

# INDIA'S UNIVERSAL BASIC INCOME

BEDEVILED BY THE DETAILS

SAKSHAM KHOSLA





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## ABOUT THE AUTHOR

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The author is grateful to Milan Vaishnav for comments.



# SUMMARY

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

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

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

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

## THE ECONOMIC SURVEY'S PROPOSAL: FEATURES

- The survey estimates that an annual transfer of 7,620 rupees (\$120) to 75 percent of India's population will push all but India's absolute poorest above the 2011–12 Tendulkar poverty line.
- The survey puts the cost of such a scheme at 4.9 percent of India's gross domestic product. It finds that a budget-neutral transfer can only materialize after existing programs are withdrawn. In 2014–15, India's major fertilizer, petroleum, and food subsidies cost 2.07 percent of GDP, while the ten largest central welfare schemes cost 1.38 percent.
- Arguing that true universality will be politically and fiscally costly, the survey advises paying out the grant to all but the top 25 percent of India's income distribution. It suggests several ways of preventing the wealthy from availing the grant, including proxy-means tests, voluntary opt-out, community sanction, self-targeting, and targeting demographic groups.
- The survey also noted that universal financial inclusion, in combination with the Aadhaar authentication system, forms a prerequisite to send transfers directly to beneficiaries' bank accounts.

## THE ECONOMIC SURVEY'S PROPOSAL: BUGS

- The proposed transfer is less an income and more an income supplement. The Tendulkar line has been criticized for being too conservative an estimate of consumption and expenditure. The survey's calculations incorporate neither the loss of consumption from withdrawing major existing welfare programs to finance a UBI, nor the transaction and transition costs of moving to a welfare system dominated by cash transfers. Taking these factors into account is likely to result in an upward revision of the transfer amount and associated fiscal burden.

- The survey is unjustified in presenting India's largest welfare schemes as candidates for replacement. Several such programs are intended to achieve long-term development goals and cannot be simply substituted by cash transfers. In addition, India's national food distribution and public works programs, which the survey singles out for their high levels of misallocation and leakage, have improved significantly over the past decade in terms of their coverage and targeting efficiency.
- By discarding universal coverage, the survey leaves the door open for inefficient means-testing. Targeting performance can vary quite widely, and any savings generated thus can be offset by high administrative, private, social, and political costs. If targeting must be instituted, universal transfers among clearly defined vulnerable groups offer a tentative answer to this dilemma.
- An exclusive reliance on Aadhaar-linked welfare payments is short-sighted. Pilot evaluations of direct benefit transfers have found significant room for improvement in last-mile delivery, the size of the subsidy, and grievance redressal, even as authentication failures and exclusion errors due to Aadhaar persist. Significant progress remains to be made before large-scale Aadhaar-linked transfers can be trusted to reach recipients.

## **PRICING EXPERIMENTS**

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



# INTRODUCTION

**SEVENTY YEARS AGO**, then prime minister Jawaharlal Nehru declared that newly independent India would endeavor to “fight and end poverty and ignorance and disease.”<sup>1</sup> India has made giant strides since. Nearly one in two Indians were poor in 1951 compared to one in five Indians today,<sup>2</sup> and New Delhi lifted more than 130 million citizens out of poverty between 1994 and 2012 alone.<sup>3</sup> But the scale of India’s poverty challenge and its burgeoning population dwarf this tremendous headway. India is still home to more of the world’s poor than any other country, and economic disparities in the country are growing across states, across social groups, and in both urban and rural areas.<sup>4</sup>

To address poverty, India has traditionally relied on a combination of fostering economic growth; providing basic public services like healthcare and education; and distributing a variety of subsidies, pensions, and cash transfers. Aware that the benefits of growth have been eluding India’s neediest citizens and that service delivery has been erratic, the state has invested heavily in targeted welfare programs in the last few decades. While the scale of these programs is staggering—India runs the world’s largest school nutrition and public works programs—their performance has been subpar, plagued by pilferage, capricious targeting, and poor implementation.<sup>5</sup> While these schemes seem to have improved significantly in recent years, the Indian government has implemented ambitious reforms to shift from in-kind benefits to direct cash transfers into citizens’ bank accounts via Aadhaar, the nation’s vast biometric identification system.

As India's interest in using cash to alleviate poverty has grown, the concept of a universal basic income (UBI) has garnered renewed attention in advanced economies elsewhere in the world. This radical welfare reform proposal boasts a five-hundred-year intellectual history and recommends that states give every citizen regular, no-strings-attached cash payments. The idea was initially championed by Silicon Valley stalwarts and Scandinavian social democrats. But several economists have noted its potential to alleviate

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poverty in low-income countries by slicing through bureaucratic red tape, reducing corruption, and ensuring that entitlements reach intended beneficiaries.

The Indian government's annual Economic Survey in 2016–17 devoted a detailed chapter to the merits of a UBI. The Economic Survey estimated that providing a modest basic income to all but the richest quartile of Indians could shrink national poverty from 22 percent to 0.5 percent, while promoting social justice and empowering the poor. But the

survey discouraged immediate implementation, citing the tricky logistics of delivering direct payments over the last mile and the thorny politics of financing such a scheme. Despite its abundant enthusiasm, the Economic Survey soberly concluded that UBI is “a powerful idea” that may “not [be] ripe for implementation” but that the concept “is ripe for serious discussion.”<sup>6</sup>

As of 2017, a basic income proposal would indeed be weak medicine for the chronic infirmities of India's welfare system, given that the country's uneven ability to plan and execute policies would hamstring any attempt to institute such a reform now.<sup>7</sup> Further, the suggestion to finance a UBI largely by dismantling major existing welfare subsidies is concerning. It is unclear whether annual UBI transfers would offer sufficient recompense, and there is ample risk that, in seeking to pay the poor, a UBI may make the poor pay. Moreover, the Indian government's desire to eschew true universal transfers in favor of quasi-universal grants for select populations would likely result in a basic income scheme that suffers from the inefficient means-testing that plagues current poverty reduction programs.

First and foremost, improving India's technical and administrative capacity to implement a basic income system requires strong evidence that links a state-administered UBI with improved development outcomes. Real world pilots (hewing as closely to a strict UBI as possible) are needed to test the effects of unconditional cash grants at scale relative to those of status-quo programs. In addition to transfer amounts, such trials should look closely at the effectiveness of unsophisticated targeting methodologies, as well as non-Aadhaar-based alternatives for delivering direct cash transfers.

## CHAPTER ONE

# THE INTELLECTUAL HERITAGE OF A UNIVERSAL BASIC INCOME

**INDIA'S INTEREST IN A UBI** program has been spurred, at least in part, by vigorous debate and policy trials in several advanced Western economies in recent years. The idea of eradicating poverty by simply giving people money dates back to at least the sixteenth century. Between the early sixteenth and the early twentieth centuries, a host of luminary thinkers—including Thomas More, Thomas Paine, John Stuart Mill, and Bertrand Russell—all endorsed the idea of a UBI in one form or another. For instance, the Renaissance humanist Thomas More proposed providing everyone with a basic means of livelihood to curtail theft. In the late eighteenth century, the political philosopher Thomas Paine recommended the creation of a national fund to pay every English citizen a fixed amount each year. The philosopher and economist John Stuart Mill, in the nineteenth and early twentieth centuries, wrote sympathetically of providing “a certain minimum [to] every member of the community, whether capable or not of labour.”<sup>8</sup> The notion continued to gain support in progressive European intellectual circles in the 1920s and 1930s, based on the thinking of Nobel laureate and economist James Meade and political theorist G. D. H. Cole.<sup>9</sup>

The basic income concept grew in popularity across the Atlantic in the United States after the world wars, where it enjoyed support through much of the 1960s among free-market evangelists like Milton Friedman and Keynesian liberals like James Tobin and Paul Samuelson alike. Then U.S. president Richard Nixon's administration made some

attempts to pass such a proposal into law in the 1970s; while these efforts were ultimately unsuccessful, the government did undertake trials in cities like Denver and Seattle, which produced inconclusive results on the impact of a basic income on work habits.

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**For advanced economies, interest in UBI has stemmed from rising concerns about stagnant trade flows, growing economic inequality, slow productivity gains, and especially automation-driven job losses.**

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Around the same time, the Canadian government ran a five-year pilot program in a town called Dauphin that provided a guaranteed annual income to households whose incomes fell below the poverty line. In the intervening years, economic policy and public attitudes in the United States and the UK grew increasingly skeptical of the welfare state, and the idea temporarily receded from public memory.<sup>10</sup>

The basic income idea has enjoyed something of a popular resurgence in recent years. This has been driven by the convergence of at least three key trends: apprehensions about how automation may affect the future of the labor

force, the growing use of cash-transfer interventions to reduce poverty, and mounting interest in a social dividend funded by redistributing income from common resources.<sup>11</sup>

First, for advanced economies, the interest in UBI has stemmed from rising concerns about stagnant trade flows, growing economic inequality, slow productivity gains, and especially automation-driven job losses. Regarding automation, scholarly estimates of the likely magnitude of future job losses have differed dramatically, from a widely cited 2013 University of Oxford study warning that nearly half of U.S. jobs would likely be automated within twenty years to a 2016 study claiming that 9 percent of jobs were at risk across twenty-one countries in the Organization for Economic Cooperation and Development (including the United States).<sup>12</sup> Despite differing projections, discussions about a basic income have coincided with uncertainty about the prospects of job creation amid rapid technological innovation.

The UBI has emerged as a popular solution among a diverse range of actors, including proponents in Silicon Valley concerned about automation, libertarians eager to simplify dysfunctional welfare states, and progressives seeking to improve the bargaining power of workers.<sup>13</sup> It is perhaps no coincidence that governments in several advanced economies—including Canada, Finland, the Netherlands, Italy, the UK, and the United States—have already instituted or appear poised to institute some form of UBI pilot program.<sup>14</sup>

Second, the rapid growth of cash-transfer programs in low- and middle-income countries—including India—suggests that policymakers are increasingly comfortable using

such tools to improve welfare outcomes. Governments have typically delivered these payments in one of two ways: unconditional cash transfers that recipients can spend any way they like, and conditional cash transfers offered to citizens who meet predefined conditions like undergoing regular medical checkups or sending their children to school. Conditional cash transfers became popular in the 1990s with the success of Brazil's Bolsa Família and Mexico's Oportunidades initiatives.

Yet several new programs that are seeking to do away with conditions entirely and provide unqualified income support have shown promising results. For example, a nongovernmental organization (NGO) called GiveDirectly has distributed unconditional, one-time lump sums through mobile money services to poor households in rural Kenya, Rwanda, and Uganda; GiveDirectly observed substantial improvements in household consumption and psychological outcomes.<sup>15</sup> Similarly, in 2010, then Iranian president Mahmoud Ahmadinejad instituted a scheme of compensatory cash transfers to offset cuts to expensive food, fuel, and electricity subsidies. These payments were initially targeted to the poor, but difficulties with identifying and verifying income thresholds eventually led the government to institute uniform, universal payments amounting to 29 percent of the country's median household income.<sup>16</sup>

Taken together, a vast and growing body of high-quality empirical research lends credence to the hypothesis that cash transfers help the poor. As of 2015, 130 countries ran at least one unconditional cash-transfer program, while sixty-four countries operated at least one conditional cash-transfer program as part of their poverty alleviation strategies and social safety nets.<sup>17</sup> Reviewing the results of 165 studies comprising both unconditional and conditional programs, the Overseas Development Institute found that cash transfers offer many benefits. For participating households, cash transfers can reduce monetary poverty, improve school attendance rates, increase use of health services, have positive effects on savings rates, have a positive (or negligible) impact on employment rates, and grant more agency to women.<sup>18</sup>

Studies comparing unconditional and conditional transfer programs find that each have their comparative advantages. The former approach appears to work best when households' core problem is a lack of funds, while the latter helps households make socially optimal decisions, like delivering a baby in a formal healthcare environment or investing in a child's education, when they may do otherwise without such incentives.<sup>19</sup> Cash transfers, with or without strings attached, appear set to make substantial inroads in welfare states around the world.

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Third, the UBI concept shares a close intellectual affinity with the idea of countries using the proceeds from selling their natural resources to fund universal cash transfers to their citizens. A foundational example of this approach, the Alaska Permanent Fund, gives all the state's citizens an annual, unconditional, taxable dividend funded by state oil revenues.<sup>20</sup> A 2011 working paper by the Washington, DC–based Center for Global Development recommended that resource-rich countries place resource revenues into dedicated funds designed to disperse consistent, uniform, taxed transfers to citizens according to transparent criteria in such a way that creates shared social (and fiscal) contracts between governments and their citizens. Doing so, the study argued, can help such countries improve governance outcomes while defying the resource curse—the

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**The most extensive investigation of a real UBI test case is occurring in Kenya, where GiveDirectly is conducting a privately funded randomized controlled trial.**

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idea that countries enriched by fossil fuel or mineral wealth are doomed to suffer from corruption, poor institutions, and lopsided development.<sup>21</sup>

The central idea of a “direct distribution of resource revenues” is expanding to new parts of the world, including India and other emerging economies.<sup>22</sup> In 2014, for instance, the Indian Supreme Court ordered mining companies to deposit 10 percent of the proceeds from the sale of iron ore in the state of Goa into a permanent fund. The Goa Foundation,

an environmental NGO and the petitioner in the case, has proposed that income from the fund be distributed among all Goan citizens.<sup>23</sup> Likewise, in 2003 and 2004, Arvind Subramanian, who was then with the International Monetary Fund, made the case for transferring state oil revenues directly to Iraqis and Nigerians to improve both institutional and economic outcomes. Meanwhile, Center for Global Development senior fellow Todd Moss and World Bank economist Shanta Devarajan have outlined similar reforms in resource-rich African nations like Angola, Gabon, Ghana, and Uganda.<sup>24</sup> Elsewhere, in recent years, politicians and commentators in Western countries like the United States and the UK have proposed various UBI initiatives funded by a range of sources, including proceeds from fossil fuel use, financial transactions, and the profits of technology companies like Facebook and Google.<sup>25</sup>

Among all of these examples of basic income proposals, the most extensive investigation of a real UBI test case is occurring in Kenya, where GiveDirectly is conducting a privately funded randomized control trial comparing a variety of unconditional cash transfers that will be provided over a period of twelve years.<sup>26</sup> More than 26,000 individuals

in 200 villages will receive cash transfers, with 6,000 receiving long-term basic incomes. As the world's first comprehensive test of a UBI, this study may help answer core questions about basic income as its initial findings are released in the coming years.<sup>27</sup> It may, for instance, make clear whether recipients, as some UBI critics fear, will fritter the cash away on drugs and alcohol, or work less (current data seems to indicate otherwise).<sup>28</sup> Another key question is whether participating individuals change their financial behavior in response to long-term income security.



