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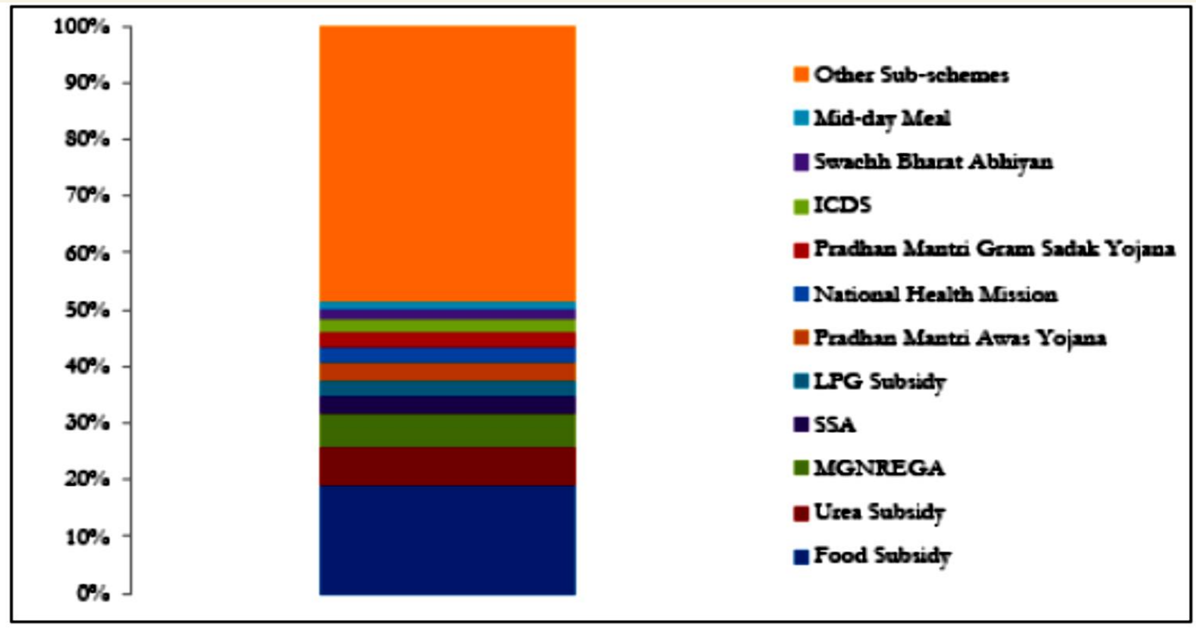
Info Capsule

PROPOSED UNIVERSAL BASIC INCOME (UBI)[1]

Mechanism of Redistribution

- The Economic Survey 2016-17 considers the idea of UBI as a new tool to bring about eradication of poverty.
- Universal Basic Income is a radical and compelling paradigm shift in thinking about both social justice and a productive economy. 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 central government runs about 950 central sector and centrally sponsored sub-schemes which cost about 5 per cent of GDP (Figure, 1) but effectiveness of targeting needs to be improved.

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

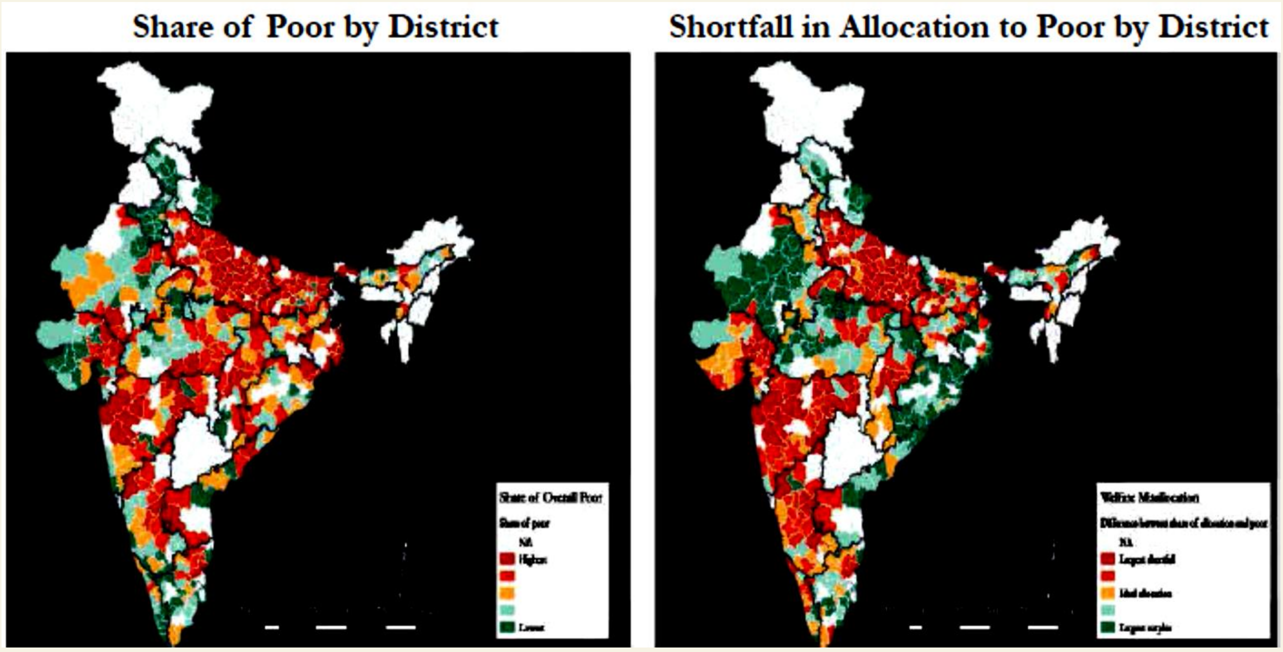


Source: Economic Survey, 2016-17

[1] Economic Survey, 2016-17, Ministry of Finance, Government of India.

