ROUND TABLE ON

UNIVERSAL BASIC INCOME IN INDIA:

Emerging Perspectives

10 July 2017, New Delhi

***Venue*:**

Conference Room II

India International Centre

40 Max Mueller Marg, New Delhi

Organised by:

INSTITUTE FOR HUMAN DEVELOPMENT

www.ihdindia.org

Supported by:

International Labour Organization

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CONTENTS

BACKGROUND

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The conception of Universal Basic Income has gained popularity in recent years. In the wake of fast technological change and subsequent automation, it is being thought to be a possible effective measure to tackle unemployment and inequality. Universal basic Income is being considered by many a major paradigm shift in terms of visualizing a fair and just society and as a progressive thought towards a productive and equitable economy. Countries like Finland and France have initiated pilots to examine the effectiveness of this measure. The idea has also gained great traction in India in recent months, including a discussion in the latest Economic Survey (2016- 17).

There are divergent views on this subject in India and it is felt that there is a need for a comprehensive discussion. While Universal Basic Income thrives on the idea of social justice and agency to the poor, it is also argued to be facilitating administrative efficiency and overall development in the society. However, there have been opinions against it as well that centers on arguments ranging from lack of incentive to work, basic ethics of income generation to social and economic reciprocity and the practicality of application of UBI.

It is in this context, that the Round Table on 'Universal Basic Income in India: Emerging Perspectives' is being organised on the 10th of July 2017 where leading proponents and critics of the subject are participating. The Round Table presentations will have panel discussions and Keynote presentations on the following four technical sessions:

- The Bardhan Proposal
- The Joshi Proposal
- The Economic Survey Proposal
- Perspectives from the Field

The Round Table is being organized by the Institute for Human Development (IHD) with support from the International Labour Organisation (ILO). The conclusions and key takeaways of the Round Table will be synthesized for dissemination and further research.

THE TEAM

THE TEAM

GUIDANCE AND DIRECTION

Alakh N. Sharma, Director, Institute for Human Development (IHD)

Sudipto Mundle, Emeritus Professor, National Institute of Public Finance and Policy, New Delhi

IHD DOCUMENTATION TEAM

Aditi Dixit
Akhilesh Kumar Sharma
Bhim Reddy
Kinjal Sampat
Manoj Bandhan
Mythri Prasad
Sandhya A. S.
Shantanu Dubey
Siddhrath Dhote
Suparna Pal
Swati Dutta
Tarini Shipurkar

CONFERENCE COMMUNICATION AND COORDINATION

Priyanka Tyagi
Jyoti Girish

IHD FACILITATION

Ramashray Singh
Shri Prakash Sharma
Avinash Kumar Singh
Medha Bahl
Shloka Chauhan
Mahika Banerjee

PROGRAMME

Programme

10 July 2017

Venue:	**Conference Room II, India International Centre (IIC)** **40 Max Mueller Marg, New Delhi**
0830-0900 hrs	**REGISTRATION AND REFRESHMENTS**
0900-1000	**Inaugural Session**
Chair	**N.K. Singh** Former Member of Planning Commission and Former Member of Parliament
Opening Remarks	**Alakh N. Sharma** Director, Institute for Human Development (IHD) **Sher Verick** Deputy Director, DWT-South Asia and Country Office-India International Labour Organisation
Inaugural Address	**Bibek Debroy** Member, NITI Aayog, Government of India
1000-1130	**Technical Session I: The Bardhan Proposal**
Chair	**T.N. Ninan** Chairman, Business Standard
Keynote Address	**Pranab Bardhan** Professor of Graduate School, University of California Berkeley

Panelists	**Abhijit Banerjee (by Skype)** Professor, Massachusetts Institute of Technology (MIT), USA **Abhijit Sen** Former Member, Planning Commission **Ajit Ghose** Visiting Professor, Institute for Human Development
1130-1145	**TEA**
1145-1315	**Technical Session II: The Joshi Proposal**
Chair	**Nitin Desai** Former Under-Secretary General, United Nations and Former Chief Economic Advisor, Government of India
Keynote Address	**Vijay Joshi,** Professor, University of Oxford
Panelists	**Amarjeet Sinha** Secretary Ministry of Rural Development, Government of India **Dilip Mookherjee** Professor, University of Boston **Swaminathan Aiyer** Author and Columnist
1315-1400	**LUNCH**

1400-1530	**Technical Session III: The Economic Survey Proposal**
Chair	**Shankar Acharya** Former Chief Economic Adviser Government of India
Keynote Address	**Arvind Subramanian** Chief Economic Adviser, Government of India
Panelists	**Ashwani Saith** Professor Emeritus, Institute of Social Studies, The Hague
	Rohini Somnathan Professor, Delhi School of Economics
	Shekhar Shah Director General, National Council of Applied Economic Research (NCAER), New Delhi
1530-1550	**TEA**
1550-1720	**Technical Session IV: Perspectives from the Field**
Chair	**R. Radhakrishna** Chairman, Centre for Economic and Social Studies Hyderabad
Keynote Address	**Renana Jhabvala** Chairperson, SEWA Bharat, Ahmedabad
Panelists:	**Jeemol Unni** Professor of Economics, Ahmedabad University and former Director, Institute for Rural Management Anand (IRMA)
	S.M. Vijayanand Former Secretary, Panchayati Raj, Govt. of India and Former Chief Secretary, Govt. of Kerala
	P.K. Joshi Director for South Asia, International Food Policy Research Institute (IFPRI), New Delhi
1720-1740	**TEA**

1740-1915	**Concluding Session and Way Forward**
Chair:	**Jay Panda** Member of Parliament
Overview of deliberations	**Sudipto Mundle** Emeritus Professor, National Institute of Public Finance and Policy, New Delhi
Panelists:	**Rajat M. Nag** Distinguished Fellow, National Council of Applied Economic Research and Former Managing Director General, Asian Development Bank, Manila
	Rathin Roy Director, National Institute of Public Finance and Policy
	Anil Padmanabhan Executive Editor, The Mint
	Mahendra Dev Director, Indira Gandhi Institute of Development Research Mumbai
Closing Remarks	**S.R. Hashim** Chairman, IHD; Former Member & Member-Secretary Planning Commission
1915	**Cocktails and Dinner** Venue: Terrace Pergola

BIOGRAPHIES OF RESOURCE PERSONS

Biographies of Resource Persons

ABHIJIT BANERJEE

Abhijit Banerjee is currently the Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology. He completed his education from the University of Calcutta, Jawaharlal Nehru University and Harvard University, where he received his Ph.D in 1988. In 2003, he founded the Abdul Latif Jameel Poverty Action Lab (J-PAL), along with Esther Duflo and Sendhil Mullainathan, and continues as one of the directors of J-PAL. Professor Banerjee has formerly served as the president of the Bureau for the Research in the Economic Analysis of Development, a Research Associate of the NBER, a CEPR research fellow, International Research Fellow of the Kiel Institute, a fellow of the American Academy of Arts and Sciences and the Econometric Society and has been a Guggenheim Fellow and an Alfred P. Sloan Fellow. In 2009, he received the Infosys Prize in Social Sciences and Economics and in 2011, was named amongst the top 100 global thinkers by the *Foreign Policy* magazine. He has also served on the U.N. Secretary-General's High-level Panel of Eminent Persons on the Post-2015 Development Agenda. Professor Banerjee's area of research is development economics and economic theory. He is the author of a large number of articles and source books, including Poor Economics, which won the Goldman Sachs Business Book of the Year.

ABHIJIT SEN

Abhijit Sen is a Emeritus Professor at Jawaharlal Nehru University and former member of the Planning Commission. He has been the Chairman of a number of official Commissions, including the High Level Committee on Long Term Gain Policy. He has a Ph.D. in Economics from the University of Cambridge He was a faculty member at the Universities of Sussex, Oxford and Cambridge, where he served on a number of official Commissions/Committees. He has also been an Adviser/Consultant to international organisations including the UNDP, ILO, FAO, OECD Development Centre, the UN University World Institute of Development Research, International Fund for Agricultural Development, Asian Development Bank (ADB), Manila. He is the author of a large number of papers on various issues of economic development.

AJIT K. GHOSE

Ajit K. Ghose is currently a Visiting Professor with the Institute for Human Development (IHD) and a National Fellow at the Indian Council of Social Science Research (ICSSR). Professor Ghose has a Ph.D. in Economics from the University of Cambridge, UK. He worked as a Research Fellow at Queen Elizabeth House, Oxford, UK, before joining the International Labour Organisation (ILO) at its Headquarters in Geneva, Switzerland, in 1979. In 2009-10, he was a Visiting Senior Fellow at Wolfson College, Cambridge, UK, and at the Centre for Development Studies, University of Cambridge, UK. He has authored several books and articles in professional journals on diverse issues pertaining to globalization, economic growth and development, employment and labour markets, and poverty and famines. His recent works is India Employment Report 2016 published by Oxford University Press on behalf of the Institute for Human Development (IHD), Delhi.

ALAKH N. SHARMA

Alakh N. Sharma is currently Professor and Director of the Institute for Human Development (IHD). He has previously worked as Senior Visiting Fellow, Institute of Economic Growth, Research Advisor at V.V. Giri National Labour Institute, Professor at Shri Ram Centre for Industrial Relations, and a faculty member at A.N. Sinha Institute of Social Studies. He has also been a consultant to several international organizations such as ILO, UNDP and the World Bank. His research interests comprise labour markets, employment, livelihoods, and political economy, based on which he has authored, edited and co-edited 15 books and published over 50 research papers in various journals. He is also the editor of the *Indian Journal of Labour Economics* (IJLE), the quarterly journal of the Indian Society of Labour Economics (ISLE) and co-editor of the *Indian Journal of Human Development* (IJHD), a tri-annual journal brought out by IHD. He is also a non-resident Fellow at the Institute for the Study of Labour (IZA) at Bonn, Germany.

AMARJEET SINHA

Amarjeet Sinha is currently the Secretary, Ministry of Rural Development, Government of India. He has over 30 years of experience working in the government. He was the Principal Secretary, Department of Social Welfare, Government of Bihar. He played a major role in designing Sarva Shiksha Abhiyan (India's flagship programme for universal elementary education) and the National Rural Health Mission. He has been a field officer in the tribal Singhbhum district of Jharkhand and in the extremist affected Jehanabad district of Bihar. He was also associated with the design of the Bihar Education Project, the first EFA project after the Jomtien declaration 1990, on Education for All. He has also served as the Education/Human Development Adviser with the Department for International Development, Government of United Kingdom, 2001-2005. He has carried out many assignments for international agencies like UNICEF, UNDP, DFID, WHO, etc. Amarjeet was nominated a Member of the High Level Expert Group on Universal Health Coverage and a Member of the Inter Ministerial Group on Malnutrition and ICDS reform. He had also served as the Member Secretary of the Tapas Majumdar Committee for estimating the resource requirement for Universal elementary education, and on a Sub Group on Education Management in the Acharya Ramamurti Education Commission. He has published seven books and a large number of articles in publications such as the Lancet, Economic and Political Weekly, Economic Times, The Hindu, The Business Standard, The Hindustan Times, etc. His latest book, "An India for Everyone - A Path to Inclusive Development", was released by Nobel Laureate Amartya Sen in February 2013.

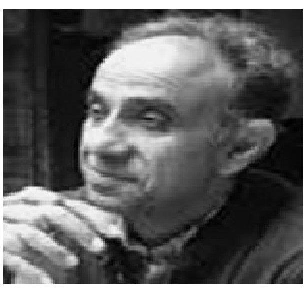
ANIL PADMANABHAN

Anil Padmanabhan has been a journalist for the last 27 years. He currently works as the Executive Editor of Mint, the business daily from the Hindustan Times group. He also writes a weekly column, Capital Calculus on the intersection of politics and economics.

ARVIND SUBRAMANIAN

Arvind Subramanian currently serves as the Chief Economic Advisor to the Government of India. He was the Dennis Weatherstone Senior Fellow at the Peterson Institute for International Economics and also served as Senior Fellow at the Center for Global Development and as an Assistant Director in the Research Department of the International Monetary Fund and at the GATT (1988–92) Uruguay Round of trade negotiations. He taught at Harvard University's Kennedy School of Government from 1999 to 2000 and at Johns Hopkins' School for Advanced International Studies 2008 till 2010. He has published on topics such growth, trade, development, institutions, aid, oil, India, Africa, and the World Trade Organization. He obtained his undergraduate degree from St. Stephens College, MBA from the Indian Institute of Management and M.Phil and D.Phil from the University of Oxford.

ASHWANI SAITH



Ashwani Saith is currently Emeritus Professor at the Institute of Social Studies (ISS) at The Hague. He has been earlier Professor Rural Studies at ISS and Professor of Development Studies at the London School of Economics. He has taught and researched on various themes in development studies, with a focus on processes and policies concerning poverty, socio-economic vulnerability, labour and work in unorganized/informal economies, rural development, rural industrialization and non-farm economies, migration, information technology, reform and transitions, and globalization processes and patterns. His regional work focuses on India and China. He has served as a research analyst and policy advisor with several international development agencies, including ILO, FAO, IFAD and UNDP. He has been associated in an editorial capacity with several leading academic journals in the field of development, including *Development and Change*, *Journal of Agrarian Change*, *Journal of Peasant Studies*, *Journal of Development Studies*, *Indian Journal of Labour Economics*, and *Labour and Development*. He has published extensively in international journals, and has also authored and edited several books.

BAIJAYANT 'JAY' PANDA

Baijayant 'Jay' Panda is currently serving his 4th term as Member in the Parliament from Kendrapara Constituency, Odisha. He is one of the founding members of the Biju Janata Dal (BJD) party. He graduated from the Michigan Technological University and, worked in the corporate sector before joining politics. Jay Panda helped to form the erstwhile Young Parliamentary Forum (YPF) and was its Convener. He has also been associated with the India-USA Forum of Parliamentarians from its founding in 2001 and is currently its Chairman. He was awarded the "Bharat Asmita National Award" for best parliamentary practices by the Hon'ble Chief Justice of India in 2008. Since its inception in 2007, Jay Panda has been associated with the Citizens' Alliance Against Malnutrition, an advocacy group including many parliamentarians across parties. As a parliamentarian, he has been a member of many important committees like the Parliamentary Standing Committees on Finance, Home, Energy and Urban Development.

BIBEK DEBROY

Bibek Debroy, a Padma Shri awardee, is a permanent member of NITI Aayog (National Institution for Transforming India Aayog), the institution that acts as a think-tank to the Government of India. He is also a Professor at the Centre for Policy Research. A well known economist, he has served as the Consultant to the Department of Economic Affairs, Ministry of Finance, Government of India. He has authored several books, papers and popular articles. He is also the Consulting Editor of some of the most prominent financial newspapers. His previous positions include the Director of the Rajiv Gandhi Institute for Contemporary Studies, Consultant to the Department of Economic Affairs of Union Finance Ministry, Secretary General of PHD Chamber of Commerce and Industry, and Director of the project LARGE (Legal Adjustments and Reforms for Globalizing the Economy) set up by the Finance Ministry and UNDP for examining legal reforms in India**.**

DILIP MOOKHERJEE

Dilip Mookherjee is a Professor of Economics and Director of the Institute for Economic Development at Boston University. He received his PhD from the London School of Economics in 1982. He was member of the teaching faculty at Stanford University and Indian Statistical Institute, New Delhi. His research interests include development economics, contract and organization theory. Some of his recent projects in South Asian countries are on agricultural supply chains; micro-finance and financial development, land acquisition laws, land reforms, decentralization, and deforestation. He is Lead Academic of the IGC India Central Program, and has been a former President of Basic Research Education And Development Society (BREAD). He is a Fellow of the Econometric Society, and has been recipient of a Guggenheim Fellowship and the Mahalanobis Memorial Medal of the Indian Econometric Society.

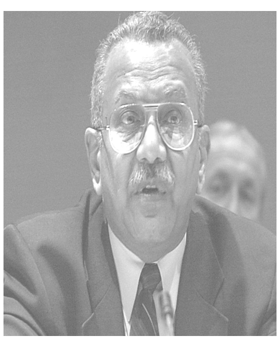
JEEMOL UNNI

Jeemol Unni is Professor of Economics at Amrut Mody School of Management, Ahmedabad University, Ahmedabad. She was Director, at Institute of Rural Management, Anand (IRMA) and earlier RBI Chair Professor of Economics at IRMA. She holds a Ph.D. in Economics and M.Phil. in Applied Economics and was a post-doctoral Fellow at Economic Growth Center, Yale University. She was an International Labour Organisation Consultant and Senior Advisor to the National Commission for Enterprises in the Unorganised Sector (NCEUS), Government of India, 2005-07.She is a Director of BoG, Women in Informal Employment and Globalizing and Organising (WIEGO), UK. Recent publications:"Employment and Education: An Exploration of the Demand-side Story", In Devesh Kapur and Pratap Bhanu Mehta (edited) *Navigating the Labyrinth: Perspectives on India's Higher Education***,** Orient Blackswan, 2017; "Women Entrepreneurship: Research review and future directions", *Journal of Global Entrepreneurship Research,* 2016, 6:12(6); "Inclusive Urbanization: Informal Employment and Gender", *IIC Quarterly,* Spring 2017.

N.K. SINGH

N.K. Singh is a well known politician, economist and former bureaucrat. He is a former member of Rajya Sabha and has served on the Parliamentary Standing Committee on External Affairs and the Committee on Local Area Development Scheme, the Public Accounts Committee, the Consultative Committee on Finance, the Committee on Rules, the Housing Committee and the Parliamentary Forum on Global Warming and Climate Change. He has been among the country's top bureaucrats and handled important portfolios such as India's Expenditure and Revenue Secretary, Member of the Planning Commission as well as Secretary to the Prime Minister. Mr. Singh is on the Governing bodies of research organisations like the Indian Council for Research on International Economic Relations, IMI and NIFT. Mr. Singh has interacted closely with multilateral organizations like World Bank, IMF, ADB, UNCTAD, GATT, WTO, UNDP and OECD. He has taken up various international responsibilities in the UN, World Economic Forum, Indian Embassy (Tokyo), IMF etc. He has a Master's Degree in Economics and was teaching Economics at the prestigious St. Stephen's College, Delhi prior to joining the Civil Service. He has lectured at eminent universities like Columbia, Yale, Stanford and London School of Economics. He has authored two books titled, "Politics of Change" and "Not by Reason Alone" and has been a reputed columnist in leading Indian dailies such as The Financial Express, Hindustan Times, Hindustan and The Indian Express.

NITIN DESAI



Nitin Desai is a well known economics and columnist. A graduate of the London School of Economics (LSE), he has taught economics at two UK Universities. He has had a long stint as a government official in India, as member of the Planning Commission (1973-88), and as the Chief Economic Adviser in the Ministry of Finance (1988-90). Subsequently, he served as Under-Secretary General for Economic and Social Affairs, with the United Nations(1990-2003). He was involved with the organisation of a series of global summits, notably the Rio Earth Summit (1992); the Copenhagen Social Development Summit (1995); the Monterrey Finance and Development Summit (2002); and the Johannesburg Sustainable Development Summit (2002). He is also a member of the Prime Minister's Council on Climate Change, the National Broadcasting Standards Authority, of the Executive Council of the Nehru Memorial Museum and Library, and the chair of the Governing Board of the Institute of Economic Growth. He also writes a monthly column in the Business Standard.

PRAMOD KUMAR JOSHI

Pramod Kumar Joshi is the Director for South Asia, International Food Policy Research Institute (IFPRI), New Delhi. He was Director of the National Academy of Agricultural Research Management (NAARM), Hyderabad and the Director of the National Centre for Agricultural Economics and Policy Research (NCAP), New Delhi. Dr. Joshi was also South Asia Coordinator at the IFPRI and senior economist at the International Crops Research Institute for the Semi-Arid Tropics (ICRISAT), Patancheru. He served as the chairman of the SARC Agricultural Centre's governing board in Dhaka, Bangladesh (2006-08). He was a member of the intergovernmental panel on the World Band's International Assessment of Agricultural Science and Technology for Development (2007). His areas of research include technology policy, market and institutional economics.

PRANAB BARDHAN

Pranab Bardhan is Professor, Graduate School at the University of California, Berkeley. He was the BP Centennial Professor at the London School of Economics during 2010-11. Before joining Berkeley, he was o n the faculty of MIT, the Indian Statistical Institute, and the Delhi School of Economics. He was educated at Presidency College, Kolkata, and Cambridge University, UK. His research has been in the areas of international trade theory, economic development, and the political economy of rural institutions and governance. He was the Editor of Journal of Development Economics for 18 years. He is the author of 14 books, more than 150 journal articles, and the editor of 13 edited volumes. His most recent books are *Awakening Giants*, *Feet of Clay: Assessing the Economic Rise of China and India* (2010) and *Globalization, Democracy and Corruption: An Indian Perspective* (2015).

RAJAT M. NAG

Rajat M. Nag is concurrently a Distinguished Fellow at India's National Council of Applied Economic Research, Delhi and Emerging Markets Forum, Washington DC. He is a Distinguished Professor at Beijing Normal University, China and serves as Chair, Act East Council of the Indian Chamber of Commerce. He is also on the Boards of several organizations. Mr. Nag was the Managing Director General of the Asian Development Bank (ADB) during 2006-2013. Mr. Nag's keen interest is in working to enhance regional cooperation in Asia and bridging the gap between the region's rich and the poor. He holds engineering degrees from the Indian Institute of Technology, Delhi and the University of Saskatchewan, Canada. He also has a MBA from the University of Saskatchewan and an M.Sc (Econ) from the London School of Economics. Mr. Nag was awarded Doctor of Laws (HonorisCausa) by the University of Saskatchewan, Canada in May, 2016.

RATHIN ROY

Rathin Roy is Director and CEO of the National Institute of Public Finance and Policy New Delhi. With postings in London, New York, Kathmandu, Brasilla and Bangkok, he has worked as an Economic Diplomat and Policy Advisor with UNDP, focusing on emerging economies. He has taught at the Universities of Manchester and London and served as Economic Adviser with the Thirteenth Finance Commission. Dr. Roy is Member, India Advisory Committee, United Nations Environment Programme (UNEP) Inquiry into a Sustainable Financial System, Member on the Meta Council on Inclusive Growth, World Economic Forum, Geneva, Member on FRBM Review Committee, Government of India, and Chairman, Evaluation Monitoring Committee, Development Monitoring and Evaluation Office, NITI Aayog. He holds a Ph.D in Economics from the University of Cambridge.

RENANA JHABVALA

Renana Jhabvala has been associated for nearly 40 years with the Self-Employed Women's Association (SEWA), a trade union of 1.9 million members of women in the informal economy. She is also known for her writings of issues of women in the informal economy and was awarded a Padma Shri Award in the year 1990. She joined SEWA after her education in Delhi and Harvard Universities in Mathematics and Yale University in Economics. She has been active at the international level and represented SEWA at the International Labour Organisation,United Nations and other international forums. She is one of the founders and present Chair of WIEGO (Women in Informal Employment and Organizing) based at Harvard University. And has been a member of many national & international committees and task forces including for the National Policy for Street vendors and the Law for Social Security of Unorganised Workers. She is presently Member of Secretary General's High Level Panel on Women's Economic Empowerment. In recent years she has conducted field experiments on basic income and has co-authored a number of books including Basic Income: A Transformative Policy for India: Co-authored by Sarath Davala, Soumya Kapoor Mehta and Guy Standing, Bloomsbury Publication, 2014.

ROHINI SOMANATHAN

Rohini Somanathan is Professor of Economics at the Delhi School of Economics. She received her Ph.D in 1996 from Boston University and held faculty positions at Emory University, the University of Michigan and the Indian Statistical Institute before joining the Delhi School of Economics in 2005. Her research focuses on how social institutions interact with public policies to shape patterns of economic and social inequality, particularly exploring the intellectual and ideological environment within which state policy is created and justified. Within the area of development economics, she has worked on group identity and public goods, access to microfinance, child nutrition programs and environmental health. She is on the Executive Committee of the International Economic Association, on the governing body of the Indira Gandhi Institute for Development Research and a trustee of the NGO SRIJAN.