# INDIA AND CASH TRANSFERS

**DISCUSSIONS OF A UBI** in India owe their provenance to many of the same trends fueling the concept's rise in advanced economies, including concerns about technologically driven unemployment and poorly targeted welfare programs, an aggressive policy push in favor of cash transfers and public debate regarding its role in poverty alleviation, and experiments to examine the impact of basic income grants.

The GiveDirectly pilot would seem miniscule compared to a UBI implemented in a country like India that has more than 1 billion citizens.<sup>29</sup> Given the scale of both the fiscal transfers and the benefiting populations, an Indian UBI could not be donor-financed like the GiveDirectly experiment; instead, it would be the first state-administered basic income program in the developing world. A UBI in India not only would reimagine the social contract between 1.3 billion citizens and their state but also could provide a blueprint for every other low- and middle-income country wanting to take the plunge. The news, in September 2016, that India's chief economic adviser, Arvind Subramanian, was actively exploring a UBI policy for the annual Economic Survey garnered considerable media attention and attracted comments from senior government officials.<sup>30</sup>

The Economic Survey is the Indian Ministry of Finance's annual overview of the economy. It is submitted to the Indian Parliament prior to the release of the government's budget

and has served in the past as a vehicle for policy trial balloons. The 2009–10 survey, for example, discussed replacing subsidies with a system of food coupons or direct cash transfers, an idea now being implemented.<sup>31</sup> The idea of a basic income garnered further attention following Prime Minister Narendra Modi’s decision to demonetize the country’s high-value currency bills, as many theorized that a one-time income transfer would be unveiled in the budget to help ease the economic shock of the move.<sup>32</sup> While such a cash infusion did not materialize, the promised chapter in the Economic Survey did.

## THE EMPLOYMENT ARGUMENT

India is among the many developing nations concerned that growing automation is a precursor to a crisis of insufficient employment. Previously, the well-theorized path to economic growth for emerging economies involved building a large, labor-intensive manufacturing sector that would grow more productive and would churn out more diverse and

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**The manufacturing sectors in these developing economies are shrinking at ever earlier stages of economic development compared to those of advanced economies.**

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sophisticated goods over time. This, in turn, would drive economy-wide industrialization and would hasten an eventual transition to a service economy, at which point deindustrialization—a fall in manufacturing as a share of aggregate gross domestic product (GDP)—would occur. According to the political economist Dani Rodrik, this relationship has broken down in recent years, a trend he labels “premature deindustrialization.”<sup>33</sup> Undergoing structural transformations due to technological changes and trade liberalization, developing

economies are finding that it is surprisingly hard to become a manufacturing powerhouse. As a result, they are either partially industrializing or not industrializing at all, instead skipping ahead to the service-economy stage of economic development.

The manufacturing sectors in these developing economies are shrinking at ever earlier stages of economic development compared to those of advanced economies. India’s deindustrialization, for example, began when per capita income was \$2,000, compared to per capita income levels of \$9,000–\$11,000 (at 1990 prices) for the United States, the UK, and Germany; meanwhile the Indian manufacturing sector’s share of employment peaked when India’s per capita income was \$700, compared to a \$14,000 figure for Sweden, the UK, and Italy.<sup>34</sup> Previous research by Subramanian finds that this trend is mirrored across nearly all Indian states, a fact that presents a difficult and worrying dilemma: “Should [India] try to rehabilitate unskilled manufacturing or should it

accept that that is now unachievable and create the groundwork for sustaining the skill intensive pattern of growth?”<sup>35</sup> India’s prospects for economic growth and employment generation, in many ways, hinge on the answer to this question. A fall in new employment in India’s organized sector over the past decade and the country’s slowing overall job creation rate are further cause for concern.<sup>36</sup> If Indian policymakers fail either to create opportunities for unskilled labor or to equip future entrants into the labor force with the education required for high-skill employment, calls for a drastic expansion of the country’s social safety net will likely increase.

## THE THEORY BEHIND JUST GIVING CASH

Yale economist T. N. Srinivasan writes that Indian elites discussed a minimum income standard as early as 1938, and a program for providing such a grant was on the anvil in 1964.<sup>37</sup> India’s contemporary interest in a UBI has emerged from a far more recent debate among the country’s development policymakers on whether direct cash transfers deliver benefits and alleviate poverty more efficiently than in-kind transfer programs like the public distribution system (PDS) or the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).<sup>38</sup>

This discussion originated from a 2008 series of essays in a peer-reviewed academic journal called the *Economic & Political Weekly*.<sup>39</sup> In one piece, political scientist Devesh Kapur, economist Partha Mukhopadhyay, and Arvind Subramanian (then with the Peterson Institute for International Economics) argued for replacing centrally sponsored poverty schemes with cash transfers.<sup>40</sup> The authors cited structural inefficiencies in these schemes—enormous amounts of leakage to the nonpoor, high barriers to enrollment, inaccurate identification of eligible individuals, and substantial administrative costs; they contended that only a miniscule proportion of benefits actually reached India’s poor. The authors highlighted the key culprits as an administrative culture that lacked accountability and an underdeveloped state capacity. As an alternative, they proposed rerouting public expenditures into a system of direct cash transfers that would expand recipients’ spending choices and reduce financial constraints, alongside a recommended increase in funding and resources for local government institutions that are better placed to monitor and implement such transfers (as opposed to overburdened state- or district-level administrators).

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**Some policymakers have critiqued claims about a UBI’s benefits, saying that such transfers will be no magic bullet.**

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Other policymakers critiqued these claims. A former member of the erstwhile Planning Commission named Mihir Shah argued that such transfers were “no magic bullet,” and that given the widespread failure of rural markets across India, giving the poor cash that they cannot utilize is a wasted effort.<sup>41</sup> In the absence of concomitant improvements in public institutions and private markets, Shah contended, cash transfers would do little to guarantee food security or generate sustainable livelihoods in comparison to the PDS or MGNREGA. The debate has evolved since that exchange, as academic circles have held conferences to examine the suitability of cash transfers; meanwhile, successive central governments have introduced several cash-transfer schemes.<sup>42</sup> This discourse forms the intellectual bedrock for India’s basic income debate.

## DOING WELFARE DIFFERENTLY

One reason a UBI does not seem like an entirely alien addition to India’s policy terrain is because the government has already undertaken a concerted effort to convert in-kind benefits into cash and cash-assisted in-kind transfers. In 2012, the United Progressive Alliance government headed by then prime minister Manmohan Singh announced plans to reform the government’s vast subsidy apparatus by making payments directly into beneficiaries’ bank accounts.<sup>43</sup> Underpinning this initiative would be a unique ID, a twelve-digit Aadhaar number, issued to every Indian citizen by the Unique Identification Authority of India (UIDAI). Connecting individuals’ Aadhaar numbers to their bank accounts would “reduce leakages, cut down corruption, eliminate middlemen, target beneficiaries better, and speed up transfer of benefits to eligible individuals,” Singh declared.<sup>44</sup>

While India was no stranger to cash transfers, the size and scale involved in creating the world’s largest database of demographic and biometric data to restructure the delivery of welfare entitlements was unprecedented. Prior to this reform, the Indian government had operated centrally administered cash-transfer programs like targeted unconditional pensions to the elderly, the differently abled, and widows through the National Social Assistance Program, as well as a program called the Janani Suraksha Yojana, which seeks to improve maternal and neonatal outcomes by using cash to incentivize institutional deliveries.<sup>45</sup> Both programs have been extensively evaluated and, despite a high degree of variation across Indian states, found to have broadly positive respective effects in the form of increased pension utilization and uptake in maternity services and institutional deliveries. That said, these programs remained small components of India’s overall social welfare architecture.<sup>46</sup>

Starting in January 2013, scholarships and pensions were converted into direct benefits transfers (DBT) for beneficiaries in certain Indian districts, and the government

intended to later tackle big-ticket subsidies (with the widest distribution and the most leakage) for items like food, fertilizer, and kerosene.<sup>47</sup> In mid-2013, the government announced plans to deliver subsidies for liquefied petroleum gas (LPG) directly to consumers in twenty Indian districts.<sup>48</sup> But direct benefits transfers for LPG were hamstrung by the slow pace with which Aadhaar numbers were linked to bank accounts, by worries that deserving beneficiaries were being excluded, and by an interim order from the Supreme Court stating that receiving welfare benefits was not contingent on possessing an Aadhaar number; DBT for LPG was suspended six months later.<sup>49</sup>

The fate of Aadhaar-linked DBT remained unclear until July 2014, when newly elected Prime Minister Narendra Modi gave his approval for continuing Aadhaar enrollment for Indian citizens and accelerating DBT rollout in districts with substantial Aadhaar coverage.<sup>50</sup> DBT received additional momentum from the Pradhan Mantri Jan-Dhan Yojana (PMJDY), a program predicated on the government's push for financial inclusion through bank accounts; a relaunch of DBT for LPG in November 2014; and wage payments to MGNREGA workers.<sup>51</sup>

The 2014–15 Economic Survey proposed implementing DBT using what became known as the JAM trinity—an effort to link individuals' PMJDY accounts, Aadhaar numbers, and mobile phone numbers—so as to plug leakages, improve beneficiary targeting, and securely distribute benefits.<sup>52</sup> Finance Minister Arun Jaitley endorsed JAM in India's 2015 budget, and Prime Minister Modi's approval followed shortly after.<sup>53</sup> DBT has grown substantially since.<sup>54</sup> As of October 2017, the UIDAI has issued 1.18 billion Aadhaar numbers.<sup>55</sup> The central government intended to have 536 centrally sponsored welfare schemes implement DBT by the end of 2017.<sup>56</sup> When the majority of central welfare schemes can deliver welfare benefits directly into the bank accounts of eligible Indian citizens, it will likely become substantially more feasible to administer a consolidated transfer—or a basic income grant. Chief Economic Adviser Subramanian indicated as much when describing the full potential of the JAM trinity: “Imagine the possibility of rolling all subsidies into a single lump-sum cash transfer to households, an idea mooted decades ago by the economist Milton Friedman as the holy grail of efficient and equitable welfare policy. JAM makes this possible.”<sup>57</sup>

## **AN INDIAN UBI: PROPOSALS AND CRITIQUES**

Driven by a confluence of the above factors, debate on an Indian UBI has grown in intensity in the past five years. Its supporters cite it as an improvement over ineffective antipoverty interventions and inefficient subsidies, the latter of which they claim are largely consumed by the affluent and damage the country's fiscal health. Detractors

worry that a UBI would disincentivize work and that it would be a premature step in India’s development arc given the urgency of increasing spending on competing priorities like funding education and healthcare, as well as enforcing and expanding existing entitlements. Similar to the UBI policy discourse worldwide, the emerging flash points in the Indian debate revolve around the primary questions of cost and political priorities, and secondary questions of which programs to put on the chopping block and how to administer transfer delivery.

Several Indian economists have proposed some form of a UBI and have outlined varying transfer amounts and their fiscal implications (see table 1 for a summary). Pranab Bardhan, a University of California, Berkeley economist and an early proponent, wrote in 2011 that a UBI is “one of the cleanest and least incentive-disruptive ideas” for enhancing social welfare protection in India. Elsewhere, he argued that a UBI for developing

**TABLE 1: BASIC INCOME PROPOSALS IN INDIA**

	<b>Pranab Bardhan (2016)</b>	<b>Vijay Joshi (2016)</b>	<b>Maitreesh Ghatak (2016)</b>
<b>POPULATION COVERAGE</b>	All	All	All
<b>ANNUAL TRANSFER AMOUNT</b>	₹10,000	₹3,500	₹13,432
<b>COST AS % OF GDP</b>	10%	3.5% (alternatively, 2.5% and 1.9% of GDP if transfers are paid only to 67% and 50% of the population)	11%
<b>FINANCING MECHANISMS</b>	Roll-back ‘non-merit’ subsidies: 9% of GDP Eliminate corporate tax holidays and exemptions: 3% of the GDP	Roll-back ‘non-merit’ and food subsidies: 8.5% of GDP Savings from tax exemptions: 1.5% of GDP Privatization of public sector enterprises: 1% of GDP Taxing agricultural incomes (for a courageous government): 0.5% of GDP Remove dysfunctional social welfare schemes: 0.5%	Roll-back subsidies going to the non-poor: 9% of GDP Raise additional taxes

nations like India would be far preferable to the complicated task of identifying the poor and would be fiscally achievable given that the country’s poverty thresholds are relatively low and a smaller transfer would suffice.<sup>58</sup> He recommended an inflation-indexed annual transfer of 10,000 rupees—75 percent of India’s 2014–15 poverty line—to every Indian citizen, which would cost an estimated 10 percent of India’s GDP.<sup>59</sup> Maitreesh Ghatak of the London School of Economics proposed a more liberal annual transfer of 13,432 rupees, which would cost 11 percent of GDP, so as to push recipients’ incomes over the poverty line entirely and to empower workers. Oxford University’s Vijay Joshi recommended a smaller grant, as part of a broader recalibration of public expenditures, equal to 20 percent of the poverty line: 3,500 rupees per year at a cost of 3.5 percent of GDP. Abhijit Banerjee of the Massachusetts Institute for Technology (MIT), meanwhile, suggested a minimum weekly income of 250 rupees for each adult resident (13,000 rupees per year) in place of assorted subsidies and welfare programs.<sup>60</sup>

<b>Debraj Ray (2016)</b>	<b>Abhijit Banerjee (2016)</b>	<b>Reetika Khera (2016)</b>	<b>Economic Survey 2016-17 (2017)</b>
All	All	All elderly, widows, disabled persons (approximately 10% of the population), and pregnant women (approximately 26 million children born annually)	Bottom 75% of the income distribution
₹10,000–₹13,000	₹13,000	Pensions - ₹12,000 Maternity entitlements per child - ₹6,000	₹7620/₹6540
9-12%	11%	1.5%	4.9%/4.2%
Commit a fixed fraction of GDP: 9-12%	Replace welfare schemes like the PDS and MGNREGA		Roll-back social sector programs: 2.07% of GDP Implicit ‘middle-class’ subsidies: 1.05% of GDP Top ten centrally sponsored schemes: 1.38% of GDP

The fiscal space for such transfers, according to Bardhan and Joshi, would come chiefly from rolling back certain nonmerit subsidies on items such as fuel, fertilizer, and electricity that disproportionately benefit relatively well-off Indians.<sup>61</sup> The leading estimate available when these proposals were put forth was from a 2003 study by the National

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**Indian UBI supporters cite it as an improvement over ineffective antipoverty interventions and inefficient subsidies, the latter of which they claim are largely consumed by the affluent and damage the country's fiscal health.**

