



LUNDS UNIVERSITET  
Ekonomihögskolan

# **Basic Income:**

## **A Comparative Study of Brazil and India**

*Have we learned enough about Basic Income to consider it a successful policy for poverty alleviation? How can we explain results from India and Brazil using our current knowledge?*

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Author: Aisha Hassan

Supervisor: Andreas Bergh

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## **Abstract**

Do we know enough about Basic Income (BI) to support or discharge it? In this paper, two studies on the subject are reviewed in order to answer this question. One is the pilot study of Unconditional Basic Income in rural India (conducted by SEWA and UNICEF in 2011-2013) and the other is the Bolsa Escola/ Bolsa Familia program that was launched in Brazil in 1995 and is still ongoing. The aim is to map out different and similar components and results of the two implementations of BI and to compare them to each other, and also to compare the results to the theoretical and empirical expectations.

The questions that are answered by this paper are:

1. What were the results of the Indian and Brazilian BI studies, and were they similar to the ones that could be expected from theoretical and empirical experience?
2. Are the results convincing enough to make future policy recommendations in favor of Basic Income in other countries?

To examine these two studies a six-principle framework is used, covering different aspects, which aim to determine the successfulness of a policy. Rawls Theory of Justice and classic labor economic theories are used to analyze the results. The analysis shows that the components that were present in both studies were the overall reduction on levels of poverty (school participation rates, health and equality). This despite the Indian study being universal to all within the test villages, and the Brazilian study being selective and conditional, which is not in line with what could be expected from theory. As was expected from the labor supply curve, there was a small drop in labor supply detected in both studies, even if the overall productivity was perceived better in the Indian villages with the BI. In these two cases the impact of a BI was successful, but since the two studies differ largely more research on what role local factors play is relevant in order to make recommendations in other countries for implementing BI policies.

## 1. Introduction

Our world is more economically unequal than ever before, when comparing on nation level. One could, though expand the reasoning and talk about the populations of countries in the measurement, what Milanovic (2013) would call inequality 2, and find different results. New alternatives are debated in order to solve this socio-economic problem, which causes absolute and relative deprivation (Polanyi, 2007) within and between both countries and the global South and West. The focus in this paper is on developing countries, since the need for improved economic models are most prevalent there. Actions in form of loans and conditional aid from international institutions and high-income countries have been the most common remedy in the past. How will these actions look in the future? Could Basic Income be a way for developing countries to help themselves, either as a supplement or as an alternative to international aid? This paper seeks to shed light on this question.

The idea to give out cash transfers is not new in the economic debate; some authors like French socialist Charles Fourier trace it as far back as to 1690's philosopher John Locke and his Natural Argument (Van Parijs, 1992). This basically claims that every human on earth has a right to fish, hunt and grow cattle to cover her survival needs. When people are kept from these survival/food securing actions to the extent that they cannot cover their needs they should be compensated by (the company, government or institution) that is blocking her natural right. In the 1960s the idea of a Negative Income Tax (NIT) was introduced by Augustin Cournot, which was later developed to an unconditional model by Friedman and Tobin (Tod, 2008; Van Parijs, 2004). Another name often associated with BI is Rawls and his "Theory of Justice" introduced 1970 which is believed to be inspired by Locke (Van Parijs 1992). Rawls is incorporated both in the theory and methodology of this paper, since his Theory of Justice provides clear lines on what he believes is fair in social distribution, and also because it is quite different from what classic economic theories suggest.

What is then a successful policy? In order to determine the results of these two BI studies in India and Brazil a framework of six different principles is used to map out and clarify the results (presented more in detail in the Methodology chapter). The attempt to move further than classic economic theory, which is also incorporated of course, is thought to enable a more diverse comparison. This framework covers social, structural, psychological and ecological aspects along with economic feasibility.

## 1.1 Basic Income

The formal definition of a BI is a fixed amount paid regularly each period (week, month or year, rather than a one time endowment) to all members of a political community. Other terms used are cash transfers, citizen wage, and cash-bonuses etcetera. A BI is distributed by the government of the community and funded by a public resource. It comes with no conditionality such as school or work participation, and is not means tested. In contrast to a fixed remedy such as food stamps or subsidized food, a BI is paid in money (BIEN, 2015; Van Parijs, 2004).