R RADHAKRISHNA

Radhakrishna is the currently Chairman, Centre for Economic and Social Studies (CESS), Hyderabad; Chairman, Centre for Development Alternatives, Ahmadabad and Chairman, 75th Round of NSS devoted to 'Household Consumer Expenditure and Household Social Consumption'. He has previously held several academic and advisory positions: Chairman of Madras Institute of Development Studies; Chairman, Committee to Frame Guidelines for Self-finance Courses in Universities in Andhra Pradesh, Andhra; Pradesh State Council for Higher Education (2017); Chairman, Commission on Inclusive and Sustainable Agricultural Development of Andhra Pradesh (2015-16); Chairman, National Statistical Commission, GoI (2009-12); Director/Vice Chancellor, Indira Gandhi Institute of Development Research (2001-07); Vice Chancellor, Andhra University (1998-2001); Member Secretary, ICSSR (1994-97); Director, CESS (1985-2004), Professor of Economics, University of Hyderabad (1980-85) and Professor at Sardar Patel Institute of Social Economic research at Ahmedabad (1973-80), and Member of Governing Councils of several national research institutes. He has also served as an expert in numerous international organizations such as Australian Centre for International Agricultural Research, 1997; Management of Social Transformation (MOST), UNESCO, 2004 and UNDP Regional Bureau for Asia and Pacific, 2005. He was a Consultant to several international bodies including World Bank, Asian Development Bank, UNDP, FAO, etc. He has published a large number of books and more than 100 original research papers in national and international journals. In recognition of his significant academic contributions, he was awarded VKRV Rao Prize in Economics in 1985, and Telugu Atma Gaurava Puraskaram for his eminence in Social Sciences by Government of Andhra Pradesh in 1998.

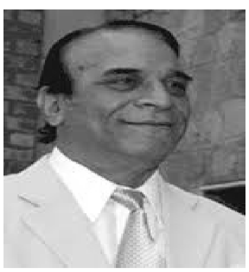
S. M. VIJAYANAND

S. M. Vijayanand, a 1981 batch IAS officer of Kerala cadre, is a well known civil servant and till recently has been Chief Secretary of Kerala. He was one of the chief architects of Kerala's democratic decentralization initiative. He has served in the Government of India as Secretary, Department of Panchayati Raj, with the additional charge of Secretary, Rural Development in the Ministry of Rural Development.

S. MAHENDRA DEV

S. Mahendra Dev has been Director and Vice Chancellor, Indira Gandhi Institute of Development Research (IGIDR) Mumbai, since 2010. Prior to this position, he was Chairman of the Commission for Agricultural Costs and Prices, Ministry of Agriculture as Secretary to Government of India from 2008 to 2010. He was Director, Centre for Economic and Social Studies, Hyderabad, India for 9 years from 1999 to 2008. He was the acting Chairman of the National Statistical Commission. He received his Ph.D. from the Delhi School of Economics and did his postdoctoral research at Yale University. He has more than a hundred research publications in national and international journals in the areas of agricultural development, poverty and public policy, food security, employment guarantee schemes, social security, farm and nonfarm employment. He has written or edited 12 books. Oxford University Press has recently published his book on “Inclusive Growth in India: Agriculture, Poverty, and Human Development.” He has been a consultant and adviser to many international organizations, and a member of several government committees, and has recently received Malcolm Adisesaiah Award.

S.R. HASHIM



S.R. Hashim is currently Chairman of Institute for Human Development (IHD), Indian Association of Social Science Institutions (IASSI), and the Giri Institute of Development Studies. He was the former Member-Secretary to the Planning Commission of India and Former Chairman of the Union Public Service Commission (UPSC). He also held prominent positions at various academic institutions and served in the Planning Commission of India as Adviser, Principal Adviser, Member and Member-Secretary. He was Ambassador of India to Kazakhstan. He chaired the Working Group on Wholesale Price Indices and was Chairman of the National Commission on Integrated Water Resources Development Plan. He has also been the President of India Water Partnership and Vice-Chairman of the Forum for Global Knowledge Sharing. He has worked and written extensively on issues relating to poverty and inequality, water and agriculture, and small-scale industries.

SHANKAR NATH ACHARYA

Shankar Acharya is an Indian economist and currently serves as Member of the Board of Governors and Honorary Professor at the ICRIER. He is also the Non-Executive Part-time Chairman of the Board of Directors of Kotak Mahindra Bank and a Board Member of National Council of Applied & Economic Research and the National Institute of Public Finance and Policy. He holds a Bachelors' degree in Politics, Philosophy and Economics from Oxford University in and a Doctorate in Economics from Harvard University. Dr. Shankar Nath Acharya has previously served as the Chief Economic Adviser in the Ministry of Finance. He also served with World Bank from 1971 to 1982 and served in several senior positions including Director of World Development Report and Research Adviser from 1979 to 1982. He served as Economic Advisor to the Union Finance Ministry from 1985 to 1990. From 1993 to 2000, he served as Chief Economic Advisor to the Government of India. He has also served as Member of the Twelfth Finance Commission, and Member of Program Planning Advisory Group - Economics / Development and Member of Advisory Council at India International Centre.

Dr Acharya has authored several books and numerous scholarly articles in academic journals.

SHEKHAR SHAH

Shekhar Shah is currently the Director-General of NCAER. Prior to joining NCAER, Shah was the World Bank's Regional Economic Adviser for South Asia and, earlier Sector Manager in the Bank's research complex and a principal author of the 2004 World Development Report, 'Making Services Work for Poor People'. A career spanning more than two decades at the World Bank, Shah served as the Bank's Deputy Research Administrator, Sector Manager for Governance and Public Sector Management for Europe and Central Asia, South Asia Governance Adviser and Public Sector Coordinator, and Lead Economist for Bangladesh. Before joining the Bank in 1989, he was the Ford Foundation's Program Officer for Economics for South Asia. He worked earlier in the financial services sector in Washington DC, consulting for the Federal Reserve Board, FDIC, the OCC, and bank holding companies in the US. He received his BA in Economics from St Stephens College at Delhi University and his MA and PhD in Economics from Columbia University.

SHER VERICK

Sher Verick is Deputy Director of the ILO Decent Work Team for South Asia and Country Office for India. He was previously Senior Employment Specialist in the Delhi office, leading ILO's support to governments in South Asia on employment policy formulation and related research as well as Senior Research Economist for ILO in Geneva. He has worked for the United Nations Economic Commission for Africa and various research institutions in Europe and Australia. He holds a master's degree in development economics from the Australian National University and a PhD in economics from the University of Bonn. Since December 2004, he is a Research Fellow of the Institute for the Study of Labor (IZA). He has published in a range of journals such as Journal of African Economies, Development Policy Review and Economic Record. He has authored or edited a number of volumes including From the Great Recession to Labour Market Recovery: Issues, Evidence and Policy Options (2011), Perspectives on Labour Economics for Development (2013), and the Labour Markets of Emerging Economies (2013).

SUDIPTO MUNDLE

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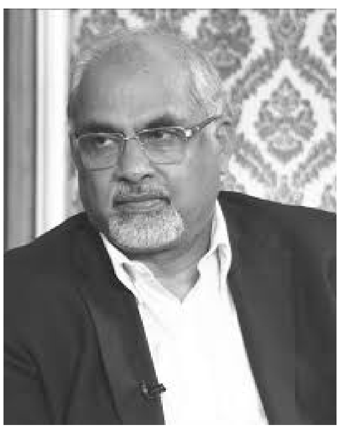
T. N. NINAN



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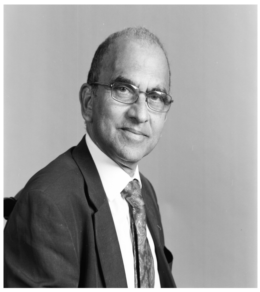
VIJAY RAMCHANDRA JOSHI



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READING MATERIALS

How India can do UBI: Universal Basic Income is a practical solution to poverty and inequality

May 3, 2017, 2:00 AM IST **Pranab Bardhan** in **TOI Edit Page** | Edit Page, India | TOI

The old idea of universal basic income (UBI) – of the state paying everybody a uniform amount as part of welfare – is getting some traction in political discourse worldwide. On the left, it is regarded as a simple antidote to poverty. On the right, it is viewed as a means to demolish complex welfare bureaucracies while meeting some social transfer obligations without weakening work incentives significantly.

In India, apart from its anti-poverty potential, it can also be a substantial measure to improve autonomy (say, of adult women, three-quarters of whom do not earn income) and dignity by giving workers an escape ladder from socially despised occupations (scavenging, waste-carrying, prostitution, etc).

I have heard people, otherwise favourably disposed to the idea of UBI, opposing it primarily for reasons of ultimately political expediency. Some fiscal bureaucrats/ economists say that we cannot afford it as it'll simply be an add-on to the fiscal burden since the vested interests against replacing existing welfare programmes are too strong. Another group, mainly social activists, come from the opposite end: they say talking of UBI is a ploy to politically undermine some of the existing welfare programmes which are working reasonably well. I have some disagreement with both groups.

Let me first clarify some issues of the fiscal space which both groups raise. The most recent estimates (made at the National Institute of Public Finance and Policy) suggest that (central plus state) subsidies that mainly go to better-off people ('non-merit subsidies') amount to about 5% of GDP. In addition the central budget alone shows 'revenues foregone' (primarily tax concessions to companies) coming to about 6% of GDP. Even if one-third of these revenues foregone are made available for this purpose, added to the non-merit subsidies, it comes to 7% of GDP potentially available for UBI, which is a substantial sum, more than twice the total amount currently spent on all anti-poverty programmes.

Moreover, there is no reason why we should assume there is no scope for more taxation. The tax-GDP ratio in India is substantially lower than in China, Brazil and some other developing countries. Our real estate and property tax assessments are absurdly low compared to their market value. We have zero taxation of agricultural income, long-term capital gains in equity markets, and of wealth and inheritance – this is at a time when our wealth inequality is mounting (even from NSS household survey data which underestimate the wealth of the rich, the standard Gini coefficient measure of asset inequality rose from 0.66 in 1991-92 to 0.75 in 2011-12, which is now in the Latin American range).

So if India can divert some of the subsidies (and revenues foregone) from their current better-off recipients and introduce significant fresh taxation of the rich, UBI of about a thousand rupees per person per month is fiscally affordable. I'd not object if with a smaller UBI, part of the extra revenues are spent on public goods like health, education and infrastructure.

Some resources may also be released by terminating some of the particularly wasteful welfare programmes, but i am against UBI replacing current programmes like ICDS, mid-day meals, and MGNREGA. As an experiment UBI may begin only with women, maybe in urban areas until banking services spread to remote areas and in states where current welfare measures are particularly leaky.

I am often asked, do you want to pay this money even to the rich? Yes, primarily because normatively i want UBI as part of a basic right of every citizen to minimum economic security. (Practically, if some asset threshold can be transparently implemented to exclude the very rich, i'll not object. The history of targeting in India is, unfortunately, riddled with controversy and corruption). To the extent UBI is funded by taxes and withheld current subsidies to the rich, the money otherwise is already going to the rich. Also, part of UBI to the rich will return to the government in the form of taxes.

For far too long the default redistributive option for Indian politicians has been job reservation and subsidisation of private goods (food, fertilisers, fuel, credit, etc). I want bureaucratic and political attention to be focussed more on public goods and welfare services that are universal – like UBI, universal healthcare, etc – away from the structures of patronage distribution to particular groups or individuals.

Of course, the better-off in India – businessmen, rich farmers, the salaried class – will not easily give up on the subsidies and handouts they currently enjoy. This means we should think in terms of mobilising public opinion and activate social movements on a platform like UBI. In particular, as the workers in the informal sector will be the largest beneficiaries of UBI, it can provide a common bridge between them and the unionised formal sector workers, a divide which for many years has weakened the labour movement. Today about one-third of workers even in the organised sector are contract labourers deprived of most benefits. Unions have been demanding benefits for the latter for some time; their struggle will be strengthened if it now becomes part of a much larger movement for UBI.

One should have no illusion about the difficulties in the political process for implementing UBI. But one thing going in its favour is that it attracts support from people in different parts of the political spectrum, which may someday generate a winning coalition.

DISCLAIMER : Views expressed above are the author's own.

Basic Income for India: A Proposal

Vijay Joshi

This short note summarizes the proposal for a universal basic income supplement (UBIS) for India that is set out in my recent book *India's Long Road – The Search for Prosperity*.[1] (The proposal has been slightly modified to take account of an important piece of research by Sudipto Mundle and Satadru Sikdar that became available only after the book was published[2]). My proposal for a UBIS differs, in both justification and design, from other universal basic income (UBI) schemes that have been proposed. I do not claim to represent the views of other proponents of UBI.[3]

The case for UBIS is best approached indirectly by noting that one of the main requirements for inclusive growth in India is 'deep fiscal adjustment', in other words, a radical re-orientation of government expenditure and taxation. India spends far too much on dysfunctional price subsidies in the name of helping the poor. Some of the subsidies, for example those on food, fertilizers and oil-related products, are explicitly in the budget. Others, such as the subsidies on electricity, water and rail travel, are implicit, and take the form of losses or low profits by governments departments and enterprises. There are many reasons why these subsidies are counter-productive. They raise fiscal deficits and crowd out essential public spending. They damage resource allocation by cutting the link between prices and costs. Setting prices below costs discourages investment in supply capacity for producing the subsidized items, and encourages wasteful consumption thereof. At the same time, the subsidies do not achieve their putative goal of poverty alleviation. They are badly targeted and regressive:although a small part of the benefits does percolate to the poor, most of it goes to the well-off. (This is not surprising, since a price subsidy per unit consumed gives a larger benefit to those who consume more.)What is more, subsidies are accompanied by leakages and corruption on a large scale.

[1]See Joshi (2016a)
[2]See Mundle and Sikdar (2017).
[3]The first explicit scheme for a UBI in India was adumbrated by PranabBardhan (see Bardhan 2011). I presented my own UBIS scheme, with due acknowledgement of Bardhan's pioneering article, in a book (Joshi 2016a) published in July 2016. Since then, there have been various published writings about a UBI for India (see especially Banerjee 2016,Bardhan 2016, Ghatak 2016, Government of India 2017,Joshi 2016b and Ray 2016). For a forceful critique of UBI, see Aiyar (2016).

Winding up these subsidies would thus be highly beneficial from the national standpoint, provided the real incomes of the poor were protected, which could be done with a fraction of the fiscal savings that would ensue.The government's Economic Survey for 2015/16 estimates that subsidies for the following items amount to 4.2 per cent of GDP: cereals, pulses, sugar, oil-related products, iron ore, fertilizers, electricity, water and rail services.[4] A recent study by S. Mundle S. Sikdar shows that the fiscal savings from eliminating the food subsidy and all 'non-merit' subsidies would have been up to 6.7per cent of GDP in 2011/12.[5] ('Non-merit subsidies' exclude subsidies on 'merit goods' such as education, health, and sanitation.Note that Mundle and Sikdar also classify the food subsidy as a 'merit subsidy'.)Taking account of recent changes, I assume that these same sources would now yield fiscal savings of around 5.5%of GDP.[6]But the scope for fiscal gains does not end with cutting non-merit subsidies and the food subsidy. In addition, expenditure on direct 'poverty programmes', of which there are a multitude, amounts to 5.2 per cent of GDP. Some of them are effective but many are not. It would surely be wise to abolish the manifestly badly-targeted programmes, and retain only those of proven worth. (Note that I recommend retaining the NREGS). It should be possible to obtain 1.5 % of GDP by suitable pruning.[7]There are also many revenue-raising possibilities that have clear economic benefits with few if any downsides[8], for example, weeding out unnecessary tax exemptions (say 1.5% of GDP)[9], taxing agricultural incomes above a threshold level (say 0.5% of GDP)[10], and

[4]See Chapter 3 of Government of India (2016).

[5]See Mundle and Sikdar (2017).

[6]Since 2011/12, food subsidies have gone up, while subsidies for fertilizers and petroleum products have come down. The net result is a reduction in total above-mentioned subsidies of 0.6% of GDP. (These numbers are calculated from Table 6.6 of Ministry of Finance 2016). I also assume that though the public distribution system is abolished, the government's buffer stock operations in food are retained. The latter are assumed to cost 0.5% of GDP. As a result of these various adjustments, I get a figure for fiscal savings from abolition of the food subsidy and non-merit subsidies of 5.5% of GDP.

[7]Chapter 9 of Government of India (2017) estimates that total expenditure on 950 'centrally sponsored and central sector sub-schemes' is 5.2% of GDP, of which the top 11 schemes account for 2.5% of GDP. That leaves 2.7% of GDP. In addition, there are many state government schemes. I assume that badly targeted schemes amounting to 1.5% of GDP could be weeded out. (The top 11 schemes mentioned above are: food subsidy; urea subsidy; MNREGS; SSA; LPG subsidy; Pradhan Mantri AwasYojana; National Health Mission; Pradhan Mantri Gram Sadak Yojana; ICDS; Swachh Bharat Abhiyan; and Mid-day Meal.)

[8]See Govinda Rao (2016).

[9]Tax exemptions ('revenue forgone') granted by the Central Government are more than 6% of GDP. (But not all 'revenue foregone' is genuinely foregone; for example, the revenue foregone by not applying 'bound' tariffs is purely notional. Moreover, some tax concessions are legitimate and intentional: for example, there are intentional tariff concessions for imported input into production for re-export. There are several other examples of revenue foregone for good reasons. Even so, there is agreement among public finance experts that there is a lot of fat in tax exemptions that should be trimmed). There are also unquantified tax exemptions given by state governments. I have assumed that tax exemptions could be pruned by 1.5% of GDP. See Govinda Rao (2016).

[10]See Kavita Rao and D.P.Sengupta (2012) for an estimate of potential revenue from taxing agricultural income above a threshold level.

pursuing a more vigorous privatization programme for several years (say 1% of GDP)[11].The total fiscal potential of all the above measures put together is thus 5.5 + 1.5 + 1.5 + 0.5 + 1.0 = 10 per cent of GDP annually. Suppose the central and state governments devote, say, 2 per cent of GDP for reducing the consolidated fiscal deficit and, say, 4.5 per cent of GDP for increasing public investment and opportunity-enhancing social expenditures in areas such as education and healthcare. (These measures would have a strong, positive effect on inclusive growth, over and above the boost it would receive via more efficient use of resources from the closer alignment of prices and costs.) This allocation of fiscal savings would still leave a residue of 3.5 per cent of GDP for other constructive purposes, such as UBIS.

The primary purpose of UBIS would be to provide an unconditional income floor/safety net that would prevent any citizen sinking below a basic minimum standard of living, irrespective of his or her earning capacity. To prevent possible untoward effects (see below), this minimum should, in my view, be set at a relatively austere level, say the Tendulkar poverty line (TPL). In 2011, 269 million people were below TPL, i.e. in extreme poverty. It is known that the average income of these extremely poor people is about 80 per cent of TPL. So an income supplement equal to 20 per cent of TPL, adjusted upwards suitably to compensate for the subsidy elimination that would finance the programme, would raise the average income of the poor up to the level of TPL, and thus go a long way towards abolishing dire poverty.[12] I show in my recent book (Joshi 2016a) that the requisite cash grant would amount to Rs.3500 per head per year (Rs.17500 per family per year) at 2014/15 prices, indexed to a relevant cost of living index. I also recommend, in addition, retaining the NREGS (along with continuing efforts to improve its functioning), for the foreseeable future, to provide an extra source of income support, which is also self-targeted, for those people whose incomes are below the average income of the population below the poverty line.

If the ‘Tendulkar poor’could be identified and accurately targeted, the fiscal cost of bringing them up to the poverty line would, on this basis, be around 0.8 per cent of GDP. But perfect targeting is impossible. In practice the basic income would have to be given to around 70 per

[11]The value of central public sector enterprises (on P/E basis for listed companies and P/B basis for unlisted companies) is 40%-45% of GDP (see Kelkar 2010). In addition, there are state government enterprises, some of which could (and should) be sold. I assume that it would be possible to raise 1% of GDP annually for a decade or so by privatizing public sector enterprises.

[12]How large should the compensation be for subsidy removal? I assume that 30% of the income of the representative poor person is spent on previously subsidized items, and the prices of these items rise by 20%. It follows on these assumptions that the maximal estimate for the compensation required is (30%) x (0.2) = 6%. Thus the average income of poor people has to be supplemented by 26% of TPL to bring it up to TPL.

cent of the population, to be sure of reaching all poor people. (The targeting would haveto be done on the basis of rough justice, using criteria such as eligibility for income tax, ownership of land above five acres, ownership of houses with more than three rooms, and possession of relatively expensive consumer durables, to exclude undeserving individuals, bearing in mind that these categories overlap to an undetermined extent.) However there areseveral good reasons for going further and making the transfer a*universal* basic income that is paid to every citizen. Such a UBIS would cost 3.5 per cent ofGDP (see my book for the calculation.)As seen above, this would be affordable,given 'deep fiscal adjustment'. Note also thatthe technological means to make a universal income transfer are now available, or will be soon, because of the progress made in spreading Aadharand Aadhar-seeded bank accounts (though various 'last mile' problems need careful attention).

Why should basic income be made universal? Firstly, there is a huge bunching of people around the poverty line, with several hundred million people who are very poor (though not in extreme poverty) and continually in danger of falling below the poverty line due to misfortunes of one kind or another, such as ill-health.UBIS would supplement their incomes. (But the income supplement would be a flat sum, so the proportionate benefit would fall progressively at higher incomes.) Secondly, as noted above,'deep fiscal adjustment', especially abolition of 'non-merit' subsidies, is essential to improve economic efficiency as well as to create the fiscal savings to pursue various desirable goals, as explained above. But deep fiscal adjustment will imply somereal income lossesfor a large majority of the population, at least for a time. UBIS would cushion them wholly or partially against this damage, and thereby also prevent or dilute their resistance to its primary purpose, which is to give a basic income to the poor. Importantly, it would also make a start at creating a safety-net to compensate anyone who is adversely affected by other desirable reforms (for example, liberalization of the labour market, privatisation, and opening up agriculture to international trade.) UBIS has been criticized as wasteful because it would give money to many people who are not poor. On a broader view, however, it would be money well spent since it would provide an essential underpinning for the acceptability of radical economic reform.Thirdly, only a small proportion of the population are so well off as to make the above considerations irrelevant. It is not worth the administrative trouble and expense to identify them and exclude them from the coverage of 'basic income'. (Some of their basic incomes would in any case come back to the state in the form of income tax; and some well-off recipients would surely forego UBIS voluntarily, if nudged by the government to do so.) Experience has shown that selection of deserving recipients brings a host of problems such as cheating and concealment to qualify for benefits, resentment on the part of those who are excluded, administrative highhandedness, and rampant politicization.UBIS would bypass these difficulties altogether.

