



Literature review on Universal Basic Income

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ABSTRACT:

While the government typically responds with a plethora of relief and rehabilitation measures e.g. provision of goods and services, these are often fraught with inefficiencies, leakages, delay and complex bureaucracies, thereby denying the affected communities to regain livelihood and assets to face economic hardship. Poor are most vulnerable, whereas recurring calamities can push those on fringe levels below extreme poverty. In this context, Universal Basic Income (UBI) is gaining traction as a safety net against livelihood risks of the poor. Being universal, it obviates the complex system of targeting through means test and addresses issues of exclusion, wrongful inclusion, costly welfare administration and pilferage. Being technology compliant, cash transfers can dramatically improve administrative efficiencies and accountability in public expenditure. However, it faces ethical issues like incentive to work and enterprise, apart from challenges like price indexation.

Key words: Sustainability, Climate Change

Introduction

The Economic Survey of 2017 has introduced the concept of Universal Basic Income, which is an unconditional cash transfer aimed at providing a basic, widespread safety network and buffer against future risks to every Indian, irrespective of his age and socio-economic status. The Survey worked out the cost of a varying range of UBIs and projected that between Rs 9,000 and Rs 12,000 p.a. would wipe out poverty in India at that point of time. In this direction, the Interim Budget of 2019 has proposed an income support of Rs. 6,000 per farmer family possessing less than 2 hectares of land. Applicable to more than 78 million households, this cash assistance would be an income supplement as the median monthly income is estimated at Rs 6,426 per family. However, it would not be universal as it is linked to the size of landholding. The cash transfer is conceptualized to assist farmers to tide over farming distresses due to natural hazards and crop failure, etc. Conceptually good though, real success of such cash transfers would depend on a gamut of factors, such as use of appropriate technology, rural connectivity/bandwidth, ease of access to banking technology, bank penetration in remote areas, financial inclusion and financial literacy of the masses, etc.

International experience on efficacy of cash transfer in improving developmental indices vis-à-vis transfers in kind e.g. food, medicines, text books, etc. has been varied. Experience within the country shows that welfare schemes like the Mukhyamantri bi-cycle for Girl Children in Bihar, distribution of laptops to students in UP, provision of cooked food at affordable rates as in Odisha and TN are not only hugely popular among the poor, but also help in catalyzing developmental indices like skill, enrolment and retention in schools, health, nutrition, etc. of the beneficiaries. Substituting existing 'in kind' fertilizer subsidy with cash may subject farmers to market forces and oligopolistic cartels, thus severely limiting timely access to critical fertilizer e.g. urea. Similarly, dispensing with PDS may lead to artificial scarcities of essential food in the absence of proper regulating mechanisms; it may also affect the government's food-grain procurement, and in turn debilitate the rural economy and sustainability of farmers.

Review of Literature

Basic income, according to E. Wright, (2006) envisions a system of redistribution that guarantees everyone freedom from poverty and inequality of opportunity. People would be free to engage in non-market oriented social activities e.g. care of the old, infirm and children. It would also contribute to greater symmetry of power between labour and capital by increasing bargaining power of the low skilled to deal with market forces in an environment of 'high road' of collaborative capitalism. Jayati Ghosh (2011) of Centre for Economic Research and Planning, JNU, argues that the current perception that cash transfer can replace provision of basic goods and services to end poverty is misplaced. In fact, issues like targeting errors and diversion from the deserving can become worse with cash transfer and cannot be addressed technologically even with the help of UID.

