Universal Basic Income: A disturbing admission

PUBLIC INTEREST

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Economists have been debating the desirability of introducing a Universal Basic Income (UBI) in India. Debates about UBI have focussed on its efficacy as an instrument of poverty alleviation; its superiority relative to existing instruments, including Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), subsidies, and the public distribution system; and on whether or not fiscal space exists to make UBI workable. The Economic Survey (ES) engages in this discussion. It correctly points to the support for this idea from all ends of the ideological spectrum. But there is a gloomy assumption regarding the future of Indian political economy underlying this consensus that votaries and opponents of UBI have ignored, or avoided.

First, let me clarify certain confusions that have emerged in the debate so far. The argument over whether UBI could be financed by ending all other forms of transfer and subsidies is a facile one. India's price subsidies are dysfunctional because they do not meet their intended objectives. But they do not have ending poverty as a common objective, though it is politically convenient to argue that they are pro-poor. Food and fertiliser subsidies are meant to benefit incomes of farmers and provide limited cheap food to all those who want it. Both may help the poor, but no sane person would argue that they would end poverty. Most other subsidies, tax exemptions, etc. are meant to stimulate growth or exports or effect structural change, not end poverty. Even the MGNREGS is confused in its objectives; the intention appears to be to provide employment in public works to those who want it with an added aspiration that such employment would create capital assets. If the objective were to merely compensate for lack of employment opportunity, then the simplest thing to do would be to transfer income worth a 100 days minimum wage to those unable to find work for that period. The latter may be poverty reducing; the former cannot be justified on poverty alleviation grounds.

UBI is nothing if it is not universal. Hence, those who argue for a targeted basic income as an instrument of poverty alleviation, are not talking about UBI, but about an income subsidy to the poor. Development economics has acknowledged for some time now that handouts to the poor are not a solution to the problem of poverty, but merely an instrument to alleviate it, when economic growth does not do so. Participation in growth is what ends poverty, handouts are invoked when this does not happen.

In its simplest form, UBI is a negative income tax. Imagine that every adult Indian has a PAN number. Every month some Indians pay taxes, and some Indians receive a credit of money from the government into a bank account to which their PAN is linked. This neatly captures the essence of UBI - to use taxation to alter the income distribution created by market forces such that those getting less from engaging in economic activity are given some income, which is taken from those getting more. This intervention by the state reduces income inequality.

The idea behind this is encapsulated in the second theorem of welfare economics: When an economy reaches its "steady state" i.e. the growth rate at which labour and capital are fully utilised, governments can use fiscal policy to change the income distribution by taxing the rich to give to the non-rich without compromising on growth. This recognises that markets may fail to secure a desired income distribution even when resources are fully employed, so the state must intervene to correct this.

Now here is the rub: The second theorem of welfare economics applies when resources are *fully employed*. For developing and emerging economies like India, this is not the case. Hence, the focus on steady, high growth- incomes rise as economic activity increases, productivity rises and wages and profits both increase. The benefits of growth ensure an increase in everyone's income and living standards. This has been the case with every historically successful development transformation. Thus, if India grows at 8 per cent a year in real terms, and incomes of all rise by at least 6 per cent a year, then the real incomes of *all* Indians would *at least triple* by 2035. And India will not be in steady state by 2035.

As the process unfolds, government intervenes in income distribution only to provide social safety nets for a small minority that is unable to participate in growth and, therefore, reap its benefits. Taxes are used to provide "merit goods" (say, health and education) that society judges can be more equitably provided by the government than by the private sector, and "public goods" that are produced for national benefit, like defence and justice.

The political consensus around UBI thus reflects a disturbing admission; India will triple its gross domestic product in 15 years, but there is no expectation that this will lift all boats. Growth is expected to hugely benefit the minority who possess the human and financial capital to produce it and earn incomes from it - the rest, much more than half the population, will require a permanent transfer from this minority. (The alternative interpretation - that there is an ideological consensus that India will grow at far less than 8 per cent a year, is too depressing to contemplate). This is an admission that our growth path will be inherently unequalising, that the Prime Minister's stated vision of one *decent* job in every household will not come to pass; for if it did, then UBI would not be necessary for a majority of Indians! The ES touches upon this in a footnote saying that we cannot expect income and employment to move together any longer. But we must face reality in more than a footnote. The cross-ideological support for UBI is an admission that inclusive growth is not a realistic part of the future India story, and the state will, therefore, need to intervene continuously and massively to correct the income distribution even before the economy is at full potential.

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