I shall now briefly discuss several questions that may be relevant in judging the merits of my proposal:

i) Q: Would UBIS would reduce the incentive to work and create dependence on doles? Such an outcome is extremely unlikely given the modest level of the proposed income supplement. (Since UBIS is a uniform, lump-sum cash transfer, the substitution effect against work would be zero. And since the transfer is small, the income effect against work is likely to be quantitatively negligible.)Rather, UBIS is likely to liberate poor people to achieve more than mere survival. And this is exactly what is shown by randomized control trials.A related argument is that UBIS would lower the female labour force participation rate. But progress in this area depends mainly on advances in female education; and, in any case, would it be right to forego an opportunity to make a large dent in extreme poverty, and provide a robust safety net for all, in order to push more women into work outside the home, faster than otherwise?

ii)Q: Would UBIS would be frittered away on alcohol and gambling? There is plenty of evidence from trials internationally, and in India[13], that this would not happen. Recipients of an income supplement tend to spend it on things such as education of children, healthcare, toilets, walls and roofs for houses, better seeds, and investment of a rudimentary variety. Incidentally, a cash grant would also enable the poor to choose their consumption baskets (including spending on a more balanced diet than the cereals of inferior quality provided by the public distribution system), which is surely a good thing.

iii) Q; Would UBIS would divert state spending fromcritical items such as infrastructure, education, and healthcare, which are essential requisites of long-run inclusive growth? Not so. UBIS is meant to complement desirable social spending, not replace it. The available fiscal potential is large enough to ensure that this kind of ‘crowding out’ is avoided. In practice, a programme of ‘deep fiscal adjustment’ would require careful sequencing and close centre-state coordination (‘cooperative federalism’), and take several years to implement. As extra resources become available, they could be divided between fiscal adjustment, extra public investment and social expenditures, and UBI (which could be increased gradually in

[13]For example, see Davalaet. al. (2016).

size until it reached the target level). The desirability of pursuing such a package requires only a weak value judgement that providing a safety net for the whole population quickly, and compensating them (at least partially) for real income losses imposed on them by liberalization and reform, is as important as other social objectives. This principle would surely command wide support. (In a rapidly growing economy, the welfare of poor people in the present generation matters at least as much as the welfare of poor people in future generations. This is because the latter would in any case be better off than the poor people of today. This is the argument for discounting future consumption).

iv) Q: Does UBIS assume that all benefits are best delivered in the form of unconditional cash grants that people are free to spend as they wish? No, it does not make such an assumption. It is true that paternalism may sometimes be justified, e.g. it may be necessary to compel people to send children to school. In other cases, conditional cash transfers (CCTs) or conditional in-kind transfers may make sense. India has some good conditional programmes, e.g. midday meals for schoolchildren and cash grants for pregnant women, conditional on attending health clinics. Even the NREGS is a CCT programme, conditional on work. Other areas where unconditional cash transfers may not be suitable are education and secondary health care. For example, to take advantage of risk-pooling, state help for hospitalization is best given in the form of state-funded insurance that offers an entitlement to payment cover, contingent on the occurrence of major health events. Thus, I do not claim that UBIS would be a magic solution to all problems. My claim is only that it is an essential component of a robust social protection framework. It does not in any way imply that the state should renege on its responsibility to finance, and where appropriate, produce and deliver, goods and services that the market would, for well-known reasons, fail to provide. It is true that while UBIS will put purchasing power in the hands of people, it cannot guarantee that supplies will be forthcoming. But it is hard to see why supply would not respond, except in pockets of the country where markets are thin or non-existent. (For such areas, more conventional arrangements would have to continue for the time being.) For most of the country and for command over many ordinary goods and services, a UBIS in cash would work well for poor people.

v)Q: Will UBIS require policy coordination? Yes, since sequencing will be a major issue and the policy package (e.g. subsidy elimination) will cut across the responsibilities of different line-ministries and of central and state governments. (But it may be possible for a state to go it alone in a modest way and set an example to others.) Coordination with the RBI will also be necessary. The removal of subsidies will raise some prices. The RBI will have to ensure that this does not trigger an inflationary spiral. The new regime of inflation targeting will clearly help.

vi) Q: Is the proposed UBIS too small/too big? I would say it is about the right size. A bigger UBIS runs the risk of capturing too much fiscal space, which has alternative valuable uses. A smaller UBIS may be too small to serve as a safety-net. I would recommend that the resources devoted to UBIS should be set at 3.5 per cent of GDP for at least a decade or so. This would make the UBIS bigger in absolute terms as the economy grows.

vii) Q: Is a 'quasi- universal basic income' (QBIS) preferable to a UBIS? QBIS would obviously be cheaper but excluding say 30 per cent of the population would raise administrative problems and problems of identification that could only be solved by 'rough justice' that is likely to provoke resentment. If cost is the issue, it would be better to start with a UBIS for all women. This would cost about 1.75 per cent of GDP. Another possibility is to introduce an element of self-targeting, e.g. self-registration in person every month to qualify for a UBIS that is paid monthly.

viii) Q: Would UBIS be fiscally irresponsible? It doesn't have to be. Of course it could be irresponsible, if it were adopted without 'deep fiscal adjustment', i.e. without accompanying policies such as withdrawal of subsidies. Whether or not such an outcome is likely is an important judgement call.

ix) Q: Would the introduction of UBIS be politically feasible? Politicians in India do respond to popular feeling, so a grass-roots movement to support UBIS would be helpful. If this got going, UBIS could be taken up by a political party and made into a manifesto commitment. If the party won a national election on that basis, it would have the mandate to introduce UBIS despite opposition from vested interests.UBI could then serve as a unifying and inspiring idea round which reformers, and the majority of the population, could unite.

My conclusion is that a UBIS, as part of a coherent reform package, is worth fighting for, even against long odds.

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Universal Basic Income: A Conversation With and Within the Mahatma*

09
CHAPTER

"I will give you a talisman. Whenever you are in doubt, or when the self becomes too much with you, apply the following test. Recall the face of the poorest and the weakest man [woman] whom you may have seen, and ask yourself, if the step you contemplate is going to be of any use to him [her]. Will he [she] gain anything by it? Will it restore him [her] to a control over his [her] own life and destiny? In other words, will it lead to swaraj [freedom] for the hungry and spiritually starving millions? Then you will find your doubts and your self melt away."

– Mahatma Gandhi

"My ahimsa would not tolerate the idea of giving a free meal to a healthy person who has not worked for it in some honest way, and if I had the power I would stop every Sadavarta where free meals are given. It has degraded the nation and it has encouraged laziness, idleness, hypocrisy and even crime. Such misplaced charity adds nothing to the wealth of the country, whether material or spiritual, and gives a false sense of meritoriousness to the donor. How nice and wise it would be if the donor were to open institutions where they would give meals under healthy, clean surroundings to men and women who would work for them…only the rule should be: no labour, no meal."

– Mahatma Gandhi

"Wiping every tear from every eye" based on the principles of universality, unconditionality, and agency—the hallmarks of a Universal Basic Income (UBI)—is a conceptually appealing idea. A number of implementation challenges lie ahead, especially the risk that UBI would become an add-on to, rather than a replacement of, current anti-poverty and social programs, which would make it fiscally unaffordable. But given their multiplicity, costs, and questionable effectiveness, and the real opportunities afforded by the rapidly improving "JAM" infrastructure, UBI holds the prospects of improving upon the status quo. This chapter provides some illustrative costs for a UBI (varying between 4 percent and 5 percent of GDP), and outlines a number of ideas to take UBI forward, highlighting the practical difficulties. 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 Mahatma would have been conflicted by the idea but, on balance, might have endorsed it.

**Chapter 9 of Economic Survery 2016-17, Ministry of Finanace, GOI*
January 2017

I. Introduction

9.1 Despite making remarkable progress in bringing down poverty from about 70 percent at independence to about 22 percent in 2011-12 (Tendulkar Committee), it can safely be said that "wiping every tear from every eye" is about a lot more than being able to imbibe a few calories. And the Mahatma understood that better, deeper, and earlier than all the Marxists, market messiahs, materialists and behaviouralists. He intuited that it is also about dignity, invulnerability, self-control and freedom, and mental and psychological unburdening. From that perspective, Nehru's exhortation that "so long as there are tears and suffering, so long our work will not be over" is very much true nearly 70 years after independence.

9.2 Today, a radical option to realise Gandhiji's objective presents itself and has entered the policy consciousness in India and around the world: Universal Basic Income, UBI for short. UBI has three components: universality, unconditionality, and agency (by providing support in the form of cash transfers to respect, not dictate, recipients' choices). As the above two quotes suggest Gandhiji would have been conflicted by it. This chapter examines UBI in the form of a conversation with the Mahatma, and indeed a conversation that the Mahatma would have had with himself had such a proposal been put to him.

II. The Conceptual/Philosophical Case for UBI

9.3 Universal Basic Income is a radical and compelling paradigm shift in thinking about both social justice and a productive economy. It could be to the twenty first century what civil and political rights were to the twentieth. It is premised on the idea that a just society needs to guarantee to each individual a minimum income which they can count on, and which provides the necessary material foundation for a life with access to basic goods and a life of dignity. A universal basic income is, like many rights, unconditional and universal: it requires that every person should have a right to a basic income to cover their needs, just by virtue of being citizens. The time has come to think of UBI for a number of reasons:

Social Justice: UBI is, first and foremost, a test of a just and non-exploitative society. From Tom Paine to John Rawls, nearly every theory of justice has argued that a society that fails to guarantee a decent minimum income to all citizens will fail the test of justice. It should be evident to anyone that no society can be just or stable if it does not give all members of the society a stake.

A Universal Basic Income promotes many of the basic values of a society which respects all individuals as free and equal. It promotes liberty because it is anti-paternalistic, opens up the possibility of flexibility in labour markets. It promotes equality by reducing poverty. It promotes efficiency by reducing waste in government transfers. And it could, under some circumstances, even promote greater productivity. It is not an accident that Universal Basic Income has been embraced both by thinkers of the Left and of the Right.

Poverty Reduction: Conditional on the presence of a well-functioning financial system, a Universal Basic Income may simply be the fastest way of reducing poverty. UBI is also, paradoxically, more feasible in a country like India, where it can be pegged at relatively low levels of income but still yield immense welfare gains.

Agency: The poor in India have been treated as objects of government policy. Our current welfare system, even when well intentioned, inflicts an indignity upon the poor by assuming that they cannot take economic decisions relevant to their lives. An unconditional cash transfer treats them as agents, not subjects. A UBI is also practically useful. The circumstances that keep individuals trapped in poverty are varied; the risks they face and the shocks they face also vary. The state is not in the best position to determine which risks should be mitigated and how priorities are to be set. UBI liberates citizens from paternalistic and clientelistic relationships with the state. By taking the individual and not the household as the unit of beneficiary, UBI can also enhance agency, especially of women within households.

Employment: UBI is an acknowledgement that society's obligation to guarantee a minimum living standard is even more urgent in an era of uncertain employment generation[1]. Moreover, UBI could also open up new possibilities for labour markets. It creates flexibility by allowing for individuals to have partial or calibrated engagements with the labour market without fear of losing benefits. They allow for more non-exploitative bargaining since individuals will no longer be forced to accept any working conditions, just so that they can subsist.

Administrative Efficiency: In India in particular, the case for UBI has been enhanced because of the weakness of existing welfare schemes which are riddled with misallocation, leakages and exclusion of the poor. When the trinity of Jan-Dhan, Aadhaar and Mobile (popularly referred to as JAM) is fully adopted the time would be ripe for a mode of delivery that is administratively more efficient. The administrative argument however has to be made with some care. While Aadhar is designed to solve the identification problem, it cannot, on its own, solve the targeting problem. It is important to recognise that universal basic income will not diminish the need to build state capacity: the state will still have to enhance its capacities to provide a whole range of public goods. UBI is not a substitute for state capacity: it is a way of ensuring that state welfare transfers are more efficient so that the state can concentrate on other public goods.

III. The Conceptual Case Against UBI

9.4 From an economic point of view there are three principal and related objections to a universal basic income. The first is whether UBI reduces the incentive to work – a worldview encapsulated in the quote by Gandhiji above; critics conjure up images of potential workers frittering away their productivity. This argument is vastly exaggerated (more evidence in Section I). For one thing, the levels at which universal basic income are likely to be pegged are going to be minimal guarantees at best; they are unlikely to crowd incentives to work. One school of thought would argue that it truly is a diminution of human dignity to suppose that the only motivation for which people work is necessity; take away the yoke of necessity and they will be lazy. The same kinds of arguments used to be made against high wages: that if wages rise beyond a certain level workers will choose leisure over work. There is very little evidence to sustain that proposition[2].

1 Traditionally income and employment have been aligned in most societies; even welfare benefits were stop gap arrangements on pathways to employment. A few aberrations apart, unemployment is no longer a consequence of lack of individual effort. All societies must aim for full employment. But in an era where collective arrangements are not able to guarantee the availability of jobs, it is imperative that the alignment of income and employment be loosened somewhat. In the twenty first century it may no longer be possible to guarantee social security or minimum support by linking it to employment.

2 Moreover, it could be argued that, the incentive to productive work is liberated only when individuals are not hostage to necessity. One could imagine a more genuinely productive and creative society if work was not associated with the exploitation that comes with necessity.

9.5 The second concern is this: Should income be detached from employment? The honest economic answer to this concern is that society already does this, but largely for the rich and privileged. Any society where any form of inheritance or accepting non-work related income is allowed, already detaches income from employment. So, receiving a small unearned income as it were, from the state should be economically and morally less problematic than the panoply of "unearned" income our societies allow.

9.6 The third is a concern out of reciprocity. If society is indeed a "scheme of social cooperation", should income be unconditional, with no regard to people's contribution to society? The short answer is that individuals as a matter of fact will in most cases contribute to society, as stated above. In fact, UBI can also be a way of acknowledging non-wage work related contributions to society[3]. In the current social structure, for example, homemaking contributions of women are largely unacknowledged economically, since they do not take the form of wage or contract employment. It is important that UBI is not framed as a transfer payment from the rich to the poor. Its basis is rather different. UBI gives concrete expression to the idea that we have a right to a minimum income, merely by virtue of being citizens. It is the acknowledgment of the economy as a common project. This right requires that the basic economic structure be configured in a way that every individual gets basic income.

9.7 All these arguments require that UBI be indeed universal[4], unconditional, and involve direct transfers.

9.8 Table 1 lays out succinctly the arguments – conceptual and practical – in favour of and against UBI. In what follows, evidence will be presented on some—not all—of the arguments mentioned above. One begins with the most compelling evidence for universalization, by furnishing numbers on the effectiveness of targeting of current programs. A discussion on the implication for financial inclusion follows. Subsequently, illustrative costs of a UBI are calculated. The chapter concludes by providing potential ideas for taking the idea forward, keeping in mind the two big challenges of costs and a political economy that impedes the phasing down of existing programs.

IV. Why Universalize?

9.9 The starting point for any UBI must be the status quo. How are existing programs faring in helping the poorest?

Table 1. Arguments in Favour and Against UBI

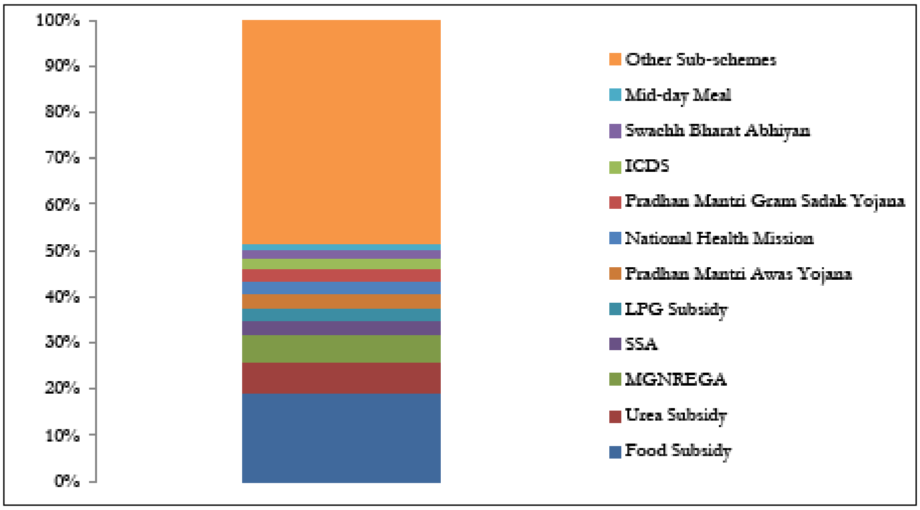
Favor	Against
Poverty and vulnerability reduction Poverty and vulnerability will be reduced in one fell swoop.	**Conspicuous spending** Households, especially male members, may spend this additional income on wasteful activities.
Choice A UBI treats beneficiaries as agents and entrusts citizens with the responsibility of using welfare spending as they see best; this may not be the case with in-kind transfers.	**Moral hazard (reduction in labour supply)** A minimum guaranteed income might make people lazy and opt out of the labour market.

3 The Former Greek Finance Minister Yannis Varoufakis argues that since wealth in society is always produced collectively, a UBI must be financed not from taxation but as a share of society's capital (Project Syndicate, 2016).

4 Or, as we argue later, at the very least – quasi-universal, covering most households.

Better targeting of poor As all individuals are targeted, exclusion error (poor being left out) is zero though inclusion error (rich gaining access to the scheme) is 60 percent[5].	**Gender disparity induced by cash** Gender norms may regulate the sharing of UBI within a household – men are likely to exercise control over spending of the UBI. This may not always be the case with other in-kind transfers.
Insurance against shocks This income floor will provide a safety net against health, income and other shocks.	**Implementation** Given the current status of financial access among the poor, a UBI may put too much stress on the banking system.
Improvement in financial inclusion Payment – transfers will encourage greater usage of bank accounts, leading to higher profits for banking correspondents (BC) and an endogenous improvement in financial inclusion. Credit – increased income will release the constraints on access to credit for those with low income levels.	**Fiscal cost given political economy of exit** Once introduced, it may become difficult for the government to wind up a UBI in case of failure.
Psychological benefits A guaranteed income will reduce the pressures of finding a basic living on a daily basis.	**Political economy of universality – ideas for self-exclusion** Opposition may arise from the provision of the transfer to rich individuals as it might seem to trump the idea of equity and state welfare for the poor.
Administrative efficiency A UBI in place of a plethora of separate government schemes will reduce the administrative burden on the state.	**Exposure to market risks (cash vs. food)** Unlike food subsidies that are not subject to fluctuating market prices, a cash transfer's purchasing power may severely be curtailed by market fluctuations.

Figure 1. Centrally Sponsored and Central Sector Sub-schemes by Budget Allocation, 5.2% of GDP (2016-17)



Source: **Budget 2016-17**

5 Later in the chapter, we define the poor as constituting the bottom 40 percent (in terms of consumption expenditure) of the population. Since a UBI is universal, the top 60 percent of the population will also gain access to the UBI, which, in turn, makes the inclusion error at 60 percent.

9.10 The first striking fact is the sheer number of schemes and programs run by the government. The Budget for 2016-17 indicates that there are about 950 central sector and centrally sponsored sub-schemes in India accounting for about 5 percent of the GDP by budget allocation (Figure 1). A large majority of these are small in terms of allocation with the top 11 schemes accounting for about 50 percent of total budgetary allocation. As is seen in Figure 1, Food Subsidy or Public Distribution System (PDS) is the largest programme followed by Urea Subsidy and the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). The other programs include Crop Insurance, Student Scholarships, National Handloom Development Programme etc. One must acknowledge though that many of these schemes have diverse benefits beyond immediate poverty reduction – for instance, student scholarships have inter-generational consequences for individuals.

9.11 If the states were included, the number of schemes would be orders of magnitude larger. Moreover, schemes persist. Last year's Survey documented that most of the central sector schemes were ongoing for at least 15 years and 50 percent of them were over 25 years old.[6]

9.12 Even leaving aside their effectiveness, considerable gains could be achieved in terms of bureaucratic costs and time by replacing many of these schemes with a UBI.

9.13 But the most important question relates to the effectiveness of existing programme in helping the poorest. Here, this chapter provides some new evidence.

9.14 Consider the largest 7 central welfare schemes, PDS – food & kerosene, MGNREGS, the Sarva Shiksha Abhiyaan (SSA), the Mid Day Meal (MDM) scheme, the Pradhan Mantri Gram Sadak Yojana (PMGSY), the Pradhan Mantri Awas Yojana (PMAY) and the Swachh Bharat Mission (SBM). Using program administrative data (2015-16) and data available from household level surveys (National Sample Survey, NSS and India Human Development Survey, IHDS) for 2005-06 and 2011-12, estimates of the targeting efficiency of programmes are provided.

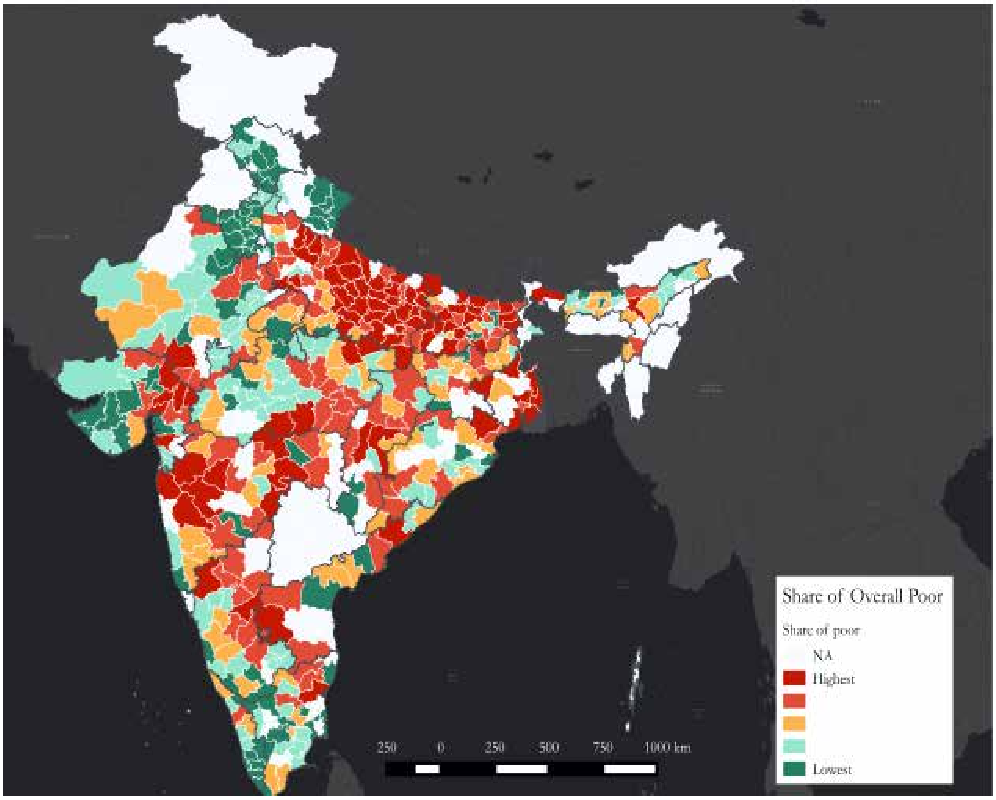
A Misallocation of resources across districts

9.15 Consider the evidence on misallocation of the government's resources. Misallocation captures the fact that the poorest areas of the country often obtain a lower share of government resources when compared to their richer counterparts.

9.16 The two graphs below provide new evidence on the extent of misallocation across districts for the six top welfare programs - the PMAY, SSA, MDM, PMGSY, MGNREGS and SBM. Figure 2a is a heat map that conveys the share of the overall poor living in each district for 2011-12: the darker the shade of red, the greater the number of poor in the district. Figure 2b plots, for each district, the shortfall between the share of the overall spending on the top six schemes (2015-16 data) and the share of the overall poor (i.e. Difference = Share of overall spending – share of overall poor). The difference is a measure of misallocation: ideally, the difference should be zero – a district with 20 per cent of the overall poor should have 20 per cent of the total spending (yellow-coloured districts in the figure 2b). A positive difference (indicated in green) indicates that a district receives a greater share of resources than its

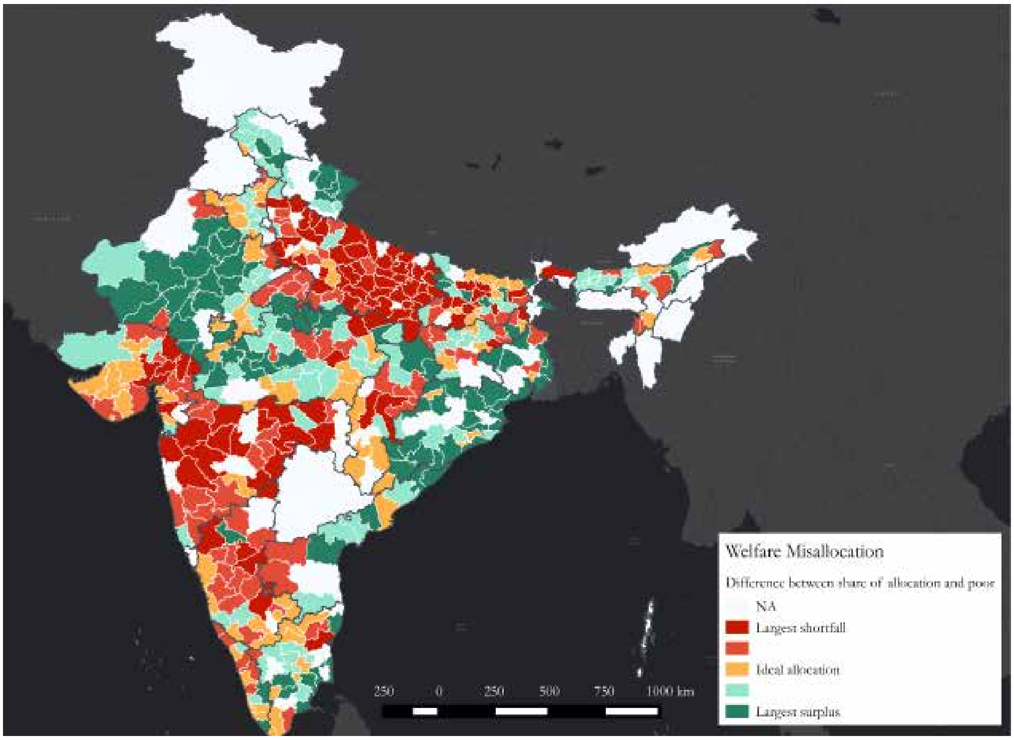
[6] There is scheme that is 96 years old called 'Livestock Health & Disease Control' under the Department of Animal Husbandry, Dairying and Fisheries. In the Union Budget 2015-16, it was allocated INR 251 crores.