Neihaus, *et al* (2013) in an article, "Targeting with Agents" in the American Economic Journal have elaborated the problem of proxy means test in targeting of benefits in India. It gets complicated when the implementing agents indulge in rent seeking; conditioning on more poverty parameters can worsen targeting due to existing trade-off between statistical accuracy and enforceability. They find that issue of BPL cards in India is fraught with

inefficiencies where the less eligible households pay larger bribes and are yet less likely to obtain the ration cards. Findings of the study can thus, provide useful insights into designing of anti-poverty programs including, basic income. World Bank's report, "Building resilience to disaster and climate change through social protection" (2013) claims that climate change and natural disasters are among the greatest threats to development. The associated uncertainty and risk push people into chronic and transient poverty, forcing them to adopt negative coping strategies such as selling their livelihood assets, reducing expenditure on education and healthcare. Social safety net programs including social insurance, cash and in-kind transfers, asset diversification, etc. buffer the affected households/communities from impact of disasters and increase temporary coverage to all vulnerable, limiting rise in future dependency.

The Food and Agricultural Organisation and UNICEF in a joint study (2015) on "The impact of Social Cash Transfer programs on community dynamics in Sub-Saharan Africa" found that cash transfers stimulated economic activities and helped vulnerable sections to tide over deprivation. It helped in improving agricultural productivity and crop diversity, while reducing dependence on negative coping strategies, e.g. begging, prostitution, casual labour or distress sale of livelihood assets. However, delay or irregularity in cash disbursement led some beneficiaries to revert to negative coping. Ugo Colombino of University of Torino (2015) reasons out that unconditional basic income is an important policy innovation for redistributing the gains from automation and globalization, building a buffer against shocks and systemic risks and generating positive labor supply incentives among poor people. Though simple and transparent, financing it might require higher taxes and carefully designed taxes can augment potential benefits of unconditional basic income vis-à-vis efficiency loss.

Howard Reeds and Stewart Lansley (2016) have examined the applicability of UBI in UK, including its cost, distributional impact and feasibility. They reckon that by providing a secure income base, UBI would accord greater financial independence and freedom to individuals to choose between work, leisure, education and care. It can replace inefficiencies in the existing social security programs and offer protection from changes ushered by AI and automation. A UBI social wealth fund could be created to meet the implementation cost. World Bank's report on "Managing the Impact of Climate Change on Poverty" (2016) elaborates the efficacy of social net (cash transfer) in helping the poor handle environmental and economic shocks. Poor people struggle more than others to cope with and adapt to climate change and natural hazards, due to greater vulnerability and weaker support from families, communities, financial systems, etc. They also possess virtually no voice in the decision-making processes.

Financial inclusion, insurance, social safety nets and remittances, complement each other in protecting different populations against different types of shocks. Social safety nets provide effective protection to poor households; these include conditional and unconditional cash transfers, subsidies, food stamps, social insurance and unemployment compensation. Basic income as a safety net can help poor to better cope with the economic impact of disasters and quickly regain livelihood. Empirically, programs like 'Hunger Safety Net' in Kenya, 'Chars Livelihood Program' in Bangladesh and 'Progresas' in Mexico have been successful initiatives to help the poor bounce back.

Johannes Haushofer and Jeremy Shapiro (2016) have evaluated the impact of unconditional cash transfer on the poor in Kenya and have inferred that the transfers have significant impacts on economic outcomes and psychological well-being. Monthly transfers find strong consumption responses and are more likely than lump-sum transfers to improve food security, whereas lump-sum transfers are more likely to be spent on durables, suggesting that households face savings and credit constraints. Vijay Joshi of Oxford University, (2016) in his book, "India's long road- the search for prosperity" strongly advocates introduction of UBI along with 'deep fiscal adjustments' such as withdrawal of non-merit subsidies. He pegs the income support at a fiscal outlay of 3.5% of the GDP and prescribes universality, starting with say, women.

Hyndman, *et al.* (2017) have concluded in their study in Canada that basic income guarantee can reduce poverty and income insecurity, enable people to pursue opportunities relevant to them and improve overall health and educational outcomes. Pranav Bardhan (2017) advocates roll out of UBI in India based on its potential to address issues like extreme poverty (malnutrition), autonomy (e.g. 3/4th of women not earning any income) and dignity to escape stigmatized occupation like scavenging.

