

Maintenance allowance is feasible and logical as compared to basic income

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Abstract

Background/Objectives: To demonstrate feasibility and logicity of the ideas of universal maintenance allowance and basic income for ameliorating the global problems of poverty and income-inequality.

Methods/Statistical analysis: The study is based on secondary data analysis. Expenditure as percent of gross domestic product on implementation of the ideas of universal basic income and maintenance allowance has been analysed. Possible expenditure on the two arrangements has been compared with optimal tax incidence in an economy to show their financial feasibility. Logical comparison has been performed in terms of their effects on work incentive and social welfare measures.

Findings: The idea of universal basic income paid in cash regularly is receiving acceptance all over the world as an instrument for poverty reduction and social justice. Alternatively, maintenance allowance, based on the notion of right to food, provides for cash equivalent to staple food requirement of each person. Basic income should be high enough to ensure comfortable life for an individual, but it might cost more than 18 percent of Gross Domestic Product (GDP) of a country, which is not feasible along with public expenditure on administration, defence and social welfare. Maintenance allowance should cost 3 to 4 percent of GDP. It can be managed within optimum tax incidence of around 20 percent of GDP. Unlike basic income; maintenance allowance should not prove as work disincentive instrument. Also, social welfare expenditure can continue along with the allowance.

Application/Improvements: The arrangement of universal maintenance allowance looks feasible and logical alternative to universal basic income to ameliorate the problem of poverty.

Keywords: Basic income, maintenance allowance, poverty, income inequality, social welfare.

1. Introduction

Rich as well as poor countries all over the world face the common problem of poverty and income-inequality. Extreme poverty is visible in poor countries where a good proportion of population cannot afford basic requirements of food, clothing and housing. Although people in rich countries are out of extreme poverty, but the poor in these countries cannot afford all-weather housing, education and health facilities. Basic income is defined as a sum paid regularly to an individual as an unconditional, universal and right-based payment [1]. The emancipator basic income fulfils the four basic criteria - universal, unconditional, individual and high-enough to ensure for each person an existence in dignity and with participation in the society. The idea of Universal Basic Income (UBI) was initiated by a group of researchers in 1983 in Belgium and the first conference on the topic was held in 1986. Of late this is receiving acceptance all over the world as an instrument for poverty reduction and social justice. A number of discussions and conferences are being held on the topic. Recent economic survey in India for the year 2016-17 includes a chapter on UBI [2].

Maintenance allowance has been introduced in [3]. It provides for a cash amount equivalent to staple food requirement of around 2100 calories to each member of the society. It is based on the notion of entitlement of each person to the minimum requirement of food before the beginning of human civilization as well as in the modern society. The arrangement should transform each person into a rational member of the society so as to enable it to take employment for earning livelihood as well as to desist from anti-social activities. Maintenance allowance, like basic income, should be arranged for each individual - rich and poor, male and female, a newborn and aged. It is not possible to foresee when somebody becomes poor due to accident, health issues, natural calamities and a number of other reasons. Once a person becomes vulnerable, it is difficult for him or

her to prove entitlement to its rights. Therefore the arrangement of Universal Maintenance Allowance (UMA) should not require the poor to prove their entitlement to receive it by producing certain documents. Universality of the allowance should be an essential component of the arrangement so that a person gets continuous strength to be part of mainstream human society. This paper studies expenditure as percent of Gross Domestic Product (GDP) on implementation of the ideas of UBI and UMA. Section-2 shows that UBI is financially infeasible as it demands high proportion of GDP. Section-3 shows that UBI might prove as work disincentive. Also it will not be possible to continue public expenditure on social welfare along with UBI.

2. Financial feasibility

Financial feasibility of Basic income is major hindrance for its implementation. European Citizens Initiative on unconditional basic income provides it at poverty-risk level according to European Union standards, which corresponds to 60 percent of median per capita income of a country [4]. Table 1 shows mean and median per capita incomes for some of the countries in the world. Median per capita incomes have been obtained from [5]. The values are based on responses from at least 2000 adults in each country and the data is aggregated from 2006 to 2012. Mean per capita incomes have been obtained from World Bank databank [6] for the year 2009, that is, the mid-year of the period 2006 to 2012. Basic income has been calculated as 60% of the median per capita income for each country. Finally, basic income as percentage of GDP has been calculated as the ratio of basic income to mean per capita income, because the latter represents per-capita GDP of a country. Median income calculates to more than half of the mean income in poor countries like India and almost 33 percent of mean income in rich countries such as United States of America. Therefore provision for basic income to each person will require almost 33 percent of GDP in India and around 19 percent of GDP in United States.

Table 1. Mean and median per-capita income and basic income as proportion of gross domestic product in some countries

Country	Per capita Income (US\$)			Basic income ~ 60% of Median Income	Basic Income as percent of GDP
	Median	Mean	Median-Mean Income Ratio		
South Africa	1217	5916	0.2057	730.2	12.34
Kenya	402	942	0.4267	241.2	25.60
Egypt	623	2349	0.2652	373.8	15.91
India	616	1090	0.5651	369.6	33.91
Indonesia	541	2262	0.2392	324.6	14.35
Philippines	478	1836	0.2603	286.8	15.62
Saudi Arabia	4762	15655	0.3042	2857.2	18.25
Sweden	18632	46207	0.4032	11179.2	24.19
Portugal	5519	23063	0.2393	3311.4	14.36
USA	15480	47000	0.3294	9288.0	19.76
Brazil	2247	8474	0.2652	1348.2	15.91
Chile	2040	10217	0.1997	1224.0	11.98