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Institute of Public Finance and Policy, which calculated that these subsidies comprise 8 percent of GDP based on central and state budgetary data from 1998–99.<sup>62</sup> Bardhan suggested that additional savings worth 3 percent of GDP could be accrued by eliminating certain corporate tax holidays and customs-duty exemptions.<sup>63</sup> Joshi also advocated for trimming tax exemptions and doing away with nonperforming poverty alleviation schemes.<sup>64</sup> In line with his larger proposal, Ghatak maintained that a UBI would require additional taxation and an expanded tax base.<sup>65</sup> For Banerjee, a universal basic subsidy could replace the PDS and MGNREGA along

with other welfare schemes. By instituting weekly verification for beneficiaries, it could deter the rich from take-up and limit misappropriation.<sup>66</sup> Finally, New York University economist Debraj Ray tweaked the UBI idea into a proposal for a universal basic share, which would not consist of a pledged transfer of a specific amount of money, but rather a government commitment to pay out a fixed proportion of the country's GDP that could vary with changes in national income.<sup>67</sup>

The idea of an Indian UBI has drawn criticism and counterproposals from several quarters as well. *Economic Times* consulting editor Swaminathan Aiyar outlined two key substantive critiques in a 2016 column.<sup>68</sup> First, he claimed that universal entitlements cannot empower the poor the way a concerted improvement of public goods and services can; he asserted that such entitlements may even erode familial and work ties. This concern was mirrored in NITI Aayog CEO Amitabh Kant's remarks at the 2017 World Economic Forum, where he suggested that the Indian state give below-poverty-line families 1,000 rupees per month in the form of interest-free loans expressly for productive use.<sup>69</sup>

Aiyar's other concern is with the priorities of public finances—for the cost of implementing a UBI, should the government not instead boost spending on public services?<sup>70</sup> On a related note, development economists Reetika Khera and Jean Drèze, along with a member of parliament from the Indian National Congress named P. Chidambaram, were skeptical that it would be as politically feasible to roll back India's corporate tax

exemptions or nonmerit subsidies as Bardhan and Joshi had suggested.<sup>71</sup> Further, both Khera and Drèze pointed out that the amount of fiscal resources allocated for these subsidies had decreased since the collection of the budgetary data Bardhan and Joshi used to draw their conclusions, implying that cutting these subsidies would not yield sufficient fiscal room for a UBI initiative.<sup>72</sup>

In fact, there are several economists who assert that using cash transfers to make a sizable dent in poverty would require India to scrap existing welfare programs. After all, many conservative and libertarian advocates of a basic income in advanced economies have long maintained that a UBI must replace centrally administered, safety net programs for it to be affordable and significantly improve social welfare resource allocation.<sup>73</sup> In the case of India, economist Surjit Bhalla recommended carving out the fiscal space for an income grant, targeted to the bottom quintile of the country's income distribution, in part by dismantling key welfare programs like the PDS and MGNREGA, which have been known to perform suboptimally for years.<sup>74</sup> Taken together, the world's largest public works program and food distribution network comprise roughly 1.3 percent of India's GDP.<sup>75</sup>

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In contrast, Drèze, who supports a basic income in principle, has expressed concerns about India's preparedness to administer the delivery and receipt of cash transfers as well as the instability that would be engendered by withholding in-kind transfers.<sup>76</sup> To expand India's social safety net without sacrificing existing entitlements, both Khera and Drèze recommend that the country gradually phase in a cost-effective UBI by offering universal maternity entitlements (under the National Food Security Act, all pregnant women are entitled to 6,000 rupees per pregnancy) and making social security pensions universal for the elderly, widows, and the differently abled under the National Social Assistance Program.<sup>77</sup>

Taken together, these diverse perspectives illuminate difficult questions that mark the fault lines along which the policy discourse is likely to splinter if India moves to institute a UBI. Would the program's goal be to create a floor for living standards or to provide a ladder to escape poverty? How much money should a basic income provide, and what financing strategy would underpin these transfers? And ultimately, can the Indian state design and implement an income-transfer system that does not reduce citizens' net welfare?

## EMPIRICAL EXPERIMENTS IN INDIA

Worldwide research findings on cash transfers offer strikingly consistent evidence of the positive role of conditional cash transfers in incentivizing investments in human capital, and the role of unconditional transfers in providing social pensions and emergency support. But no country has tried a long-term national UBI thoroughly enough to develop a deep theoretical framework that explains its degree of success or provide a convincing body of evidence in its favor. This is an issue of policy design. A UBI demands a high initial investment and an overhaul of a country's welfare machinery (and one that is fairly nascent in the case of most developing nations). The various pilots under way at the moment, especially those administered by government agencies in countries like Finland, will help remedy this lack of data in coming years.

Until such evidence is collected and analyzed, Indian policymakers can be encouraged by the results of two important studies testing the impact of unconditional cash grants in Madhya Pradesh and Delhi; these pilots represent a powerful opening argument in favor of a UBI in India and perhaps other developing nations. The first study tested the effects of unconditional cash transfers when offered in addition to existing public services, while the latter examined their impact when given as a replacement for the existing food subsidy.

From January to December 2011, as part of a United Nations Development Program–Government of Delhi partnership, the Self-Employed Women's Association (SEWA) and the state government carried out a randomized controlled trial. It measured the impact—specifically on food security, nutrition, and wasteful expenses—of replacing subsidized food through the PDS with unconditional cash transfers to households below the poverty line. The India Development Foundation conducted the study, which gave a randomly selected group of 100 households (from 450 total households that were part of the experiment) in New Delhi 1,000 rupees per month.<sup>78</sup> This amount was deposited into bank accounts opened in the name of the female head of participating households. The experiment observed no reduction in per-capita calorie consumption in households receiving cash transfers, while expenditures on nutritious noncereal items like pulses (the edible seeds from legumes), fish, eggs, and meat increased. Further, the authors found little evidence that cash transfers increased spending on alcohol or nonfood expenses. Regular, targeted, unconditional cash transfers in lieu of the PDS did not seem to harm food security or encourage wasteful spending.

A more ambitious version of this experiment took place in Madhya Pradesh from June 2011 to November 2012, where SEWA and the United Nations Children's Fund (UNICEF) launched two pilots to examine the impact of unconditional, monthly

transfers through modified random control trials.<sup>79</sup> In the first, every adult received 200 rupees and every child received 100 rupees each month—amounts later raised to 300 rupees and 150 rupees respectively to account for inflation—in eight villages for seventeen months. Their experiences were compared with those of twelve similar control villages that received no transfers. In the second pilot, every adult and child in a tribal village received 300 rupees and 150 rupees each month respectively for an entire year, while another tribal village acted as a control. In all, more than 6,000 individuals received a basic income for twelve to seventeen months.

The Madhya Pradesh pilots differed from the Delhi study in a few notable ways. First, they were universal; every individual in a treatment village, irrespective of gender or level of wealth, received a cash transfer directly into their bank account. Second, these grants were provided above and beyond existing welfare programs, not as a substitute payment for giving up entitlements under a particular scheme. Third, this was the latest in a total of only eight UBI pilots worldwide in the last fifty years—it was the only one in Asia and the second such experiment in the developing world.<sup>80</sup>

The results, according to Guy Standing, a professor at the University of London's School of Oriental and African Studies and a principal researcher on the pilots, showed that a basic income was transformative for participants.<sup>81</sup> The researchers found that the grant, worth approximately one-quarter of median-income families' monthly earnings, significantly improved living conditions: households receiving basic income could access better public and private sources of drinking water, while those in tribal villages purchased significantly more household assets. Households in both the general and tribal pilots reported that the basic income increased their food sufficiency, and this had a concomitant, statistically significant impact on children's nutrition. Neither pilot indicated a rise in alcohol consumption. The uptake of education and health services grew—the use of private healthcare and health insurance rose significantly for basic income villages compared to control villages, as did spending on schooling, especially for female students. The basic incomes also stimulated economic activity: the probability that individuals would diversify their economic activities was far greater in basic income villages than in control villages, and the number of hours participants worked similarly increased.<sup>82</sup>

Despite such striking overall results, a robust caveat is necessary before determining their policy relevance. While the results did little to diminish the case for a basic income,

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**The 2011–12 UBI pilots in Madhya Pradesh showed that a basic income was transformative for participants.**

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their generalizability is limited to demonstrating the impact of unconditional cash transfers among small, predefined populations in Delhi and Madhya Pradesh. That is to say, while the studies were internally valid, extrapolating their findings to larger contexts is fraught with risk.

Development economists and leading proponents of the randomized controlled trial method Esther Duflo, Rachel Glennerster, and Michael Kremer point out three issues that deserve further investigation.<sup>83</sup> In short, it is impossible to be certain that similar effects will be found across implementing agencies, state boundaries, and socioeconomic groups as a basic income is scaled up. First, determining the general equilibrium effects of scaling up such programs temporally or spatially—the indirect economic impact of long-term income grants on regional economic activity, government finances, and the prices of essentials—is important for gauging the aggregate market and welfare effects of a basic income system. Second, if the participants of a study know they are being monitored, they might act differently than they would if they were unobserved. Third, it is hard to generalize from the specific treatment used and the particular population studied in an experiment when applying lessons to real program implementation. This underscores how critically important it is that the Indian state conducts sufficiently large pilots in terms of geographical scope and number of individuals so as to seek to capture the spillover effects of regular, unconditional, universal cash transfers at scale.

In the meantime, the Indian state must answer, with absolute clarity, the policy questions of financing, targeting, and state capacity raised by the prospect of an Indian UBI. To that end, the 2016–17 Economic Survey is a remarkable contribution to articulating how India would approach a transformation of its welfare architecture of this magnitude.

## CHAPTER THREE

# UNPACKING THE ECONOMIC SURVEY'S UBI PROPOSAL

**THE ECONOMIC SURVEY'S** chapter on a UBI calls the idea a “radical new vision,” and the “shortest path to eliminating poverty.” The chapter makes a substantive case for the merits and limitations of a potential Indian UBI in forty-odd pages. Reading the section in its entirety is recommended to fully appreciate its nuanced, penetrating critique of Indian social protection. Yet the focus here is on the proposal’s notable departure from several key, widely understood tenets of the UBI concept, including the chapter’s recommendation for a “quasi-universal” transfer, its calculation of the income supplement, and its prescriptions for implementing the scheme.

A UBI, according to the Economic Survey, has three key characteristics: every citizen receives cash payments, these payments are unconditional, and each individual is free to spend these funds as they wish. The survey marshals a number of common arguments in favor of a UBI. It contends that a UBI can maximize social justice by giving each

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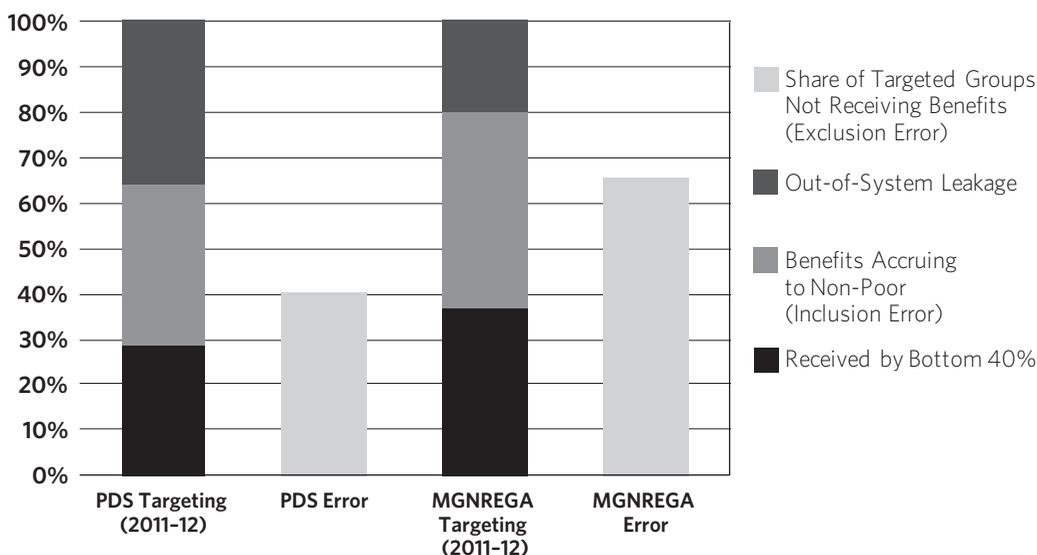
individual ownership over a share of the country's collective wealth. The survey asserts that cash transfers are less paternalistic than in-kind assistance and empower India's poor to make economic decisions as they see fit. Following Bardhan's reasoning, it states that once the plumbing of financial inclusion is established, a relatively small cash grant could disproportionately improve welfare outcomes. As employment growth becomes more uncertain, the Economic Survey suggests that a guaranteed basic income can help ensure that citizens enjoy a basic standard of living. Finally, by making use of the JAM trinity, a UBI would inject administrative efficiency and transparency into a welfare system "riddled with misallocation, leakages and exclusion of the poor."<sup>84</sup>

This last point forms the bedrock of the Economic Survey's case that a UBI is a potential poverty-fighting tool that can perform significantly better than the country's 950-odd centrally sponsored schemes (and scores of other state-level programs). To evaluate the targeting efficiency of India's current welfare spending, the survey used administrative data on public spending from 2015–16 and population data from the 2011–12 round of the National Sample Survey to construct heat maps of poor households in each district and the amount that each district spent on the six largest welfare schemes.<sup>85</sup> The results depict the striking extent of misallocated welfare funds: districts where poverty is most prevalent—in states such as Bihar, Chattisgarh, Madhya Pradesh, and Uttar Pradesh—tend to be given the fewest financial resources. The districts where 40 percent of India's poor reside get only 29 percent of this total funding.<sup>86</sup>

According to the Economic Survey, this misallocation happens primarily due to low state capacity. Since districts are assigned funding based on their ability to spend and implement schemes, richer districts with more administrative capability inevitably win out.<sup>87</sup> This vicious cycle typically means that the eligible poor are denied their due and nonpoor individuals receive benefits, in addition to problems with leakages and corruption. In 2011–12, 40 percent of those in the bottom 40 percent of India's income distribution were denied their PDS benefits and 65 percent of this population were denied their MGNREGA benefits (see figure 1).<sup>88</sup> The Economic Survey argues that a UBI would be an effective antidote to these capacity limitations. A transfer from the exchequer to individual bank accounts would be a relatively light administrative burden, and one that could conceivably eliminate rent-seeking and downstream pilferage. Moreover, in a universal system, the rate of exclusion from receiving benefits would systematically decline.

The Economic Survey is quick to clarify that a "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."<sup>89</sup> Beyond just improving the cash-transfer mechanism, the survey notes two novel ancillary benefits of a UBI. Drawing upon a

**FIGURE 1: PDS AND MGNREGA TARGETING (2011-12)**



Source: Ministry of Finance, Economic Survey 2016-17 (New Delhi: Government of India, 2017), figure A5, page 200.

substantial literature on the cognitive impact of poverty, the Economic Survey suggests that a UBI could help enhance individual decisionmaking.<sup>90</sup> Further, it estimates that with the resultant proliferation of government-to-person payments, a UBI would likely help stimulate financial inclusion and loosen the credit constraints of the poor.<sup>91</sup> This is no soft sell.