A recent UNDP working paper (2017) that examined various policy options for China beyond 2020 concludes that UBI is not a panacea for addressing all socio-economic problems faced by the world. Its efficacy will depend on the specific development context, including economic growth, fiscal and governance capacity, social set up etc. UBI can enhance freedom of work and social empowerment of women, disabled and aged; but it suffers from high operational costs and ethical issues like disincentive to work. Pilots in Macau and Huaidi regions of China have raised doubts regarding scalability of UBI in terms of funding, fiscal impact and other operational challenges, as also of balancing developmental priorities in rural and urban economies. Jean Dreze (2017) cautions against unwarranted euphoria surrounding UBI as a replacement of welfare schemes like PDS and NREGA and holds the right based measures as equitable and pro-poor, though leaky in operationalisation. Experience on the messy transition to bank payouts (NREGA wage) and biometric identification (PDS) can undermine a UBI, not based on any price indexation and enforceable rights.

David Coady, *et al.* (2018) of IMF in their working paper on "Universal Basic Income in Developing Countries: Issues, Options, and Illustration for India" have suggested that UBI can trigger structural reforms by supporting low income households when the existing safety net is inefficient. For example, replacing the PDS may result in welfare losses for poorer households, whereas pare to efficiency can be increased by returning the savings from PDS operational losses and exclusion of higher income groups to targeted households as higher BI. Similarly, replacing inefficient energy subsidies by efficient pricing can result in distributive, environmental and health gains. Saksham Khosla (2018) in "India's Universal Basic Income: Bedeviled by the Details" argues that an unconditional income support has potential to act as an antidote to India's ineffective antipoverty programs and leaky subsidies. While UBI directed into bank accounts can limit pilferage, be easier to administer and provide antipoverty intervention (Economic Survey- 2017), it can also jeopardise an already fragile social-security architecture, encourage workers to drop out of organized employment and also lead to wasteful public expenditure.

Research Gap

UBI is considered a 'negative income tax', which means gradual reduction in the welfare expenditure of the government with increasing labour income. Propounded as an equitable measure by Milton Friedman, it also found acceptance by rightwing economists like J.K. Galbraith. UBI has recently gained traction in many economies, including China, Canada, Finland, Namibia and India. The hugely popular Bolsa Familia program of Brazil is a slight variation of basic income with certain conditionalities. As the concept has found appeal and application only very recently, little data is available on the success or impact of the program as a welfare measure in general and a game changer, in particular. According to a randomized controlled study of UBI under the Give Directly program in Kenya conducted by the Latif Jameel Poverty Lab of MIT, for every \$1,000 disbursed, there was a \$270 increase in earnings, a \$430 increase in assets, and a \$330 increase in nutrition spending. Finland is the first European country to launch UBI in 2017 at a tax-free monthly income of \$636, which is less than the unemployment benefit payment of \$1,135 with tax. The Social Insurance Institution (Kerala) in its mid-term evaluation, found no significant impact on unemployment which stands at 5.4% in 2018. No comprehensive study has been made on National Social Assistance Program (i.e. the old age/ widow/ disabled Pension scheme) where cash disbursement is made directly to the beneficiaries. However, with the newly launched basic income program targeting more than 80 million farmers, and potential substitution of several other welfare schemes by cash disbursement in future, there is an imminent need to assess impact of the income scheme and its policy ramifications. This study aims to breach the research gap concerning usefulness of UBI, with specific reference to disaster resilience and economic recovery of the affected poor.

Scope for further Research

The scope of the present research could be expanded spatially to cover other disaster -prone regions within India and across different socio-cultural-ethnic communities. The area of study may touch upon both natural and man-made disasters and validate public policies aimed at rehabilitation and resettlement of disaster affected communities. Similarly, pilots may be undertaken to onboard various policy interventions and innovative practices such as reskilling of the affected population suggested by researchers / experts. Comparisons can be made in controlled samples of population to evaluate effectiveness of public policies. Using longitudinal analysis and experimental research designs, cross boarder comparative studies could be attempted in the Indian sub-continent and Africa where disasters impoverish large sections of populations.

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