



Universal Basic Income: Transforming Welfare in India

This editorial is based on “[A modified UBI policy may be more feasible](#)” which was published in The Hindu on 18/10/2024. The article highlights the potential of a simplified Universal Basic Income (UBI) in India, using models like PM-KISAN to provide a basic safety net. It discusses the benefits of reduced administrative costs and fewer exclusion errors, while addressing fiscal and implementation challenges.

For Prelims: [Universal Basic Income](#), [PM-KISAN](#), [Economic Survey 2023-24](#), [Targeted Public Distribution System](#), [Central Sector Schemes](#), [World Bank](#), [National Sample Survey](#), [Household Consumption Expenditure Survey](#), [G20 presidency in 2023](#), [Gig economy](#), [Consumer Price Index](#), [Worker Population Ratio](#), [Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana](#), [CAG](#), [Pradhan Mantri Kaushal Vikas Yojana](#).

For Mains: Arguments in Favour and Against UBI in India, Strategies for India to Create a Strong Base for UBI.

The concept of [Universal Basic Income \(UBI\)](#) has gained renewed attention in India as a potential solution to address rising unemployment and inequality exacerbated by automation and artificial intelligence.

While the idea has been debated for years, with proponents arguing it could **replace inefficient welfare schemes, questions of feasibility and desirability persist**. The potential for a modified, less ambitious version of UBI in India, considering **existing cash transfer schemes like [PM-KISAN](#)**, is worth exploring. A universal income transfer of **approximately 1% of GDP per capita** could serve as a foundational social safety net. This approach could offer advantages such as reduced administrative costs and exclusion errors, while also addressing concerns about fiscal constraints and implementation challenges.

What are the Arguments in Favor for UBI in India?

- **Structural Economic Transformation:** Implementing UBI could catalyze a structural transformation of India's economy by addressing the **persistent issue of disguised unemployment in the [agricultural sector](#)**.
 - [Economic Survey 2023-24](#) says that the Indian agriculture sector provides livelihood support to about **42.3% of the population** and has a share of **18.2% in the country's GDP** at current prices, indicating low productivity.
 - A UBI could provide the **financial cushion necessary for surplus agricultural laborers** to transition to more productive sectors.
 - This could potentially accelerate India's economic modernization, similar to the structural changes seen in **East Asian economies like South Korea**.
 - UBI could facilitate a similar shift in India, potentially boosting overall economic

productivity and growth rates.

- **Reforming the Social Security Framework:** UBI presents an opportunity to overhaul **India's fragmented social security system**.
 - The current system, with its **myriad schemes**, suffers from high exclusion errors and also takes a major chunk of budgetary allocation.
 - The total expenditure on **Central Sector Schemes** in 2022-2023 amounted to **₹14,45,922.58 crore**.
 - The National Food Security Act covers **67% of the population**, but more than **90 million eligible people** have been excluded from legal entitlements under the **Targeted Public Distribution System (TPDS)**.
 - UBI could serve as a foundation for a more comprehensive and efficient social security framework.
 - By providing a universal floor, it allows for **targeted top-ups for specific vulnerabilities (e.g., disability, old age)** without the complexity and errors of the current system.
 - This approach aligns with the **growing global trend towards integrated social protection systems**, as advocated by the **World Bank's Adaptive Social Protection framework**.
- **Demographic Dividend Optimization:** India is in a crucial phase of its demographic transition, with a median age of **28.4 years**.
 - However, the potential demographic dividend is threatened by high youth unemployment (**23.22% in 2022, as per ILO estimates**) and underemployment. UBI could optimize this demographic opportunity by **providing young people with resources** to invest in **skills development, entrepreneurship, or higher education**.
 - This could lead to a more skilled workforce and increased innovation, critical for India's ambitions in high-tech sectors.
 - For instance, an **OECD report from March 2023** noted that a shortage of green skills is holding back growth in sustainable development jobs.
 - A **tied UBI could facilitate this upskilling** by reducing the opportunity cost of education and training.
- **Climate Resilience and Adaptive Capacity:** India is highly vulnerable to climate change impacts, with the **World Bank** estimating that **climate change could push 45 million Indians into poverty by 2030**.
 - UBI could enhance climate resilience by providing a **financial buffer against climate shocks** and facilitating adaptation strategies.
 - For instance, during extreme weather events, **UBI could reduce distress migration and allow affected populations** to rebuild more effectively.
 - Moreover, by providing a safety net, UBI could make it **politically feasible to implement necessary but potentially disruptive climate policies**, such as **carbon pricing** or **phasing out or phasing down fossil fuel subsidies**.
 - This aligns with the concept of "**just transition**" advocated in **COP 28** in 2023.
- **Redefining Work and Productivity:** UBI has the potential to reshape societal notions of work and productivity in India.
 - By providing **basic economic security**, it could value forms of work currently unrecognized, such as **care work, community service, or artistic pursuits**.
 - This is particularly relevant in the Indian context, where traditional forms of work and knowledge systems **often go unrecognized in formal economic metrics**.
 - According to the **National Sample Survey**, women spend **299 minutes a day on unpaid domestic services** for which men spend only 97 minutes.
 - Only **22% of women aged 15-59 years** were engaged in paid work in comparison to nearly **71% of men**.
 - UBI could **implicitly compensate for this unpaid work**, potentially leading to a more equitable distribution of household labor and a reevaluation of what constitutes productive work in society.
- **Data-Driven Policy Implementation:** Implementing UBI at scale would generate an **unprecedented amount of data on income, consumption patterns, and economic behavior** across India's diverse population.
 - This data goldmine could revolutionize **evidence-based policymaking in India**. For instance, real-time data on consumption patterns in place of the **Household**