Figure 2a. Share of Poor across districts



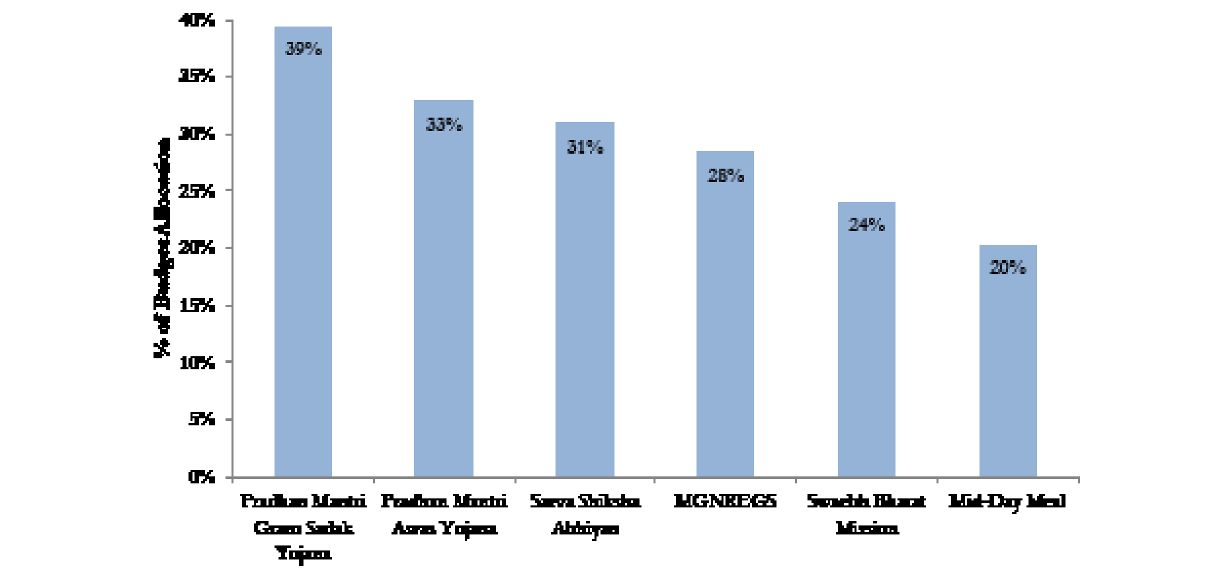
Source: **NSS 2011-12,** *Survey* **Calculations**

Figure 2b. Misallocation - Shortfall in Allocation to Poor



Source: **Programme administrative data and NSS 2011-12,** *Survey* **Calculations**

Figure 2c. Share of Budget Allocation of Backward Districts accounting for 40 percent of Total Poor (2015-16)



Source: **Program Administrative data, *Survey* Calculations**

actual share of poor. A negative difference, on the other hand, implies inadequate spending on the poor in districts. Again, the darker the shade of red, the more negative is this difference. What is striking about the two figures is that, in many cases, the poorest districts are the ones grappling with inadequate funds – this is evidence of acute misallocation. Many districts in Uttar Pradesh, Bihar, Chhattisgarh, parts of Jharkhand, eastern Maharashtra, Madhya Pradesh and Karnataka, among others, account for a large share of the poor and receive a less-than-equal share of resources (across the two maps, these districts are consistently red). Some parts of Orissa and Rajasthan, on the other hand, comprise a large share of the poor, but receive more-than-proportional share of the spending on top six schemes.[7]

9.17 To quantify the intution on misallocation provided above, we define a metric of misallocation which is the proportion of state's funds allocated to the backward districts–these are districts that have the highest proportion of poor and which together account for 40 percent of the poor. Figure 2c charts the allocation of funds in 2015-16 to the backward districts under the same set of schemes. As can be seen, the allocations are regressive: under no scheme do these poorest districts receive 40 percent of the total resources – in fact, for the MDM and SBM, the share is under 25 percent (Appendix 1 charts a pair of heat-maps that further emphasise this point: it contrasts head-count-ratios and spending per poor across districts; it also provides detailed charts on misallocation across individual schemes).

9.18 One major explanation for misallocation is state capacity – resources

[7] The colours map ordinal rankings (quantiles) of the share of poor and the difference between the share of allocation and the share of poor. The share of each district's poor in overall poor is calculated using NSS 2011-12. The NSS is not representative at the district level, but it is felt that while the absolute magnitudes of district-level consumption may be different from the true means, the ordinal rankings may not be that different from a representative dataset. The heat-map comprises 434 districts – the data for the remaining districts was unavailable.

Box 1. A BRIEF HISTORY OF TARGETING

An immediate and intuitively appealing solution to the fiscal costs of UBI is to make it a targeted basic income scheme, attempting to guarantee a basic income to only the poor and the deserving. However, India's record of targeting welfare programmes to the poor has been suspect. Targeting commenced with the drawing up of lists of poor based on self-reported income in 1992 with subsequent survey rounds done with different – and more multi-dimensional – identification criteria in 1997 and 2002. Even the 2002 list of criteria for identifying BPL households, considered to be more rigorous than either of the previous rounds of surveys came under criticism from many sides. Studies – and government audits – showed data manipulation and corruption, with the crowding out of the poor and the truly deserving from BPL card ownership and leakages to the rich. Targeting was both inefficient and inequitable, a license to fraud that spawned an entire ecosystem of middlemen and petty abuse. Recognizing this, the government of the day attempted to measure poverty using an easily identifiable list of criteria and a simple scoring methodology through the Socio-Economic Caste Census (2011). Simultaneously, acknowledging the inherent problems with targeting, individual states- like Tamil Nadu and Chhattisgarh - universalized access to the PDS and a few other government schemes. The National Food Security Act (2013), in a clear break away from targeting to a minority of the population, mandated access to the PDS to nearly 70 percent of all households, choosing to exclude only the identifiably well-off. This gradual move towards greater inclusion error in order to avoid exclusion issues is directly in line with Gandhiji's talisman – the poorest are the ones who benefit the most from such a move. There is some empirical evidence to back this: Himanshu and Sen (2013) document a negative relationship between quantum of leakages and PDS coverage – in other words, the higher the coverage, the lower the leakages.

allocated to districts are often a function of the district's ability to spend them; richer districts have better administrative capacities to effectively implement schemes.

9.19 There have been some improvements in district-wise allocation for schemes in the recent past, perhaps reflecting improvements in state capacity. The share of budget allocation to the poorest districts has increased from 32 percent to 33 percent (3.1 percent increase) for the PMAY. Similar increases may have occured in other schemes.

B. Consequences of Misallocation: Exclusion of genuine beneficiaries

9.20 Misallocation has repercussions for targeting of resources to the poor. A natural consequence of misallocation is what has been described in the literature as "exclusion error"– genuine poor find themselves unable to access programme benefits. If a state or a district with more poor is allocated very little resources, then it is almost certain that some deserving households would be excluded[9]. For instance, consider the states of Bihar, Madhya Pradesh, Rajasthan, Orissa and Uttar Pradesh: despite accounting for over half the poor in the country, these states access only a third of the resources spent on the MGNREGS[10] in 2015-16. This almost certainly implies that some deserving individuals are left out. An estimate of the exclusion error from 2011-12 suggests that 40 percent of the bottom 40 percent of the population are excluded from the PDS[11]. The corresponding figure for 2011-12 for MGNREGS was 65 percent (see Appendix 2 for detailed calculations of leakages for PDS and MGNREGS for 2011-12).

9.21 While substantial improvements in targeting efficiency are required from the 2011-12 levels, it may be useful here to

[9] Alternatively, this could imply that the per capita benefits is lower in these districts than other districts.

[10] Technically speaking, there is no exclusion error under the MGNREGS, since it is universal. It is a self-targeted programme: at least on paper, the scheme is demand-driven and anybody willing to work on the scheme for the wage prescribed is, as per law, allowed to avail themselves of up to 100 days of work.

[11] This is the weighted average of the exclusion errors for rice, wheat and kerosene.

Box 2. Improvements in MGNREGS since 2014-15

The MGNREGS program has evolved over the last two years to increase its focus on creation of durable assets, diversification of livelihood opportunities, selection of public works in congruence with other infrastructure programs such as PMGSY and PMAY-Grameen and a greater thrust on natural resource management and agriculture & allied activities. This is expected to improve farmers' income and enlarge their wage opportunities.

The programme is self-targeted. Often those who belong to deprived households and depend on casual labour are beneficiaries. The program also provides a higher number of days of employment (150 days instead of 100 days) in drought affected areas.

Technological and programmatic improvements have been made in the last two years:

- MGNREGS job cards for 10.9 crore active workers was digitalized, of which 8.7 crore workers had their job-cards seeded with Aadhaar
- 4 crore workers were brought into the Aadhaar payment bridge
- Nearly 39 lakh MGNREGS assets were geotagged since September 2016. These were provided publicly to improve accountability and transparency
- 95 percent of MGNREGS wages were paid into beneficiary accounts, thereby, reducing scope for out-of-system leakage of wage payments
- About 68 percent of active job cards were also verified and updated

As a result, the number of completed works has increased from 25-30 lakhs (yearly average since inception) to 48 lakhs in the current year. 70 percent of these works is in Agriculture & Allied activities (an increase from 50 percent in 2013-14). Additionally participation of women in MGNREGS increased from 40 percent in 2006-2007 to 56 percent in 2016-17.

acknowledge the improvements made in tackling exclusion errors in two of India's largest social sector schemes, the PDS and MGNREGS. Box 1 summarizes evidence on the problems with targeting and the move towards expanding the PDS across states in the country. This is likely to have reduced exclusion error and even out of system leakages. Himanshu and Sen (2013) estimate that leakages in the PDS has reduced from 54 percent to 34.6 percent - a drop of nearly 20 percentage points in seven years (from 2004 to 2011). Linearly extrapolating to 2016, out of system leakage for the PDS overall could have reduced further to 20.8 percent[12]. Even this figure may be an underestimate since it does not account for improvements in technology and expansion of coverage that have occurred in the past five years. Some surveys show that the share of PDS subsidy received by the bottom 40 percent may have increased significantly since 2011-12. A 3600 household survey across six states[13] in India estimated the average percentage of PDS foodgrains received by beneficiaries (as a percentage of entitlements) at 92 percent for 2016[14].

9.22 Similarly, the MGNREGS has changed considerably in the recent past. Box 2 summarizes the improvements in monitoring technology, asset creation and job provision that has occurred in the scheme over the past 2 years.

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[12] This figure somewhat resembles the leakages estimate from a survey done across 10 states (20 %) in 2013 (PEEP survey, 2013).

[13] (Chattisgarh, Odisha, Bihar, Jharkhand, Madhya Pradesh and West Bengal)

[14] Dreze et al (2016).

V. How Can A UBI overcome These Issues?

9.23 *Misallocation to districts with less poor:* The UBI, by design, should effectively tackle issues related to misallocation. As envisaged in this chapter, a UBI will simply amount to a transfer of resources from above[15] and need not be "accessed" by beneficiaries[16]. The simplicity of the process cannot be overstated: beneficiaries are simply required to withdraw money from their accounts as and when they please, without having to jump through bureaucratic hoops. The simplicity of the process also implies that the success of a UBI hinges much less on local bureaucratic ability than do other schemes. In addition, by focusing on universality, UBI reduces the burden on the administration further by doing away with the tedious task of separating the poor from the non-poor.

9.24 *Out of system leakage:* Conceptually, a UBI reduces out of system leakage because transfers are directed straight to the beneficiaries' bank accounts. The scope for diversion is reduced considerably, since discretionary powers of authorities are eliminated almost wholly[17]. Furthermore, UBI's expanded coverage will likely impact out of system leakage since the state is answerable to a larger section of its citizens. Finally, given the fewer avenues for leakages, monitoring a UBI would be easier than many other schemes.

9.25 Last mile concerns remain, however. Beneficiaries still need to access their bank accounts, either at local bank or post office branches or through BCs. Section VII describes the last mile issues in detail. Eventually, the JAM system could be used to provide funds to each individual directly into his or her account (see Section X D for current penetration of Jan Dhan and Aadhaar seeded accounts).

9.26 *Exclusion error:* Given the link between misallocation and exclusion errors, a UBI that improves allocation of resources should mechanically bring down exclusion error. Furthermore, by virtue of being universal, exclusion errors under the UBI should be lower than existing targeted schemes (for reasons listed previously – see Box 1)[18].

VI. Insurance Against Risk And Psychological Benefits

9.27 Poor households (in fact even many of those above poverty) are often faced with idiosyncratic shocks such as bad health and job loss, and covariate or aggregate shocks such as natural disasters and political risk. A study finds that the poverty component of vulnerability (risk of sudden income/ consumption shortfalls) dominates the idiosyncratic and aggregate components (Swain and Floro 2008), contributing as much as 80 percent to total vulnerability. Jha, Nagarajan and Pradhan (2012) show that slightly more than 50 percent of rural households across India face one or more forms of shock, with the most prominent being aggregate shocks (crop loss, water borne diseases, loss of property, cyclones, drought, etc.). In their data, about 60 percent of individuals use personal savings to cope

[15] More details on fiscal space and Center-State negotiations in Section X D

[16] A functional JAM system will provide direct benefits into the bank accounts of beneficiaries.

[17] There is some recent evidence showing the impact of direct transfers on reduced corruption in government schemes in India. See Banerjee et al (2016), Niehaus et al (2016).

[18] A UBI could result in a different set of causes for exclusion related to errors in authentication of individuals – see sectionIX.d for current status of Aadhaar authentication.

with these shocks. Government assistance comes a distant second with only close to 10 percent of individuals accessing it. The third most prominent option, at 6 percent, is borrowing from friends. In the face of such prominence of shocks, a guaranteed basic income can provide a basic form of insurance.

9.28 Additionally, there are potential psychological benefits to be made from having a UBI. The World Development Report (2015) argues that individuals living in poverty have (a) a preoccupation with daily hassles and this results in a depletion of cognitive resources required for important decisions; (b) low self-image that tends to blunt aspirations; (c) norms that may require investments in social capital to the detriment of private opportunities.

9.29 There is evidence for all of the above: Mani and others (2013) showed that pre-harvest cash-strapped sugarcane farmers in Tamil Nadu performed worse in a series of cognitive tests (including 10 points lower on an IQ test) than they did after harvest, when they were likely to have very little loans and were cash-rich. This finding is replicated in diverse settings by various authors.

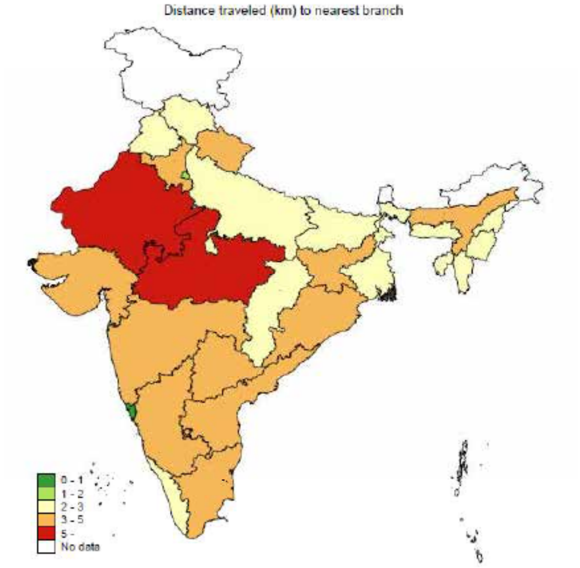
9.30 A natural consequence of lower cognitive bandwidth is bad decision-making in the face of poverty, begetting more poverty. In fact, Haushofer and Shapiro (2015) study an unconditional cash transfer programme in Kenya and find that there is a significant increase in the psychological wellbeing of recipients measured in terms of happiness, life satisfaction and stress. An assured income could relieve mental space that was used to meet basic daily consumption needs to be used for other activities such as skill acquisition, search for better jobs etc.

VII. Improved Financial Inclusion

A More profitable for Banks[19]

9.31 Calculations suggest that A UBI of INR 12000 per adult per yearis expected to reduce the average distance from the nearest business correspondents to 2.5 km from 4.5 km at about half the UBI amount. This effect is even larger since a UBI is targeted at all individuals, not only adults.

Figure 3. Distance to nearest banking access point



Source: **Financial Inclusion Insights 2015**

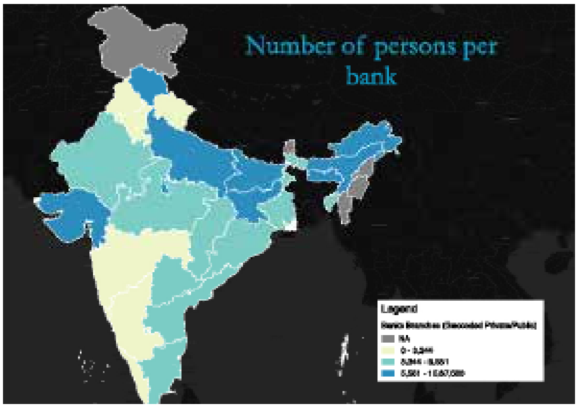
9.32 Financial inclusion in India has progressed substantially since the PradhanMantri Jan DhanYojana (PMJDY). According to Financial Inclusion Insights (FII – 2015),while ownership of bank accounts has increased to about 2/3rd of all adults in India, active use[20] has increased to about 40 percent. Geographically, most of the country has over 50 percent of adults owning banking accounts with Madhya

[19] Based on inputs from the Gates Foundation.

[20] At least one transaction completed in the last 90 days

Pradesh, Chhattisgarh, Bihar and some Northeast states doing less well. In terms of active use, though, most states perform less well with a majority of them having less than 50 percent active accounts. Digging a little deeper, active use is higher amongst males, in urban areas and for those above the poverty line. We look at two constraints to active use: one, physical distance separating people from these bank branches; two, number of persons per bank.

Figure 4. Number of persons per bank (2016)

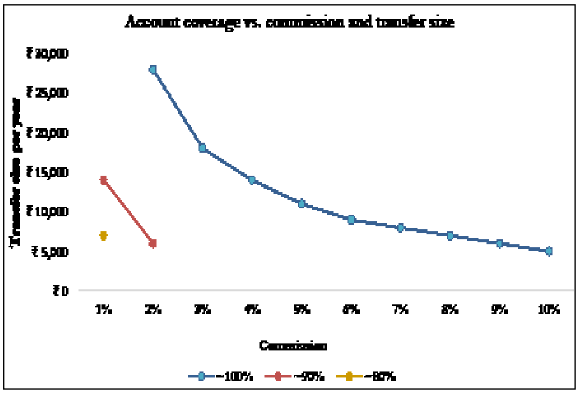


Source: **GOI**

9.33 Distance: Figure 3 shows that for 2015 in a majority of states people are 3-5 km away from any form of access point (bank branches, ATMs and BCs). Madhya Pradesh and Rajasthan have persons traveling over 5 km to access formal financial services. Surprisingly, the relatively poor states of UP and Bihar (in addition to Chhattisgarh) seem to be doing better than average – with people living closer to the banks. This could merely be a function of high population density, as the next paragraph explains.

9.34 Persons per bank: Figure 4 plots the number of persons per bank aggregated at the state level for the current year. The higher this number, the more the burden on the banking system – in other words, this number serves as an indicator of the size of the average bank's "catchment population". Here, Madhya Pradesh, Assam, Arunachal Pradesh, Meghalaya, Himachal Pradesh, Andhra Pradesh, along with the densely populated states of UP and Bihar do worse than average.

Figure 5. Financial Inclusion, Transfer size and BC commission per capita



Source: **Gates Foundation Calculations**

9.35 Taken together, the two graphs point to the fact that despite tremendous improvements in banking coverage, there is still some way to go before financial access to all poor is achieved.

9.36 On the payments side, improving financial inclusion is both a demand and supply side challenge. While on the demand side, there is a need for behavioral change on the part of account holders so that they use their accounts more often, on the supply side, banks need to find it profitable to provide access to banking services. Increasingly, banks have been making use of BCs to provide last mile access to banking. A Taskforce on an Aadhaar-Enabled Unified Payment Infrastructure recommended increasing commissions to BCs in order to make them profitable. This profitability is highly dependent on the volume of transactions per BC, and one can model scenarios where a UBI can lead to increased financial inclusion through an increased number of transactions. A very plausible hypothesis is that as a UBI is provided to individuals, there will be an endogenous increase in the volume of transactions and revenue from government transfers along with a corresponding decrease in per unit fixed costs, thereby increasing the profitability of BCs and expanding their coverage.

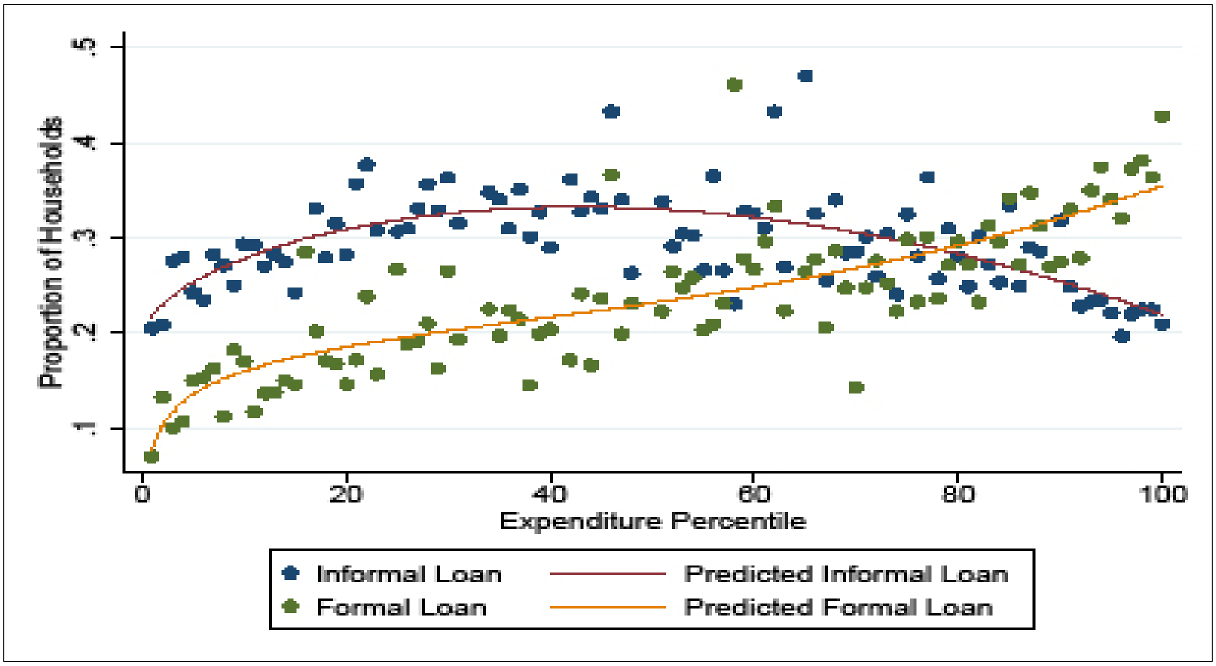
9.37 Figure 5 visually represents these scenarios: it can be seen that to achieve universal financial inclusion (access to a BC), transfers can be as low as INR 4800 per capita per year though commissions need to be high at 10 percent. A higher UBI would in turn require a lower commission. Equivalently, at 90 percent financial inclusion, an increase in transfer from INR 4800 per capita per yearto INR 12000 per capita per year can lead to a reduction in the distance between an account holder and the nearest BC from 4.5 km to 2.5 km. As can be seen, even at a commission level of 1 percent a higher UBI can dramatically improve financial inclusion.