By contrast, the Economic Survey finds the case against a UBI to be slim. Refuting claims that a UBI would inject moral hazard into society by encouraging idleness, reducing work incentives, and driving up spending on “temptation goods” like alcohol and tobacco, the survey cites a substantial (and growing) body of literature that finds no effect of cash transfers on these outcomes. Meta-analyses of studies conducted in other developing nations back this assertion. The Economic Survey also presents evidence from the Madhya Pradesh basic income pilots and the 2011–12 round of the National Sample Survey (NSS) that show a decline in spending on tobacco, alcohol, and *paan* (a combination of betel leaves and nuts used as a digestive or stimulant) with a corresponding increase in overall consumption.<sup>92</sup> Another related concern about the implications of individuals’ receiving income divorced from employment and their contributions to society is dispatched swiftly. The survey notes that unearned income in the form of inherited wealth is uncontroversial, and it expects that those who provide unpaid work like childcare and elder care would benefit from the recompense of a UBI.<sup>93</sup>

## QUANTIFYING A BASIC INCOME

What amount does the Economic Survey recommend as a universal payout? Taking the 2011–12 NSS estimates of India’s poverty distribution into account, the survey first aims to reduce India’s poverty rate from 22 percent to 0.45 percent. It then calculates the amount that would be needed to push all individuals at the 0.45 percent consumption threshold over the 2011–12 poverty line of 893 rupees per month.<sup>94</sup> Adjusted for inflation, the annual transfer amount would work out to 7,620 rupees per person at 2016–17 prices. Alternatively, assuming that the poor’s consumption has increased proportionally to ensuing growth in GDP since 2011–12, the UBI level would fall to 6,540 rupees per

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**In a striking departure from the typical features of a UBI, the survey bakes in targeting to exclude those in the top quartile of India’s income distribution.**

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year. These amounts would be indexed to the inflation rate to prevent their real value from being eroded by economic fluctuations.

To estimate the fiscal cost of either amount, the Economic Survey “assumes that in practice any program cannot strive for strict universality, so a target quasi-universality rate of 75 percent is set.”<sup>95</sup> In a striking departure from the typical features of a UBI, the survey bakes in targeting to exclude those in the top

quartile of India’s income distribution. For the aforementioned transfer amounts, the cost of this quasi-universal basic income would be 4.9 percent and 4.2 percent of India’s GDP respectively. A truly universal cash transfer to all citizens of 7,620 rupees per year would cost 6.5 percent of GDP, while an annual grant of 6,540 rupees would cost close to 5.7 percent.<sup>96</sup>

The Economic Survey is unequivocal on financing principles: a UBI should not turn into a “Trojan horse that usurps the fiscal space for a well-functioning state” or become merely “an add-on to, rather than a replacement of, current anti-poverty and social programs, which would make it fiscally unaffordable.”<sup>97</sup> Rather, the survey finds that a budget-neutral quasi-UBI could not materialize without rolling back India’s existing subsidies and social welfare schemes.

Elaborating on central government finances, the Economic Survey finds that India’s flagship fertilizer, petroleum, and food subsidies for the poor cost roughly 2.1 percent of GDP in 2014–15. Meanwhile, so-called middle-class subsidies (that primarily benefit the better-off citizens) such as those on the railways, aviation fuel, gold, and electricity, add up to nearly 1.1 percent of GDP. The 2015–16 Economic Survey devotes a chapter to determining the benefits accruing to the nonpoor (those not in the bottom three-tenths

of India's income distribution) from various subsidies. This "bounty for the well-off" is estimated at 1 trillion rupees per year.<sup>98</sup> The gamut of 950-odd centrally sponsored welfare schemes account for 3.7 percent of GDP (and the ten largest of these constitute about 1.4 percent).<sup>99</sup> The survey does not indicate which of these likely candidates deserve to be axed, although it does suggest that a quasi-UBI of 3,240 rupees per year targeted to women could be funded by cutting middle-class subsidies.

## STARTING PRINCIPLES

The Economic Survey prescribes two broad tenets for policymakers setting out to craft an Indian UBI policy. The first is the idea of "de jure universality" juxtaposed with "de facto quasi-universality."<sup>100</sup> The survey explains that universality makes for both bad politics and bad economics. It says that the notion of India's rich benefiting from government largesse by design would likely be unpalatable to India's poor, and the fiscal space to transfer a meaningful sum to all Indian adults simply does not exist. In its place, the survey proposes universality on paper, but quasi-universality in practice.

To square this circle, it invokes assorted means of preventing cash transfers from reaching the top 25 percent of India's income distribution. The well-off could be excluded using predefined, verifiable exclusion criteria like automobile ownership or a certain bank account balance. The Ministry of Rural Development initiated the nationwide Socio-Economic Caste Census in 2011 to collect household-level data with the aim of capturing the multidimensional nature of poverty. The census, released in 2015, identified criteria for automatic exclusion from welfare schemes based on parameters ranging from owning a landline phone and paying income tax to having a household member who earns more than 10,000 rupees per month or who is a government employee.<sup>101</sup>

The survey recommends the use of similar indicators to rule out undeserving beneficiaries. The government could ask the rich to decline a basic income grant by introducing a scheme similar to Prime Minister Modi's

Give It Up campaign, whereby he exhorted prosperous Indians to voluntarily relinquish their cooking-gas subsidy.<sup>102</sup> It could also publicize the list of beneficiaries so as to name and shame the rich availing themselves of such transfers. Finally, the scheme could

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**In contrast to UBI blueprints that would start with a nationwide, centrally funded rollout, the survey counsels a deliberate, iterative process toward phasing in a de facto UBI.**

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take a leaf out of the MGNREGA's book and institute an administrative requirement to verify all requests for income grants (although the survey notes that this approach "conflicts with the essence of JAM, whose appeal lies in its direct, costless transfer of the state's welfare subsidies").<sup>103</sup>

The Economic Survey's second principle for policy design is gradualism. In contrast to UBI blueprints that would start with a nationwide, centrally funded rollout, the survey counsels a deliberate, iterative process toward phasing in a de facto UBI.<sup>104</sup> Such a strategy could take many forms. The government could offer citizens a choice between in-kind benefits and subsidies or cash transfers. A quasi-UBI could, as Khera and Drèze have suggested, be targeted at specific demographic groups such as women or the recipients of social pensions (widows, pregnant women, the elderly, and the differently abled). A quasi-UBI also could substitute for a portion of the assistance that flows from the central government to state governments.<sup>105</sup> Finally, a basic income program could take root in urban areas first, given these areas' relatively higher degree of integration into financial networks.

## LAYING THE PLUMBING

The Economic Survey concludes by laying out the necessary conditions for a successful UBI. It states that a UBI can only be implemented at scale if the JAM trinity can deliver universal financial access through the PMJDY and minimize exclusion errors and misappropriation. A UBI can only be financed if policymakers can hammer out an expenditure-sharing formula for central and state governments. As a precedent for the political and budgetary wrangling that would ensue if a UBI policy were formally pursued, the survey cites the goods and services tax reform that integrated India's tapestry of overlapping central and state taxes into a unified tax code.

## EVALUATING THE ECONOMIC SURVEY'S ARGUMENTS

**SEVERAL COMMENTATORS HAVE** commended the Economic Survey in recent years for its rigorous scrutiny of the Indian economy and the innovative use of new data for original research.<sup>106</sup> While the chapter under consideration can be characterized along similar lines, it deserves further praise for two other underappreciated virtues. First, there is inherent value in making the internal logic of a UBI explicit by articulating the rationale for such a policy shift (reducing poverty and rationalizing welfare delivery), the instruments at India's disposal (direct cash transfers through the JAM infrastructure), an awareness of the constraints on policy design (financing and banking infrastructure), and the tactics for bringing it to fruition (gradualism and quasi-universality). The survey's chapter deeply enriches public debate by providing a focal point around which all discussions of an Indian UBI can revolve. This obviates the need to discuss the idea's merits and limits by reading the tea leaves of budgetary allocations and official rhetoric.

Second, by establishing a strong normative preference for a UBI and evaluating it under the state imprimatur, the Economic Survey has brought an idea that had lingered just outside the mainstream of economic policy directly in front of agenda-setting state elites. A significant strand of the political science literature, focusing on the role of ideas and reform proposals in political economy (in contrast to institutions and vested interests),

has sought to draw attention to the pliancy of the worldviews held by state actors. According to the political scientists Pratap Bhanu Mehta and Michael Walton, the institutional choices nations make and the development pathways they take are defined by “cognitive maps,” which is to say “the underlying interpretation of how the world works, and . . . the range of possibilities for action that an individual or group recognizes” along with negotiated political settlements between different social groups.<sup>107</sup> As Mehta and Walton put it, the story of India’s political economy is best told by the policies mobilized by changes in the cognitive maps available to state elites, from the high modernism of the Nehruvian era to the inclusive growth mantras of the late 2000s. As Dani Rodrik writes, innovative ideas upend assumptions about the available menu of policy choices, institutional rules, and resource limitations, and this can “relax political constraints, enabling those in power to make themselves (and possibly the rest of society) better off without undermining their political power.”<sup>108</sup>

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## A UBI’s introduction within policy discourse expands the space of the possible.

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A UBI’s introduction within policy discourse expands the space of the possible. This is not to say that simply talking and writing about a UBI makes it more likely to be instituted. But if the notion of a UBI and its associated nar-

ratives of large-scale poverty reduction and a collective social dividend are used by the Indian state to craft UBI-like policies, the Economic Survey’s exhaustive analysis of its implications will likely have played an outsized role.

Any meaningful analysis of the UBI proposal must, however, grapple with several assumptions and prescriptions that compel deeper scrutiny, and others that warrant active contestation. In particular, these include the semantic oddity of a “quasi-universal basic income,” the survey’s inconsistent treatment of the merits of targeting welfare benefits and India’s flagship antipoverty programs, and its limited imagination when estimating the impact of removing existing welfare schemes. Other important matters to explore are the survey’s insufficient engagement with non-cash-based poverty interventions and its inadequate acknowledgment of the current implementation deficit of the DBT program. As the debates around the idea of an Indian UBI mature, these questions should be first in line for answers.

## A TRIFECTA OF MISNOMERS

The Economic Survey espouses the principle of quasi-universality—targeting 75 percent of India’s eligible population—in a bid to keep costs manageable and make a potential basic income scheme politically feasible. For similar reasons, the suggested transfer

would only be an income supplement to push recipients above the 2011–12 poverty line. By one estimate, guaranteeing a truly universal and basic (poverty line equivalent) income would cost close to 13 percent of GDP, more than all of the Indian central government's expenditures in 2016–17 (12.7 percent of GDP).<sup>109</sup> To cite a different calculation, Jawaharlal Nehru University economist Himanshu used updated versions of the C. Rangarajan Committee's urban and rural poverty lines to estimate the cost of a UBI for all citizens at 24.2 trillion rupees in 2016–17; this amount would be greater than all the 2015–16 tax revenue for India's central and state governments (23.4 trillion rupees).<sup>110</sup> It was, therefore, eminently sensible for the survey to relax the assumptions of universality (the PDS in many Indian states has run under a quasi-universal system) and to provide a sufficient basic income for the purposes of modeling a viable policy alternative. But it is clear that what is left is not universal, basic, or income.<sup>111</sup>

The Economic Survey essentially proposes targeted unconditional cash transfers, examples of which abound in the developing world. Pakistan's Benazir Income Support Program, which provides monthly unconditional cash transfers of 1,500 Pakistani rupees to more than 5 million vulnerable households, has been running since 2008.<sup>112</sup> Similarly, China has maintained since 2007 a nationwide minimum-income guarantee through its *di bao* program, which provides unconditional cash supplements to households if their incomes fall below a specified level.<sup>113</sup> To mention two other examples, Kenya delivers cash transfers to extremely poor households with orphans and vulnerable children, while Indonesia sent direct cash transfers to poor households affected by price increases in 2005 and 2008.<sup>114</sup>

In the case of India, three assumptions in the Economic Survey's proposed annual grant prompt closer attention. First, the survey uses estimates from the 2011–12 Tendulkar poverty line to base its calculations of a monthly transfer. This is no uncontroversial premise. When the Suresh D. Tendulkar Committee released its estimates in 2009, its methodology (particularly its appraisal of the basket of goods consumed by individuals at the poverty line) was widely censured for grossly underestimating poor individuals' calorie intake and spending on education and healthcare; these assumed values in turn generated particularly low urban and rural poverty estimates.<sup>115</sup>

Economists, civil activists, and opposition members publicly criticized the Tendulkar poverty line so vociferously that the Planning Commission appointed another expert group, the C. Rangarajan Committee, to reevaluate the Tendulkar formula. Releasing its methodological findings in 2014, the panel ended up revising the urban and rural poverty lines upward to monthly per capita expenditures of 1,407 rupees and 972 rupees respectively (in comparison to the Tendulkar Committee's estimates of 1,000 rupees and 816 rupees).<sup>116</sup> While the Economic Survey acknowledges 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,” it does not put forward a rationale for not using the Rangarajan poverty lines or the higher fiscal cost for a quasi-UBI that adopting its estimates would have produced.

A second assumption the Economic Survey makes that deserves scrutiny pertains to the relationship between cash transfers and in-kind transfers. Specifically, when cash transfers are intended to substitute for in-kind transfers rather than supplement them, they throw up a host of thorny issues. The survey notes that the NSS 2011–12 data—on which its estimate for an income supplement is based—include the poor’s consumption from the PDS and MGNREGA. However, if this transfer is to be provided after these schemes are withdrawn, would the government not be expected to compensate the poor for the loss of food and wages? The survey disagrees, instead arguing that the efficiency

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**When cash transfers are intended to substitute for in-kind transfers rather than supplement them, they throw up a host of thorny issues.**

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gains from such cash transfers would outweigh the lost benefits from leaky programs, and so “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.”<sup>117</sup>

But substitution is an expensive affair and would likely cost more than the Economic Survey suggests. Alternative estimates find

that converting the food subsidy into cash transfers would deliver no more than 1,200 rupees annually per capita, whereas such transfers should be at least 2,200 rupees to compensate for the loss of the PDS. The survey’s claim that “not accounting for replacement would still not seriously affect” quasi-UBI estimates only holds “if the existing programmes have zero contribution to welfare.”<sup>118</sup> Moreover, two additional variables unaccounted for in the proposed transfer amount are what Reetika Khera labels the transaction and transition costs of moving to cash. The former refers to the expenditures made for access to banking facilities and markets (a particularly acute issue in rural areas), while the latter describes the cost of learning and adapting to a new system of receiving welfare (again, a particularly acute problem among disadvantaged communities). While these costs are difficult to calculate economy-wide, survey respondents often cite them as playing a significant role in their preference for food over cash.<sup>119</sup> When beneficiaries cannot be certain that they will receive uniform and periodic cash payments (as is currently the case with the direct cash transfers instituted in select Indian districts), such transfers cannot be termed an income in any meaningful sense of the word. Using the Rangarajan poverty line estimates, providing adequate compensation to offset the loss of consumption provided by programs like the PDS and MGNREGA,

and factoring in transition costs would likely raise the needed cash-transfer amount beyond what is suggested in the Economic Survey.