[Consumption Expenditure Survey](#) could inform more targeted and effective monetary and fiscal policies.

- UBI, implemented through digital payments, could exponentially expand this capability, allowing for more **responsive and nuanced economic governance**.
- **Geopolitical Soft Power and Global Leadership:** By successfully implementing the **world's largest UBI program**, India could position itself as a global leader in innovative social policy.
 - This could significantly enhance **India's soft power and influence in international forums**, particularly in discussions on global inequality.
 - As debates on UBI gain traction globally, India's experience could provide valuable lessons for other developing countries.
 - This aligns with India's aspirations for greater global influence, as evidenced by its [G20 presidency in 2023](#) where it **championed the cause of the Global South**.
 - A successful UBI program could become a **cornerstone of India's development diplomacy**, similar to how its **digital public infrastructure initiatives** have gained international recognition.
- **Addressing Extreme Poverty and Malnutrition:** Despite significant economic growth, India still grapples with extreme poverty and malnutrition.
 - According to the **State of Food Security and Nutrition in the World, 2023**, around **74% of India's population could not afford a healthy diet**, and 39% fell short of a nutrient-adequate one
 - The **Global Hunger Index for 2024** states that a 'serious' level of hunger is prevalent in India.
 - It ranks **India 105th among 127 countries**, giving it a score of 27.3.
 - A UBI could provide a direct and immediate boost to the incomes of the poorest, **helping to alleviate extreme poverty**.
- **Fostering Entrepreneurship and Innovation:** By providing a basic financial security, a **UBI could encourage more Indians to take entrepreneurial risks** and pursue innovative ideas.
 - This is particularly relevant given India's push towards becoming a **USD 5 trillion economy** and its focus on startups.
 - A UBI could act as a **de facto seed fund for micro-entrepreneurs**, especially in rural and semi-urban areas where access to formal credit is limited.
 - It could also support the [gig economy workers](#), whose numbers are projected to **grow to 23.5 million by 2029-30**, as per a [NITI Aayog report](#), by providing them with a stable income base.

What are the Arguments Against UBI in India?

- **Fiscal Unsustainability:** Implementing a UBI in India faces severe fiscal constraints. The International Monetary Fund recent data stated that **combined debt of central and state governments** stood at **81% of GDP in 2022-23**.
 - A comprehensive UBI program, even at a **modest level**, would require **substantial additional expenditure**.
 - For instance, a UBI of just ₹1,000 per month for all adults would cost approximately **3-4.9% of GDP**, based on current population estimates.
 - This would either necessitate drastic cuts in other essential public expenditures or lead to unsustainable fiscal deficits.
 - The recent debates surrounding India's fiscal consolidation path, **with the government aiming to reduce fiscal deficit to 4.5% of GDP by 2025-26**, highlight the challenges of introducing such a massive new expenditure program.
- **Inflationary Pressures:** A large-scale cash transfer program like UBI could potentially trigger significant inflationary pressures in the Indian economy.
 - This is particularly concerning given India's recent struggles with inflation - the [Consumer Price Index \(CPI\) inflation](#) rose to **5.49% in September 2024**.
 - The sudden injection of cash through UBI could **lead to demand-pull inflation**, especially in sectors with supply constraints.
- **Labor Market Distortions:** Critics argue that UBI could create **disincentives for work**, particularly in the low-wage sectors that form a significant part of India's economy.
 - [Worker Population Ratio \(WPR\)](#) in urban areas was **just 46.8% in April - June 2024 for persons of age 15 years in above**. A guaranteed income might further reduce

