BASIC INCOME 17.01.2018 | Sruthi Gottipati

# From rags to rupees

## A universal basic could slash India's poverty rate, but many say the scheme is unworkable

*Read this article in German*

Few countries have a more pressing need than India to work out how to reduce inequality. With one in three of the world's poorest people, India's welfare policies could mean the difference between life and death for the country's most downtrodden.

So far, those policies have included subsidising food, fuel and fertiliser, and providing guaranteed jobs. But a new idea that's gaining currency in Europe has also taken hold in India: What if, instead of these subsidies and other programmes, money were sent directly to the bank accounts of beneficiaries?

The path to implementing a universal basic income will be potholed with problems, not least because many Indians don't have bank accounts. Despite the bumps, is the idea still worth exploring? The Indian government certainly thinks so.

'Universal Basic Income is a radical and compelling paradigm shift in thinking about both social justice and a productive economy,' notes the annual Economic Survey released by the finance ministry in January. 'It could be to the 21st century what civil and political rights were to the 20th.'

The report calculates that, at a cost of 4 to 5 per cent of GDP, the poverty rate could be reduced to almost 0.5 per cent of the population. To reach that figure, however, the richest quarter of India's population would have to opt out of the scheme.

Based on the poverty line, each person would receive an income of 5,400 Indian rupees ($80 or €77) every year — a fraction of the universal basic

income (UBI) being debated in countries such as Finland.

## Lack of resources

Even though almost everyone in India recognises the need to be able to take care of the country's most impoverished citizens, they're divided about how to do so. The welfare programme is currently plagued by leakages, red tape and graft that has seen some entitlements slip away from the grasp of the most needy. Many subsidies also benefit the rich.

'Over 35 per cent of the richest 1 per cent of Indians benefit from subsidised food to which they are not entitled. Worse, 27 per cent of the poorest fifth of the population are denied their due,' notes The Economist.

So why hasn't India embraced the idea more enthusiastically?

Ritika Mankar Mukherjee, a research analyst at Mumbai-based brokerage Ambit Capital, tells me by email that 'funding this scheme against the backdrop of India being characterised by one of the highest fiscal deficits amongst emerging markets' is one of the main problems.

'The fiscal costs of a full-fledged UBI scheme for a country like India are outright unaffordable at this juncture,' says Mukherjee.

Indeed, UBI is prohibitively expensive. Finance Minister Arun Jaitley has acknowledged that subsidies would have to be scrapped to free up fiscal space for the measure.

Arvind Subramanian, India's chief economic adviser and the architect of the Economic Survey that fleshed out the idea, shares the same concerns.

'The cost of this programme is so huge that it cannot be an add-on to existing programmes, as the government cannot afford it and the government's finances will go bust,' he said.

To figure out how to pay for it, economists have floated a few proposals. At the World Economic Forum at Davos, Amitabh Kant, an Indian economic official, suggested structuring the payments as interest-free loans to be paid back within three years to help fund the scheme.

But even if policymakers could scrape together the money to pay for it, other problems remain. Indians in rural areas are often far from banks and ATMs to be able to withdraw cash.

'Even as proponents of this scheme say that such a scheme should be funded by discontinuing India's extensive dysfunctional subsidies (which in turn could free up resources to the tune of +7 per cent of GDP), India's experience with discontinuing doles and transfer payments is weak and hence seems highly unlikely,' writes Mukherjee.

Still, it's too early to write the scheme off.

Universal basic income has found supporters across the political divide — from liberals who see it as a much-needed social safety net to conservatives who want to cut red tape and reduce wastage.

'UBI's appeal to both ends of the political spectrum makes it an idea whose time has come perhaps not for immediate implementation but at least for serious public deliberation,' the government's Economic Survey notes.

## 'Trojan horse'

For those who argue that UBI would kill any incentive to work, two pilot programmes launched in the central Indian state of Madhya Pradesh in 2011 show surprising findings.

'Contrary to what the sceptics say, the grants led to more labour and work,' writes Guy Standing, who helped roll out the pilot studies and is a founding member of NGO Basic Income Earth Network. He says that the type of work, however, has shifted from wage labour to self-employed farming and business activity.

But here's the caveat: India's poverty alleviation programmes were already in place where the pilots were launched. Since implementing UBI would involve clearing out other welfare programmes, it's hard to evaluate how effective a standalone UBI measure would be.

'There is a real danger of UBI becoming a Trojan horse for the dismantling of hard-won entitlements of the underprivileged,' writes development economist Jean Dreze in an opinion piece.

Economists and researchers also cautioned against using Western countries, where there are fears of automation and artificial intelligence cutting jobs, as models for kick-starting UBI in India, a country of a much larger size and deeper complexity.

Dreze notes that countries like Finland already have excellent public

services, making it easier to implement UBI.

Reetika Khera, a fellow at the Institute of Economic Growth, argues that UBI in even developing countries such as Brazil is difficult to emulate in India. She says that although the Latin American nation runs a successful cash transfer scheme, its rural population is smaller than India's and the measure has been used to supplement in-kind provisions, an unlikely prospect back home.

Khera conducted a small survey in India showing that 67 percent of respondents preferred 'in-kind food transfers rather than cash.' She found that, unsurprisingly, people were more receptive to the idea of direct cash where distribution of entitlements such as food grains was poor.

To get around the costs, some economists have suggested targeting the cash transfers to those who actually need it. But critics say that this might defeat the most attractive argument of the programme replacing other welfare schemes, namely the universality of UBI.

With this measure, the government doesn't have to discern who is poor and who isn't — something it's proved not to be very good at in the past.

For all its faults, UBI is still being mulled over in India. And with good reason. It holds up an irresistible hope: the possibility of nearly eradicating poverty in the world's second most populous nation.

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