Around the time of World War I, the US presidential candidate Milner incorporated earlier suggestions from Bertrand Russell of a basic income into his presidential campaign (Van Parijs, 2003). There are also different variants of BI policies currently in many European countries, which were mostly adopted after World War II, with Denmark and Holland in the lead (BIEN, 2015; Van Parijs, 2000). However none of these BI policies fulfill all the requirements of a theoretical Basic Income. One example is Sweden's "Economic Aid", which you are eligible to only if you are unemployed for minimum amount of time, and upon receiving the aid you can be required to enter a program helping you to actively seek work (Socialtjänsten 2015). The most common qualification to receive BI is one's need for it, which defeats the idea of it being universal.

The only known *real* basic income in use today, working according to its definition, is the one in Alaska. Each year every resident who has lived in the state for minimum two years, receive part of the revenues from the state-owned oil through the Alaska Permanent Fund (APF) (Brown & Thomas, 1994).

## 1.2 India

In India the public policy has been a work in progress since its independence 1947, with different programs to improve health, education and food security (Nakray, 2015). These are generally managed through the Public Distribution System (PDS). Even though the country has been in growing economically during the last decades, the impoverished parts of the population are not experiencing this change (Standing 2012). With a total of 1.2 billion people in 2014, there are 400 million Indians, one third of its population who live in poverty (World Bank 2014).

India is facing a new set of challenges when developing both on socio-economic levels and when considering climate change, urbanization and globalization (Kumar & Narain, 2014;

Nakray, 2015). Questions of fairness arise with the debate on how best to tackle the conditions in which India and other developing countries will grow, and with their need to consider the environment in ways western countries did not (Standing, 2013). The lack of communication between research, academics and policy implementers in India in combination with a growing demand for accountability and transparency is shifting the governance to be more inclusive and open. One reason for this shift could be the strong influence and opinions of international NGOs, transnational corporations, donors and funders present in the country and challenging the government's authority (Kumar & Narain, 2014).

The pilot of BI or unconditional cash transfers (UCTs) that will be reviewed in this paper was conducted between June 2011 and May 2012 and was the first of its kind both in India and in the world, subject to this extensive assessment. This is why it has potential to add something new to the debate on basic income, since it has not been examined seriously to this extent before. Even though cash transfers are in place all over the world, the nature of the pilot study and its model was sought to be as close as possible to the universal *unconditional* original idea. The policy implementers also took concern to the hypothetical psychological impacts universality would have on recipients. In the Indian pilot different villages were used as different communities, where the researchers compared villages that received BI to a control group of villages that did not. The project was funded by UNICEF and not a public resource, as a BI should according to its definition. Another exception to the original idea is that there was one condition, recipients needed to get a bank account within three months of the first payment (Standing, 2013; SEWA, 2014).

### **1.3 Brazil**

Brazil on the other hand has a population of 206 million, 1/6<sup>th</sup> of India's population. BI in Brazil has been an active part of public policy since 1995, through the different conditional cash transfer programs (CCTs) "Bolsa Esolar" (2001), "Bolsa Alimentação" (2001), "Auxilio Gas" (2002), "Fome Zero" (2003). They were all combined in the "Bolsa Familia Program" (BFP) launched in 2003, which later underwent transitions and perfections to the policy during 2003-2006 (Lindert et al. 2007; Matarazzo, 2007). Bolsa Escolar originally consisted of cash transfers dependent on the children's school participation rate in the household: to receive the transfer the minimum attendance is 85% for children between 8-15 years old. Bolsa Alimentação was focused on food and nutrition, which provided extra transfers per child for households with income below minimum. It also came with conditions in exchange that are: pregnant women needed to get health check ups before, during and after their

pregnancy and young children (0-7 years) to get vaccinations according to the Health Ministry's Calendars, all in an attempt to lower infant mortality and malnutrition in the country. Auxilio Gas was an initiative to phase out the subsidies for cooking gas and to replace them with cash transfers, coherent with the lists of receivers of Bolsa Escolar and Bolsa Alimentação. Fome Zero translates to 'Zero Hunger' and was an initiative to focus on eradicating extreme hunger, presenting an extra cash transfer for families with incomes lower than half the minimum wage (Lindert et al. 2007).

