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UNIVERSAL BASIC INCOME

A Simple Measure to Usher in an
Economic Revolution

Nasim Beg

This article is a part of my continuing quest to suggest the use of non-traditional measures to usher in an economic revolution in Pakistan.

I view economic wellbeing through the consumption (lifestyle) of the lowest economic strata of society. I would venture to guess that 80% of our GDP goes to 20% of the population; and using Financial Year 2022 data, this would mean that the per capita income of \$ 1,750 (Rs 314,000) would be split as \$ 7,200 (Rs 1,257,000) per head for the 20% and \$ 450 (Rs 79,000) per head for the 80%, or Rs. 6,550 per month for the 80%. As against this, the government has set the minimum wage at Rs 25,000; if we take six persons per family, this wage amounts to Rs 4,200 per person per month.

With these levels of spending, the economy will remain stunted and the only way to grow it is through increasing the per capita spending. For economic well-being to measure up, we need to set a minimum acceptable lifestyle suitable for this 21st century as our target.

Seventy-five years of economic policies have failed the people. A few facts to indicate the necessity of the revolution, we have 1.5 to 2 million youth needing to be absorbed in economic activity each year. Most are poorly educated, with inadequate or no technical training. In the meanwhile, AI and robotics will increasingly reduce labour absorption in manufacturing. We cannot hope to compete on productivity without AI and robotics and produce exportable surpluses that can earn us foreign exchange. While some people hope for absorption into technological ventures, we cannot expect millions will find work in it. Climate change is likely to cause further migration into urban centres. Unemployed youth will be forced to turn to crime as well as become susceptible to radicalisation. If we continue with business as usual, there is no way that the trickle-down from a stunted economy will deliver anything but blood on the streets.

Coming back to the minimum lifestyle spending, it must cover the minimum units of basics, such as nutrients, housing, clothing, energy, transportation, education, medical etc., and today, a minimum access to the internet as well. This can only be achieved by introducing Universal Basic Income (UBI) that covers all of this and is inflation linked. Assuming we start with twice the minimum wage, albeit it

needs a significant improvement, thus increase it in real terms by perhaps two to five percent per year, starting at Rs 50,000 per family, transfer Rs 25,000 per adult to 70,000,000 adult women and men. I have assumed 35 million families of 6 persons each. For married couples, the sum of the two will cover the family. The government does not need to identify targeted families as it does for BISP, as it is not financial aid to the poor, but a right of every adult citizen.

This increased purchasing power and consumption at the level of 80% of the population, will trigger the economic activity required to grow the economy, however, it will put a stress on our foreign exchange reserves, as a significant portion of our economic activity is currently highly import dependant and we do not earn enough foreign exchange. In the past we have kept our imports cheap, benefiting the 20% by borrowing dollars to keep the Rupee propped up. Our imports versus exports and remittances have had a gap of \$ 67 billion since 1971. Had we not borrowed to pay for our imports, the Dollar would have been far more expensive much earlier and the market would have forced us to be more dependent on domestic productivity by ensuring better translation of international prices towards improving agricultural yields, exploring energy sources, indigenous manufacturing, etc. It would also have helped reward and grow exports. If the currency is left to face market forces and not supported by borrowed dollars, the inflation indexed UBI will help the economy grow, without the fear of inflation impacting the public.

The federal government is not in a position to ensure that the provinces empower district and local governments financially, however, with UBI through direct transfers it can reach the poorest of districts. This will generate economic activity even in the poorest of districts and potentially transform them.

UBI will be a major step towards empowering women, as well as other marginalised communities. Children need not be out of school trying to supplement family incomes and not suffer stunted growth owing to malnutrition. Duflo and Banerjee suggest that the population growth rate diminishes with prosperity, not the other way around. Empowered people who are not preoccupied with if and where the next meal will come from, can apply their minds to exercising democratic rights.

There are several successful examples of the introduction of basic income, which range from developed countries to developing. None of these have had a much-feared adverse impact of the recipients becoming lazy or misusing the income. As an example of outcomes of Madhya Pradesh (India) BI project (reported by Rob Rainer robertjrainer@gmail.com November 16, 2015): Improved sanitation, Better access to drinking water, Improved energy and lighting sources, Significant increases in ownership of household assets, Significant increases in food sufficiency, Significant increases in child nutrition, No increase in spending on alcohol, Majority of BI recipients perceived improvement in health, Increased spending on school uniforms, shoes and books, Reduction in waged child labour, Increase in income-earning work and business start-ups. Decrease in household debt, Increase in women's household and financial empowerment, Girls and women benefited disproportionately in nutrition, health and education outcomes.

Based on the 2022 data, the UBI will amount to Rs 21 trillion per year. On the other hand, all existing

subsidies would have to be removed. The financing of UBI would come from revisiting the State's financing structure. The State is the issuer of its fiat currency, it does not need to raise revenues and does not need to borrow the same currency. The aggregate money supply would be controlled through weaning off from fractional reserve banking. I have covered this subject in two recent articles, "Growing the Economy by Applying the Modern Monetary Theory and Treating Universal Basic Income as a Fundamental Right"; and "Stop subsidising banks and others with Rs 2 to 4 trillion a year and invest it in social development."

UBI can start by first allocating a smaller amount than has been suggested but increasing it each year and reach the target over five to ten years and simultaneously weaning the banks off the fractional reserve system. We will need the gradual approach for domestic supply to catch up.