B Access to Formal Credit

9.38 A UBI can potentially also unlock credit constraints in the form of a higher income. Using recently released data for farmers from the Debt and Investment Survey (2013), it is evident that as one moves along the consumption spectrum, the proportion of farmers taking informal loans falls and formal loans take over (Figure 6). While the trend in proportion of farmers as well as average loan sizes is smooth across percentiles, the trend in median loan amounts shows a discontinuity at the 78th percentile – from median loans being zero till this level, there is sudden increase in median amounts for formal loans(Figure 7). Such a discontinuity implies that if everybody's consumptions could be increased to this level, there might be significant jump in access to formal credit.

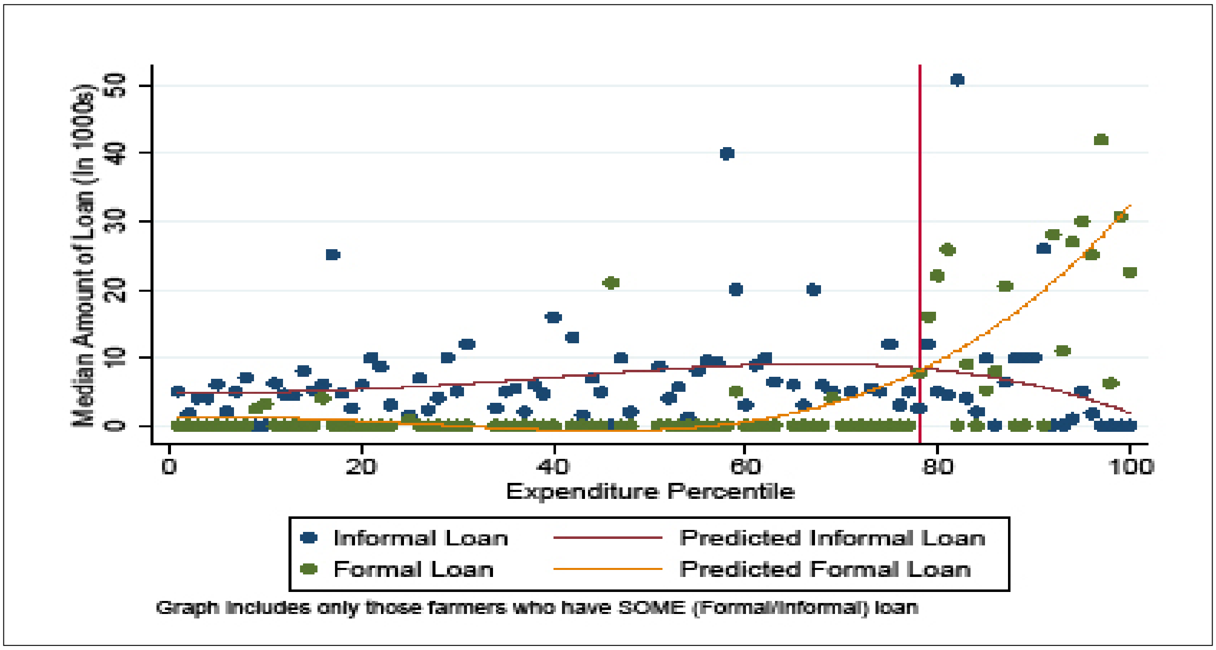
9.39 Figure 8 builds a scenario chart of UBI amounts and probability that anybody below the 78th percentile (INR 90000 per household per year) will cross this threshold as a result of UBI. It shows that as the UBI amount increases the probability of

Figure 6. Rise of Formal Banking with Expenditure



Source: **Debt and Investment Survey, NSS 2012-13, *Survey* Calculations**

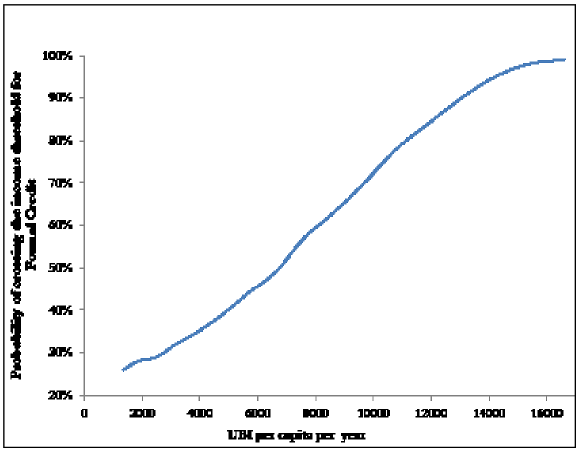
Figure 7. Median loan amount by expenditure percentiles



Source: **Debt and Investment Survey, NSS 2012-13, *Survey* Calculations**

releasing the credit constraint imposed by consumption expenditure falls[21]. A caveat to this finding though is that this income threshold (78th percentile) itself might get pushed up as a UBI is universal in nature, dampening the effect of UBI on releasing credit constraints.

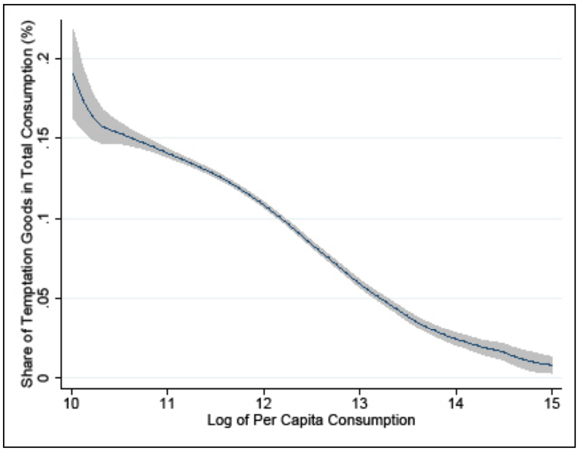
Figure 8. Probability of releasing credit constraints and UBI



Source: Survey **Calculations**

VIII. Temptation Goods: Would A UBI Promote Vice?

Figure 9. Temptation Goods vs Consumption Expenditure



Source: **NSS 2011-12, *Survey* Calculations**

9.40 Detractors of UBI argue that, as a cash transfer programme, this policy will promote conspicuous spending or spending on social evils such as alcohol, tobacco etc. Literature

[21] This is a descriptive statement, not a causal one: it could very well be the fact that people who are above the 78th percentile are there because they have different financial habits (including savings and borrowing), so moving people up to that level may not result in this jump.

shows that there is a general perception that cash transfers get spent on these 'temptation goods' (Moore 2009, Ikiara 2009 and Devereux 2002). This is indeed a crucial point especially if UBI is expected to replace other in-kind programs such as PDS. The NSS 2011-12 data is employed to explore this argument. One can define consumption on alcohol, tobacco and paan as consumption on 'temptation goods'. The main finding is that these goods form a smaller share of overall budget/consumption as overall consumption increases (Figure 9). This provides an indication that an increase in income from UBI alone will not necessarily lead to an increase in temptation goods consumption. This is in line with Evans and Popova (2016) who undertake a meta-analysis of 30 studies that evaluate the impact of transfers on the consumption of temptation goods. Appendix 3 provides some evidence for the same in the Indian context.

IX. Moral Hazard: Would A Ubi reduce Labour Supply?

9.41 Another argument against UBI is the moral hazard one propounded by Gandhiji against charity - free money makes people lazy and they drop out of the labourmarket. The simplest explanation is that unlike in-kind programmes, cash transfers (conditional and unconditional) raise the income of households for each unit of labour it already supplies and so can afford to reduce labour without necessarily affecting the household's income. As plausible as this might seem on paper, things do not seem to play out in this manner in reality.

9.42 Banerjee, Hanna, Kreindler and Olken (2015) conduct a meta-analysis of 7 randomized controlled trials of government cash transfer programs in 6 developing countries (Honduras, Morocco, Mexico, Philippines, Indonesia and Nicaragua). Appendix 4 provides a summary of these studies from the paper. Most of these are conditional cash transfer type of programs and form between 4 percent (Honduras) and 20 percent (Morocco) of household consumption. They find no significant reduction in labour supply (inside and outside the household) for men or women from the provision of cash transfers. This finding is also in line with that of Alzua, Cruces and Ripani (2010) where they find non-significant, small and negative effects of three Latin American programs on adult employment.

9.43 Within the Indian context Appendix 3 provides evidence on a similar non-impact of UBI onlabour supply from a modified randomized control trial conducted in a few villages in Madhya Pradesh, India.

X. The Way Forward

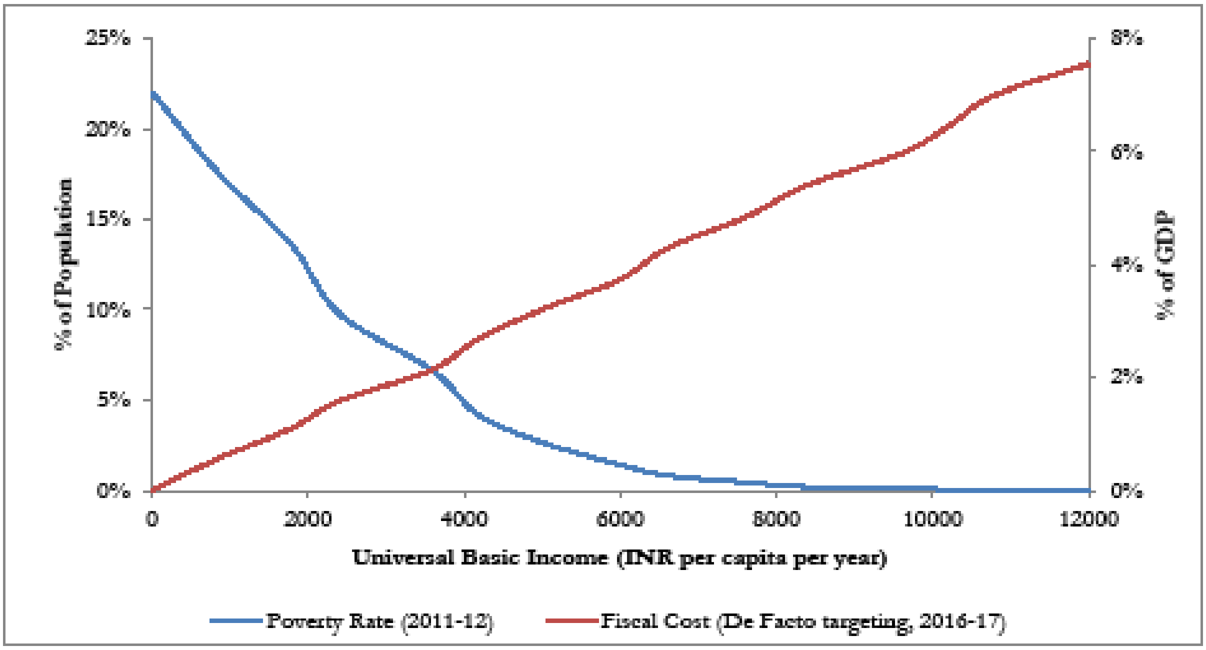
9.44 The irresistible force of even as powerful an idea as UBI will run into the immovable object of a resistant, pesky reality. So, what is the way forward, always remembering that the yardstick for assessment is not whether UBI can be perfect or faultless but only whether it can improve substantially upon the status quo?

A Poverty reduction and illustrative fiscal cost calculations:

9.45 What would a UBI potentially cost? This is not an easy calculation because it depends on a number of objectives and assumptions. This is described carefully in the following manner.

9.46 Based on the 2011-12 distribution of poverty it seems clear that going from a certain very low level of poverty to eliminating it will be prohibitively high (in Figure A4 in Appendix 5, the cumulative probability distribution of consumption is flat from about 0 percent of poverty to 0.45 percent). So, a target poverty level of

Figure 10. Implications of the UBI and its effect on poverty and vulnerability



Source: **NSS 2011-12, Budget 2016-17, *Survey* Calculations**

0.45 percent is chosen. Then the 2011-12 consumption level is computed for the person who is at that threshold. The next calculation is the income needed to take her above INR 893[22]per month[23], which is the poverty line in 2011-12. This comes to INR 5400 per year. Subsequently, that number is scaled up for inflation between 2011-12 and 2016-17: this yields INR 7620 per year. This is the UBI for 2016-17. For reasons explained later, the survey assumes that in practice any program cannot strive for strict universality, so a target quasi-universality rate of 75 percent is set (this is later referred to as de facto UBI). The economy-wide cost is then the UBI number multiplied by 75 percent. This yields a figure of 4.9 percent of GDP.[24]

9.47 One important point to note.This UBI calculation does not require any assumption about the poverty headcount rate. It only requires consumption data on the marginal poor (the person at the 0.45 percent threshold) and the poverty line. Figure 10 shows UBI for various target poverty levels and corresponding fiscal costs.

9.48 The calculation assumes that private consumption has not changed at all implying that real income of the poor at the threshold poverty level of 0.45 percent in 2016-17 has not increased in real terms since 2011-12. This is unlikely to be true. Thus, the actual cost of a UBI to the government could be lower. If, for example, the real income of that marginal poor grew at the same rate

[22] This is the population weighted average of the state-wise rural and urban Tendulkar poverty lines for 2011-12.

[23] The Tendulkar poverty line is calculated based on NSS 2011-12 consumption data – it must be said that the line is somewhat notional and one must be careful before making a value judgement on the adequacy of the line to measure well-being.

[24] In Appendix 5, an alternative way of costing the UBI based on the marginal benefits of poverty and vulnerability reduction is discussed.

[25] There is already some evidence of centre-state bargaining for DBT in the PDS. See, here: http://www.financialexpress.com/market/commodities/puducherry-asks-for-increase-in-rice-subsidy-to-dbt-beneficiaries/399995/

as overall GDP per capita (which would be about 2 percent per year), the UBI amount will decline to INR 6540 per capita per year, costing 4.2 percent of GDP.

9.49 Since these calculations are based on 2011-12 consumption data projected forward, the implicit assumption is that UBI will be additional to the poor's existing consumption which includes consumption from public programs (PDS, MNREGA, etc.). Is this reasonable or plausible?

9.50 On the one hand, a case could be made that if current programs are prone to exclusion error, which is likely to affect the poorest amongst the poor to a greater extent, then this methodology is not unreasonable.

9.51 However, there will be cases where PDS or fertilizer subsidies do reach most beneficiaries which will then have be taken into account if a measure of UBI as a replacement program is to be calculated. This is a complicated task because there will be a number of general equilibrium effects which will need to be considered. For example, replacing the PDS will increase market prices of cereals the poor face. Similarly, phasing down MGNREGS might reduce market wages for rural casual labour. Calculating these effects and hence the exact magnitude of subsidies will help refine any costing of the UBI.

9.52 However, as discussed earlier the UBI is likely to be more effective than existing programs in reducing misallocation, leakage and exclusion errors. In that case, the prior would be that not accounting for replacement would still not seriously affect the costing of UBI. After all, replacing one rupee of the fertilizer subsidy should require a compensating UBI of less than one rupee.

9.53 The process of determining a UBI amount is not a one-time exercise: as the UBI is a cash transfer, its 'real' value tends to be determined by inflation in the economy. Over time, the same amount of cash transfer may not buy the same amount of goods. It is, therefore, important to index it to prices such that the amount gets revised periodically. Politics can play a huge role in determining the exact amount each time it is up for revision[25] and so it is important to set up a sufficiently politically neutral mechanism to do so. Ray (2016) proposes setting UBI as a constant share of the GDP to overcome this complication.

B Where is the fiscal space to finance a UBI?

9.54 Table 2 below presents the costs to the centre of running various welfare programmes and provision of services. Any government will have to decide on what programmes/ expenditures to prioritize in order to finance a UBI. The lowest rungs of the table are presented for completeness, and it may not be advisable to replace these. In other words, while a UBI may certainly bethe shortest path to eliminating poverty, it should not become the Trojan horse that usurps the fiscal space for a well-functioning state.

9.55 The first few rows of Table 2 are the subsidies for the non-poor/middle class households, equivalent to about 1 percent of GDP[26]. Next listed are the government subsidies that account for 2.07 of the GDP (2014-15 actual)[27]. The corresponding figure for the states in 2011-12 is 6.9 percent (Sudipto and Sikdar 2017). Among these, as table 2 shows, the subsidies for fertilizer, petroleum and food constitute the largest amounts. Previously, the chapter argues that

[26] These numbers are an update on the calculations made in Economic Survey 2015-16 (Chapter 6).

[27] There exists some double counting here – since, some proportion of the urea subsidy given to the middle class is accounted for in the rows above.

the government runs a plethora of schemes– the top ten centrally sponsored or central sector schemes (not including subsidies) cost the state about 1.4 percent of GDP (2014-15 actuals). The remaining 940-odd sub-schemes account for 2.3 per cent of the GDP. Further below in the table, we list the other government expenditure: spending on education, health, pensions, police, defence and interest payments[28].

9.56 Here, it is clear that the magnitude of middle-class subsidies would be roughly

Table 2. Fiscal cost of existing Central Government programmes (2015-16)

Implicit Middle Class "Subsidies"[29] (percent of GDP)[30]	**Total**
LPG	**0.21**
Railways-1 (only A/C)	**0.01**
Railways-2 (Sleeper Class)	**0.07**
Aviation turbine fuel	**0.01**
Fertilizer (Urea)	**0.04**
Personal Income-tax Exemptions	**0.44**
Interest Subvention Scheme for farmers	**0.1**
Mudra (Interest Subsidy)	**0.11**
Gold	**0.08**
SUB-TOTAL	**1.05**
Existing Social Sector Programmes/ Schemes (2014-15, percent of GDP)[31]	
Total Subsidy	2.07
-Fertilizer	0.57
-Petroleum	0.48
-Food	0.94
Schemes (Central Sector and Centrally Sponsored)	3.7
-Top ten Schemes[32]	1.38
Education	0.49
Medical, Public Health, Sanitation	0.1
Family Welfare	0.13
Grants to State and UTs	0.62
Pensions	0.75
Police	0.38
Defence	1.10
Interest Payments	3.22

28 Here, again, there is some double-counting. This is a key reason we do not provide any aggregate figure. For instance, some of the expenditure under the head "education" is also considered in the spending of the top-ten central sector schemes. Similarly, for other heads like health and family welfare.

29 See Appendix 8 for details on the way in we have calculated these subsidies, which incorporate the notion of tax revenue foregone.

30 Some of the components of the tax revenue foregone are not included as: (1) corporate tax exemptions are going to be phased out gradually; (2) tax exemptions on import duties are not really reclaimable because many of these are related to India's Free Trade Agreements which can not be repudiated ; (3) some of the current exemptions will be replaced under GST regime; and (4) moreover, it is possible that some of the current indirect tax exemptions benefit the poor.

31 There may be double counting. For e.g. implicit middle class LPG subsidy will also be included in total subsidy. Similarly, expenditure on education is also covered in centre's expenditure on top ten schemes.

32 Budget estimate 2014-15

equal to the cost of a UBI of INR 3240 per capita per year provided to all females. This will cost a little over 1 percent of the GDP – or, a little more than the cost of all the middle-class subsidies. However, taking away subsidies to the middle-class is politically difficult for any government. It is clear that while the fiscal space exists to start a de facto UBI, political and administrative considerations make it difficult to do this without a clearer understanding of its larger economy-wide implications.

C Guiding Principles for Setting up a UBI

9.57 Conceptually, a well-functioning UBI can be designed. How should one go about attempting to implement the same in a country as vast and complex as India? There exist, when translating the idea into reality, tensions that tug in opposing directions: there is the pull of universality, the need to contain fiscal costs, the difficulty of exit from existing programmes and the need to introduce a system that is not beyond the admittedly constrained ability of the Indian state to implement things at scale.

9.58 Below are three principles that could help guide thinking in this direction.

i. De jure universality, de facto quasi-universality

9.59 If universality has powerful appeal, it will also elicit powerful resistance. The popular reaction to demonetization reveals a deep sense that the well-off gain from and game the current system to their advantage. In that light and keeping in mind fiscal costs, the notion of transferring even some money to the well-off may be difficult.

9.60 It is, therefore, important to consider ideas that could exclude the obviously rich i.e., approaching targeting from an exclusion of the non-deserving perspective than the current inclusion of the deserving perspective[33]. And there are a number of possibilities here. Below, is a list offour:

1. Define the non-deserving based on ownership of key assets such as automobiles or air-conditioners[34] or bank balances exceeding a certain size.
2. Adopt a 'give it up' scheme wherein those who are non-deserving chose to opt out of the programme just as in the case of LPG and are given credit for doing so.
3. Introduce a system where the list of UBI beneficiaries is publicly displayed; this would "name and shame" the rich who choose to avail themselves of a UBI[35].
4. Self-targeting: Develop a system where beneficiaries regularly verify themselves in order to avail themselves of their UBI – the assumption here is that the rich, whose opportunity cost of time is higher, would not find it worth their while to go through this process and the poor would self-target into the scheme. The issue with an approach of this sort is that it conflicts with the essence of JAM,whose appeal lies in its direct, costless transfer of the state's welfare subsidies to beneficiaries' accounts.

ii. Gradualism

9.61 A guiding principle is gradualism: the UBI must be embraced in a deliberate, phased manner. A key advantage of phasing would be that it allows reform to occur incrementally – weighing the costs and benefits at every step. Yet, even gradualism

[33] This is not unlike the "exclusion criteria" envisioned in the National Food Security Bill (2013).

[34] One source of asset ownership is the Socio-Economic Caste Census data for rural households.

[35] This would, of course, have the additional benefit of ensuring that the poor can check if they are receiving benefits.

requires a roadmap. Here, below are different approaches of gradually adopting a UBI. The eventual goal of each approach is to inform the path towards a de facto UBI.

Choice to persuade and to establish the principle of replacement, not additionality

9.62 Rather than provide a UBI in addition to current schemes, it may be useful to start off by offering UBI as a choice to beneficiaries of existing programs. In other words, beneficiaries are allowed to choose the UBI in place of existing entitlements. This strategy has many advantages, beyond simply containing costs. It gives people agency, not only in that they have greater choice, but importantly because they have greater power in negotiating with the administrators who are currently supposed to be giving them benefits. This threat, expressed or latent, will then provide incentives to the administrators of existing programs to improve their performance. In the case of a fertilizer outlet, for example, the dealer knows that if he diverts the rice for his own purposes, he faces the threat of exit – beneficiaries will switch to a UBI. This, in turn, will reduce the quota of fertilizers allocated to his outlet.

9.63 Designed in this way, UBI could consequently not only improve living standards; it could also improve administration (and cut the leakage costs) of existing programs.

9.64 However, there are at least two concerns with the process listed above: one, by allowing the UBI as a choice over current entitlements, it reinforces all the current problems with targeting. This also ensures continuity of the misallocation problem[36] with richer districts having a greater access to welfare benefits; furthermore, those excluded from the system will be unable to give anything up to avail themselves of the UBI; those well-off who are currently (wrongly) included will continue to have the right to be included

9.65 Another problem is that this would be administratively cumber some. Although arguably a one-time event, who, for instance, in the case of fertilizer subsidies identifies and compiles the lists of persons who have given up access? This would likely be another opportunity for corrupt actors.

UBI for women

9.66 Women face worse prospects in almost every aspect of their daily lives – employment opportunities, education, health or financial inclusion. Simultaneously, there exists plenty of evidence on both, the higher social benefits and the multi-generational impact of improved development outcomes for women. A UBI for women can, therefore, not only reduce the fiscal cost of providing a UBI (to about half) but have large multiplier effects on the household. Giving money to women also improves the bargaining power of women within households and reduces concerns of money being splurged on conspicuous goods. The UBI could also factor in children in a household to provide a higher amount to women. This addition, though, has three potential problems – one, it may not be easy to identify the number of children in a household; two, it may encourage households to have a greater number of children; and three, phasing out boys from beneficiary list once they reach a certain age (say 18 years) may not be easy to monitor and undertake.