In 2006 there were 45 million people in Brazil benefitting from this program, which is  $\frac{1}{4}$  of the population. Many agree that the effects of the BFP have been positive (Matarazzo 2007; Lindert et al. 2007; Milanovic 2013; Soares 2012). This program is financed by the 'Fund to Combat and Eradicate Poverty' (established in 2000) which receives a small part of its funding, 0.08%, from financial transactions in the country. The lean towards BI continued in 2005 when a new law was signed called "Cula" which aims to bring in Citizen Basic Income to establish a healthy development and to limit the bureaucracy and stigma around receiving the cash transfers (Matarazzo, 2007).

#### **1.4 Thesis Layout**

In the Methodological and Conceptual Framework the different terms used throughout this paper are defined as well as the underlying assumptions made in the reasoning. The comparative method of using a six-principle framework is explained. In the theoretical framework the theories behind labor supply and Rawls Theory of Justice are elaborated. The Analysis chapter explains what can be learned from the Indian and Brazilian experience both empirically and with regard to theory. Also the future of BI as a successful policy is debated. Finally the Summary of Results and Conclusion sums up main findings in the paper and answer the two research questions.

## **2. Methodological and Conceptual Framework**

There have been other studies on Basic Income, for example in Canada and Austria, but since the main focus for a BI policy is poverty reduction, developing countries are more relevant in this case. Why compare Brazil and India and not Kenya and Namibia? There have been successful BI studies done in all of these countries. The first reason is the simplest one: the research material on BI studies in Brazil and India where the most extensive and available. They are also relatively new (the Indian study was conducted during 2011-2012) which make them up-to-date with the debate. Also the profile and economic development of Brazil and

India have some similar and some widely different aspects, which makes for an interesting comparison. On a strictly hypothetical level one can imagine that the size of these countries, the distinct cultural differences, their history and their growing economic importance over the past decades will add more dimensions to the results. Lastly the fact that both studies have shown impressive results by using a Basic Income policy makes them suitable examples to compare when looking to investigate if we know enough about BI to rule it in (or out).

Theoretically, it would make for a more convincing analysis if this study looked at all attempts ever made of BI programs around the world in order to find patterns and draw generalizations. Doing that would give more width to the research, but might take away from the depth in the answers, which are possible when limiting the number of comparisons to two examples. Therefore a Comparative Study was the method chosen, instead of a quantitative method.

When looking at these two studies, they are examined in the light of the countries where they took place, using Brazil and India as the relevant limit of and definition of a “community”. The result will therefore say something about how a BI works in India, relative to India and how it works in Brazil, relative to Brazil. In the Indian study the pilot will be considered a representation of the whole country, since that is as far as the study covers this paper will use its result as an indication of the country at large. The participating villages are located in the poorest areas of the country the idea is that this is where a future BI policy would be most needed (Standing, 2013).

Part of the preconceived hypothesis is that culture and other aspects are relevant to the outcomes of these studies, and that these factors vary with national borders. Huntington (2013) with his ‘Clash of Civilizations’ theory among others would not agree, and claim that cultures go broader than nations and perhaps that the scope should be broader. The reader should be aware of this limitation in the conceptual framework, and that this paper aims to make country specific analysis of the successfulness of BI studies, not global generalizations or comparisons. One could theoretically, like Milanovic (2013), claim the whole world is a community and that every citizen in the world is comparable when measuring inequalities. This type of analysis would be relevant if the design of this paper was to study BI studies worldwide. As mentioned, the scope is narrower, therefore the generalizability of these results are limited to the respective countries studied and not to the world as a society.



