

A Study Of The Fiscal Cost Of Universal Basic Income In India

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ARTICLE DETAILS

Article History

Published Online: 15 May 2019

Keywords

Universal basic income, poverty removal, fiscal cost.

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ABSTRACT

The concept of Universal basic income (UBI) has made tremendous appearance in recent economic literature. It is considered worldwide the antidote to the long known problems of deprivation. In view of increasing vulnerability of being poor and deepening inequalities, the idea of Universal basic income seems promising. From famous economists like Thomas Piketty to famous entrepreneurs like Elon Musk the idea has a large, influential and visible support base. It is now well understood that the benefits of development and high GDP growth rate have not trickle-down to the poorest among the poor. UBI has the potential of bringing in efficiencies in poorly- run government welfare programs. In this context this paper attempts to study the fiscal cost of a UBI function in the Indian economy.

1. Introduction

Universal basic income (UBI) is a periodic, unconditional cash transfer to every citizen in the country. It is totally indifferent among people belonging to different income groups, occupations, social groups or geographical locations. The concept has three main features: a) it is universal in nature. It is not targeted towards any specific group of people. Besides being unconditional it is equal in amount for everyone, b) it is a minimum income guarantee. It is a Minimum amount of cash that can enable a person to purchase necessities of daily use, c) it is a cash transfer. It does not offer in-kind transfers like the PDS or mid-day meals.

UBI is an effort in the form of social security to eradicate the problems of poverty and inequality world over. Under UBI only those with zero income would receive full benefits in net terms. For those already earning more than basic income the net benefits will taper off through taxation. So, despite basic income being unconditional, only the poor will get full benefits. If any targeting is done UBI will lose its essence of Universality. UBI is a drastic shift in the way government spends its revenue. It would mean that government leaves aside service delivery and provision of goods and instead empowers its citizens to purchase those goods themselves.

Basic Income Experiments

The idea of UBI is a very old one. However, it has got tremendous importance from 2010 onwards especially with reference to concerns regarding increased robotization and automation. It is widely believed that there will be less paying jobs in future and this turns the states attention towards a welfare model. Finland has started a pilot program to

understand the effects of basic income. It would pay Euro 560 per month to two thousand unemployed persons for the next two years. It would continue to provide income even if these people find employment during this period. Some regions in Netherlands and Canada have also announced pilot programs. Switzerland had conducted a national referendum about providing basic income in 2016. The result was a rejection of the proposal by a vote of 76.9 %.

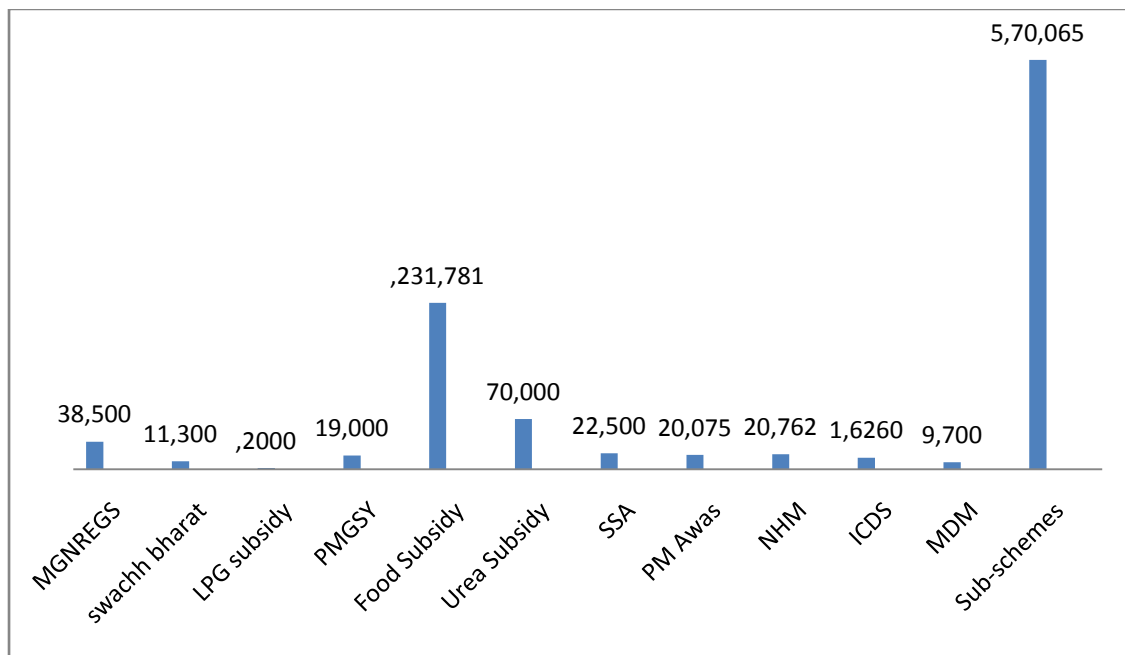
In India, two states Odisha and Telangana have launched quasi-UBI schemes. The krushakAssistance For Livelihood And Income Augmentation (KALIA) Scheme aims to provide financial, livelihood and cultivation support along with insurance support to small, marginal and landless farmers. It is expected to benefit about 92% of the farmers in the state with a total outlay of Rs 10,180 crore .

The RythuBandhu Scheme in Telangana aims to provide Rs 4,000 per acre per farmer each season for the purchase of inputs like seeds, fertilizers, pesticides, labour and other investments. It covers about 55% of the total population of Telangana. MIT's Abdul Latif Jameel Poverty Action Lab (J-PAL) is conducting a study of randomly selected samples in Telangana to test the effectiveness of the scheme. Both of these schemes are Quasi- UBI.

