

Universal Basic Income is not feasible for India

The International Monetary Fund (IMF) has added its bit to [the ongoing debate on Universal Basic Income in India](#). Universal Basic Income is seen by many as an alternative to the existing system of subsidies, which is often associated with systemic inefficiencies. The latest Fiscal Monitor of the IMF, in its analysis, used fiscal space equivalent to the cost of the public distribution system and energy subsidies in 2011-12. It showed that this can finance an annual Universal Basic Income of Rs2,600 per person, which is equivalent to about 20% of that year's median per capita consumption, with the estimated cost at about 3% of the gross domestic product (GDP). The Fund did not account for the subsidy reforms of recent years.

Although the basic idea of Universal Basic Income is not new for India—the erstwhile Planning Commission had worked on it in the early 1960s—it has attracted significant attention in the recent past. A large proportion of the population in India still lives below the poverty line and a number of government programmes providing subsidies and support to the poor are marred by inefficiencies. There are leakages in the system, and often, people who actually need government support are left out. Therefore, it is argued that Universal Basic Income will overcome these problems by providing a basic income to all citizens.

Economists in the Union finance ministry published an excellent chapter on Universal Basic Income in the 2016-17 Economic Survey. It argued that Universal Basic Income is “...more feasible in a country like India, where it can be pegged at relatively low levels of income but still yield immense welfare gains”. Lifting people out of poverty is a worthy goal and, despite considerable progress, India has not been able to attain desired results in this area. However, the real question is: Is Universal Basic Income the best way to eradicate poverty in India? There are strong economic and political reasons why India cannot opt for Universal Basic Income, at least in the present circumstances.

First, the biggest issue is that India doesn't have the fiscal capacity to implement Universal Basic Income. For example, the Economic Survey calculations showed that a 75% universality rate with an annual Universal Basic Income of Rs7,620 per year at 2016-17 prices will cost about 5% of the GDP. In a [column](#) published in these pages in September 2016, economist Pranab Bardhan showed that an inflation-indexed Universal Basic Income of Rs10,000 at 2014-15 prices—about three-quarters of that year's poverty line—will cost about 10% of the GDP.

It is often assumed that resources can be raised by rationalizing subsidies and capturing a part of the revenue forgone on account of various tax exemptions, including in the personal income tax. These may not happen. The revenue forgone in most cases is optical and the result of poor design. In any case, a part of it is now out of the system with the implementation of the goods and services tax. Further, politically, it will be extremely difficult to roll back subsidies in order to create fiscal space for Universal Basic Income. It is always advisable for the government to work on reducing non-merit subsidies, but the gains should be used to increase capital spending, which will help boost growth in the medium-to-long term.

Second, Universal Basic Income can create distortions in the labour market. A steady, permanent and guaranteed income without any work is likely to affect labour mobility and participation. It is also likely to increase wages, as has been witnessed after the implementation of the Mahatma Gandhi National Rural Employment Guarantee Act. Higher wages without a commensurate increase in productivity will affect India's competitiveness. This could also have longer-term implications in terms of higher inflation and lower growth. The distortions in the labour market will, of course, depend on the amount of Universal Basic Income.

Third, the nature of Indian politics can create complications. It is highly likely that political parties, in order to improve their chances in elections, would want to increase the amount of Universal Basic Income or try to bring back subsidies in some form or the other, which will have fiscal implications. To be sure, India still has to prove that it can actually run balanced budgets for an extended period. The political class always has this temptation to declare premature victories and give away fiscal gains.

What India needs is not Universal Basic Income. It needs rationalization of subsidies, better targeting and operational efficiency. It needs to move to cash transfers at an accelerated pace with the use of Jan-Dhan, Aadhaar and mobile. This will help reduce costs and spare resources for capital spending to augment growth. As history has shown, the best way to pull people out of poverty is sustained higher growth. Therefore, rather than creating permanent doles like Universal Basic Income for the entire population, which will be impossible to reverse in the future, the idea should be to save costs with better targeting. This will help create the necessary conditions for higher growth which will decisively lift people out of poverty.

What can the government do to lift people out of poverty? Tell us at views@livemint.com

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