

The Problem with “Universal Basic Income”*

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Many economists have been advocating a universal basic income for India, an idea that was mooted even in the official Economic Survey for 2016-17. Of course the practical proposals towards this end have varied, some suggesting a common universal transfer to all persons below a certain income, and others suggesting a graded transfer depending on how badly off an individual happens to be. But the vision is of a society where every citizen has a certain basic minimum level of money income through appropriate government transfers which would give the person command over a bundle of goods that assure a minimum living standard.

There are conceptual objections to this idea, which the Economic Survey had enumerated and dealt with at length. These are objections mainly from the right. The primary objection states that such transfers disincentivise effort: if one can get a minimum income anyway irrespective of the effort one puts in, then why put in any effort at all to earn an income? This presumes however that we have a society where a person's income is reflective solely of his effort, so that any interference with it (in the form of a universal basic income) can upset the arrangement. But this is absurd because the rich get huge incomes without putting in any effort, while the poor work themselves to death for a mere pittance.

In fact it was John Stuart Mill who had observed that, contrary to Adam Smith's theory that workers in the most exhausting and hazardous occupations got better paid in order to compensate them for the arduousness of their jobs, they were actually among the worst paid. A universal basic income in this case amounts not to providing an income for no work, but to increasing the wage-rate per unit of work of the poorest workers (which is quite apart from the fact that if a person gets no work at all then his remaining unemployed is the fault not of him as an individual, but of the social arrangement under which he lives).

The claim that a universal basic income disincentivises effort is exactly analogous to the view that a rise in wages makes people lazy, a right-wing “supply side” proposition that the liberal American economist JK Galbraith had mocked as suggesting that the “rich work better if paid more while the poor work better if paid less”. It is both morally reprehensible and analytically utterly unfounded.

Against this right-wing stance opposing a universal basic income, the mooted of this proposal represents a progressive liberal assertion. But the problem with what is mooted is exactly the problem with the liberal position in general, namely that it wants to make an omelette without breaking eggs. It wishes to operate within the capitalist system, making it more humane for the working people, without upsetting the capitalists too much. Not surprisingly the amount of UBI that is mooted is invariably paltry. The Economic Survey 2016-17 for instance had calculated that an annual transfer of Rs 7620 per annum for every person at 2016-17 prices, excluding the top 25 per cent, would cost 4.9 per cent of the country's GDP. A sum equivalent of this at 2011-12 prices, if given to the bottom 75 per cent in 2011-12, would have reduced poverty in that year to a mere 0.5 per cent of the population, that is, virtually

eliminated it. The Economic Survey recommends obliquely that this amount can be financed by cutting down the various subsidies that the government gives at present.

There are two obvious problems with this calculation. First, the actual poverty-line for 2011-12, at which what the Planning Commission itself considered the minimum requisite calorie intake would be ingested, was almost 50 per cent higher. Assuming for simplicity that a proportionate increase in the transfer had to be made to achieve the same objective, of eliminating poverty, under the same assumptions, it would have cost not 4.9 but almost 7.5 per cent of the GDP. Second, if the transfer was to be financed by cutting subsidies, then this very mode of financing would have required an increase in the amount of transfer by making things more expensive. In short, the figure mentioned in the Economic Survey would have been grossly inadequate. Other suggestions for UBI are of course much less ambitious in their scope.

Even more decisive however is another consideration. Even if we assume that the UBI is introduced through a parliamentary resolution which makes it binding on the government to keep providing the stipulated price-indexed transfer every year and not renege on its commitment (as it is doing at present with regard to the MGNREGS), it would typically make this transfer by cutting down on its spending on education, health, and other such heads. This would mean that while people would have money from the cash transfer made by the government, they would have no proper government schools to send their children to, and no proper government hospitals to admit their sick relatives to. And if they access private schools or private hospitals, then the transfer amounts, price-indexed on the assumption that people access the same bundle of goods and services as in the base year, will be much less in real terms. In other words, the basic objective of providing a UBI in real terms would have got subverted in the very process of financing it.

Hence, even if the UBI is taken as a universal right that everyone enjoys, with no scope for renegeing on it by the government, the transfers made by the government to achieve the UBI in money terms, will in effect not achieve it in real terms. It follows that it is far better to have legislation ensuring a set of individual rights, such as right to free quality education, a right to free quality healthcare, a right to food, a right to employment, a right to an adequate non-contributory old-age pension and disability benefit, than to institute a portmanteau right to a UBI in money terms. Put differently, a right to UBI in real terms cannot possibly mean anything other than a set of specific constituent individual rights, such as a right to health, a right to education, and such other rights.

The idea of a universal basic income, though well-meaning and laudable, is thus quite meaningless as it stands. If it is interpreted merely as a set of cash transfers, whether uniform or graded across individuals, then it does not necessarily achieve a real UBI which is the objective behind instituting it. On the other hand, if the idea is to have a UBI in real terms, then the only possible meaning one can give to it is in terms of a set of specific rights, to health, education, and such like, which the government has to take on the responsibility for providing. If India has to build a genuine welfare state, then it has to guarantee these specific rights to every individual; but that entails much larger expenditure than the Economic Survey had suggested.

It has been estimated for instance that instituting the very five universal rights that we mentioned above, viz. the right to food (so that everybody gets what the BPL

population has been entitled to get), the right to employment (or if employment cannot be provided then the payment nonetheless of a statutorily fixed wage), the right to free quality healthcare through a National Health Service, the right to free quality education (at least up to the school-leaving level), and the right to a universal, non-contributory old-age pension and disability benefits, would cost, in addition to what is already spent from the budget on these items, an additional 10 per cent of the Gross Domestic Product. To spend this additional amount, the government has to raise extra tax revenue, amounting to about 7 per cent of GDP (the other 3 per cent would come through the tax revenue that would automatically accrue from the increase in GDP caused by the spending of this 7 per cent).

To raise this 7 per cent is by no means difficult, provided the government is willing to tax the rich. In fact just two taxes levied on the top 1 per cent of the population, viz. a wealth tax of 2 per cent and an inheritance tax of 33 1/3 per cent, would be sufficient to garner the requisite resources to introduce a welfare state in the country by guaranteeing these five fundamental economic rights. This however makes the introduction of a welfare state in India a matter virtually beyond the capacity of the bourgeois system, and hence beyond the conception of liberal economists.

* This article was originally published in the [Peoples Democracy](#) on August 6, 2023.