



Mains Practice Question

Q. The concept of Universal Basic Income is gaining traction as a potential tool for poverty alleviation. Evaluate the potential economic impact and challenges associated with implementing UBI in India. **(250 words)**

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Approach:

- Introduce the concept of UBI
- Highlight its potential economic benefits
- Delve into challenges associated with its implementation
- Mention careful considerations before implementing UBI
- Conclude suitably.

Introduction:

Universal basic income (UBI) is a social welfare concept where all citizens of a country receive a **regular, unconditional cash payment** from the government, regardless of their employment status or earnings.

- **India**, with its large population and significant poverty, presents a compelling case for exploring UBI.

Body:

Potential Economic Impact:

- **Poverty Alleviation:** UBI could provide a basic income floor, lifting millions out of extreme poverty. (Nearly **3.44 crore** people are living in extreme poverty in 2024)
 - It could help address income inequality, which remains high in India (top 10% of the population holding **77%** of the total national wealth)
- **Economic Stimulus and Consumption:** UBI could increase disposable income and boost domestic consumption, **driving economic growth (Private Final Consumption Expenditure accounts for almost 60% of India's GDP.)**
 - It could stimulate demand in rural areas, benefiting sectors like agriculture and Fast-Moving Consumer Goods.
- **Human Capital Development:** UBI could improve access to education, healthcare, and nutrition, enhancing **human capital and productivity** in the long run.
 - Conditional cash transfer programs like the **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)** have shown positive impacts on education and health outcomes.
- **Promotion of Entrepreneurship:** UBI could provide a financial cushion, enabling individuals to take entrepreneurial risks and start new businesses.
 - This could **foster innovation, job creation, and economic diversification.**
- **Economic Empowerment of Women:** UBI could empower women by providing them with **financial independence and decision-making power** within households.

- This could lead to better outcomes for women and children, promoting inclusive growth.

Challenges Associated with Implementing UBI:

- **Fiscal Burden:** Implementing a comprehensive UBI program would require substantial financial resources, **putting pressure on government finances.**
 - For 2023-24, the government's fiscal deficit is estimated at **5.8% of the GDP**, limiting the fiscal space for a large-scale UBI program.
- **Implementation and Delivery Challenges:** Identifying and reaching the intended beneficiaries, especially in remote and rural areas, could be a significant logistical challenge.
 - Existing schemes like the **Public Distribution System (PDS)** have faced implementation issues, which could be amplified with a UBI program.
- **Inflationary Pressures:** Injecting a large amount of cash into the economy through UBI could potentially **lead to hyper-inflationary pressures**, eroding the purchasing power of the income transfer.
- **Disincentive to Work:** A concern is that UBI could discourage people from working, especially for low-paying jobs. It could potentially discourage labor force participation, leading to labor market distortions and a **decline in economic output.**
 - Already, less than 20% of India's women work at paid jobs.
- **Political and Social Considerations:** Implementing UBI would require significant political will and public support, as it may face opposition from various stakeholders and ideological viewpoints.
 - Concerns about the **sustainability and fairness of the program** could arise, especially in a diverse and populous country like India.

Therefore, implementing UBI in India requires careful considerations like:

- Conduct pilot studies like in **Delhi and Madhya Pradesh** and rigorous impact evaluations to assess **feasibility, challenges, and socio-economic effects.**
- Undertake **fiscal consolidation measures** and explore alternative revenue sources to create fiscal space for UBI.
- Implement complementary policies and reforms in **education, healthcare, skill development, and infrastructure** to enhance UBI's effectiveness.
- Explore alternative approaches, such as **Universal basic Services, Negative Income Tax or Conditional Cash Transfers**, to address poverty and inequality.

Conclusion:

UBI holds considerable promise as a policy initiative, yet its successful implementation hinges on **meticulous planning and a deep comprehension of the economic landscape** specific to India, ensuring sustainable and equitable outcomes for all stakeholders involved.