The Indian economic survey of 2016-17 looks for fulfilling the dream of Mahatma Gandhi about freedom from the hunger through UBI [2]. It calls wiping every tear from every eye as the hallmark of UBI. While calculating the amount of basic income at poverty risk level according to the definition of Indian national poverty line, an amount of rupees 12000/- per person per year at 2011-12 prices will take the poverty level to zero. But it will cost the nation an amount equal to 14.4% of GDP. If top earning 25 percent population is excluded, which is not conforming to the definition of UBI, the cost will be reduced to 10.8% of GDP. Economic studies indicate optimal tax rates at around 20 percent of GDP of a country [7]. Tax rates above 20 percent are detrimental to economic growth and the economy will grow at smaller rate, which is not desired in modern innovative and globally competitive society. A slow economic growth will curtail the ability of a country to manage budget for general social welfare as well as for providing UBI. Tax incidence in most of the low and middle income countries is in the range of 10 to 20 percent of GDP [6]. In high income countries tax incidence goes up to 35 percent of GDP. Modern governments are required to spend a good proportion of tax revenue on defence, administration and general welfare. An economy cannot spend the required proportion of GDP on

providing UBI while maintaining desired rate of growth. Therefore no country can afford to provide UBI to all the citizens. Calculation of maintenance allowance for some of the countries around the globe reveals an expenditure of 3 to 4 percent of GDP [3], which is quite feasible. Rich countries can afford to arrange UMA out of their current levels of taxation. Low and middle income countries are required to increase their tax collection to a level little above 20 percent of GDP for funding UMA, which is quite possible. Some of the low income countries of Africa may require 5 to 7 percent of GDP to provide for UMA while the tax collection in these countries is less than 15 percent of GDP. There is scope of increasing tax rates in these countries for the purpose. Other sources of funding of UMA such as international aid may also be explored in these countries.

A pilot study on basic income was conducted by SEWA, a non-government organisation with financial assistance from UNICEF during June, 2011 to November, 2012 in a few villages of Indore district in Madhya Pradesh in India [8]. An amount of rupees 200 per adult and rupees 100 per child was paid each month from June, 2011 to May, 2012. Afterwards the amount was revised to rupees 300 per adult and rupees 150 per child per month. The study revealed positive effects of basic income on living conditions, nutrition, health, schooling, economic activity, etc. It induced significant increase in production and the extent of adult labour and working capabilities. The overall effect was transformative that enhanced economic activities in the villages under the scheme. It helped families to reduce their debt and to increase their savings. In fact the amount distributed under the pilot study is just sufficient to fulfil the requirement of staple food for an individual. Therefore it can be termed as maintenance allowance and is not covered under the definition of basic income.

3. Other issues

3.1. Work incentive

One critical view of basic income is its negative effect on work incentive for those receiving a sufficient amount for a decent standard of living. This will adversely affect labour supply due to the unconditional income at the level of fulfilling basic requirements of a family. At the same time those working hard to earn their livelihood might not be ready to part with their earnings as taxes for transfer of basic income to persons without any work. Maintenance allowance should not prove a disincentive for work as it fulfils the food requirement only. There are a number of other needs in the modern society such as clothing, housing, education, health, etc. Everybody will have to arrange other necessities of life by finding remunerative employment. Moreover people want to earn more and more for maintaining their living standards and status in the society once they are out of the vicious cycle of poverty. It derives them to work to their maximum capacity.

3.2. Social welfare expenditure

Table 2. Total public social expenditure as percent of GDP in some countries

Country	Year	Social expenditure
United States of America	2013	20.00
France	2013	33.00
Romania	2009	17.10
Australia	2007	16.90
Japan	2007	18.20
Mexico	2011	7.60
Sweden	2012	28.13
China	2011	3.70
Philippines	2012	1.55
India	2005	3.00
Iran	2010	12.53
Brazil	2010	14.40
Chile	2008	2.60
South Africa	2010	7.80
Ethiopia	2010	3.17
Egypt	2010	13.21

Table 2 shows public social expenditure as percentage of GDP in some countries around the globe [9]. The countries in the Organisation for Economic Cooperation and Development (OECD), which includes 35 high income countries such as United States, France, Japan, Australia spend around 21% of GDP on public social

activities [10]. This public social expenditure includes private social spending, which is 11% of GDP in United States and taxation of benefit income, which is 8% of GDP in Denmark. China and India spend 3 to 4% of GDP on social welfare while Philippines spend only 1.5% of GDP. Overall it can be concluded from this data that modern governments spend around 5% of GDP on a number of social welfare measures such as food security, health, education, old-age pension, etc. An argument is made for stopping all these social welfare expenditure with the start of basic income. But this might not be possible because of sudden difficulties to people in receipt of these amenities. It is also not wise to stop welfare expenditure due to possibility of general unrest and political resistance in a democratic country like India. In fact the welfare measures can continue along with maintenance allowance. These can be stopped with increase in general income as a result of the new arrangement over a few years.

4. Conclusion

Taking care of each member of society by providing maintenance allowance looks a feasible and logical alternative to basic income. The arrangement should induce rationality among human beings and they will be acquiring necessary education and skills to find remunerative employment. It will make people to take rational decisions on consumption and saving of their income, which are desired components for successful life in modern society. It will help to create sustainable environmental conditions due to induction of rationality among humans as they will make judicious use of natural resources. At the same time, nobody will indulge in anti-social activities and crime because of being taken care of by the society.

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The Publication fee is defrayed by Indian Society for Education and Environment (www.iseeadyar.org)

Cite this article as:

Bhatia A.K. Maintenance allowance is feasible and logical as compared to basic income. *Indian Journal of Economics and Development*. Vol 5 (12), December 2017.