Third, India's population is so massive that paying for even these modest quasi-universal cash transfers (less than what beneficiaries can expect to receive for one hundred days of labor under the MGNREGA or the minimum wage across Indian states) would require more fiscal space than the country's ten largest central welfare schemes, which include the Mid-Day Meal scheme, national programs for universal elementary education and rural road building, and a national sanitation drive.<sup>120</sup> While the survey marshals evidence to demonstrate the significant misallocation of funds under these schemes, the problem is that its financing strategy takes no prisoners and identifies *all* such schemes as candidates for replacement.

It is doubtful that disassembling schemes—meant primarily to boost infrastructure, ensure food security for children, incentivize school attendance, and encourage toilet construction and usage—to instead distribute their budgets among citizens would help achieve any of these development goals. Unlike price subsidies for fuel, fertilizer, and electricity (that are used quite similarly to cash), such welfare programs seek to improve long-term human development outcomes and cannot simply be optimized by a cash transfer.<sup>121</sup> While the Economic Survey's assessment can be justified based on the scheme's immense fiscal burden, it deserves scrutiny for not distinguishing between programs that would be reasonable or unreasonable to roll back. Further, the survey does not explore the possibility of meeting a UBI's funding requirements through a mix of additional taxation, tax-base expansion, or the privatization of public-sector enterprises.

Given these limitations, to frame the Economic Survey–advocated policy as a UBI is misleading. The proposed “basic income” is a routine, targeted, unconditional cash transfer associated with an anomalous set of underlying assumptions. While the survey anticipates these doubts, it offers little explanation beyond acknowledgments and probabilistic assertions of a quasi-UBI's efficiency. As Devesh Kapur wrote in 2011, when the foundations of direct cash transfers were being laid, substituting subsidies with cash is simply a change of tactics unless it is accompanied by the development of a larger strategy for food and energy security.<sup>122</sup>

## TARGETING VERSUS UNIVERSALISM

In contrast to a typical UBI proposal, the Economic Survey's proposal stops short of advocating true universality. Citing political and fiscal prudence, it recommends two approaches for implementation.

The first involves excluding the top 25 percent of the country's income distribution—"the obviously rich"—and targeting transfers to the remaining citizens. Such targeting would be done by using asset ownership records and a voluntary opt-out akin to the Give It Up scheme for LPG subsidies, as well as by making beneficiary lists public to invite social sanctions upon the rich, or instituting regular verification procedures.

The second approach entails thinking about a UBI less in terms of a new centrally sponsored scheme and instead moving toward the goal of a basic income incrementally. The Economic Survey suggests a variety of ways of doing this: giving beneficiaries the choice of cash in place of in-kind entitlements under existing programs; only targeting women or easily identifiable and vulnerable groups like the elderly, pregnant women, widows, and the differently abled; diverting to households a portion of the fiscal resources the central government currently earmarks for certain underdeveloped "special category" states; and piloting the program in urban areas first before expanding to rural India.<sup>123</sup> The latter set of piecemeal interventions, while intended by the Economic Survey to guide thinking about UBI pilots, can also serve as options for beneficiary selection.

But do such targeting mechanisms, even when seeking to be broadly inclusive, provide the same relief from errors of misallocation and leakage as uniform universal transfers? Are some targeting measures more accurate, cheaper, easier to implement, and more politically feasible than others? Answering questions of targeting efficiency and cost-effectiveness is important because even if the Indian exchequer were to make room for a sufficient, nondistortionary basic income, the method of disbursing said transfers and designing the interface between beneficiaries and government officials would be crucial for successful implementation.

## TARGETING METHODS

At its core, targeting seeks to reduce poverty by concentrating transfers among a defined eligible population, subject to budget constraints and political considerations, by using an array of identification strategies. The main motivation behind targeting is to most efficiently concentrate scarce public resources so that poorer groups receive a high share of social assistance. Targeting methods can be classified into four groups based on the criteria used to determine eligibility:<sup>124</sup>

- **Individual or indicator targeting:** Individual assessments can be performed by using a variety of approaches, including verified, simple, and proxy means tests. Verified means tests involve cross-checking information on household or individual income and/or wealth against independent records, whereas simple means tests involve no verification or household visits. By contrast, proxy means tests use

statistical models based on observable indicators correlated with poverty to estimate income or consumption when relevant data are unavailable. The survey's suggestion of using the Socio-Economic Caste Census as a source for gauging asset ownership is an example of this individualized targeting approach.

- **Categorical targeting:** This approach involves using categories like gender, ethnicity, age, or geographical area to determine eligibility. Examples include the Economic Survey's recommendations of universalizing social pensions and targeting women or the residents of certain states and urban areas.
- **Community-based targeting:** This method relies on the local knowledge of community groups like village elders or school councils to identify the poorest households. The survey's suggested name-and-shame scheme arguably falls under this category.
- **Self-targeting:** This approach leverages the cost of program entry to make participation unappealing to the nonpoor and increase uptake by the poor, typically by instituting a work requirement or distributing less desirable types of food and other resources. The survey proposes regular verification measures for those wanting UBI benefits, such 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."<sup>125</sup>

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Each of these targeting methods imposes different burdens on the administrators and beneficiaries involved. The most significant of these burdens, to which the survey devotes significant attention, are the classic implementation errors of the unwarranted exclusion of genuine beneficiaries and the inclusion of undeserving individuals. But even if one assumes the eligible population in theory receives the designated transfer in practice, the existing literature describes how the process of targeting, alongside its direct costs, can generate problematic negative externalities:<sup>126</sup>

- **Administrative costs:** These costs are borne by the administrative bodies implementing the targeting system. They consist of the outlays on gathering, analyzing, and verifying detailed demographic and income data over time. Such costs rise along

with the degree of targeting accuracy—the costs of verified means tests are particularly high given the high information thresholds involved compared to geographic- or age-based targeting.

- **Private costs:** These are direct costs all beneficiaries bear while applying for or participating in welfare programs. These range from the cost of obtaining relevant applications and personal information to the opportunity cost of time and wages foregone in queuing, traveling, and even paying bribes.
- **Social costs:** These community-borne costs occur when fine targeting cuts through neighborhoods and villages and divides a population into beneficiaries and non-beneficiaries. This includes the stigma of being branded as the poor (or incorrectly recognized as the nonpoor), which can hurt participants' self-image and self-esteem and reduce community cohesion.
- **Incentive costs:** These costs arise when the design of eligibility criteria encourage individuals or households to modify their behavior (such as work effort, family size, and/or migration choices) to qualify for benefits.
- **Political costs:** These costs take hold if and when finer targeting leads to less political support for, and even increased popular disapproval of, such programs, as large parts of the population—especially middle-class beneficiaries—stand to be excluded from receiving benefits.

Targeted social transfers became prominent within development policy circles in the 1980s, following the economic crises of the 1970s and concomitant ideological shifts in favor of neoliberal policies and structural-adjustment programs and away from universalistic policies.<sup>127</sup> By 1990, the World Bank was stating that a “comprehensive approach to poverty reduction, therefore, calls for a program of well-targeted transfers and safety nets as an essential complement to the basic strategy.”<sup>128</sup>

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As targeting programs and their evaluations have proliferated in the decades since, this deep and growing literature can help Indian policymakers mulling targeted unconditional transfers assess the suitability of such targeting instruments. This body of research finds

that methods of beneficiary identification like proxy means testing or community-based targeting vary quite widely in their impact on reducing exclusion or broadening

coverage. While they may result in budgetary savings, these savings can be offset by high administrative, private, and social costs. However, a more inclusive approach relying on relatively cruder methods like untargeted, uniform transfers to all beneficiaries or simple categories has delivered results comparable to, and it seems in some cases even better than, more sophisticated methodologies. From the options outlined in the Economic Survey, those that come closest to this latter set of policies present a promising avenue for further investigation.

A series of multinational literature reviews reveal that the performance of targeted antipoverty programs is highly sensitive to policy design and information constraints. Successful examples, while not infrequent, are difficult to generalize.

A seminal 2004 study by economists David Coady, Margaret Grosh, and John Hoddinott examined 122 such interventions (40 percent of them cash-transfer programs) implemented across forty-eight middle- and low-income countries between 1985 and 2000.<sup>129</sup> The median targeted program funneled approximately 25 percent more resources to the poor than untargeted programs did, but there was a striking degree of variation across developmental contexts. Fully one-quarter of all programs left the poor worse off; in each of these cases, a random distribution of benefits would have yielded better outcomes. No single method was predominant: 80 percent of the disparity in targeting outcomes was due to variations in program design within a given targeting mechanism rather than based on which targeting method was used. Implementation played a decisive role. Targeting results improved in settings with higher income levels (correlated with a capacity to design and implement better targeting interventions), with greater inequality (which made it easier to distinguish between differing income groups), and with higher government accountability, along with the use of more than one targeting method at a time.

Other reviews have sought to define general rules for the use of certain targeting methods. In 2009, Rachel Slater and John Farrington of the Overseas Development Institute reviewed forty-nine social transfer programs in low-income countries and found that, while no targeting mechanism stands out across the board, income-based methods like means testing are demanding both in terms of the administrative capacity required and the associated costs of data collection and verification. Targeting social categories, then, offers a useful alternative that enjoys high political and community-level buy-in. The authors warn, however, that unintended results are pervasive; structural forces like a “weak information base, and poor targeting decisions, may mean that the value for money that targeting generates is below its potential.”<sup>130</sup>

Looking to pick up from where Coady, Grosh, and Hoddinott left off, Stephen Devereaux and his coauthors at the Institute of Development Studies undertook a 2015

study on targeting accuracy and cost-effectiveness.<sup>131</sup> To avoid overlap, the assessment only included studies published or using data collected after the year 2000—a total of eighty-five studies from forty-one developing countries. While the authors, unsurprisingly, found that no “best” method exists and that the effectiveness of any particular mechanism is tied wholly to context, a set of guiding principles did emerge.

They found that means testing is expensive and yields high errors of inclusion and exclusion, while proxy means tests vary depending on how well the indicators used correlate with income or consumption. Meanwhile, categorical targeting does well at identifying and reaching the eligible population, but does worse at identifying the poor if they do not fall into defined categories. Much the same goes for geographical targeting—it is efficient if poverty is spatially concentrated, but otherwise errors of inclusion and especially of exclusion persist. Community-based targeting requires more administrative legwork to guard against elite capture and calls for high social cohesion, but once these conditions are satisfied the mobilization of local knowledge can minimize errors, limit costs, and improve program acceptability among stakeholders. Finally, self-targeting, when instituted in high-poverty settings, may be rendered inadequate by high demand (such as in the case of public works programs) and fall prey to high exclusion errors.

A range of method-specific reviews reiterate how targeting performance is ultimately mediated by program objectives, design, and implementation. A thorough examination of the empirical and theoretical literature on community-based testing finds that

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rent-seeking tendencies among local elites may override gains from local knowledge and social capital; moreover, communities’ preferences vary between being pro-poor and being expressly inegalitarian, and intended targeting outcomes may be undermined by communities gaming the system in response to funding and evaluation criteria.<sup>132</sup> A 2012 paper on the effectiveness of three social cash-transfer programs in Kenya, Malawi, and Mozambique—each of which used some

level of community-based testing—found that all the programs performed better than the mean score for programs in the Coady review. That said, qualitative surveys found some evidence that perceptions of fairness varied widely and generated tensions around unclear eligibility criteria, program design, and exclusion errors.<sup>133</sup>

As for the use of proxy means tests in developing countries like Bangladesh, Indonesia, Rwanda, and Sri Lanka, the evidence indicates faults in theory and practice: built-in

design errors where the statistical methodology used to predict household incomes is flawed, and implementation issues arising from the use of static household surveys that grow rapidly out of date. Such targeting errors frequently impose social costs by exacerbating tensions between beneficiaries and nonbeneficiaries, and these inaccuracies limit national program budgets when they exclude large sections of the populations from the benefits, resulting in smaller transfers to deserving households.<sup>134</sup>

As a corrective to these targeting pitfalls, recent papers by economists Caitlin Brown, Martin Ravallion, and Dominique van de Walle demonstrate the benefits of simplifying beneficiary identification using simple categorical targeting or even a universal basic income.<sup>135</sup> Using survey data from nine countries in sub-Saharan Africa, the authors assessed the impact of proxy means tests on poverty reduction, for a given budget set at the country's aggregate poverty gap, against two counterfactuals: 1) uniform, untargeted transfers and 2) targeted transfers to households with different categories of people such as the elderly, the differently abled, and children.

Two key results emerge from this analysis. First, none of these approaches is a panacea: no method does better than reducing the baseline headcount index of poverty from 20 percent to 15 percent. Second, all three targeting methods are locked in a dead heat:

while the best-performing variant of a proxy means test (a poverty quantile regression) brought the mean headcount index to 15.4 percent, both a UBI and targeted transfers to the elderly, widows, the differently abled, and children reduced it to 17.1 percent respectively. To be sure, that is not a negligible gap in performance. In the words of World Bank economist Berk Özler, “in a country of 25 million people, such as Cameroon, reducing the Headcount Index from 17.1 percent to 15.4 percent allows close to half a million people [to] escape poverty.”<sup>136</sup> But the appeal of uniform or loosely targeted transfers grows substantially considering the implementation lags of a proxy means test; its exclusion errors (sizable, as the study finds); and its high administrative, social, and political costs.