When answering research question 2) *are results convincing enough to make future policy recommendations in favor of Basic Income in other countries?* there needs to be a clarification of what a successful policy is. When looking for ways to alleviate relative poverty in a determined community (country), one's idea of the best way to do so will be different depending on ideology, theory and other value based opinions. In order to make future policy recommendations in favor of Basic Income, the result of its implementations should be successful. In this paper the concept of success is tested by and divided into five principals through a framework presented by Guy Standings (2013) in his working paper, which presented the results from SEWA/UNICEF's pilot in India on unconditional basic income along with a sixth principle to cover the cost- and practical feasibility which is explained more in the Methodological and Conceptual framework.

The framework is applied on the empirical results from the Brazilian BFP and the Indian pilot study, using different evaluating studies done over the years to explain similarities and differences between the two. Since the framework incorporates different aspects to poverty (more can always be added of course), it covers a greater scope than only economic growth. The six principles are explained below, and later put into context in the Analysis chapter.

### **2.1. Security Difference Principle**

This first criteria claim a policy is just only if it increases the security and work prospects of the least secure groups in a community (as mentioned, the community will be limited to each respective country in this paper). It originates from the liberal philosophy of Rawls (1941) that economic and social differences between groups are just only if they allow for betterment for the worst-off groups. A bit like Robin Hood would think, a policy should primarily look to enhance the security (food and health security for example) for those who are on the lowest level in the society since they are in need of this safety the most.

In order to analyze this principle we first need to clarify which the worst off groups are in the Brazilian and Indian study. This is not an easy task since the lowest levels in society tend to be left out of national statistics and programs. We might not even know which the worst off are, simply because we do not know about them or their circumstances (Milanovic, 2013).

India is a special case where they have had a caste system for thousands of years, which, although not officially recognized any longer today, is still an important aspect to the socio-economic structure in the country (Bidner 2013). Brazil has been known for its big differences between wealthy elite and poor citizens, but since president Lula's rule (2003-

2010) differences are considered to be shrinking (Hunter & Borges Sugiyama 2013; Milanovic 2013). Since no new data is gathered in this paper, we will assume the results regarding the most insecure groups, which were found in the studies, are accurate.

## **2.2 Paternalism Test Principle**

The second principle talks about the importance of voicing the most disadvantaged in the society. As a consequence, a policy is only just if it does not impose controls on groups which are not imposed on the freest groups in society. For example forcing people to do a certain type of job which others are not expected to do is not socially just. This idea comes from the Millian view that paternalism constrains the freedom of the disadvantaged in a society. There are studies on happiness (Haidt, 2006) which conclude that people are happier when they are more in control of their own behavior and life, in contrast to when these choices are being dictated by a state or institutions (Standing, 2013).

## **2.3 Rights Not Charity Principle**

A policy is socially just only if it enhances the power of its recipients and limits the power of its providers. This is considered key in the design of the Indian pilot study, since it is often overlooked in other versions of BI. Standing (2013) expresses it as that “people should not plead for assistance in times of crises” (p.22). This principle is connected to the debated “right to work” which is supposedly owned by everyone. However if this right exists, then someone is in consequence responsible for providing everyone with work. Also everyone should in that case be presented with the same possibilities to pursue any work. Guaranteeing jobs that people do not want to do is not a successful way of carrying out this responsibility. Policies should be evaluated depending on if they strengthen or weaken these rights.

## **2.4 Ecological Constraint Principle**

A policy is just if it does not involve an ecological cost borne by the community affected by it. This principle incorporates the much-needed social cost aspect into the economical motivations for policy evaluation. Since global warming will affect the populations in developing countries to a huge extent, this principle is a key when looking at poverty eradicating actions. The notion that this is unfair in context to the development of today’s high income countries, who all developed without taking into account the burden of environmental consequences, can be rightfully stressed but since this responsibility is on everyone’s shoulders it needs to be considered when forming policy.