[36] Another administrative question, specific to the PDS is the following: will it be financially viable for Fair Price Shop (FPS) dealers to run the PDS when volumes reduce because of the availability of choice?

[37] Indeed, the National Food Security Act mandates that all pregnant women receive INR 6000 during their pregnancy. The central government spending on pensions is INR 200 per month, and has not been updated in ten years.

[38] These states the special category states of J & K, Assam, Manipur, Mizoram, Nagaland, Arunachal Pradesh, Tripura, Sikkim, Himachal Pradesh, Uttarakhand.

Universalize across groups

9.67 Another approach is to phase in a UBI for certain vulnerable groups – widows, pregnant mothers, the old and the infirm – first. This would serve as a means for the state to make good of its promise – sometimes mandated by law – to support the most vulnerable[37]. Furthermore, these are easily identifiable groups of individuals. Previous studies show that leakages in pensions are already low (Murgai et al 2010) and while the maternity benefits pilots suffer from implementation problems (Sinha et al (2016)), there is some evidence to show that they have helped smooth over medical costs for the poor.

9.68 However, as things stand today, there exist exclusion errors in both these schemes. These groups of persons are less likely to have access to bank accounts and are further away from the JAM frontier.

UBI and redistributive resource transfers to states

9.69 As Chapter 13 documents, a number of state governments[38] receive large amounts of transfers that may not prima facie increase growth or consumption. The UBI offers a possible way-around: a part of the redistributive resource transfers may be transferred by the centredirectly into beneficiaries' accounts in the form of a pilot UBI programme.

9.70 However, aid receiving states may be harsh testing grounds for a UBI. These states also often comprise the poorest and the most backward districts, saddled with limited state capacity. That being said, as Figures11 and 12 show, these states have made significant progress in providing both Jan Dhan and Aadhaar seeded accounts.

UBI in urban areas

9.71 The discussion above may give credence to the idea of a UBI for urban areas first, as these areas are less likely to suffer from poor banking infrastructure and lack of individuals with bank accounts. The urban areas have an additional benefit – in rural areas, the poor often depend on the state for sustenance, a condition that makes introducing a disruption like the UBI in these areas tricky.

9.72 The pilot exercises of direct beneficiary transfer (DBT) in lieu of PDS – not exactly a UBI – in Chandigarh and Pondicherry offer a cautionary tale. DBT was introduced and rolled back[39] within two months in Pondicherry, only to be reintroduced. Despite some evidence on reduced leakages, independent evaluations emphasize the need for an improved digital financial infrastructure (MicroSave, 2016), even in these relatively urban settings[40].

9.73 Appendix 6 summarizes the previous discussion and offers ways of interpreting successes and failures of each of the gradualist ideas documented above.

D Prerequisites

i. JAM

9.74 Crucial to the success of the UBI is effective financial inclusion. Nearly a third

[37] Indeed, the National Food Security Act mandates that all pregnant women receive INR 6000 during their pregnancy. Similarly, the central government spending on pensions is INR 200 per month, a figure that has not been updated in over a decade.

[38] These states the special category states of J & K, Assam, Manipur, Mizoram, Nagaland, Arunachal Pradesh, Tripura, Sikkim, Himachal Pradesh, Uttarakhand.

[39] Yadav (2015), scroll.in.

[40] For a discussion of issues with Chandigarh's DBT, see Singh (2016).

of adults in India still do not have a bank account and are likely to be left behind. These are also likely to belong to the poorest social groups – women, SCs, STs, the ageing and the infirm – who benefit most from state-funded subsidies.

9.75 Currently, as per official records, there are 26.5 crore Jan Dhan accounts (21 percent of the population) across the country. The per capita density of these accounts is relatively high in many of the poorer states (see Figure 11) and Chhattisgarh has the highest penetration. Of the 26.5 crore Jan Dhan accounts, 57 percent are Aadhaar seeded (see Figure 12 for Aadhaar seeded accounts per capita). Some states in the North-East and Jammu and Kashmir lag behind. In terms of JAM preparedness, considerable ground has been covered rapidly, but there is quite some way to go.

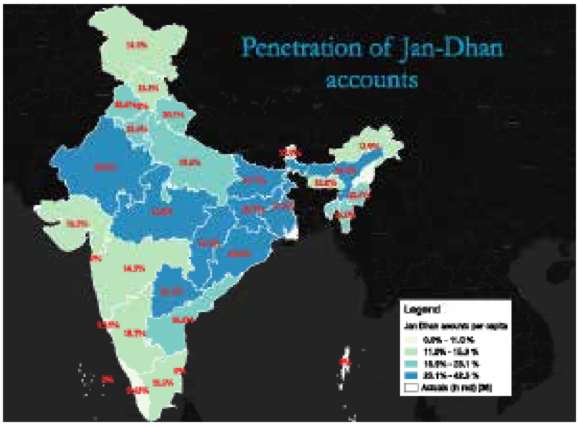
9.76 While Aadhaar coverage speed has been exemplary, with over a billion Aadhaar cards being distributed, some states report authentication failures: estimates include 49 percent failure rates for Jharkhand, 6 percent for Gujarat, 5 percent for Krishna District in Andhra Pradesh and 37 percent for Rajasthan[41]. Failure to identify genuine beneficiaries results in exclusion errors.

9.77 Another problem is leakages – while there exists, in the Indian context, rigorous evidence supporting universalization of in-kind transfers to reduce leakages, it is not clear if a universal cash transfer will necessarily result in lower leakages. Given the amount of cash that will flow through the system under the UBI and the fungible nature of money, one could imagine a perverse equilibrium where the UBI results in greater capture by corrupt actors. Indeed, it is an open question if a UBI today will necessarily work better than simply universalizing other in-kind transfers it replaces. This, once again, reiterates the role of a transparent and safe financial architecture that is accessible to all – the success of the UBI hinges on the success of JAM[42].

ii. Centre-State Negotiations

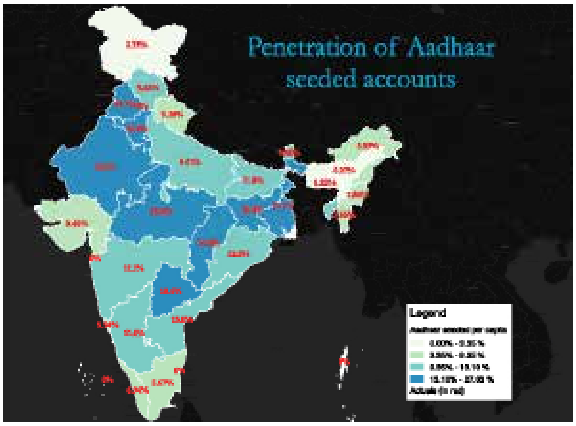
9.78 The UBI amount will be a crucial factor in ensuring the success of such a programme. A key federal question will be the centre-state share in funding of the UBI.

Figure 11. Per capita Jan Dhan accounts



Source: **GOI, *Survey* Calculations**

Figure 12. Per capita Aadhaar Seeded accounts



Source: **GOI, *Survey* Calculations**

41 Yadav (2016), scroll.in.

42 A UBI will, of course, not be routed only through Jan Dhan accounts. Anyone with an Aadhaar-seeded bank account would be eligible for the UBI. The focus on Jan Dhan in this chapter reflects the importance of these accounts for the poorest.

This would, like the GST, involve complex negotiations between federal stakeholders. Initially, a minimum UBI can be funded wholly by the centre. The centre can then adopt a matching grant system wherein for every rupee spent in providing a UBI by the state, the centre matches it.

XI. Conclusions

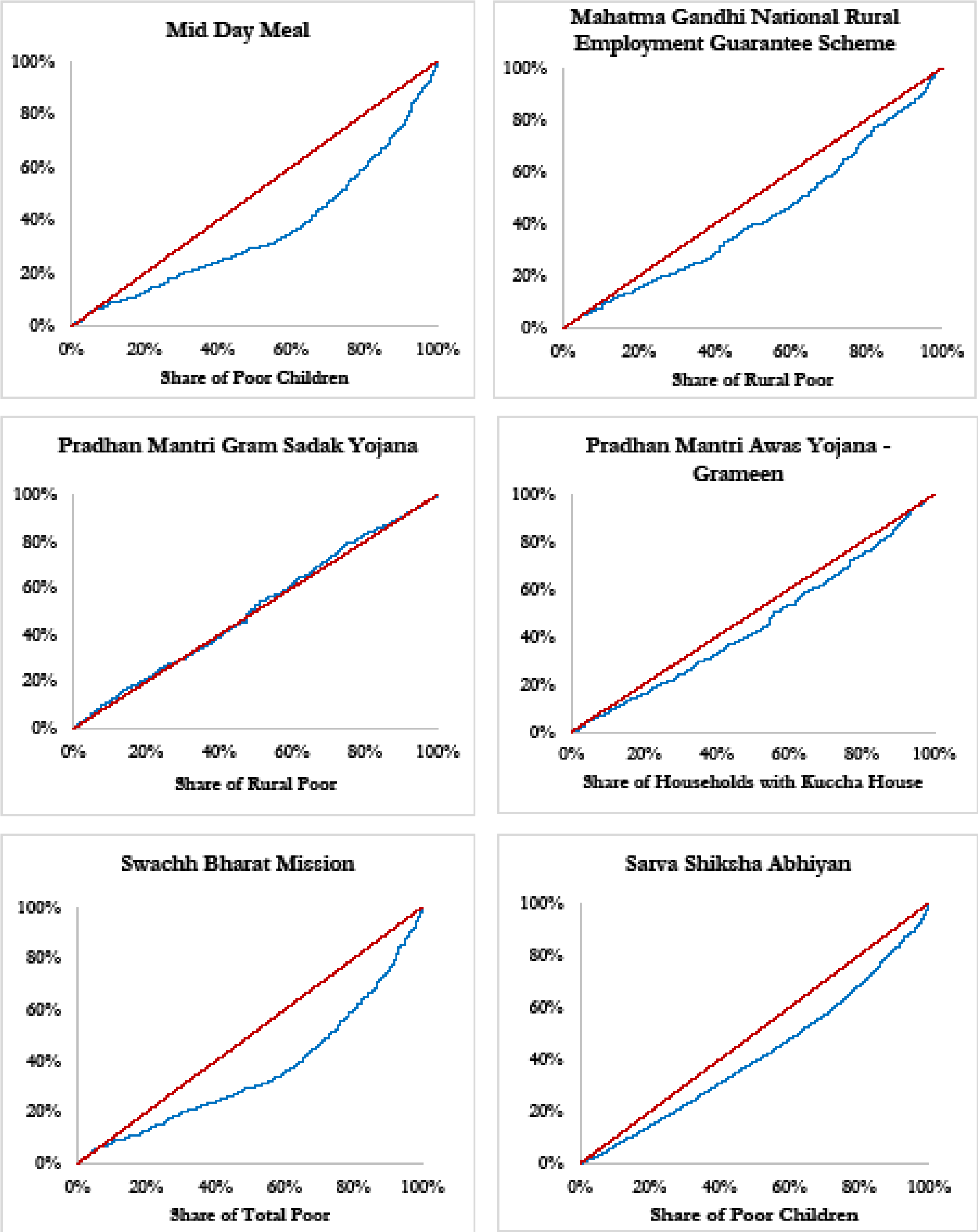
9.79 If, as appears to be the case, that thinkers on both the extreme left and right have all become its votaries, then UBI is a powerful idea whose time even if not ripe for implementation is ripe for serious discussion. One can easily imagine the Mahatma as fair mediator, deliberating and examining both sides of the argument carefully. The Mahatma as the embodiment of universal moral conscience would have seen the possibility of UBI in achieving the outcomes he so deeply cared about and fought for all his life. But the Mahatma as moralist would have had doubts because of seeing uncompensated rewards as harming responsibility and effort. As a fiscal conservative he would permit UBI only if convinced that macro-economic stability would not be jeopardized. Recognizing the difficulty of exit, the Mahatma as astute political observer would have anxieties about UBI as being just another add-on government programme. But on balance he may have given the go-ahead to the UBI.

9.80 Or so one might tentatively infer.

Appendix 1. Resource Misallocation Calculation by Programme

Here misallocation across districts is given for each of the 6 programs by its relevant intended beneficiaries[43] . Y-axis in each chart is share of districts in total programme allocation

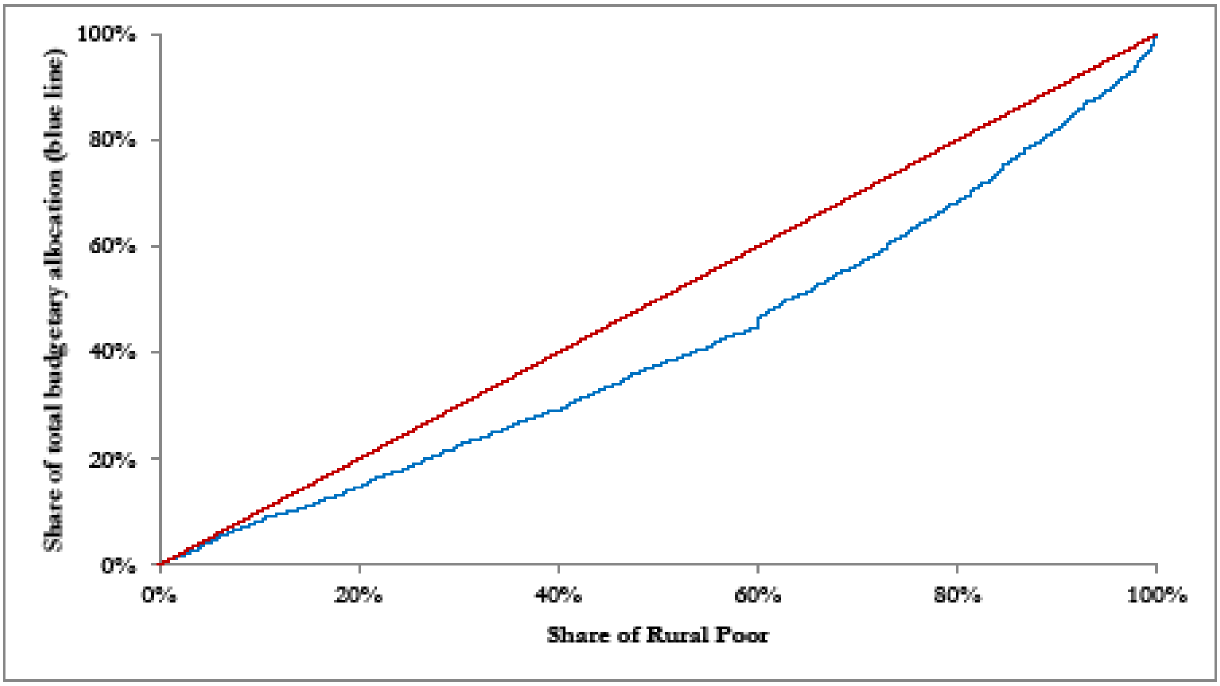
Figure A1. Misallocation calculated across different programs



Source: **Administrative data for each programme, NSS 2011-12, SECC 2011, *Survey* Calculations**

43 As the graphs show, we calculate misallocation by intended beneficiaries where the scheme targets certain groups. Otherwise, we calculate misallocation by share of poor.

Figure A2: A Graphical Representation of Misallocation

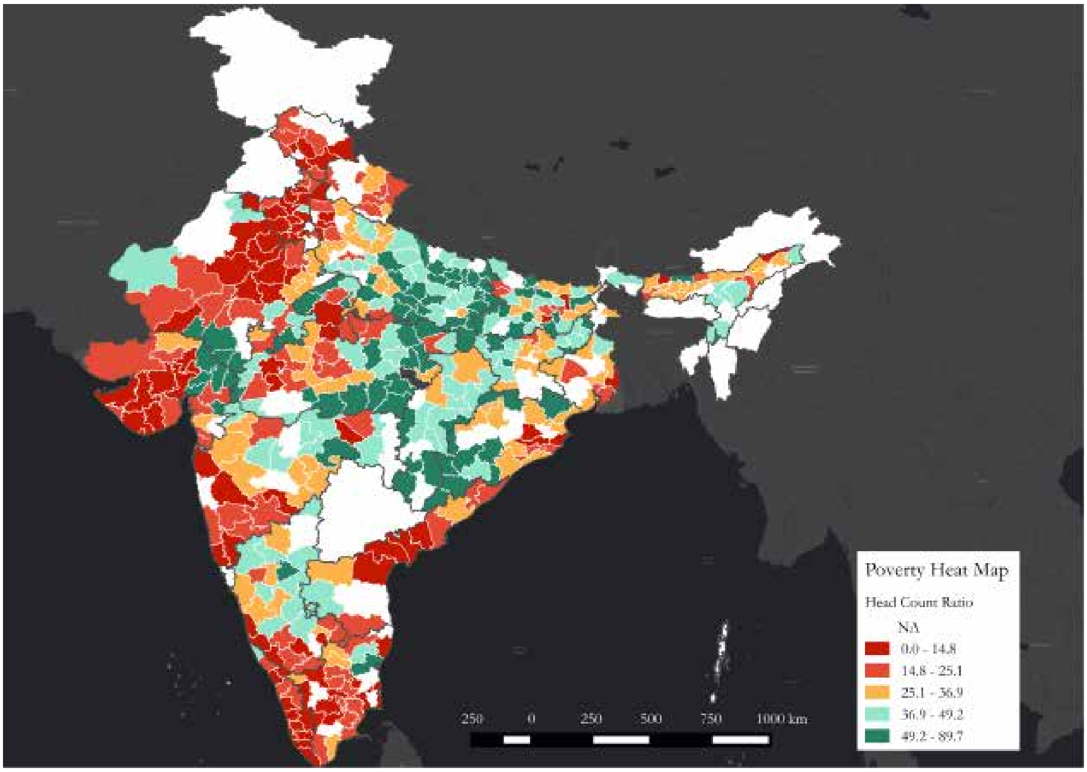


Source: **Administrative data for each programme, NSS 2011-12, SECC 2011, *Survey* Calculations**

To explore misallocation further, a GINI coefficient is constructed to measure the degree of misallocation across districts for the above schemes. Here the X-axis represents the districts' cumulative share in rural poor from the poorest to the least poor districts, and the Y-axis represents the cumulative share of these districts in total allocation across each of these programs. Reading off the graph, we see that the poorest set of districts accounting for 20 percent of the poor access only 15 percent of the resources, 40 percent of the poor only 29percent of the resources and 50 percent of the poor about 38 percent of the resources from the scheme. The overall GINI coefficient for misallocation is 17 percent – the gap between the red and the blue lines in the figure – with significant variation across programs.

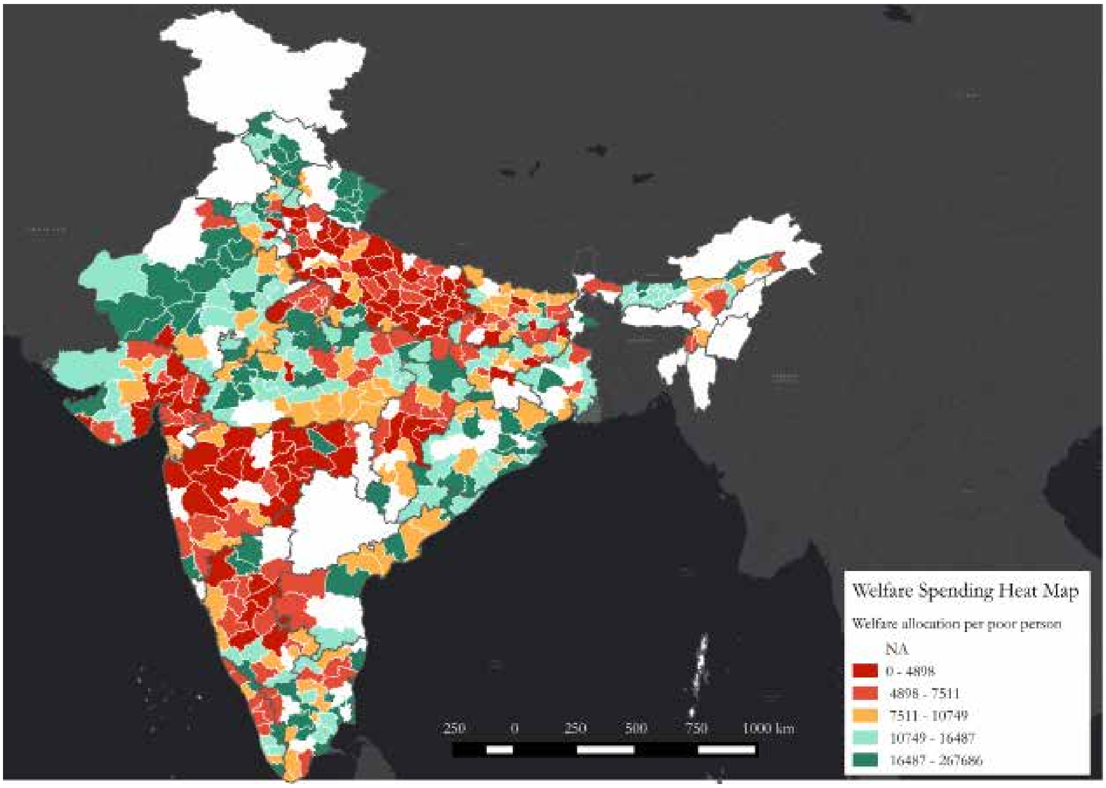
The two graphs below emphasize the extent of misallocation across districts for the six top welfare programs - the PMAY, SSA, MDM, PMGSY, MGNREGS and SBM. Figure A3 is a heat map of the headcount ratios of all districts for 2011-12 whereas Figure A4 shows the same for total welfare allocation (six programs) per poor in the same districts. There is a sharp mismatch in the poverty levels and the welfare spending per poor, reflected in the contrasting colours of many districts. This is especially visible in Uttar Pradesh, parts of Bihar and Madhya Pradesh. In other words, the poorer districts are starved of welfare funds.