- This misallocation results in exclusion of the deserving poor from access to government welfare benefits, leakages to non-poor and benefits to corrupt local actors.
- The risks of making “exclusion errors” -- that is leaving out the really deserving and needy -- are high.
- Evidence on weak targeting shows that welfare spending in India suffers from misallocation: as Figure 2 shows, the districts with the most poor (in red on the left) are the ones that suffer from the greatest shortfall of funds (in red on the right) in social programs. The districts accounting for the poorest 40% receive 29% of the total funding.

Figure 2: Ineffective Targeting



Source: Economic Survey, 2016-17

- Universal basic income is a more effective way of achieving Mahatma Gandhi’s objectives of “wiping every tear from every eye.”
- 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 thenecessary 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 i.e. unconditional cash transfer.
- UBI is expected to have several benefits as in poverty and vulnerability reduction; better targeting of poor; provision of insurance against health, income and other shocks; improvement in financial inclusion through greater usage of bank accounts and reduced constraints on access to credit for those with low income levels; psychological benefits of reduced pressures of finding a basic living on a daily basis; administrative efficiency as UBI will replace a plethora of separate government schemes.
- The Survey also discusses some limitations of UBI which are in terms of increase in conspicuous or wasteful spending, reduction in labour supply, increase in stress on the banking system. But, nevertheless, it is considered as a powerful idea to tackle ineffectiveness of targeting.
- The Economic Survey argues that UBI is a powerful idea whose time even if not ripe for implementation is ripe for serious discussion.

INDIA CAN RECLAIM LOW SKILL MANUFACTURING[2]

- The recent Economic Survey mentions that India has a historic opportunity to promote apparel, leather and footwear sectors because wage costs in India are much lower than in China.
- As shown in Table, 1, monthly wages in China range between US $250 and $300 whereas in case of India, it ranges between US $81 (Andhra Pradesh) and US $119 (Haryana).

Table 1: Minimum Wages for Semi-Skilled Workers

	Year	Monthly Wages (USD)
Andhra Pradesh	2016	81
Bihar	2016	84
Odisha	2016	86
Jharkhand	2016	90
Tamil Nadu	2016	93
Uttar Pradesh	2016	95
Karnataka	2016	105
West Bengal	2016	109
Gujarat	2016	114
Madhya Pradesh	2016	115
Maharashtra	2016	118
Haryana	2016	119
Bangladesh	2013	80-120
Vietnam	2015	180- 250
China	2013	250 - 300
Indonesia	2013	120 - 150

Source: Economic Survey, 2016-17

- Wage levels in apparel, leather and footwear sectors in China are rising which is creating vacuum in these sectors that can be exploited by India giving its cost advantage.
- In exploiting this opportunity, India is also facing competition from some countries including Bangladesh and Vietnam in case of apparels; Vietnam and Indonesia in case of leather and footwear.

[2] Economic Survey, 2016-17, Ministry of Finance, Government of India.

WORLD ECONOMIC OUTLOOK PROJECTIONS[3]

An Overview

- The IMF has projected that world output would grow by 3.4 per cent and 3.6 per cent in 2017 and 2018, respectively.
- World economic outlook for 2017 and 2018 has been projected better than previous two years. World output grew at a rate of 3.2 per cent in 2015 and 3.1 per cent in 2016.

Table 2: World Economic Outlook- 2017 & 2018

	Actuals		Projections		Diff. from Oct 2016 Projections	
	2015	2016	2017	2018		
World Output	**3.2**	**3.1**	**3.4**	**3.6**	**0.0**	**0.0**
Advanced Economies	2.1	1.6	1.9	2.0	0.1	0.2
United States	2.6	1.6	2.3	2.5	0.1	0.4
Euro Area	2.0	1.7	1.6	1.6	0.1	0.0
Emerging Mkt. and Developing Economies (EMDEs)	4.1	4.1	4.5	4.8	-0.1	0.0
Emerging and Developing Asia	6.7	6.3	6.4	6.3	0.1	0.0
China	6.9	6.7	6.5	6.0	0.3	0.0
India	**7.6**	**6.6**	**7.2**	**7.7**	**-0.4**	**0.0**

Source: Prasad (2017)

- Table 2 shows that Emerging and Developing Asia is expected to contribute the most to the world output growth in 2017 as well as 2018 with a respective growth projection of 6.4 per cent and 6.3 per cent.
- In comparison to china, India is projected to grow at a much faster face (7.2 per cent in 2017 and 7.7 per cent in 2018).

Team ICSI

[3] Prasad, H.A.C. (2017), Reviving and Accelerating India's Exports: Policy Issues and Suggestions, Working Paper No. 1/2017-DEA, Ministry of Finance, Government of India.