## **2.5 Dignified Work Principle**

A policy is just if it does not impede people from pursuing work in a dignified way, and if it does not disadvantage the most insecure groups in that way. The two-step way to test this is to see if 1) work that is dignifying is worth pursuing, and if 2) the policy enhances the range and quality of work options of the most insecure groups more than for the other groups. This principle is connected to the 2<sup>nd</sup> one on Paternalism, both stressing the need for a policy to take concern of equal possibilities for all groups of society to pursue meaningful lives.

## **2.6 Economic and Implementary Constraint Principle**

A 6<sup>th</sup> principle is added to the analysis, which is not included in the five principle framework above, in order to include Economic and Implementary feasibility. Without this the debate in the Analysis chapter will not be convincing enough to answer the research questions fully. The criteria which are covered in this principle are derived from some of the most common critiques against BI, which are conveniently summed up by Tod (2008) into three categories, of which the last two are mostly incorporated into the 6<sup>th</sup> principle, while the first one is covered in the theory chapter:

- 1) unconditionality is unjust, the society should demand returns for its services.
- 2) a BI is set either too high to be economically feasible or too low to alleviate poverty.
- 3) a BI risks causing incentives to drop out of the labor force, again reducing the economic efficiency.

A policy is just if it has a feasible financial cost to the society it is implemented in. If it changes labor incentives, budget or other institutional structures in a negative way (to a bigger extent than available alternatives) it is not just. Logically, a policy cannot be deemed successful if it “costs more than it tastes” in terms of being reasonable for the budget of the community or if resulting in negative labor market trends: hence the financial and practical sustainability is crucial.

## **3. Theoretical Framework**

In this chapter the different theories that are used in the following Analysis chapter are explained in more detail. This is to enable a theoretical background to the findings to complement the empirical one.

The traits of a BI that differentiate from any other social policy in place today, is that it is universal and unconditional which gives it an ideologically and philosophically different

foundation. The idea that the state, and not the labor market, should be responsible for securing citizen income therefor makes for quite an unconventional approach, since it undermines the labor markets efficiency in providing sufficient and fair wages (Feminist Economics, 2001).

Many authors on Basic Income (Standing, 2013; Van Parijs, 2000; Tod, 2008) identify the links between Rawls (1941) “Theory of Justice” and the main ideas behind a BI.

### **3.1 Rawls Theory of Justice**

Rawls made his Theory of Justice in light of his background in social contract theory. The idea is that all members of a society start from an original position before making a decision, and this position is from behind a “veil of ignorance”. His thought is that if everyone is oblivious to their own personal traits, qualities and differences, the decisions that are agreed upon will be fair to all. Since agreements are then made without regard to anyone’s less or greater value, the idea is that no one will be able to guard his or her own interest in the agreement (Rawls, 1974).

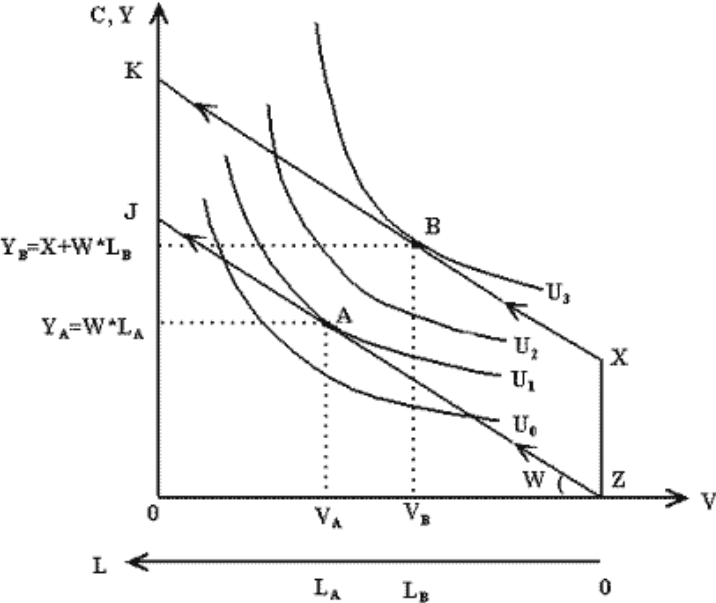
Based on this “original state” of choosing, Rawls claims that the natural order would be for all members of a society to receive equal shares in their community’s social and economic benefits. This claim rests on Rawls belief that each member of a society has an equal right to that society’s goods (1974). This theory also assumes the position that people are born into families without any possibility to choose their circumstances, nor their intelligence, beauty or other capabilities they might have. Individuals do not own personal qualities, so certain people should not receive benefits for having desirable attributes since they did nothing to ‘deserve’ them (Rawls, 1971).