Figure A3. Headcount Ratio by districts (2011-12)



Source: **NSS 2011-12, *Survey* Calculations**

Figure A4. Welfare spending per poor across districts



Source: **Programme administrative data and NSS 2011-12, *Survey* Calculations**

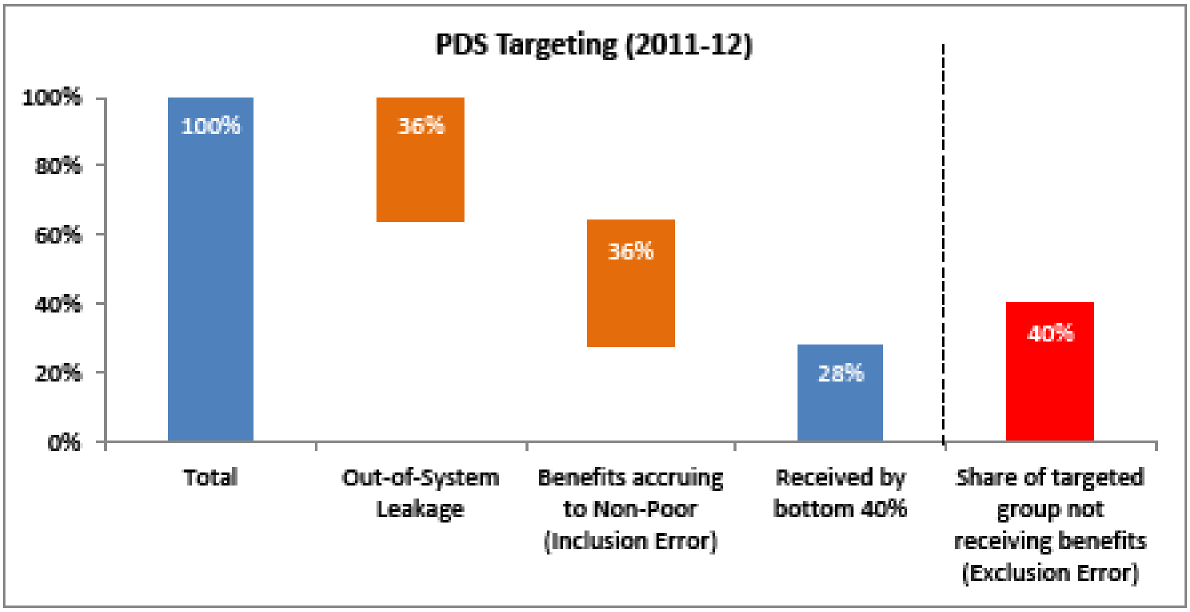
Appendix 2. Targeting of Current Central Sector and Centrally Sponsored Schemes

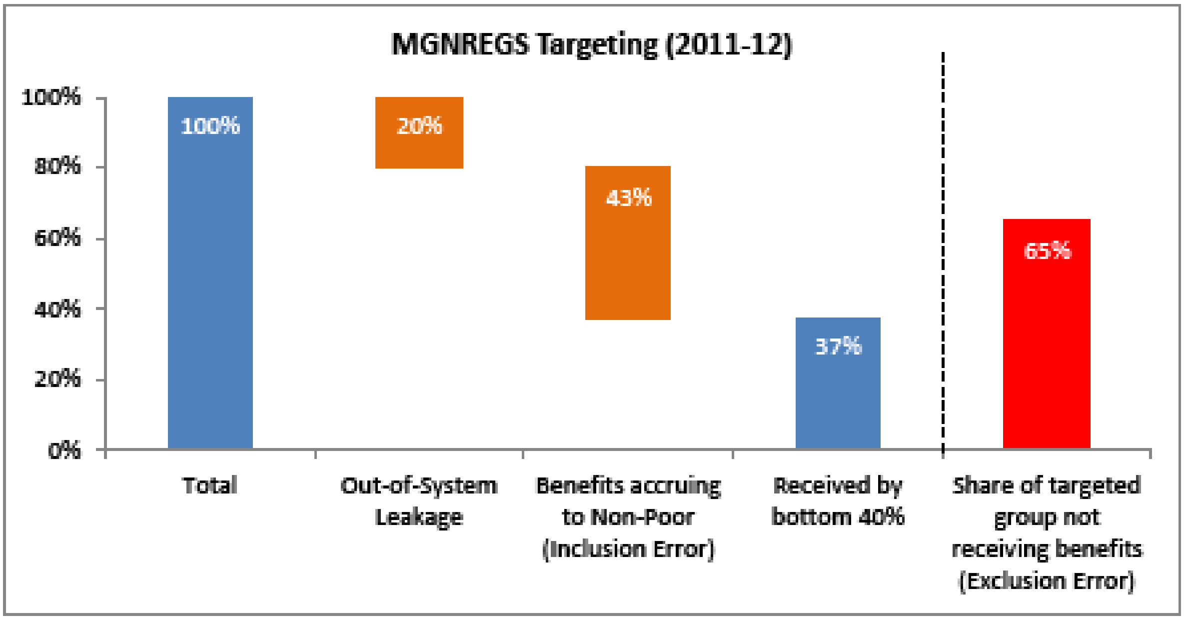
Methodology:

The targeting efficiency analysis incorporates four forms of targeting errors – leakage out of the system, misallocation of resources across districts, benefits to non-poor and exclusion of poor. The poor are defined as the poorest 40 percent of the population, or individuals belonging to the bottom 40 percent of income distribution. Figure A3 shows the targeting efficiency of PDS and MGNREGS for 2011-12, calculated based on methodology presented below (non-poor in chart refers to bottom 40 percent).

Targeting Error	PDS (for each of Rice, Wheat and Kerosene)	MGNREGA
Out of system leakage	Actual allocation minus Total quantity of PDS received by all beneficiaries Source: Economic Survey of India 2015-16	Imbert and Papp (2014)
Incidence (top 60%)	Incidence of total volume of PDS for each of rice, wheat and kerosene on top 60% in the survey Source: IHDS 2011-12	Share of MGNREGA income received by the top 60 %in the survey Source: IHDS 2011-12
Exclusion error	Proportion of those in bottom 40% in the survey who do not receive PDS item Source: IHDS 2011-12	Proportion of those in bottom 40% in the survey who do not have a MGNREGA Card Source: NSS 2011

Figure A5. PDS and MGNREGS Targeting (2011-12)





Appendix 3: SEWA Bharat – UNICEF Study on Basic Income Transfers[44].

Moral hazard associated with labour supply as a consequence of UBI

This is an issue often raised across national contexts. That giving unconditional basic income would act as a major disincentive to work. That people would simply take the free money and laze around. However, Davala et al (henceforth referred to as the "MP study") shows clearly that it is not the case in Madhya Pradesh in India.

One of the major findings of the study is a shift from wage labour to own cultivation. That is, small and marginal farmers, when they get a basic income, begin to invest more into their own cultivation. As a result, one observes a positive jump in agricultural production and land cultivated. This dynamic also had another positive effect on indebtedness which is chronic in the case of small and marginal farmers. They borrowed less from money-lenders whose rates in the region are as high as 2 to 10percent per month. In short, the study shows that people become more productive when they get a basic income.

Two, by definition, the basic income is not meant to replace employment. One cannot live entirely on basic income. It is a guaranteed income that acts as a cushion to survive even under extreme situations.

Lastly, the study also shows that if the right amount is given as a basic income, the positive effect is disproportionately higher than what the monetary value is under normal circumstances. In other words, the emancipatory value of basic income is several times greater than it monetary value.

2. Effect of UBI on conspicuous spending and spending on bad goods

When one raises this question, one has two images in mind.

1. That cash is fungible and need not necessarily be used for the desired welfare effect that any social policy envisages, and for the basic needs that oneassociates the poor with, such as food and nutrition, clothing and education, and so on.
2. Two, an irresponsible male head of the household can wipe out all the assistance money reducing the family members to start begging on the streets.

The empirical evidence clearly demonstrates that these presumptions do not hold much water in reality. In the first place, there has been no statistical evidence of any increase in economic "bads" such as consumption of alcohol and tobacco. On the contrary, in Bhil tribal village, there was actually a drop in consumption of alcohol since that is where people had liquidity to use for agricultural inputs and therefore one saw an increase in agricultural productivity and own cultivation effect.

[44] Contributed by India Network for Basic Income and SEWA Bharat based on Davala et al (2015).

Appendix 3: Details of 7 studies used for meta-analysis in Banerjee, Hanna, Kreindler and Olken (2015)

Country	Program	Evaluation Years	Number of Households at Endline	Targeting Method	Transfer Type and Amount	Transfer/ Consumption
Honduras	Programa de Asignación Familiar - Phase II (PRAF II)	2000-2002	3,185	Geographic and family demographics	CCT ranging from $4 to $23 per month depending on family structure	4%
Morocco	Tayssir	2008-2010	4,268	Geographic	CCT and labelled CCTs: between $8 to $13 per month per child (depending on age of child)	5%
Mexico	Progresa	1998-1999	18,351	Geographic and PMT	CCT: $12.5/month + $8 - $30.5/month per child (depends on child grade) + $11-$20.5 grant for school materials per child, Max grant per HH (1999): $75/month	20%
Mexico[1]	Programa de Apoyo Alimentario (PAL)	2004-2005	2,866	Geographic	UCT: $13 per month	11.50%
Philippines	Pantawid Pamilyang Pilipino Program (PPPP)	2009-2011	1,410	Geographic and PMT	CCT: $11 -$30 per month depending on number of kids	11%
Indonesia	Program Keluarga Harapan (PKH)	2007-2009	14,665	Geographic and PMT	CCT: $44 -$161 per year	17.50%
Nicaragua	Red de Protección Social (RPS)	2000-2002	1,433	Geographic. All except 6% who owned vehicle or ≥ 14ha land	CCT: $224/year + $112/year (school attendance) + $21/child/year	20%

Notes: (1) The experiment included two treatments: a food transfer and a cash transfer. We focus on the cash transfer treatment only.
Sources: Honduras: Galiani and McEwan (2013), Glewwe and Olinto (2004); Morocco: Benhassine, Devoto, Duflo, Dupas, and Pouliquen (2015); Mexico Progresa: Parker and Skoufias (2000); Skoufias and di Maro (2008); Mexico PAL: Skoufias, Unar, and Gonzalez-Cossio (2013); Philipinnes: Chaudhury, Friedman and Onishi (2013); Indonesia: World Bank Office Jakarta (2011); Nicaragua: Maluccio and Flores (2005)

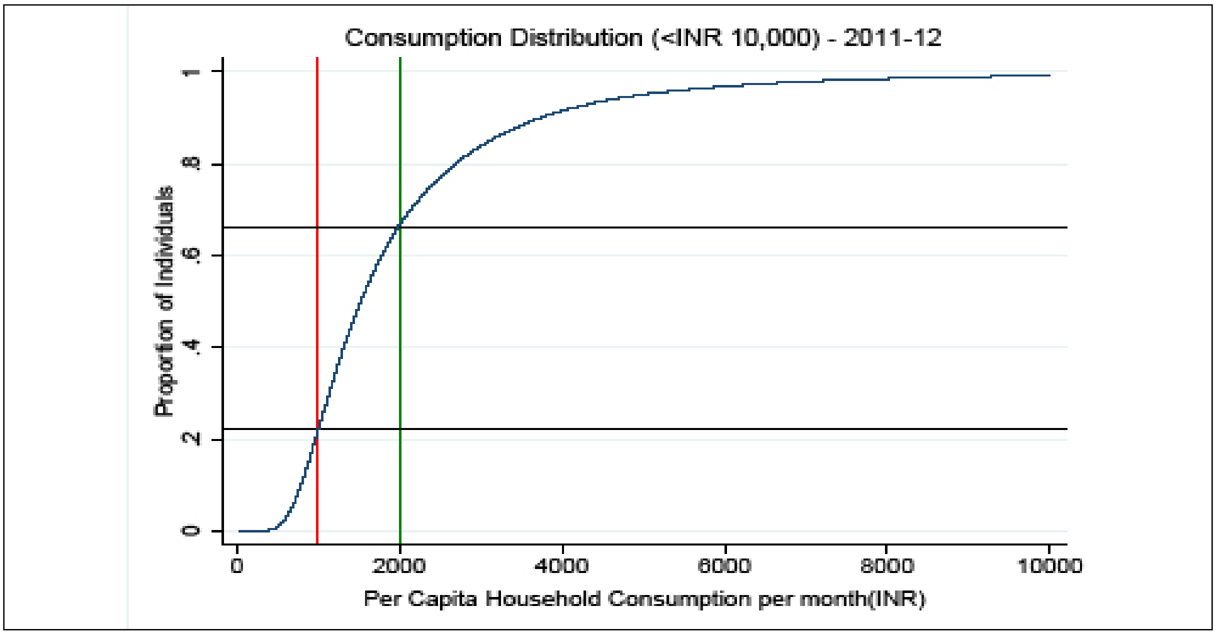
Appendix 4: Calculation of Poverty and Vulnerability for different values of UBI

The IHDS 2005-06 and 2011-12 longitudinal surveys are used to calculate the poverty and vulnerability for each level of UBI. Additionally, poverty levels are also calculated using the NSS 2011-12 Survey.

Assumptions and Caveats:

1. Both the decline in poverty and vulnerability is calculated assuming status quo. More specifically, the assumption is that current welfare schemes and subsidies provided by the government continue to remain the same and the UBI is a contribution made in addition to it. Therefore, insofar as the UBI comes in place of other welfare schemes, the poverty reduction estimates may be an overestimate.
2. These estimates view a UBI solely as a source of consumption but in reality it may also be used as a means of asset accumulation which in turn may lead to higher incomes and consumption. Hence, these estimates may be an underestimate of the true effect of UBI on poverty and vulnerability.
3. It is assumed that the population consumption distribution in 2016-17 looks exactly like the population consumption distribution in 2011-12. In fact, it would be reasonable to assume that the consumption distribution rose faster than the poverty line and poverty may have fallen below the 2011-12 estimate of 16 percent (22 percent using NSS 2011-12). The consumption levels of the bottom 40 percent of population and the poor are similar, as can be seen in the consumption distribution chart below. Here the red vertical line is the poverty line, the green vertical line twice the poverty line. Almost 40 percent of households have consumption levels between these two lines (intersection of horizontal and vertical lines).

Figure A6. Distribution of Consumption (2011-12)



Source: **NSS 2011-12, *Survey* Calculations**

Poverty Rate: For each UBI amount of INR X per capita per month one calculates the total per capita consumption post UBI equal to total per capita consumption (NSS 2011-12 + X) for each household. One then calculates the proportion of households that continue to remain below poverty line. The same analysis was repeated using IHDS 2011-12.

Vulnerability: For each UBI amount of INR X per capita per month, calculate the total per capita consumption post UBI in 2005-06 and 2011-12 (as per formula above – only IHDS numbers are used since vulnerability is estimated using the longitudinal nature of the dataset). Next, calculate the proportion of non-poor in 2005-06 (post UBI transfer) who become poor in 2011-12 (again, post UBI transfer).

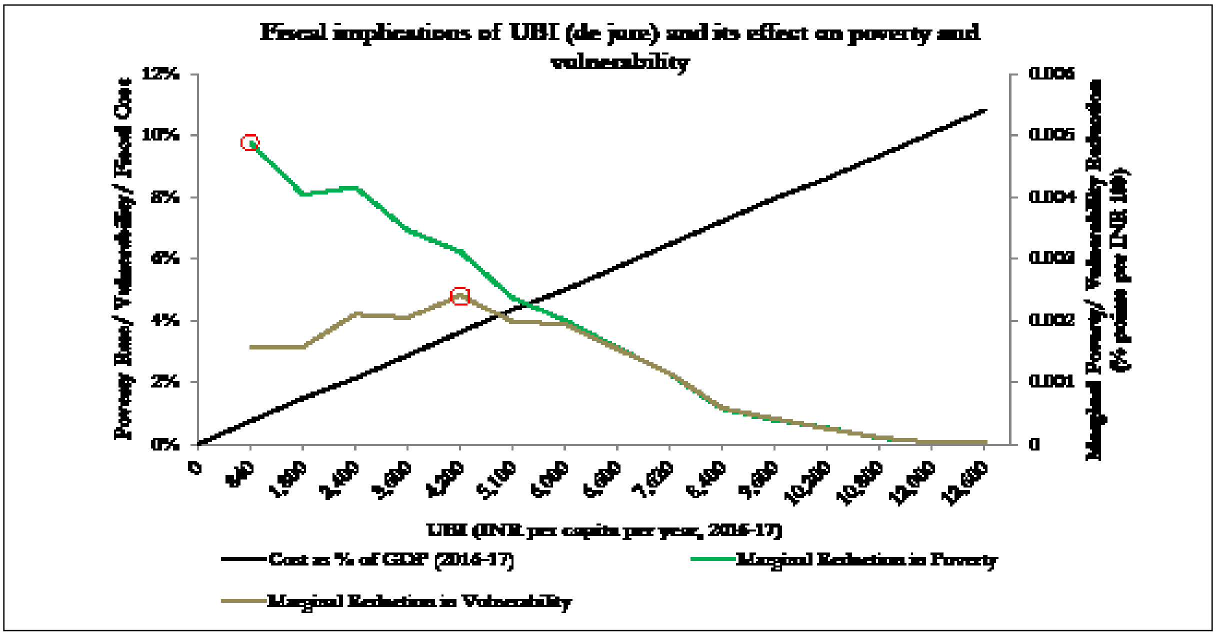
Marginal Reduction in Poverty: For each additional rupee of UBI transfer, calculate the percentage point reduction in poverty.

Marginal Reduction in Vulnerability: For each additional rupee of UBI transfer, calculate the percentage point reduction in vulnerability.

*Fiscal cost of UBI:*Adjust the 2011-12 UBI amounts for inflation to get a 2016-17 UBI amount. This number is then multiplied by total population to arrive at the total cost of UBI as well as cost of UBI as a proportion of GDP (budget estimates for 2016-17).

Bang-for-buck UBI:

Figure A7. UBI fiscal cost and effect on marginal reduction in poverty and vulnerability



Source: **IHDS 2005-06 and 2011-12, *Survey* Calculations**

The Figure A5 charts UBI based on obtaining the maximum bang-for-buck– i.e., it calculates the poverty and vulnerability reduction for each additional rupee spent on the UBI and, subsequently, chooses the amount that maximizes this reduction. These are called the marginal poverty and marginal vulnerability reduction curves, denoted by the green and grey lines in Figure A5. A look at the two curves in this figure shows that the maximum bang-for-buck UBI for poverty reduction is INR 600 per capita per year and for vulnerability is INR 3000 per capita per year in 2011-12. The inflation adjusted figures for 2016-17 are INR 840 and INR 4200 (red circles in Figure A5). Taking an average of the two estimates implies a UBI of INR 2520. This translates to only about 2.2 per cent of the GDP. Assuming a *de facto* universality that excludes the top 25 percent of the population, this costs 1.6 per cent of the GDP. This level of UBI reduces poverty rate to 9 percent and vulnerability to 7.5 percent. If provided only to females (of all age groups) this cost would come down to about 0.85 percent of GDP.

Table 3: UBI amounts, Poverty Rate (NSS & IHDS 2011-12) and Cost to GDP (percent)

UBI (Rs. per capita per year, 2011-12)	UBI (Rs. per capita per year, 2016-17)	Poverty Rate (2011-12) NSS	Poverty Rate (2011-12) IHDS	Fiscal Cost as % of GDP (2016-17) NSS	Fiscal Cost as % of GDP (De Facto targeting, 2016-17) NSS
0	0	22.03%	16.86%	0.0%	0.0%
600	874	17.62%	13.93%	0.7%	0.6%
1200	1747	13.54%	11.51%	1.5%	1.1%
1800	2496	9.78%	9.02%	2.1%	1.6%
2400	3370	6.63%	6.94%	2.9%	2.1%
3000	4243	4.14%	5.08%	3.6%	2.7%
3600	5117	2.52%	3.66%	4.3%	3.3%
4200	5866	1.42%	2.46%	5.0%	3.7%
4800	6739	0.82%	1.53%	5.7%	4.3%
5400	7613	0.45%	0.85%	6.5%	4.9%
6000	8486	0.20%	0.51%	7.2%	5.4%
6600	9360	0.11%	0.28%	8.0%	6.0%
7200	10109	0.06%	0.12%	8.6%	6.4%
7800	10982	0.04%	0.06%	9.3%	7.0%
8400	11856	0.02%	0.05%	10.1%	7.6%
9000	12730	0.00%	0.03%	10.8%	8.1%
9600	13603	0.00%	0.02%	11.6%	8.7%
10200	14352	0.00%	0.02%	12.2%	9.1%
10800	15226	0.00%	0.01%	12.9%	9.7%
11400	16099	0.00%	0.00%	13.7%	10.3%
12000	16973	0.00%	0.00%	14.4%	10.8%

Appendix 6: Understanding the UBI pilot ideas and Implications for scale-up

Panel A and B of the Table below detail implications for a nation-wide UBI in the event of success and failure, respectively, for each of the gradualist approaches listed in section X.C.

Notionally, the definition assumed for the success of a UBI pilot is one that is leakage-free and perfectly targets the beneficiary group for each of the pilots.

1. SUCCESS

UBI Idea	If the following ideas work, what does it imply for each of the categories below?			How do we scale up?
	Accurate beneficiary identification	Well-functioning JAM infrastructure	Administrative feasibility	
UBI for women	**Yes** – a UBI for ALL women that works will suggest that beneficiary identification during scale-up shouldn't be an issue.	**Yes –** A UBI that perfectly targets women can be sufficient proof for JAM's ability to deliver benefits.	**Yes –** An administration that can handle a UBI for all women should not find it too hard to extend to all persons. (Despite doubling the scale, the fixed costs associated with setting up a UBI will already have been incurred)	The UBI for women alone should precede a UBI for *all* persons, including men and children.
Choice to replace existing benefits with UBI	**No** – since this approach reinforces previous beneficiary mis-identification.	**To a certain extent** – since it will show that JAM works for those who are already included in the system.	**Yes** – a choice scheme that works will not only overcome administrative issues related to fund transfer, but will also display the capability of the system to effectively recognize those who have chosen to give up and those who don't.	Choice should gradually be replaced by a system where everyone who is interested should be allowed to enter the UBI system, independent of whether they give up other benefits.
Across vulnerable groups	**No** – these groups are easily identifiable: success here may not mean success across all groups.	**Yes** – this would be a strong proof of concept for JAM's ability to correct exclusion error, since these groups of individuals are particularly likely to be excluded.	**To a small extent** – as these groups account for a small proportion of UBI's beneficiaries, they wouldn't tax the administration as a full-scale UBI would.	Unclear on what the next steps are with respect non-easily identifiable groups.

In lieu of state aid	**Yes –** since it covers all residents in these areas.	**Yes** – this would be a very strong proof of concept for JAM, since these areas are low on financial inclusion.	**Yes** – if UBI works here where the state capacity is relatively lower, it is likely to work in areas with better state capacity.	Gradually expand to all states.
Urban areas	**To a certain extent** – results may not extend to rural areas especially because exclusion of urban rich may be somewhat easier.	**To a certain extent** – results may not extend to rural areas where JAM preparedness may be lower.	**To a certain extent** – it displays that a UBI for urban areas could be undertaken at scale. However, the rural administrative machinery could be a very different one from its urban counterpart.	Tread cautiously before expanding to rural areas since not all lessons are directly transferrable.

2. FAILURE

UBI Idea	If it doesn't work, then what does it imply for the UBI?
UBI for women	This would imply that a UBI for all may be very challenging to design and implement.
Choice to replace existing benefits with UBI	This would imply that a choice-based UBI may not be the best way to go – the learnings for a non-choice based UBI is limited.
Across vulnerable groups	It would suggest one or more of the following: (a) A UBI, if it has to succeed, may be tried across a larger cross-section of the population. (b) Either the JAM infrastructure or the administrative capacities of the state are not sufficient to cater to the most vulnerable groups via a UBI.
In lieu of state aid	A failure here is more likely than elsewhere – so, this may not have huge implications for the success of a UBI in most parts of the country.
Urban areas	A failure here is least likely, since urban areas have better JAM infrastructure and state capacity – therefore, in the event of a failure, one has to rethink the feasibility of a UBI in India.

Appendix 7: Note on the calculations of implicit subsidies for the middle class

Government Subsidies/Spending/ Help for Middle Class (with explanatory notes)

Scheme (2015-16)	Implicit Subsidy to T 40 (Rscrore)	Source
LPG	28,219	Economic Survey, NSS 2011-12, International Gold Council and Rail Ministry
Railways-1 (only A/C)	1,115	
Railways-2 (Sleeper class)	9,002	
Aviation turbine fuel	762	
Gold	10,800	

The top 40 per cent population estimated based on expenditure distribution as per NSS data of 2011-12 is assumed to be the "middle class". Effective subsidy rate is the difference between normative tax rate (50 per cent for LPG and Aviation turbine fuel, 14 per cent service tax for railways and 6 per cent for gold) and actual subsidy/tax rate. Implicit subsidy is the effective subsidy rate multiplied by consumption of that commodity by middle class. Number of beneficiaries are counted as only those HHs which are consuming the particular commodity based on NSS survey. For Aviation turbine fuel, total domestic passengers have been taken for estimation of subsidies. Railway-1 : Covers passengers travelling in A/C first class, A/C sleeper class and A/C chaircar. Railway-2 : Covers passengers travelling in sleeper class (M and E). Number of passengers also includes suburban passengers.

	Implicit Subsidy (Rscrore)	Source
Personal Income Tax (2015-16)	59,928.33	Union Budget 2016-17

Revenue foregone on account of personal tax exemption has been considered as implicit subsidy to non-poor as it is only the top quantile of the population that benefits from such exemptions.

Fertiliser (2015-16)	Subsidy (Rscrore)	Source
Total large farmers	5435	Budget 2016-17, Economic Survey, Agriculture Statistic at a Glance

The total number of large farmers has been estimated using NSS 70th round on Situation of Agricultural Households in India. Any farmer having land holding size >=5 ha is considered to be a large farmer. In calculating net subsidy to farmers, subsidies that finance inefficient domestic production and subsidies that associated with leakages is excluded.