2. Cost of UBI In India

The economic survey 2016-17 presented a model of UBI in India. Poverty line for 2016-17 has been fixed at Rs.7,620 per year using Tendulkar formula. The model takes 75% of the population as universal for UBI purpose.

Figure 1: Budget allocations Of Central Schemes and centrally sponsored schemes 2016-17(BE) (figures in crore)



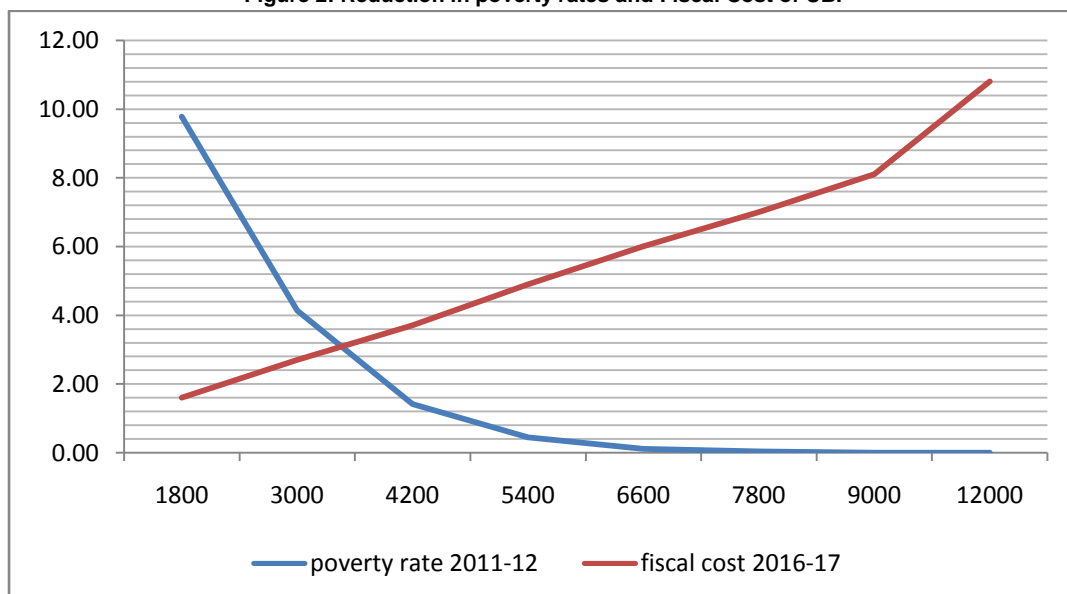
Source: Budget 2016-17

The striking feature in the union budget is the vast number of schemes run by the government of India. Budget 2016-17 shows that there are 950 Central sector schemes and centrally sponsored sub-schemes in India which account for 5.2 % of GDP. Of these the top 11 schemes constitute 50% of total budgetary allocation. Food subsidy or PDS is the largest followed by urea subsidy and MGNREGS.

UBI being universal will remove the tiresome task of separating the poor from non-poor. There are lesser administrative costs as no allocation among beneficiaries has to be done. All are beneficiaries. As per Economic Survey 2016-17 the cost of providing UBI of INR 7,620 to 75%

population of India would be 4.9% of GDP, while the cost of existing central schemes and centrally sponsored schemes is 5.2% of GDP. Hence the fiscal space for UBI exists. Figure 2 shows that as the amount of UBI increases, poverty rates begin to decline sharply. When UBI is Rs 5,400 (as per 2011-12 prices) poverty rate reduces to 0.45% and the fiscal burden it imposes on the budget is 4.9%, which is less than that of the central schemes already running. Further, when a UBI of Rs 12,000 (Rs 16,973 for 2016-17 prices) per capita per year is paid, poverty is completely eradicated. But the fiscal burden it imposes is huge and unsustainable. Thus, there exists an economically feasible option of UBI if the government chooses to implement it.

Figure 2: Reduction in poverty rates and Fiscal Cost of UBI



Source: Economic Survey 2016-17

Table 1: UBI amounts, Poverty rates and Fiscal costs

UBI (Rs. Per capita per year, 2011-12)	UBI (Rs. Per capita per year, 2016-17)	Poverty rate (%) 2011-12 (NSS)	Fiscal Cost as % of GDP 2016-17
1800	2496	9.78	01.6
3000	4243	4.14	02.7
4200	5866	1.42	03.7
5400	7613	0.45	04.9
6600	9360	0.11	06.0
7800	10982	0.04	07.0
9000	12730	0.00	08.1
12000	16973	0.00	10.8

Source: Economic Survey 2016-17

Path Ahead

A natural course of action, for India, can be implementing UBI in a gradual and phased manner. For example, adopting it first for women, children and old-aged. This can have larger multiplier and developmental effects. However, there are certain prerequisites to implement UBI. Effective implementation and working of UBI requires JAM trinity to work efficiently. It is through DBT that cash transfer can have no leakage. Centre-state share in outlays for providing UBI must be negotiated beforehand since it is a complex procedure like GST to arrive at a consensus for the scheme. A large number of pilot studies are needed to have an idea about the initial impact of UBI on peoples' lives.

3. Conclusion

The idea of direct cash transfer is indeed promising because it helps wipe every tear from every eye. What makes the proposal of UBI different is that it does not require the government to waste time and resources in identifying beneficiaries, which is an administrative cost surplus. Given the budget constraint, a full-fledged UBI providing poverty line equivalent incomes covering 100% population is not feasible. It becomes more than the size of the budget. But, even much lower levels of income transfer can materially improve the lives of many. Similarly, replacing all central government schemes is also not required. Many of these programs are developmental and have inter-generational impacts. Hence, given the fiscal space for UBI, it would be desirable to adopt it gradually.

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