The first draft of the book *A Theory of Justice* was published in 1971, and then revised and more elaborated in new drafts and translations in 1974 and 1975. The theory is divided into two *principles of justice* simplified by Martin (2015):

- 1) everyone has the same right to the same basic liberty in his or her society (political liberty, freedom of speech, the right to run for office etcetera).
- 2) social inequalities need to be ordered so that they:
  - a) are minimized between the top and bottom groups of the society
  - b) are most beneficial to the least-advantaged members of the society (in line with the 1<sup>st</sup> Security and Difference Principle in the methodology chapter!)

These two principles are incorporated in Standings framework (2013) along with the ideas of universality in his design of the Indian BI pilot. The Bolsa Familia Program on the other hand (like most other BI-type policies around) does not incorporate universality.

**3.2 Labor Economics and Employment Incentives**



(University of British Columbia, 2015)

This classic curve for labor supply is not foreign to any economist. In short, the Y-axis demonstrates the income that an individual receives and the X-axis demonstrates the number of hours the worker will devote to leisure time relative to work hours. The indifference curves U0, U1, U2 and U3 represent the different allocations of time and salary preferred by a specific worker. The tilted lines J-Z and K-X are this worker’s budget restriction and show how the wage differs relative to the number of hours devoted to work. If the budget restriction is not met, the time is either not maximized or the worker is living beyond his or her financial limits, which over time will result in (loans and) bankruptcy (Lundmark, 2012; Borjas, 2012).

Theoretically, he or she can work 24 hours of the day and get the maximum wage where the J-line intersect the Y-axis (if that is his or her budget restriction). Suppose a person has the budget restriction of J-Z and does not work any hours, the income would be zero and the leisure time would be 24 out of 24 hours. Where the indifference curve and budget restriction are tangent (point A and B in the figure) is where the hours of work is maximized relative to

the individual's preferences. The hours devoted to work are then equal to the wage this worker deems worthy of his or her sacrifice of leisure time (Lundmark, 2010).

If the worker would allocate his or her time according to the indifference curve  $U_0$ , one alternative is that the curve would intersect the budget restriction at too low a wage, where the worker would gain from working more hours (intersection between indifference curve  $U_0$  and budget restriction J-Z on the right side of point A). The other alternative outcome is when the worker spends more hours working than what is optimal according his or her preferences (intersection between  $U_0$  and budget restriction J-Z to the left of point A). The utility is not maximized since the time spent working is now more than what the worker deems "worth" the additional salary, since he or she would prefer to have more leisure time. If the hours of work were decreased to point A, the salary would correspond to the workers preferences and generate more utility.

What is important to point out is that few workers actually have the possibility to affect their working hours as freely as this model suggests, as the length of a work day is often set by the supplier of labor or together with a union. Another criticized assumption with this model is that labor and leisure time are equal for all workers. The time spent *not working* varies a great deal with gender, culture and overall social status. Imagine for example a mother of three working full time in a developing country, who is also responsible for her household when she gets home. Compare this worker to a young single woman in a Western country who is free to do what she wants when she gets out of work, since her salary allows her to eat out and afford cleaning help (Borjas, 2012).

The vertical line between endowment point X and Z demonstrates the *non-labor income* and could for example be a heritage, unemployment compensation or cash gifts. This non-labor income is believed to lower the incentives to work (Borjas, 2012), since it makes leisure relatively cheaper (if assuming it to be a normal good). This starting point matters a lot more when you compare the scenarios of starting at endowment Z (nothing) and endowment X. If you have no liquidity in your budget you are, as a direct effect of that, more vulnerable if something unexpected happens which requires money. Suppose you have to take a loan to pay an emergency medical bill, later you have to pay it back with additional interest which puts you even further behind in your starting position.