	Implicit Benefit (Rscrore)	
Tax exemption limit	9,181	Economic Survey and Department of Revenue.

With a view to provide relief to small and marginal taxpayers and senior citizens, the current Government in their first budget in 2014-15 increased personal income tax exemption limit by Rs 50,000 i.e., from Rs 2 lakh to Rs 2.5 lakh in the case of individual taxpayers who are below the age of 60 years. Similarly, the government raised the exemption limit from Rs 2.5 lakh to Rs 3 lakh in the case of senior citizens. This was the highest increase in exemption in single stance since 2005-06. The initiative benefits around ~1.84 crore taxpayers who fall under the 10 percent to 30 percent tax bracket. The estimated benefit of Rs 5000 is same across the tax brackets because it just changes the lower bound of the 10 percent tax bracket (from 2 lakh to 2.5 lakh) and other bounds remain unchanged.

	Interest Subsidy (Rscrore)	Source
Interest Subvention Scheme (2015-16)	13000	NABARD

Number of farmers in 2015-16 has been projected from the number of farmers in 2013-14 assuming an annual growth rate of 6.8 percent. We assume that the growth rate between 2014-15 and 2015-16 is approximately equal to the growth rate in the previous fiscal year, which we calculated as 6.8 percent. Interest subsidy amount has been taken from NABARD and GOI Budget.

Mudra	**Disbursement (in crore)**	**Source**
2015-16	1,32,955	Mudra website
Interest Subsidy on Mudra Account		
	Interest Subsidy (Rscrore)	**Source**
2015-16	14,678	Based on Information Received from DFS.

To estimating the interest subsidy on mudra accounts, we have assumed an interest rate of 25 percent (interest rate in informal loan market or charged by moneylenders. As per the information given by Department of Financial Services (DFS), the weighted interest rate of 13.96 percent. The difference of these two interest rate is considered as interest subsidy. If we take interest rate in informal market as 20 percent, the per capita (account) interest subsidy is Rs 2294 per account.

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A BASIC INCOME FOR INDIA: EXPERIENCES FROM THE FIELD

Renana Jhabvala, SEWA

The opinions of “experts” have shaped the debate on Basic Income in India, with practically no input from common people. In spite of a great deal of discussion India in the last few years, most opinions have been based on theory since there has been very little experimentation in the field, and little knowledge of how common people, especially the people at the base of the pyramid would feel about a basic income.

The Self-Employed Women’s Association (SEWA) is a trade union of women workers in India’s unorganised sector. Founded by Ela Bhatt in 1972, SEWA has over nearly two million members in fourteen States of India. SEWA Bharat is a national federation that supports the development of SEWAs, with a focus on building a movement of women workers.

SEWA is a voice for its members. It voices the needs and aspirations of women in the informal economy and lobbies for laws, policies and schemes for their benefit. It has promoted over 120 co-operatives and companies of the poor. Yet while working with low-income women for nearly four decades, SEWA has had to struggle against one major obstacle: unreliable access to government schemes and services, so that most workers in the informal economy live their lives without basic social benefits. Organisations like SEWA devote much of their energy to helping the poor navigate through government systems, rather than focusing energies on livelihood development and strengthening women’s representation.

SEWA firmly believes that the porous safety net in India today is not due to a lack of social protection schemes. Rather, most existing state benefit schemes, which are supposed to remove or alleviate poverty, fail to reach most of the intended beneficiaries and are inefficient and costly in other respects. Surely there is a better way to provide social protection to large numbers at the base of the pyramid? As a result of this concern SEWA Bharat conducted three grass roots experiments on basic income, and this year we have just completed a "legacy survey" four years later, in one of the areas where the basic income experiment was carried out.

Basic Income or Unconditional cash transfer policies rely on poor people's own initiatives and rather than direct them to a particular behaviour, expect that people will use cash wisely for their own and their children's development. The studies carried out by SEWA Bharat looked for the answers to a number of questions on the effects of a basic income. The two most commonly asked are : Would unconditional monthly cash payments be an effective tool for reducing economic insecurity and poverty? And would they be likely to lead to wasteful spending on private 'bads'? Although the results of the study have been described elsewhere, we briefly summarize them here.

A common reaction to the idea of cash transfers is, "The men will waste all the money in drinking, and will beat their wives to get their money too". The facts disproved this common perception, there was no increase in alcohol consumption among the families who received the transfers, nor was there any anecdotal or qualitative evidence to suggest an increase in drinking. On the contrary, it was found that in a tribal village alcohol consumption actually went down.

A heartening finding was that in these rural unconditional transfers lead to growth and income earning opportunities. This was especially true for the poorest tribal families, and multivariate analysis suggested that for women receipt of the basic income was strongly associated with diversification into a second income earning activity combined with a primary one.

Further, the cash transfers enabled children to go to school, often switching from a non-functional Government school to a private one,. Nutrition improved especially among the poorest tribal and dalit families with a substantial increase in food sufficiency. Furthermore, as individuals were able to go to doctors when they got ill and could afford regular medicines, the serious health incidences in the villages declined.

An *emancipatory* effect associated with cash transfers was that, with the increase of liquidity, the reliance on usurious debt decreased. Many workers, men and women, who were treated as little more than bonded labour, were able to get out of debt and enter the free labour market. Most important it empowered the most vulnerable—the dalits, women, the elderly and the disabled.

The basic income was given to each individual in 22 villages during the year 2012. Expectedly, the strongest effect was felt in the poorest villages, which in this case were the tribal villages. Four years later in 2017, we undertook a follow-up study in the tribal villages to see whether a year of basic income had any lasting effects.

We were pleasantly surprised to find that even one year of basic income has had a significant impact on the living standards of the people in the village which received basic income, as compared to the control village[1]. The impact has persisted mainly because of a *growth of income*. In the one year of basic income many households' bought livestock and other assets. Others began to farm their small plots of land which had so far being lying fallow. Four years later these income generation activities had persisted and in many cases strengthened.

Basic income also had a *behavioural impact.* Alcohol consumption declined in that one year and continued to decline thereafter. People's access and understanding of health care improved as did the attitude towards children's schooling. There was a continuing positive change in intra-household decision making.However, some families did drop back to their previous condition, mainly as a result of health shocks. The men in these families tended to go into debt bondage as 'naukers'.

In the intervening four years between 2013 and 2017 there have been a number of external changes which affected all the villages in the area and in particular both the treatment and control groups. The major changes were in Government intervention and facilities. In particular in 2013,around 70% of the families said they had BPL cards, but during the legacy study this had gone up to over 90%, a highly significant increase.

Significant changes had taken place in infrastructure within the village leading to change in living conditions. In the 2013 survey it was found that almost all the villagers would defecate in the open, in the forests surrounding the village. However, due to the Swacch Bharat campaign this decreased to about one-

[1] The main analysis being done through a difference-in-difference method.

third Furthermore, the kuccha roads leading to the tribal villages have been converted into pukka roads.

In order to understand the situation in these villages four years later we looked only at those effects where there had been a *pick-up effect* in the during the course of the basic income. That is where the basic income had a positive and statistically significant effect. If these effects were sustained (or even strengthened) we called it a *momentum effect.* If the effects showed a complete drop-back to the original state we called it a *drop-back effect,* and if there was a partial but not complete drop-back, we called it a *persistence effect.*

The analysis showed that there was a *momentum effect* behaviourally in alcohol decline and in women's empowerment. At the same time momentum was sustained in a growth in income and acquiring additional livestock.

There was a *persistence effect* or partial drop-back effect in some living conditions such as private drinking water sources and better nutrition. Behavioural change occurred in attitude towards accessing health care and attitude towards child education. There was also a persistence effect in earning from self-employment rather than from casual labour.

A *complete drop back* occurred in schooling that children were removed from private schools where fees were paid and were brought back into local schools. There was no further improvements (as compared to the control group) in home improvements or cooking fuel. Worse, for a small number of families (4%) debt bondage increased.

In retrospect villagers felt that the one year of basic income was a major event in the life of the village. Genabai who is about 60 years old commented:

"In my lifetime, I have seen two major things happen to this village. Before this we were in a very poor condition, collecting wood and selling in the nearby markets. The first thing that happened was the construction of the bund in 2009 which gave us this pond. People began cultivating their lands. Then came this money that was given to us for one year in 2012. There is an old story about this village that a celestial wedding party on their way to the venue stopped over briefly in this village. On the outskirts of this village, there are impressions of horses' hooves on the rocks. That's the origin of the name of this village "Ghoda-khurd"- Ghoda means horse, and Khurd means hooves. So, the entire village felt that the money came to the village because the gods have blessed us. It has done a lot of good to the village."

With SEWA's help, the villagers of 22 villages, including Ghoda Khurd who had participated in the basic income started a campaign to include basic income as a social security policy of the Government. It started with a Padyatra in December 2013 through the villages of the Jhabua district. Petitions and posters flowered through the next two years in these villages and in 2017 Women's Day was celebrated with a demand for a Basic Income or "Bunyadi Suraksha Amdaani". The campaign is on-going.

The UBI Proposal for India: An Assessment

Dilip Mookherjee

IHD Round Table, New Delhi

10 July 2017

Backdrop: The Need to Reform Welfare Programs in India

- Existing subsidy programs characterized by high leakages, poor targeting and impose high (financial and environmental) costs
- Contribute to political culture based on **clientelistic vote buying**, whereby parties woo swing voters with delivery of private goods generating short-term benefits (NREGA work, BPL programs, cheap food, loans, loan waivers, vendor permits) instead of more long term anti-poverty benefits and public goods (land reform, education, health, sanitation)

Broader Concerns about Clientelism

- Clientelism thrives on provision short-term benefits to a subsection of the poor, perpetuating dependence on their patrons, and avoid deeper reforms that enable them to escape poverty (e.g., converse experience of PRI in Mexico: de Jainvry et al 2014, Dower-Pfutze 2015)
- Possible reason why politicians prefer to have a large informal sector and selectively enforce laws (Sarkar 2014, Holland 2015)
- Voting decisions of the poor driven by self-interested considerations of securing patronage, rather than expressing their judgment of incumbent governance performance
- Why public policy disasters or huge corruption scandals scarcely dent vote margins of popular Chief Ministers in states with highly entrenched incumbents

Prospects of Transition from Clientelistic to Programmatic Politics

- Transition from Clientelistic to Programmatic politics: a key institutional transformation in USA, UK in 19th century; CCTs under way in Mexico, Brazil, and many countries in Africa, Asia in past two decades
- Such a transition is yet to happen in India, but may just be waiting to happen
- What would be needed to create a national, comprehensive Social Security system?
- Direct transfers to citizens, replacing programs implemented in discretionary manner by bureaucrats or local governments
- Formula bound entitlements of citizens
- Would remove scope for political discretion, corruption or diversions; enhance coordination and lower waste

What Should the Long-Term Goal Be?

- *Design:* Cash versus in-kind transfers? Targeted or universal? Unconditional or conditional? Households or individuals?
- *Delivery Mechanism:* Bank account transfers? Mobile money?
- *Scale/Financing:* How large should transfers be? How will they be financed?
- *Public Goods:* allocation between private transfers and public good programs? Implementation of infrastructure, public health, education programs?

Long-Term Goals? UBI?

- Universal Basic Income (UBI, UBS): a specific proposal endorsed by many economists (Bardhan, Joshi,..), discussed in GOI Economic Survey 2017
- Would supplement (not replace) existing public education, health, nutrition, infrastructure programs
- Main purpose would be to replace existing patchwork of multiple leaky private transfer programs – coordinate, reduce leakages, and widen the coverage of safety nets
- Criticisms/concerns about design, implementation, affordability, political feasibility

Design Issues

Criticisms of Unconditional Cash transfers:

- Would not adequately adjust for local differences in food prices, insure against local weather shocks
- Conditioning them on education enrollment or health checkups of children *a la* CCTs in Mexico/Brazil would increase education and health investments and thereby lower long-term poverty
- Would encourage laziness and welfare dependence
- Eligibility disconnected from need: equal amounts paid to the affluent also
- Would be politically unpopular with middle-class taxpayers for these reasons (as in many developed countries eg USA, Switzerland), while CCTs have received strong political support (for national parties implementing them)

Design Issues, contd.

- I think these are important concerns
- In principle, they could be addressed by conditioning cash transfers on local cost-of-living index, extreme weather events, and education, health enrollment of children
- Could exclude those owning property above some threshold (presumptive norms already used by IT Dept)
- Would make the 'formula' more complex, but there can be still be a transparent and operational entitlement formula based on information in the public domain (age, gender, dependents, disability etc would have to be incorporated in any case) as in CCT programs already implemented in many low and middle income countries

Implementation Issues: Financial Underdevelopment

- Large sections of the population (30-40%) do not yet have bank accounts or mobile money accounts (80% plus); coverage is uneven across income class, gender, age, literacy, rural/urban areas
- Owning bank accounts does not ensure easy access or eliminate leakage: large proportion of dormant accounts, large distance from banks for many, need help of local leaders....
- Mobile money accounts more likely to generate wider access, but penetration is still limited in India (2% in 2014, compared with 58% in Kenya)
- Need to supplement with local *kirana* stores/micro-ATMs/PoS machines for citizens in remote areas, with low literacy levels

Implementation Issues: Financial Underdevelopment, contd

- Paid to individuals or households? Preferably former, but this raises complexity of implementation
- Basic infrastructure backbone exists (*Aadhar* cards, mobile phone network), but last-mile service connectivity is still a challenge
- Challenges in widening financial access, fast evolving but will take at least 5-10 years if not more
- Need to plan a gradual phased-in transition, with a long-term target for 2025 or 2030 (very opposite of the recent demonetization exercise), accompanied by gradual phase-out of existing transfer programs

Financing Issues

- Providing a minimum income at 75% of poverty line would cost 10% of GDP!
- Compare with 0.4% currently spent on NREGA, 3% on NREGA plus food, kerosene and fertilizer subsidies
- 3.5% of GDP would be affordable, if PDS, kerosene and fertilizer subsidies were eliminated (politically feasible?)
- At this scale it would amount to a basic income of 25% of poverty line: Rs 250 per person per month (= Rs 1000 for the average household per month)
- Not insubstantial — compare with AP NREGA 2012 benefits of Rs 146 per week per beneficiary (=Rs 560 per month per household with one beneficiary)
- Besides **substantially** wider coverage (compare with 30% coverage of intended beneficiaries in PDS)

Public Good Programs?

- Concerns that UBI would crowd out funding for health, sanitation, education, local infrastructure programs
- **Unfounded:** purpose of UBI is to replace existing private transfer programs which fail to target most of the poor, involve high leakages, waste and corruption
- On the contrary, public good programs could benefit indirectly in various ways:
  - bureaucrats and panchayats would no longer be administering private transfer programs, shift in focus towards public good programs
  - UBI could induce in due course a significant decline in clientelism, and voters increasingly evaluate politicians on governance performance rather than patronage promises

DECODING UNIVERSAL BASIC INCOME*

Jean Dreze, Visiting Professor, Ranchi University

A recent headline in *Quartz*, an otherwise serious media agency, claims that Jammu and Kashmir is the first state in India to "commit to a universal basic income" (UBI). A glance at the original source quickly negates this claim: it is based on nothing more than "seeds of a thought" (sic) from the Finance Minister of J&K about possible cash transfers for a small minority of poor households. This is not a commitment, and it is not UBI anyway.

Premature Articulation

There have been other cases of active promotion of UBI in the business media in recent weeks. For instance, reference is often made to Finland as "the first country with UBI", yet Finland has gone no further than a tiny pilot scheme of unconditional cash transfers for 2000-odd recipients. Clearly, UBI has become a subject of half-truths if not post-truths.

But let's leave propaganda aside for now, and look at UBI proposals on their own merits. Two influential proposals have been made recently. Pranab Bardhan, citing National Institute of Public Finance and Policy (NIPFP) estimates of "non-merit subsidies" to the tune of 9 per cent of GDP, argues for the bulk of this to be spent on UBI instead. With a little top-up from reduced tax exemptions, he proposes a basic income of Rs 10,000 per person per year at a cost of 10 per cent of GDP. On a more modest note, Vijay Joshi proposes spending 3.5 per cent of GDP on a UBI scheme where everyone from aam admi to Ambani gets a cash transfer equivalent to one fifth of the poverty line. Even 3.5 per cent of GDP is ambitious: about three times as much as public expenditure on health care, and more than ten times the cost of the National Rural Employment Guarantee Act (NREGA).

I have liked the idea of UBI for a long time. In countries (like Finland) that can afford a generous UBI and also have first-rate public services, it has two attractive features. First, UBI

* Based on 'Decoding Universal Basic Income' (www.ndtv.com, 16 January 2017) and 'The Tale and Maths of Universal Basic Income' (www.ndtv.com, 2 February 2017). Both are also available on the Ideas for India website.

is a fool-proof way of safeguarding the right to dignified living. Second, it gives people the option to live without working (or rather, without doing paid work) if they are willing to settle for a simple life. And why not?

As far as India today is concerned, however, UBI proposals strike me as a case of premature articulation. To start with, the said NIPFP estimates go back to a study published in 2003 and based on 1998-9 data – almost 20 years old. More recent work, also at NIPFP, produces a much lower estimate of non-merit subsidies – about 5 per cent of GDP in 2011-12. That suggests an even lower figure today (perhaps 3.5 per cent or so), bearing in mind that petroleum and fertilizer subsidies have sharply declined in recent years, as a percentage of GDP. Note also that many of these subsidies are implicit (for instance, railway tickets sold below transport costs), and that the bulk of the non-merit subsidies are given by state rather than central governments. Recovering this so-called "fiscal space" is not going to be easy.

Further, why should the bulk of this fiscal space (such as it is) be claimed by UBI alone? There are many other urgent claims on public expenditure - education, health care, environmental protection, essential infrastructure, to name a few. Mobilising 3.5 per cent of GDP for UBI is bound to take many years under any plausible script, not to speak of 10 per cent (if it is advisable at all).

Meanwhile, should the limited resources available for cash transfers be used to kick-start UBI at a very low level of "basic income", or are there better options? I believe there are. Universal maternity entitlements and social security pensions would be a good start. If UBI "is really an extension of the idea of pension", as Bardhan aptly points out, then why not begin with pensions? Maternity entitlements, for their part, are due since 2013 under the National Food Security Act.

Incidentally, India already has one of the closest things that any country has by way of UBI, though it is not quite universal and the transfers are in kind not cash: the public distribution system (PDS). There is no plausible scenario whereby the Indian government would retain the PDS along with a cash-based UBI scheme. Therefore, the main question a low-level UBI proposal would raise is whether, when and how the PDS should be replaced with cash transfers. The sobering results of recent attempts to do that in Puducherry and Chandigarh suggest that it would be unwise to go beyond these pilot areas for the time being. Earlier experiences of messy transition to bank payments of NREGA wages, and of chaotic imposition of biometric authentication on the PDS, reinforce the need for great caution in these matters.

It is often pointed out that UBI has the virtue of having supporters on the right and the left. This shared support, however, comes from incompatible perspectives. For the left, UBI is part of a comprehensive social security system that would also include universal health care, free education, good public services, some transfers in kind (e.g. school meals) and other forms of social support. For the right, especially in India, UBI is an adjunct of deep cuts in other social programmes such as the PDS and NREGA. Some UBI advocates have already made an explicit case for dismantling both.

Finally, UBI proposals need to be distinguished from what the Government of India is likely to do with them. It is not difficult to imagine how these proposals might be reduced to a half-baked scheme of targeted cash transfers with no legal safeguards and no indexation to the price level, combined with closing the PDS and possibly NREGA as well. Indeed, highly targeted schemes of the sort envisaged by the Finance Minister of J&K (or, say, by Surjit Bhalla) are already passing for "UBI".

Seen in this light, there is a real danger of UBI becoming a Trojan horse for the dismantling of hard-won entitlements of the underprivileged. The recent wave of pro-UBI propaganda in the business media (generally hostile to ambitious social programmes) is suspicious in this regard. These issues, in my view, need greater attention in the lively debate on UBI among development economists.

UBI in the Economic Survey

The Economic Survey 2016-17 includes a much-awaited presentation of the Finance Ministry's thinking on universal basic income. Desisting from specific recommendations, the Survey comes to the mild conclusion that UBI "if not ripe for implementation is ripe for serious discussion". But there is certainly a tone of enthusiasm in the chapter on UBI.

The chapter begins with an upbeat discussion of the idea of UBI, and then gets a little entangled in the fiscal maths. In their enthusiasm for UBI, the authors make somewhat simplistic arguments for it. For instance, it is asserted that UBI benefits the poorest by minimising exclusion errors. However, universalisation is bound to come at a cost – either lower per-capita benefits, or less spending on other schemes, or higher taxes. Depending on who bears that cost, the argument may or may not be correct. Similarly, UBI is presented as a way of rectifying the current imbalance of social spending across districts: the poorest districts' share of social spending is typically less than their share of poverty. Quite likely, however, UBI would fare worse than many existing schemes in that respect.

Coming to the options, what the Survey discusses is not really UBI but what might be called quasi-universal income top-up (QUIT). Let me explain. It is an essential part of the principle of UBI that the transfers involved should cover the basic costs of subsistence – hence the term "basic income". If UBI provides less than that, it is often called "partial basic income". In this case, since the proposed transfers are tiny in per-capita terms (less than half of the Tendulkar poverty line), "income top-up" would be more accurate.

Quasi-universal (the term is used in the Survey itself) refers to the fact that while universality may be the ideal, in practice, the transfers will be less than universal. The Survey first suggests something like 75 per cent of the population, identified by including all those who do not meet simple exclusion criteria. Later, various ways of further reducing the costs are discussed, such as restricting the coverage – initially at least - to women, to specific groups, or to urban areas. It is not difficult to see how further restrictions might reduce QUIT to a targeted income top-up.

In the quasi-universal variant with 75 per cent coverage, UBI (read QUIT) costs as much as 4 to 5 per cent of GDP. Here the Survey hits a roadblock, and initiates a worrying shift in thinking about how UBI is to be financed. As mentioned earlier, it seems that the potential savings from non-merit subsidies were over-estimated in recent UBI proposals. In the Economic Survey, therefore, fiscal space is sought not so much in reducing subsidies (also because "taking away subsidies to the middle class is politically difficult for any government") as in phasing out a range of welfare schemes that are held to be ineffective. A partial list of possible target schemes is given, including items like midday meals and ICDS, but the Survey fails to clarify whether they are really ineffective, if so why, whether they can be improved, and so on. Since the extent of this fiscal space is hard to assess, the authors discuss various UBI options in general terms without backing a specific proposal.

It is in this argument for pruning other welfare schemes that the most simplistic argument for UBI (or rather, for cash transfers) is invoked. Other schemes are construed as "transfers in kind", and cash transfers are held to be superior because they give people "agency", i.e. they allow people to decide what to do with the transfers. However, there are arguments for in-kind transfers too, and further, many welfare schemes are not just transfers in kind. For instance, school meals are both excellent in-kind transfers and also a constructive activity with valuable aims such as nutrition education, employment generation and social equity. Similarly, the National Rural Employment Guarantee Act is not a scheme of in-kind transfers (in fact, wages are paid in cash). Aside from income support, it serves other useful purposes such as asset creation, women's empowerment and environmental protection. Most of the 11 target schemes mentioned in the Survey are of that nature.

There is a serious blind spot here. During the last 15 years or so, India has developed a semblance of social security framework. Aside from essential health and education services, this framework has five pillars as things stand: e mployment guarantee in rural areas; the public distribution system; child development programmes (including ICDS); social security pensions; and maternity entitlements. Far from being wasteful, these programmes play a critical role in protecting people from deprivation and also help to create a better society. This framework (enshrined in legal guarantees) needs to be consolidated, not demolished.

This is not to deny that there are many wasteful schemes and subsidies, or to dismiss the idea of universal basic income. But the fiscal space available from pruning wasteful schemes and subsidies is more restricted than many advocates of UBI claim. And UBI, if and when desirable, must be planned as an extension or modification of the existing framework, not as an alternative to it. UBI is an idea whose time will come, but that time is still quite distant as far as India is concerned.

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