The advantages of broad coverage are found in comparison to targeting particular geographic areas or even targeting poor households. In a 2007 study, Özler and his coauthors estimated the impact of transferring a predetermined budget to geographically

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defined subpopulations in Cambodia, Ecuador, and Madagascar using “poverty maps.” They found that while geographically based transfers can substantially lower the poverty rate (and yield large savings), uniform transfers or simpler geographic targeting also performed well when the available budget and poverty line were both comparatively low.<sup>137</sup> A 2017 paper by Brown, Ravallion, and van de Walle questions the assumption that poor individuals (identified by their nutritional status) are found in poor households. Using data for thirty sub-Saharan countries, the paper finds that the poorest 20 percent of households are where approximately only 25 percent of underweight women and undernourished children reside. This suggests that in countries where undernutrition and food insecurity is highly prevalent, approaches that rely on universal or near-universal nutritional interventions should be adopted over household-targeted interventions.<sup>138</sup>

Returning to India, there are empirical echoes of these findings in the literature on targeting within the country. In a 2016 study, World Bank economist Rinku Murgai along with Ravallion and van de Walle studied the cost-effectiveness of the MGNREGA in Bihar using two rounds of survey data from 150 villages.<sup>139</sup> They found that after factoring in the scheme’s costs (40 percent of the total budget was devoted to administrative costs), the program reduced the state’s poverty rate less than a basic income scheme would have by simply distributing its budget among every (rich or poor) household. This result held even when the simulation accounted for a leakage of 10 percent, and estimated the impact of transferring the budget only to households verified to be below the poverty line. That said, the margin of poverty reduction was the same as in the previous case, a fact that underscores the conventional wisdom that below-poverty-line targeting has limited efficiency.

In India, it is next to impossible to verify incomes given the country’s pervasive informal economic sector and large poor population. The practice of targeting households below the poverty line for welfare benefits using a proxy means test has a long history in India—four censuses were held respectively in 1992, 1997, 2002, and 2011. The methodologies designed for households below the poverty line have been criticized in terms of survey design, methodological inaccuracies, data quality, and policy relevance and implementation.<sup>140</sup>

In 2010, Khera and Drèze examined the impacts of employing simple inclusion and exclusion criteria to construct a list of households eligible for social assistance. One of the main methods they considered was an “exclusion approach,” whereby all households that met simple exclusion criteria (such as owning assets like cars or televisions, amenities like piped water and electricity, and durable housing) would be removed from the eligibility list. In contrast, an “inclusion approach” would involve selecting all households that

met any inclusion criteria: Scheduled Caste or Scheduled Tribe households, landless households, households with no adult educated beyond grade five, households headed by single women, and households where at least one member worked as an agricultural laborer.<sup>141</sup> According to the authors, the exclusion approach “can be described as a quasi-universal system, that is, universal except for a slab of privileged households.” This is quite similar to the Economic Survey’s intent of “approaching targeting from an exclusion of the non-deserving perspective.”<sup>142</sup> Using data from the National Family Health Survey 2005–06 for rural India, Khera and Drèze’s analysis showed that, while all these alternative approaches (four in total, depending on the strictness of the inclusion or exclusion criteria) do well at including the poorest fifth of households on the eligibility list, the proposed exclusion approach performed best at minimizing the proportion of the richest fifth of households included on the list while maximizing the share of the former group.<sup>143</sup>

If India must rule out a truly universal basic income due to fiscal or political constraints, the aforementioned evidence suggests that targeting based on simpler and fewer criteria, not complicated scoring techniques, deserves further exploration. A 2013 study buttresses findings in favor of modest targeting rules.<sup>144</sup>

Examining the use of proxy means tests for allocating cards designating households below the poverty line in rural Karnataka, the authors found that expanding the eligibility criteria increases the likelihood of manipulation by corruptible officials, if enforcement is weak and the government officials tasked with determining eligibility do not have strictly pro-poor preferences. Through a survey of over 14,000 households, the authors found that 70 percent of ineligible households managed to secure a card indicating they were below the poverty line, while 13 percent of those eligible did not. Small bribes were frequent. They also estimated an economic model to compare a targeted PDS to a universal PDS; given evidence of weak enforcement, they infer that pro-poor administrators would likely prefer universal eligibility to targeting.

There is no easy way to assess the competing targeting methods of a large-scale unconditional cash transfer. But the vast and heterogeneous literature on the subject does allow for a weak ranking of the Economic Survey’s recommendations on the basis of cost and accuracy.

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As a starting point, there is significant evidence from Indian and international contexts that a proxy means test based on household surveys like the Socio-Economic Caste Census allows room for corruption and produces high inclusion and exclusion errors by using outdated data and arbitrary methodologies. Though policymakers and administrators are familiar with this approach, the deficiencies associated with its real world implementation and high administrative costs make it an unappealing option.

Meanwhile, relying on community sanctions to deter the well-off from accepting transfers—while a cheaper alternative—could backfire in settings with weak accountability mechanisms and may even aggravate social divisions. According to official statements, more than 12 million Indian LPG consumers (out of a total of 200 million) have voluntarily foregone their subsidy following the Give It Up campaign.<sup>145</sup> But it is not clear if enough of the country's well-off would opt out of a similar basic income transfer. As a corollary from another geographic setting, current efforts in Iran to restrict beneficiaries reinforce the difficulty of withdrawing subsidies. The Iranian parliament instructed the government to halt cash transfers to one-third of the population (comprising government officials, recipients of alternative welfare benefits, and armed service members) in April 2016 in response to a growing fiscal burden, but only about 9 percent of subsidy recipients were struck off the rolls as of January 2017.<sup>146</sup>

The likelihood of social and/or incentive costs is also high for self-targeting methods, where cash transfers would either be inordinately small or require passing a series of bureaucratic hurdles and likely subvert program objectives in the process. Giving the beneficiaries of existing programs the choice to switch between in-kind benefits and cash may in principle protect them from a cumbersome transition to a new system, but doing so also, as the survey acknowledges, runs the risk of reinforcing existing inefficiencies.<sup>147</sup> Similarly, targeting on the basis of geographical units like urban areas does little by itself to improve program design and functioning if the transfers are to be routed through existing delivery mechanisms. Beyond determining the size of a given eligible population based on transparent and verifiable indicators—a valuable service—much the same is true for categorical targeting approaches.<sup>148</sup>

Despite these various limitations, the survey's suggestion to introduce a UBI by starting with specific social groups—like women, the elderly, widows, and the differently abled—is highly likely to improve targeting accuracy and result in relatively low incentive, social, and administrative costs.<sup>149</sup> As Reetika Khera has written, this approach combines three key benefits. First, these are easily identifiable populations that do not require extensive means testing to determine their eligibility. Second, taken together, maternity benefits and universal social pensions cost an affordable 1.5 percent of GDP. Third, these interventions have been the subject of extensive evaluations that show that they reach the intended populations and have a positive impact on poverty reduction.<sup>150</sup>

The counterpoint is that selecting demographic categories only solves the problem of who to target, not how to target. Several design features require deeper exploration.

The survey does not consider using multiple targeting interventions at a time, like demographic targeting only for rural households, a common practice that has produced good results, or universalizing coverage within a specific geographic unit like poorer districts or states.<sup>151</sup> It also does not take into account a bare-bones method of indicator targeting like a poverty or demographic scorecard.<sup>152</sup>

While there is no single optimal targeting mechanism, all future efforts at identifying the right approach should seek to rigorously examine the trade-offs between targeting accuracy and its myriad associated costs, navigate the tension between minimizing leakages and avoiding beneficiary exclusion, and balance the use of sophisticated methodologies against the capacity of service-delivery agencies.

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## THE POLITICS OF UBI: ABROAD AND IN INDIA

Beyond ensuring a rigorous and clear policy design and sufficient organizational capacity for implementation, policymakers must also consider the political feasibility of different transfer mechanisms. While empirical research on the political economy of redistribution is limited compared to that on targeting efficiency, economic models of targeted transfers that build in the impact of politics nevertheless yield three broad, deeply relevant insights.

First, when policymakers use targeting for efficient cash transfers, they should not assume that budgets will remain fixed through the life of a program. After all, externally imposed budgetary constraints are ultimately expressions of political priorities, and program budgets almost invariably tend to shrink after targeting is initiated.<sup>153</sup> As economists Jonah Gelbach and Lant Pritchett showed in an economic model where transfer budgets are determined by majority voting, forging ahead with targeting while assuming budgets will remain fixed produces the worst possible outcome for the poor. This is because the rich and middle class eventually tend to choose to limit taxation rates, which in turn shrinks the budget available for redistribution.<sup>154</sup> To maximize utility for

the poor, it is best to do away with targeting altogether and provide a uniform transfer. Other scholars have inferred a “paradox of redistribution,” observing: “The more we target benefits at the poor only and the more concerned we are with creating equality via equal public transfers to all, the less likely we are to reduce poverty and inequality.”<sup>155</sup>

Second, political support for targeted programs depends largely on the priorities of powerful constituencies, since the poor, by themselves, may be unable to generate widespread political consensus.<sup>156</sup> Yet universal schemes can build broad coalitions across income classes. This, in turn, increases political rewards for politicians as well as the quality of program implementation and the size of transfers. Some amount of leakage, in such frameworks, may be preferable to compensate middle-income constituencies for their political support.<sup>157</sup>

Finally, the degree of political support for particular targeted programs and the extent of redistributive policies pursued can be influenced through a variety of alternative mechanisms. These include concerns about the fairness or effectiveness of a particular program (arising from corruption or preferential treatment), differing attitudes about the cause of poverty (if seen as a product of individual failure, transfers will likely be perceived as unfair), the rate of upward mobility in society (if perceived to be high, today’s poor are unlikely to support future redistribution), the extent of ethnic or religious divisions (the more they are deeply entrenched, the less likely a large coalition will call for universal transfers), and the propensity of a large middle class to capture the benefits of redistribution.<sup>158</sup>

For example, a 2009 attitudinal survey asked more than 1,300 Zambian respondents to choose between offering universal benefits for all children, all elderly, and all differently abled; targeting the extremely poor; and targeting no one. In an apparent contrast with the prescriptions of political-economy models of targeting, the survey found that most respondents preferred targeting benefits to the extremely poor than more universal solutions. It attributes these views to many aforementioned factors, such as “voters’ attitudes towards the poor, their understanding of social justice, the level of cohesion in society, the degree to which a program is perceived as procedurally fair and effective, as well as . . . whether a program is designed from scratch or has already been in existence.”<sup>159</sup>

In India, the political appeal of a UBI is difficult to gauge because there is little consensus on its final form. Much depends on which welfare programs it would replace (a move likely opposed by the poor) or which nonmerit subsidies and corporate tax exemptions would be axed (a move likely opposed by the middle class and business groups). Expenditures on implicit subsidies have declined in recent years, as have corporate tax exemptions; these declines indicate that fiscal room for funding a UBI from these

sources is rapidly diminishing. Barring the imposition of new taxes, the budget for such a program would likely have to come at the cost of existing schemes.<sup>160</sup>

Statements by Finance Minister Arun Jaitley following the release of the 2017–18 national budget make two political realities certain.<sup>161</sup> First, a UBI could only be introduced when existing subsidy programs are swapped out, and when legislators do not demand that existing subsidies continue alongside such a UBI. In response to questions about a universal basic income in parliament, the Indian Ministry of Finance has stated that it has no plans to institute such a scheme.<sup>162</sup> Arvind Subramanian echoed this rationale for a UBI's political infeasibility, noting the difficulty of rolling back existing schemes and stating that the government's finances would "go bust" if it were to be added on.<sup>163</sup>

Second, Finance Minister Jaitley contended that a basic income program must be targeted only to the poorest households. Such statements demonstrate that a UBI in India would be plagued by patterns of politics and development that militate against a redistributive reform of this scale and suppress its radical potential. A UBI would have to contend with a lack of redistributive pressures for universal benefits, as increasingly intense electoral competition makes channeling benefits to narrow constituencies more attractive for politicians. It would also need to grapple with a lack of redistributive capacities, given that the combination of India's weak subnational bureaucratic capabilities and greater fiscal capacity to fund targeted transfer schemes makes universal safety net programs less feasible.<sup>164</sup>

Further, the passing of justiciable rights to food, employment, information, and education under the erstwhile Congress-led alliance created a resilient legislative framework that has survived the subsequent change in government more or less intact.<sup>165</sup> The Modi government's drive to institute DBT across several welfare programs under these pieces of legislation, however, has blurred the distinction between the use of targeted cash transfers as a replacement for in-kind benefits and a UBI's welfare-enhancing potential for plugging gaps in social protection. This, consequently, has weakened the case for the latter.

Yet there is cause for cautious optimism. In a recent discussion at the Center for Global Development, Chief Economic Adviser Subramanian argued that "in principle, nothing prevents a state government from doing [a UBI] on its own."<sup>166</sup> One path to making this happen, he suggested, would be for a state with a reasonably efficient infrastructure for identifying and reaching the poor to ask the central government for what is in essence an unconditional cash transfer, that is to say federal funds not tied to the implementation of any particular scheme. It is likely that Jammu and Kashmir will be the first Indian state to answer Subramanian's call. According to news reports, it has asked for the freedom to spend its share of funds devoted to central schemes, and the state's finance

minister, Haseeb Drabu, has made presentations on implementing statewide direct cash transfers to state residents below the poverty line to Finance Minister Jaitley, and to the prime minister's office with Jaitley's support.<sup>167</sup> The government of Telangana is reportedly interested in a similar program.<sup>168</sup> Several Indian states have moved faster than the central government to implement social policy reforms, expand welfare coverage, increase public expenditure, and attempt policy innovations. Scholars differ on what is driving these changes. In any case, the space for a UBI is far more likely to be found in one of India's many diverse regional political economies.<sup>169</sup>

But any hope of bringing such initiatives to fruition must guard against two dangers. First, there is the risk of reifying existing inequities by implementing such programs in states that already have a high administrative capacity rather than in states with less progressive governance machineries that nonetheless have a greater need for a universal social safety net. Second, the rush toward implementation may obscure the fact that policy proposals in the guise of a UBI, including that of the government of Jammu and Kashmir, may introduce little more than targeted cash transfers in lieu of in-kind benefits under existing welfare schemes.

None of the aforementioned design principles or political dynamics should be construed as promoting a sense of policy fatalism about an Indian UBI. Indeed, Pranab Bardhan, a key UBI proponent, has recommended that political mobilization start with a coalition of informal workers' unions and organized-sector unions in support of the idea. But if UBI promoters want to move one step closer to policy formulation, and if UBI detractors wish to authoritatively dismiss the validity of the idea, they need to mobilize public opinion based on actionable evidence on program performance.

This is the Achilles' heel of India's UBI debate, and it evokes the inevitable question: Where is India's UBI pilot?<sup>170</sup> Public pilots have imparted significant momentum to the UBI policy discourse globally. There is much reason to believe that in India, too, a randomized control trial of sufficient length (ideally, more than five years so as to resist electoral pressures), administered by a state government and evaluated by an independent authority, would galvanize awareness and help clarify several of the deep knowledge gaps around the implementation design and political economy of a UBI. Such an effort is unlikely to shed light on many fundamental questions that a UBI gives rise to—the reorganization of economic and political power throughout Indian society, and its effect on India's long-term growth prospects, for example. But it can offer new answers to the growing challenges of poverty and inequality. Variations of the experiment could also test the impact of more effective targeting approaches (including tests of eligibility), so that the best version of the existing welfare system serves as a benchmark for a pure UBI.

