gains from its cash transfer based Rythu Bandhu Scheme. The Sikkim government has announced that it will start a UBI scheme from the next financial year.

There are at least three reasons why any hasty decision on UBI, eyeing short term gains, will be counter productive.

One, unlike farm loan waivers or minimum support price (MSP) hikes, UBI is neither a small, nor a one-off fiscal commitment. An analysis by Tadit Kundu published in Mint has estimated that providing all individuals with a poverty line equivalent UBI would cost 1.5 times more than the Centre's total tax revenues. There is no way this can be financed entirely by the Centre. This brings up the question of fiscal federalism. There is a large regional divergence in income and poverty levels in India. These patterns are often compounded by inequalities in revenue mobilisation. This is why a one size fits all sharing formula on something like a UBI cannot work. Unless these issues are thrashed out in a proper forum like the finance commission, a roll-out will lead to chaos.

Two, starting something like a UBI is bound to lead to significant dilution or roll-back of programmes such as the public distribution system. The entire idea behind shifting to a UBI is to prevent leakages. Winding down the PDS will also mean a huge reduction in MSP-based procurements. While it is fashionable to criticise these programmes as ineffective, there needs to be a careful and dispassionate analysis of how their roll-back would affect both consumers and producers.

Three, India's long-term development challenge lies in three key areas: health, education and non-farm job creation. Given India's overall low-income levels, there is no way the private sector can be expected to lead an egalitarian transformation in health and education. We will continue to perform badly in employment, unless health and education provisions improve. The Indian State's 21st century welfare challenge lies in overcoming the fiscal and institutional challenges in these sectors. It will do well to shed misplaced hopes that paltry cash transfers can do this job.

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