

## INDIA'S UNIVERSAL BASIC INCOME: BEDEVILED BY THE DETAILS

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The idea of a universal basic income (UBI)—periodic and unconditional cash payments to all citizens—has gained renewed attention amid growing concerns about technological unemployment in advanced economies. More recently, economists have made the case for a UBI in the developing world, where cash transfers distributed to all citizens, rich and poor, may cut through layers of red tape and lead to outsize gains in poverty reduction.

In India, a rapid expansion of direct cash transfers linked to the national biometric database and small basic income experiments have galvanized an extensive debate on a UBI. Supporters claim that no-strings-attached payments will be an effective antidote to India's underperforming antipoverty programs and leaky, distortionary subsidies. Critics worry that they will undermine an already-fragile social security architecture, cause workers to drop out of the labor force, and encourage wasteful spending.

The Indian Ministry of Finance's 2016–17 Economic Survey provides the most exhaustive treatment thus far of implementing an Indian UBI. It finds that India's largest welfare schemes are poorly targeted; in comparison, it argues that a UBI distributed directly into bank accounts will limit pilferage, be easier to administer, and prove a more effective antipoverty intervention.

The Economic Survey deserves praise for bringing substantial rigor to the debate, thrusting a UBI into the national spotlight, and prudently concluding that the time has not yet come for implementation. However, should future Indian policymakers wish to implement a UBI, the survey's central design features offer a weak foundation. If enacted upon without deeper analysis, debate, or sufficient evidence demonstrating improvement in development outcomes, the Economic Survey's blueprint for an Indian UBI will produce underwhelming results.

### The Economic Survey's Proposal: Features

- The survey estimates that an annual transfer of 7,620 rupees (\$120) to 75 percent of India's population will push all but India's absolute poorest above the 2011–12 Tendulkar poverty line.
- The survey puts the cost of such a scheme at 4.9 percent of India's gross domestic product. It finds that a budget-neutral transfer can only materialize after existing programs are withdrawn. In 2014–15, India's major fertilizer, petroleum, and food subsidies cost 2.07 percent of GDP, while the ten largest central welfare schemes cost 1.38 percent.

### ABOUT THE AUTHOR

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- Arguing that true universality will be politically and fiscally costly, the survey advises paying out the grant to all but the top 25 percent of India's income distribution. It suggests several ways of preventing the wealthy from availing the grant, including proxy-means tests, voluntary opt-out, community sanction, self-targeting, and targeting demographic groups.
- The survey also noted that universal financial inclusion, in combination with the Aadhaar authentication system, forms a prerequisite to send transfers directly to beneficiaries' bank accounts.

## The Economic Survey's Proposal: Bugs

- The proposed transfer is less an income and more an income supplement. The Tendulkar line has been criticized for being too conservative an estimate of consumption and expenditure. The survey's calculations incorporate neither the loss of consumption from withdrawing major existing welfare programs to finance a UBI, nor the transaction and transition costs of moving to a welfare system dominated by cash transfers. Taking these factors into account is likely to result in an upward revision of the transfer amount and associated fiscal burden.
- The survey is unjustified in presenting India's largest welfare schemes as candidates for replacement. Several such programs are intended to achieve long-term development goals and cannot be simply substituted by cash transfers. In addition, India's national food distribution and public works programs, which the survey singles out for their high levels of misallocation and leakage, have improved significantly over the past decade in terms of their coverage and targeting efficiency.
- By discarding universal coverage, the survey leaves the door open for inefficient means-testing. Targeting performance can vary quite widely, and any savings generated thus can be offset by high administrative, private, social, and political costs. If targeting must be instituted, universal transfers among clearly defined vulnerable groups offer a tentative answer to this dilemma.
- An exclusive reliance on Aadhaar-linked welfare payments is short-sighted. Pilot evaluations of direct benefit transfers have found significant room for improvement in last-mile delivery, the size of the subsidy, and grievance redressal, even as authentication failures and exclusion errors due to Aadhaar persist. Significant progress remains to be made before large-scale Aadhaar-linked transfers can be trusted to reach recipients.

## Pricing Experiments

- Rather than relying exclusively upon the survey's proposed methods for financing, targeting, and distributing a UBI, Indian policymakers should join their Finnish and Canadian counterparts in running one or several large-scale experimental evaluations. By determining the impact on both the government (state and fiscal capacity) and citizens (economic and social outcomes), such trials can generate new empirical evidence to inform the growing UBI debate and reveal the most effective role for unconditional transfers in India's welfare architecture.

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