## GENERAL PRINCIPLES FOR PILOTING AN INDIAN BASIC INCOME

### THE BIG PICTURE

- A new basic income pilot in India must seek to significantly advance knowledge about how to implement such a program in a large developing country. An ambitious experiment could generate new evidence on the impact of large-scale, unconditional transfers on state capacity and the ability of such transfers to alleviate poverty relative to that of India's existing welfare schemes.
- Unlike past experiments in India, this pilot should be a long-term study implemented by state authorities. Monitoring and evaluation, however, must be the responsibility of an external organization with sufficient competence and experience in running large-scale experimental evaluations.
- Experiment designers must ensure robust ethical standards for participants—such as ensuring voluntary participation, shielding beneficiaries from potential economic harm, and defining strict privacy protections. Data should be made anonymous on an individual level to communicate trends in aggregate and must be released to the public at regular intervals to maintain transparency.

### WHAT TO TEST

#### **For beneficiaries, a pilot must determine the impact of unconditional transfers on:**

- Household and individual finances: changes to personal finances and consumption patterns, ranging from food and medical expenses to investments in productive assets
- Access costs: gauge financial and time costs that participants incur as they apply for such a program, have their enrollment information verified, travel, and collect cash transfers
- Labor market: effects on wages for both informal- or formal-sector workers, labor supply, and entrepreneurship
- Healthcare: the incidence of sickness or injury, mental health outcomes, and visits to private and public healthcare providers
- Food security: changes to nutritional profiles and dietary diversity as evidenced by spending on different food groups (such as cereals, fish, and eggs) and so-called temptation goods like alcohol and tobacco
- Individual preferences, aspirations, and anxieties: beneficiary views on program performance and transfer sufficiency relative to existing welfare services, as well as their opinions on their current economic circumstances and future economic and social mobility
- Community outcomes: changes to social cohesion in a given community; changes to aggregate economic indicators like inflation, market wages, and productivity; and disaggregating the above effects by gender, caste, and income level

**For the implementing agency, a pilot must evaluate:**

- Implementation quality: the proportion of beneficiaries that verifiably receive transfers of the intended size and at the expected time, and the performance of a mechanism for redressing grievances
- Implementation costs: the expenses associated with financing transfers, as well as the administrative costs of targeting, identifying, and authenticating beneficiaries
- Targeting performance: for variants of the experiment ranging from truly universal transfers to those conditioned on strict eligibility criteria, how well a particular methodology can minimize inclusion and exclusion errors and maximize coverage of deserving beneficiaries
- Transfer size: the degree to which different payout amounts successfully meet beneficiary expectations, or at least avoid causing a net reduction in well-being
- Duration and frequency: the differential impact of larger, lump-sum payments paid annually or biannually relative to that of smaller, monthly payments
- Payment channel: the reliability of (non-Aadhaar linked) electronic bank transfers, mobile money, and other digital payment mechanisms relative to Aadhaar-based payments

**NEXT STEPS**

1. Naming a state government agency—or several, with the central government playing a coordinating role—to initiate pilots across administrative districts or blocks with varying socio-economic conditions and degrees of financial inclusion.
2. Identifying scholars, research organizations, and evaluation agencies to collaborate on pilot design with government officials.
3. Releasing a public consultation paper seeking comments on pilot design from potential beneficiaries and citizens, policy experts and scholars, government authorities, international and nongovernmental organizations, and members of civil society.
4. Conducting a preliminary study in the target geographical area to establish baseline indicators for all measures of interest.

## THE STATE OF INDIA'S EXISTING WELFARE PROGRAMS

If a UBI is to compete with India's existing social welfare programs, it is necessary to understand their targeting effectiveness and trends in institutional performance. While the MGNREGA and PDS are key protagonists in the Economic Survey's story about fiscal misallocation and the exclusion of deserving beneficiaries, whether these programs are heroes or villains remains unclear. By the survey's own admission, both schemes have improved significantly of late in expanding their coverage of deserving beneficiaries. The Economic Survey cites two studies—a 2016 survey of 3,600 households across six Indian states that found beneficiaries received an average of 92 percent of their entitled PDS food grains, and another study that estimated PDS leakages shrank from 54 percent in 2004 to 34.6 percent in 2011—and goes on to state that extrapolating from the latter study's results indicates that the overall leakage for the PDS throughout India may have fallen further to 20.8 percent.<sup>171</sup>

These trends are echoed in the broader literature on PDS performance. A 2015 literature review described many studies that found an improvement in PDS functioning across several Indian states since 2004.<sup>172</sup> Estimates from two rounds of the India Human Development Survey (IHDS) found a decline in the proportion of grain that did not reach beneficiaries from 49 percent to 32 percent between 2004–05 and 2011–12, a national trend buoyed by extensive PDS reforms in Bihar, Chattisgarh, and Odisha.<sup>173</sup> In 2016, a NITI Aayog study on the PDS using IHDS data found that targeting efficiency has progressed over time, with a decline in exclusion errors from 54.9 percent to 41.4 percent between 2004–05 and 2011–12 through expanded coverage.<sup>174</sup> Another 2015 evaluation of the PDS by the National Council for Applied Economic Research also noted performance improvements, and the lowest likelihood of leakage was observed among the poorest of households. Bihar, Chattisgarh, and Karnataka emerged as high performers, although a significant share of food grain allocated to households above the poverty line in states like Assam, West Bengal, and Uttar Pradesh was diverted.<sup>175</sup>

To be sure, a common thread in this literature is that problems—such as the shortfall in beneficiaries' entitlements, patchy grievance-redressal mechanisms, cross-state discrepancies in the price of key food grains, and still-substantial leakages—remain significant. But as the PDS has grown increasingly progressive and expansive in its coverage over the years, and in its established positive impact on household welfare, several states have found that implementing reforms in the areas of administration, distribution, information, and identification bears fruit.<sup>176</sup>

The story of the National Rural Employment Guarantee Scheme's targeting efficiency is similar. The Economic Survey notes that the scheme has made several improvements in

terms of technology and program design since 2014, including the geotagging of public assets and the digitization of job cards. Even after accounting for what a 2016 literature review termed the “third law of [MGNREGA]”: [namely that] every result has an equal and opposite result,” research on the scheme’s self-targeting mechanism has found that it improved pro-poor access significantly.<sup>177</sup>

This efficiency in targeting, however, was tempered by a relative inability to meet the high demand for work, a shortcoming attributed largely to funding constraints and the limits of local administrative capacity.<sup>178</sup> IHDS survey data from 2011–12 revealed that 30 percent of poor rural households participate in the MGNREGA relative to 21 percent of the nonpoor, while 30 percent of households with no literate adult take part in the scheme compared to 13 percent of households with at least one adult college graduate.<sup>179</sup> The data also demonstrated that poverty among the scheme’s beneficiaries in 2011–12 fell by 6.7 percentage points because of consumption facilitated by MGNREGA.<sup>180</sup> A 2015 paper on MGNREGA’s targeting accuracy found that nonpoor households were more likely to receive work, although there was evidence of a fall in the rationing rate and a meaningful increase in the probability of Scheduled Tribe households and marginal farmers getting work, which seemed to indicate that the scheme’s administration had improved over time.<sup>181</sup> Meanwhile, a 2014 World Bank study, using NSS 2009–10 data, found that demand for work under the scheme is higher in India’s poorer states and among poorer families, including the Scheduled Castes, Scheduled Tribes, and Other Backward Classes, as are participation rates in the scheme for the same groups.<sup>182</sup> Further, while targeting efficiency differed across states, it improved with an increase in the overall participation rate. The program did not fare as well in the provision of guaranteed work—the research indicated that unmet demand was the single biggest factor constraining the scheme’s impact on poverty reduction.

A few other studies also contain findings of relevance to the MGNREGA’s targeting performance. A 2013 study of the program’s targeting in the states of Madhya Pradesh and Tamil Nadu stated that “several correlates of poverty (for example, illiteracy, affiliation to disadvantaged groups such as Scheduled Castes and Scheduled Tribes, and landlessness) are associated with higher probabilities of participation,” although high MGNREGA wages relative to agricultural wages meant that large numbers of the nonpoor also self-selected themselves into the scheme.<sup>183</sup> Another 2013 paper, using 2009–10 NSS data, discovered that self-targeting made it possible for poorer, Scheduled Caste and Scheduled Tribe households to participate in the MGNREGA at higher rates nationally. When cross-state data were examined, however, approximately half of twenty-seven states demonstrated pro-poor targeting, while in the other half the negative impact of administrative rationing (the denial or restriction of work to beneficiaries seeking assistance) dominated.<sup>184</sup>

The evidence assembled above on these two flagship programs can be interpreted in many ways. One inference is that pockets of targeting efficiency do exist, and that the observed fall in corruption levels is likely to continue with renewed political will, increased awareness, and administrative reforms. But this literature can also be read as sufficient confirmation that the way forward is to dismantle both the schemes and the perverse political economies surrounding them.

Given the significant variation in these schemes' performances, it may not be a bad thing in some parts of India to deeply restructure faulty systems of basic public service delivery and even scrap those broken beyond repair. But winding down key components of India's social protection machinery while granular data are still being assembled on what works in in-kind aid programs, and as reformist states undertake active policy experimentation (including the substitution of cash for certain in-kind benefits), goes against the grain of evidence-based policy-making. Doing away with these social welfare programs would be entirely premature when no district administration, let alone a state, has tested the impact of making cash grants the exclusive component of welfare.<sup>185</sup>

Discussions of targeting efficiency also obscure the larger question about the appropriate role of cash transfers in comparison to food aid or public-works employment, especially given the high likelihood that households will have to bear the brunt of volatile commodity prices and wages.<sup>186</sup> And if focused poverty reduction is the ultimate goal of instituting such programs, then the set of policy options goes beyond traditional welfare programs comprising cash or in-kind transfers or a universal basic income. For example, the all-of-the-above "graduation approach" pioneered by the Bangladesh-based nonprofit BRAC used a version of community-based targeting to identify the poorest households in a village. Over a two-year period, it provided participants with an income-generating asset like livestock and training to boost revenue, weekly coaching visits, consumption support in the form of cash or food, a savings account, and basic information on healthcare. A randomized controlled trial conducted across 11,000 households in six countries found that the program substantially improved household consumption levels up to a year after its conclusion. And it was cost-effective: every dollar spent on the program in India generated long-term benefits worth \$4.33 for ultra-poor households.<sup>187</sup> The siren song of a UBI should thus

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be heard as a call for subnationally administered pilots that generate comparable data and provide a more substantive rationale to assess its suitability for India writ large.

## **UBI: A LOGICAL EXTENSION OF DIRECT BENEFIT TRANSFER?**

The Economic Survey makes it clear that “the success of the UBI hinges on the success of JAM”—the delivery of government benefits using Aadhaar-linked bank accounts and authentication systems.<sup>188</sup> Since one of the survey’s recommendations for phasing in a UBI involves introducing it in urban areas first, it is instructive to examine the government’s experience with pilot projects, starting in 2015, to replace PDS-provided food grain with a DBT system of cash transfers in the union territories of Chandigarh, Puducherry, and urban parts of Dadra and Nagar Haveli.<sup>189</sup> Noting how the DBT system was initiated in Puducherry, then temporarily discontinued after two months due to difficulties in implementation and public opposition before being restarted, the survey acknowledges the magnitude of the task. It calls such undertakings a “cautionary tale” and states that “independent evaluations emphasize the need for an improved digital financial infrastructure, even in these relatively urban settings.”<sup>190</sup>

But complications with administering DBT may run deeper than the Economic Survey suggests. Two new studies examine the results of these ambitious pilots and the DBT’s long-term potential. The first was an evaluation conducted by the South Asia office of the Abdul Latif Jameel Poverty Action Lab (J-PAL), with the Development Monitoring and Evaluation Office of the NITI Aayog and the Department of Food and Public Distribution; it comprised three rounds of household surveys in all three union territories between January 2016 and March 2017.<sup>191</sup> This study examined the quality of policy implementation, the sufficiency of the cash-transfer amount, and shifts in beneficiary attitudes toward the scheme. It did not analyze the nutritional impact of these transfers nor the exclusion of genuine beneficiaries from the scheme. The second, an Indian Council for Research on International Economic Relations (ICRIER) working paper, made the case for a phased nationwide rollout of DBT for food over a five-year period. Based on the international experience with cash transfers and the Chandigarh and Puducherry pilots, the paper analyzed the ability of Indian states to shift away from food-grain distribution to cash and, perhaps most notably, stated that the road to implementing a universal basic income in India runs through the DBT.<sup>192</sup>

Both of the aforementioned papers found significant room for improvement in last-mile delivery, the size of the subsidy and associated private costs borne by beneficiaries, and grievance redressal for beneficiaries. The J-PAL South Asia evaluation found that the

average share of beneficiaries verifiably receiving DBT as intended improved over the course of the three survey rounds, though it topped out at 78 percent as of March 2017. While the average proportion of transfer recipients who reported not receiving DBT declined over time, their relatively high share among the total population was at odds with the government's records, which noted a failure rate of less than 1 percent. The reason for this is unclear. While the authors appear to rule out leakages, they suggest that these discrepancies likely arose from insufficient and irregular updates from implementing authorities through text messages (mostly in English) or database errors. Any of these factors may have prevented beneficiaries from receiving transfers.

Meanwhile, the ICRIER study found that as of May 2017 approximately 7 percent of eligible beneficiaries in Puducherry were not receiving the subsidy—largely due to delays in the Aadhaar seeding of their bank accounts.<sup>193</sup> Further, it corroborated that several beneficiaries in Puducherry did not receive SMS updates, while, in Chandigarh, banks sent nonstandardized messages to recipients. This latter study also found signs of confusion among recipients with multiple Aadhaar-linked bank accounts or new phone numbers, and when different banks recorded DBT credits differently in customer passbooks (beneficiaries surveyed by the J-PAL researchers encountered these hurdles as well).

The J-PAL study determined that relative to the PDS, the DBT demanded a larger investment of both time and money to first access transfers from the bank and then go to the market to purchase food items. While ATM use reduced time spent, only 37 percent of all beneficiaries possessed the requisite ATM card. Beneficiaries chose to purchase better quality and more expensive grain relative to what they received under the PDS. Taken together, the researchers estimated that with these additional transaction costs, the subsidy size was short by up to 20 percent in Chandigarh and Puducherry, while beneficiaries expected to receive close to 900 rupees per household more than what the transfer provided. ICRIER's researchers ascertained that while the majority of Chandigarh's and Puducherry's beneficiaries felt the amount was too small, they were unaware that the subsidy was less than the prices they paid to procure food grain under the previous system.