As a result, if you start in endowment Z you request less wage for your hours of work because you need it more than a person starting in point X, who will require more since he or she

already has the safety of a starting capital. This is essentially how the BI is meant to work, not to support a person completely but to give the security of having something to build off of (Tod, 2008).

#### 4. Analysis

In the Analysis the two studies are compared, first with a summarizing table of the similar and different results the two BI studies. The table is followed by a more detailed analysis of each principle in the six-principle framework, with empirical examples from the studies and theory to support the reasoning. The chapter is rounded up with Other Results (which are side findings not included in the original questioning) and lastly a Summary of Results where the research questions are answered.

	<b>Similarities</b>	<b>Differences</b>
<b>1. Security Difference Principle</b>	Programs are targeting the least secure groups. Women are more empowered.	BPF pays out on household level. The Indian pilot pays on individual bases.
<b>2. Paternalism Test Principle</b>	-	BFP is means tested and comes with conditionalities. The Indian pilot was universal and only required a bank account.
<b>3. Rights Not Charity Principle</b>	Payments could create a dependency relation from receivers to givers. The private liquidity gives receivers more decision making power.	Not an entitlement in BFP. Only selected families receive the transfers, which could cause uninclusiveness.
<b>4. Ecological Constraint Principle</b>	No direct impacts on the environment. The positive trend in school participation could cause more educated generations, who live more sustainable lives	-
<b>5. Dignified Work Principle</b>	Generated a small drop in overall labor supply from recipients in Brazil and for tribal households in the Indian pilot. Neither of the studies pushes recipients into any specific labor.	The income-generating work and productivity was documented higher in the other BI-receiving Indian villages: markets were created instead of subsidized food shops

<b>6. Economic and Implementation Constraint Principle</b>	Implementation was successful and economically feasible.	In the Indian BI pilot the costs were less than previous policies. BFP cut its administrative costs when merging the four previous programs, but works under a budget → everyone who needs the transfers might not be getting it yet.
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#### 4.1 Security Difference Principle

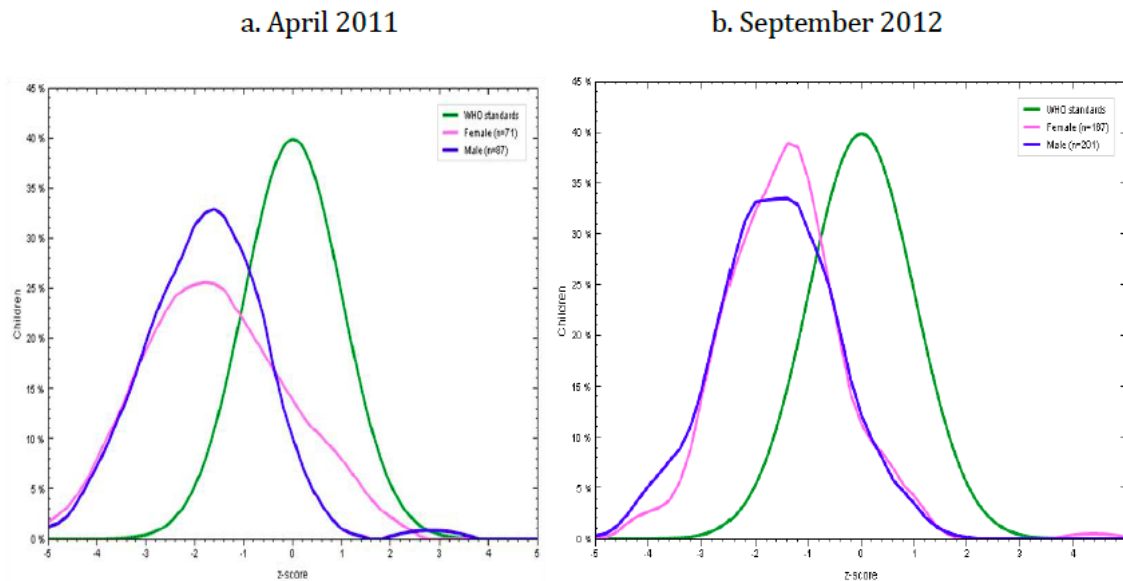
In the Indian pilot, there was a differentiation made between the examined villages. They were separated into four categories: the first two village-categories received BI and were differentiated between those with the operating presence of an NGO (SEWA) and villages without the presence of an NGO. The other two categories were control groups for each of the first two categories and did not receive any basic income. The pilot also extended to include one tribal village, along with one tribal control village. This last group was identified by the research team as consisting of the most underdeveloped, segregated and poorest populations (SEWA Bharat, 2014; Standing, 2013).