this, **especially among marginal workers.**

- UBI, without any work requirement, could **potentially have a pronounced effect.** This could **exacerbate labor shortages in key sectors like agriculture and construction,** which are crucial for India's economic growth.
- **Targeting and Equity Concerns:** A universal program by definition would provide benefits to **both poor and non-poor,** raising questions of **equity and efficient use of limited resources.**
 - India is one of the most unequal countries in the world, with the top 10% of the population holding **77% of the total national wealth-** a universal transfer might be seen as regressive.
 - The opportunity cost of providing UBI to **higher-income groups is significant.** This raises ethical questions about the most effective use of public resources in a developing economy with pressing needs in health, education, and infrastructure.
- **Implementation Challenges:** India's diverse and complex socio-economic landscape poses **significant implementation challenges for a UBI program.**
 - Despite progress in financial inclusion (nearly **90% of those aged 18 and above** had access to an account at a formal financial institution in 2020-21), last-mile delivery remains a challenge.
 - Issues like **identity verification, network connectivity, and banking access** could lead to exclusion errors. Moreover, the potential for fraud and leakage is significant.
 - A recent **CAG** report noted that almost **7.5 lakh beneficiaries** of **Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana** were linked to single mobile number
- **Opportunity Cost and Development Trade-offs:** Allocating a large portion of government expenditure to UBI could **crowd out investments in critical areas like healthcare, education, and infrastructure.**
 - India's public health expenditure remains low at **2.1% of GDP.** Also, government spending on education has already declined from **3.1% to 2.9% of GDP over the past decade.** Diverting resources to UBI could further impede progress in these crucial developmental areas.
- **Global Economic Competitiveness:** Implementing UBI could **potentially impact India's global economic competitiveness,** particularly in labor-intensive industries.
 - India's competitive advantage in sectors like **textiles and manufacturing is partly due to its lower labor costs.**
 - In India, the average factory worker gets paid less than **USD 2 per hour.** This cost advantage has been crucial in attracting foreign investment and boosting exports. However, a UBI could lead to **upward pressure on wages, potentially reducing this competitive edge.**

What are the Major UBI Experiments Across the Globe?

- **United States:**
 - **Alaska Permanent Fund:** Since 1982, citizens receive **USD 1,000-2,000** annually from the state's oil and gas revenues.
 - **Freedom Dividend:** Proposed by Andrew Yang in the 2020 presidential campaign, offering **USD 1,000 monthly** to each American adult to address job losses due to automation.
- **Norway:**
 - While **Norway is not a UBI country,** it closely resembles one due to its welfare state model. **All citizens have access to education, health care, and income** through social security.
 - However, recipients must meet conditions like seeking work and paying taxes.
- **Finland:**
 - In 2016, Finland launched a basic income experiment with **2,000 unemployed citizens,** who received USD 640 per month.
 - The program led to improved health and happiness among participants, who were also relieved of the bureaucratic burden of proving unemployment eligibility.
- **Brazil:**
 - **Bolsa Família:** Launched in 2004, this UBI-like program provides **20% of the minimum**

- **wage to Brazil's neediest 25%**, helping them afford basic necessities like food, clothing, and school supplies.
- **Santo Antônio do Pinhal:** One of the first true UBI systems, where long-term residents receive a portion of the city's tax revenue.
- **Quatinga Velho:** A privately funded UBI pilot active since 2008 has improved living conditions, health, and nutrition, particularly among children.

How can India Pave the Way for the Implementation of Universal Basic Income?