The quality of implementation mattered deeply for beneficiary preferences. Studies seemed to demonstrate that beneficiary preferences often were swayed in favor of the DBT when it functioned reliably, added convenience, and made better quality food consumption possible. Communication breakdowns, high associated access costs, and the irregular size or delivery of transfers, however, tended to diminish support for the scheme. In total, 38 percent of all recipients reported concern with DBT in the latest survey, up from 25 percent in the second round.<sup>194</sup> An inadequate subsidy, fluctuating transfer amounts, missing transfers, and poorly functioning grievance-redressal mechanisms—such as a toll-free number only used by one beneficiary in Chandigarh,

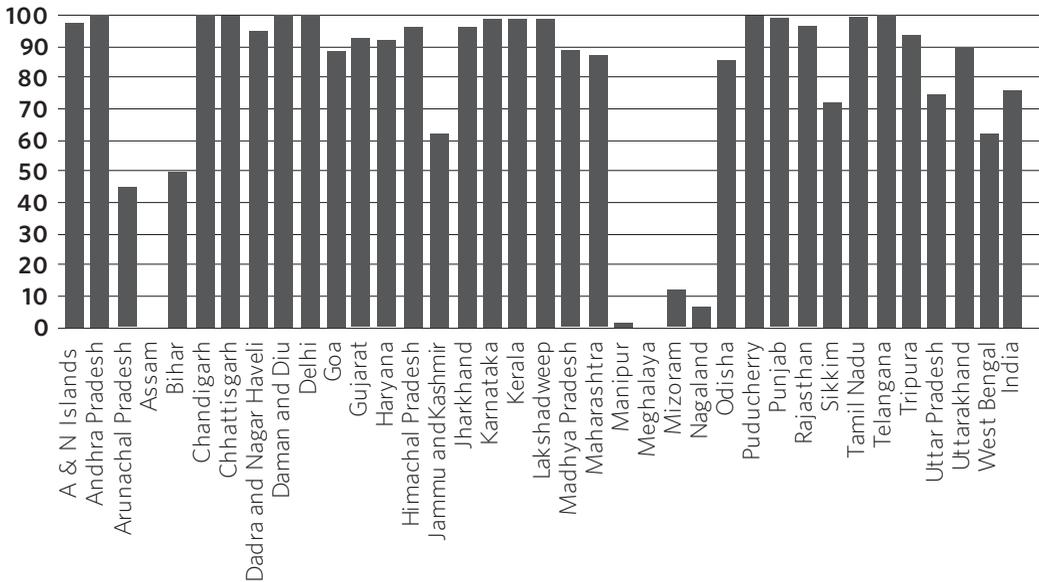
two in Puducherry, and none in Dadra and Nagar Haveli in the latest survey round—caused growing consternation among beneficiaries. Yet preference for the DBT over the PDS improved by 26 percentage points between the earliest and most recent round of surveys—approximately two-thirds of all beneficiaries preferred cash transfers in the latest iteration. What explained this apparent contradiction? A regression analysis revealed that beneficiaries content with PDS performance tended not to prefer the DBT, while those who successfully received multiple transfers and were satisfied with the subsidy amount were more likely to favor the DBT.

In a slightly older study, the financial inclusion consulting firm MicroSave assessed the Chandigarh and Puducherry pilots from August 2015 to January 2016 and found similar results.<sup>195</sup> A total of 36 percent of survey respondents in Chandigarh and 59 percent of those in Puducherry spent more time accessing cash and purchasing rations than in the earlier system, while 42 percent in Puducherry and 57 percent in Chandigarh asserted that the switch to DBT resulted in the loss of wages. The study found that the transfer received by an Antyodaya Anna Yojana family (households identified as the poorest of the poor) would require spending twice as much compared to what the family had previously spent to access the same amount of rice.

All three studies underline the need for an urgent course correction in DBT's operation and technology. This illuminates the long path its infrastructure has yet to traverse. Many Indian states still fall well short of linking the Aadhaar numbers of all beneficiaries to PDS ration cards and MGNREGA bank accounts, so much work remains to be done before this architecture could be used to support a more demanding UBI scheme. (See figures 3 and 4 for representative official data on cross-state variation in which percentage of participants' PDS ration cards and MGNREGA wage payments have been linked to their Aadhaar numbers.) Indeed, the desirability of greater Aadhaar linkage for these schemes is itself called into question by reports of exclusion and denial of benefits. At one level, reforms to improve DBT functioning involve relatively low-cost tweaks, such as improving the frequency and clarity of beneficiary communication, maintaining standardized administrative records on transfers and the relevant failure rates, and updating the formula for calculating subsidies to more accurately reflect market costs.<sup>196</sup>

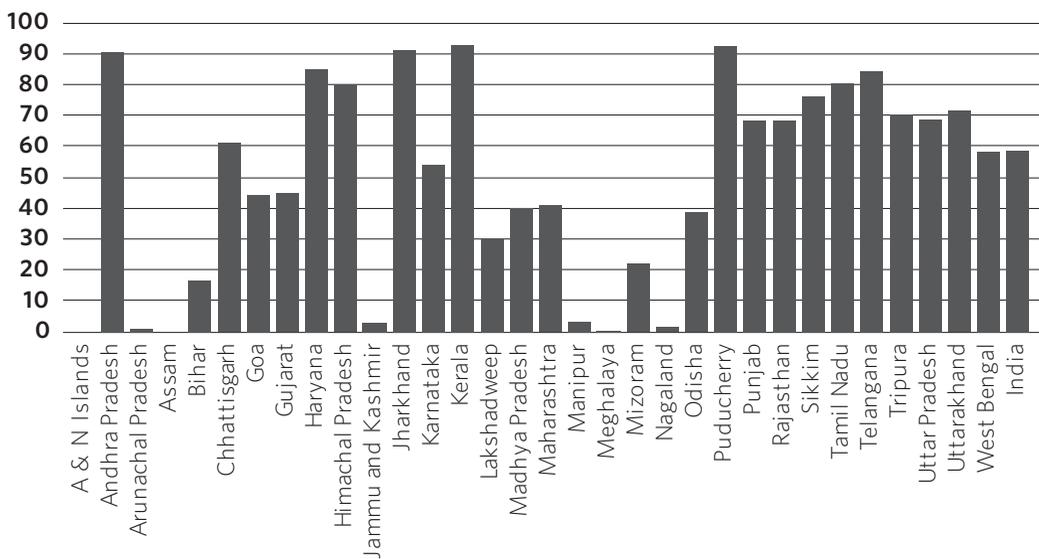
Yet a well-functioning cash transfer architecture also demands far heavier lifts like ensuring a sufficient supply of food grain in the open market, as well as substantially expanding electricity and internet coverage, financial inclusion, and the supply of basic public services. Without institutionalizing substantive grievance redressal mechanisms and transition procedures for beneficiaries and administrators to shift from one system of entitlements to another, a blinkered approach to welfare reform will continue to force India's poor to bear the burdens of policy experimentation.

**FIGURE 2: PERCENTAGE OF RATION CARDS SEEDED WITH AADHAAR, BY STATE (MARCH 2017)**



Source: Department of Food and Public Distribution, Ministry of Consumer Affairs, Food, and Public Distribution, "Unstarred Question No. 4289," Lok Sabha, Parliament of India, March 28, 2017, <http://164.100.47.190/loksabhaquestions/annex/11/AU4289.pdf>.

**FIGURE 3: PERCENTAGE OF MGNREGA WORKERS CONVERTED INTO AADHAAR-BASED PAYMENTS, BY STATE (NOVEMBER 2017)**



Source: Ministry of Rural Development, "R1.1.6 Aadhaar Demographic Verification Status Report," Government of India, accessed November 2017, [http://mnregaweb4.nic.in/netnrega/aadhaar\\_progress\\_monitor.aspx?lflag=eng&fin\\_year=2017-2018&source=national&labels=labels&Digest=cT/J7ChEq5LOfEr0AmsuAQ](http://mnregaweb4.nic.in/netnrega/aadhaar_progress_monitor.aspx?lflag=eng&fin_year=2017-2018&source=national&labels=labels&Digest=cT/J7ChEq5LOfEr0AmsuAQ).

Finally, beyond the policy minutiae of cash transfers, there are several unresolved issues with the Aadhaar infrastructure undergirding this massive reconfiguration of service delivery. Technological lapses, the exclusion of genuine beneficiaries, and high rates of authentication failure (which the Economic Survey also notes) have been documented in states like Delhi, Gujarat, Rajasthan, Jharkhand, Andhra Pradesh, and Telangana where the Aadhaar program is involved in both the distribution of benefits like food entitlements and social security pensions as well as beneficiary authentication.<sup>197</sup> The Indian government's assertions of enhanced efficiency in welfare schemes with the use of Aadhaar have been difficult to verify independently, with insufficient public data on nationwide and scheme-wide program performance.<sup>198</sup>

More broadly, the weak privacy and security protections and the absence of substantive grievance redressal mechanisms in the 2016 Aadhaar Act raise significant concerns about data security.<sup>199</sup> While the act mandates that "the Aadhaar number of an individual shall not be published, displayed or posted publicly by any person or entity or agency," more than 200 central and state government agencies have publicly displayed the personal information and Aadhaar numbers of more than 100 million beneficiaries on their websites in recent months.<sup>200</sup>

The program faces a number of legal challenges stemming from its security vulnerabilities and concerns about its implications for privacy and mass surveillance.<sup>201</sup> The Indian Supreme Court is yet to rule on the petitions challenging the validity of the Aadhaar program, though it unanimously declared that privacy is a fundamental right under the Indian Constitution in a recent landmark ruling. Next, a five-judge court will decide if the Aadhaar platform violates this right.<sup>202</sup> Given that questions of first principle are still unsettled, coupled with issues such as unreliable beneficiary coverage and performance in cash-transfer applications as well as high associated private costs, it would be short-sighted for the Indian government to rely exclusively on the Aadhaar-seeded bank accounts for large-scale welfare disbursal. A balanced assessment of UBI transfer modalities calls for cost-benefit analyses that consider existing alternatives like electronic transfers through the National Electronic Funds Transfer system (used in the Madhya Pradesh pilots) or digital payments through mobile wallets.<sup>203</sup>

Getting cash transfers right, as Yamini Aiyar of the Center for Policy Research has written, requires that India's unwieldy state apparatus work at "getting targeting right, adapting to market fluctuations, dealing with supply constraints and building a functioning banking system."<sup>204</sup> This demands a steep learning curve for both beneficiaries and administrators, and one made steeper yet with the addition of Aadhaar-based DBT to the mix. A UBI, whatever its final configuration, would likely reproduce the pathologies of the welfare system it is meant to replace unless the Indian state resolves existing flaws in Aadhaar and cash-transfer design and implementation.

## CONCLUSION

**SEVERAL COMMENTATORS HAVE** remarked that a UBI functions as a Rorschach test for the welfare state, given that it draws its support from a diverse ideological coalition ranging from the libertarian right to the liberal left that sees it as mediating their own preferred versions of an ideal society. But a vehement debate simmers below this shallow consensus between those who see a UBI as restraining the worst paternalistic tendencies of a convoluted welfare state, and those who support its role in plugging the gaps of a social protection floor alongside universal services and efforts to reform existing programs. The empirical incongruence between evaluations demonstrating the value of cash transfers and the significant recent improvement in India's existing welfare schemes, alongside the relative absence of any evidence on a long-term state-financed universal basic income, further muddles a straightforward resolution to the debate.

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The Economic Survey's chapter on the topic greatly clarifies the terms of the debate by explicitly articulating a rationale for a UBI and the hard choices it demands of policymakers. It has raised both the rigor and the quantity of the discourse—no minor feat. Beyond improving the conversation on the concept of a UBI, the survey's chapter presents a commanding argument for using a UBI to bind both citizens and the government in a common project that advances social and economic justice. It rightly dismisses concerns that unconditional income would discourage work and refutes assertions that divorcing income from employment or social contribution would be morally untenable. Using new evidence, it focuses attention on the disconcerting weaknesses in the administration and expenditure management of India's social programs, while affirming that programs like the PDS have made forward strides by universalizing coverage and recognizing the challenge posed by limited financial inclusion and Aadhaar authentication failures.

For all its acuity and painstaking effort in defining the contours of the problem, the Economic Survey's prescription is flawed both in its proposed design and implementation. Far from what is needed to realize its ambitious vision, the survey proposes a cash transfer with a dubious ability to compensate beneficiaries for the transition costs of

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moving to a new system, and one that would be financed by an indiscriminate culling of existing welfare schemes. Examining the existing literature on targeting approaches, necessitated by the survey's emphasis on "quasi-universalism," reveals that their impact on efficiency and cost-effectiveness can vary greatly based on administrative capacity, imperfect information, and unintended costs. The benefits of finer targeting can often be achieved at lesser cost by expanding coverage of in-kind benefits or providing uniform

transfers contingent on a simple set of transparent, verifiable criteria, if not untargeted and uniform transfers. There is also the very real possibility that both national and regional politics may distort the original intent and value of a UBI into a scheme indistinguishable from India's DBT regime, which suffers from its own implementation deficit, compounded by the unresolved concerns surrounding the Aadhaar framework.

The uncertainty about the design choices (which go beyond targeting to include the duration and frequency of transfers) and the political feasibility of a UBI emphasizes the need for an Indian UBI pilot of sufficient length to test the impact of introducing

regular, unconditional, universal cash transfers. A basic income trial implemented by a state administration (or several, such as the variety of municipal tests under way in the Netherlands) to accurately mimic real conditions, with an independent organization running a large-scale experimental evaluation, would generate the hard evidence that the empirical and political discourse around an Indian UBI gravely needs before it can graduate from academic conferences and opinion pages into parliamentary debate and legislation.

It is also important to be clear-headed about the virtues of evidence. Instituting a UBI requires public support spanning demographic lines, executive backing, and strong macroeconomic fundamentals. Weaken any leg of this tripod, and the redistributive preferences of any government may shift in favor of traditional welfare support and focusing on economic growth. And even if an experiment were to yield spectacular results, the financing question is key. If practicalities dictate that India's tenuous social protection framework be sacrificed at the altar of a basic income, then it would turn quickly from manna from heaven to actively undermining the Indian social contract.

None of these objections forms an insurmountable obstacle toward one day implementing a clean, well-designed UBI that simultaneously empowers Indian citizens and strengthens the Indian state. Some of them may even lose their edge if India can fill the evidence gap around such policies and build administrative muscle by recasting its systems of public financial management and tax collection, with accompanying reforms to boost digital payments and financial inclusion.

In 1961, Nehru wrote to India's chief ministers that "it is generally recognized now, even by our critics in India or abroad, that we plan well and we lay down the most excellent of principles. The difficulty comes in implementation."<sup>205</sup> Unless both the policy's critics and supporters undertake a concerted effort to better address the above discordances, India's UBI will meet the same fate.



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