- **Phased Implementation and Pilot Programs:** India should start with targeted pilot programs in diverse regions to **test UBI's effectiveness and identify implementation challenges.**
 - The **state of Sikkim's proposal in 2019 to implement UBI by 2022, although delayed, provides a potential model.**
 - Building on the success of **previous cash transfer experiments, like the SEWA Bharat and UNICEF study in Madhya Pradesh (2011-2012)**, India could initiate pilots in both rural and urban areas, covering different socio-economic contexts.
 - These pilots should run for **at least 2-3 years to capture long-term effects.**
- **Leveraging Digital Infrastructure:** India's robust digital infrastructure, particularly the **JAM (Jan Dhan-Aadhaar-Mobile) trinity**, provides a strong foundation for UBI implementation.
 - To build a base for UBI, India should focus on improving last-mile connectivity and digital literacy.
 - The **BharatNet project** and **Digital Saksharta Abhiyan (DISHA)** should be linked and expanded, especially in rural areas, to ensure better utilization of digital payment systems.
 - These steps would not **only facilitate UBI distribution but also promote financial inclusion and digital empowerment.**
- **Gradual Consolidation of Existing Schemes:** Instead of an **abrupt shift to UBI**, India should **gradually consolidate its existing social welfare schemes.**
 - This process could start by identifying **overlapping and inefficient programs** for phased replacement with direct cash transfers.
 - For instance, the **fertilizer subsidy could be converted into direct payments to farmers, similar to PM-KISAN.**
 - The **Public Distribution System (PDS)** could be partially replaced with **cash transfers in urban areas where market access is better**, while maintaining in-kind transfers in food-insecure regions.
 - This gradual approach would allow for smoother transition and better assessment of the impact on beneficiaries.
- **Progressive Funding Mechanism:** To make UBI fiscally sustainable, India needs to **expand its tax base and explore innovative funding mechanisms.**
 - The recent surge in GST collections, reaching **₹1.78 lakh crore in March 2024**, shows potential for increased revenue.
 - Additionally, **rationalizing regressive subsidies**, like the LPG subsidy which often benefits higher-income groups, could free up resources.
 - A phased reduction in **corporate tax exemptions**, which amounted to **₹1.03 lakh crore in 2020-21**, could also contribute to UBI funding.
- **Adaptive Payment Structure:** To address concerns about work disincentives and ensure sustainability, India could implement an adaptive UBI structure.
 - This could involve a **base payment for all**, with additional amounts for vulnerable groups like the **elderly, disabled, or those in economically backward regions.**
 - The payment could be **indexed to inflation**. This structure would be similar to **China's dibao system**, which provides a basic living allowance.
- **Integration with Skill Development and Employment Programs:** To counter potential negative effects on labor market participation, **UBI should be integrated with skill development and employment programs.**
 - The **Pradhan Mantri Kaushal Vikas Yojana (PMKVY) 3.0**, could be expanded and

linked to UBI recipients.

- Recipients could be incentivized to **participate in skill development programs** tied with UBI amounts for a fixed period post-training.
- This approach would align with **India's goal of harnessing its demographic dividend** and could **help address the skills gap** highlighted in the India Skills Report 2022.
- **Robust Monitoring and Evaluation System:** Implementing a comprehensive monitoring and evaluation system is crucial for the success of UBI in India.
 - This system should leverage **big data analytics and AI to track the program's impact on poverty, inequality, and overall economic indicators.**
 - The [India Stack's Data Empowerment and Protection Architecture \(DEPA\)](#) could be utilized to ensure secure and consensual use of beneficiaries' financial data for impact assessment.
 - Regular **social audits, similar to those conducted for MGNREGA**, should be mandated to ensure transparency and accountability.
 - Additionally, **an independent evaluation board**, comprising economists, social scientists, and policy experts, should be established to provide periodic assessments and recommendations for program optimization.

Conclusion:

While **UBI may not be a silver bullet**, phased implementation through pilot programs and leveraging existing cash transfer schemes like **PM-KISAN** could offer a viable pathway towards a more inclusive and resilient economy. **Careful consideration of trade-offs and a balanced approach is essential for its success.**

Drishti Mains Question:

Universal Basic Income (UBI) has been proposed as a solution to address poverty and inequality in India. Discuss the feasibility of implementing UBI in the Indian context, considering its potential benefits and challenges.