The BI also had the largest effect in this tribal minority village: 73 % of tribal households had reduced their debt, tribal women increased their work participation rate with 16%. Sanitation and access to drinking water improved for this group and also the degree to which tribal recipients were able to secure their ownership in household assets (SEWA Bharat, 2014).

Another aspect to the “most unsecure” group is gender. Girl’s *weight-for-age* and *school enrollment* improved more than boys in the villages receiving BI. Women along with elderly and handicapped in villages receiving BI reported having a bigger say in the household decision-making (Standing 2012, SEWA Bharat 2014). In line with this principle, the result of the BI pilot in India was most beneficial to the least secure groups in society and fulfills this principle.



Weight-for-age distribution for BI villages by gender (pink: female, blue: male, green: WHO recommendations) (SEWA Bahrat, 2014)



Source: Anganwadi records for April 2011 and MPUCT FES data for September 2012

In the Bolsa Familia Program in Brazil, the recipients of the cash transfer are screened and selected by their family average per capita income. If the income is below the minimum level, they receive an income supplement as well as extra money for each child and additional transfers if the income is under half the minimum level. About ¼ of the Brazilian population is benefiting from this cash program (Hall, 2008; Lindert et al. 2007) and in 2005 president Marquez signed a law to bring in a Citizen Basic Income (CBI) step by step. The idea is to develop cash transfers to require less bureaucracy when determining eligibility and to remove stigmas and shame in revealing ones income in order to receive the CBI (Matarozzo, 2007).

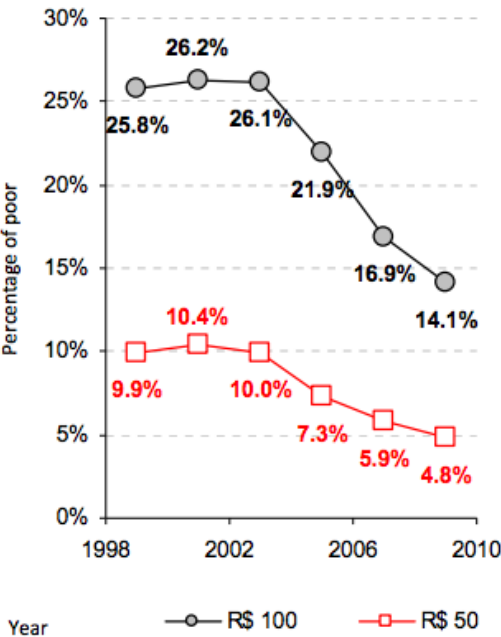
The program indeed seeks to target the least secure groups and also ends up having successful results in this matter. When looking at the precision of the BFP numbers from 2007 it shows that 73% of the tranfers reaches out to the poorest quintile and 95% reaches the two poorest quintiles. These are quite impressive numbers (Lindert et al. 2007). A problem with cash transfers on family level is that they might ignore the within family dynamic of inequalities (Van Parjis, 2000). However, in the BFP women are documented to be more empowered in household decision-making and less socially isolated as a result of the policy (Soares, 2012). BFP also fulfill the Security Difference Principe.

#### 4.2 Paternalism Test Principle

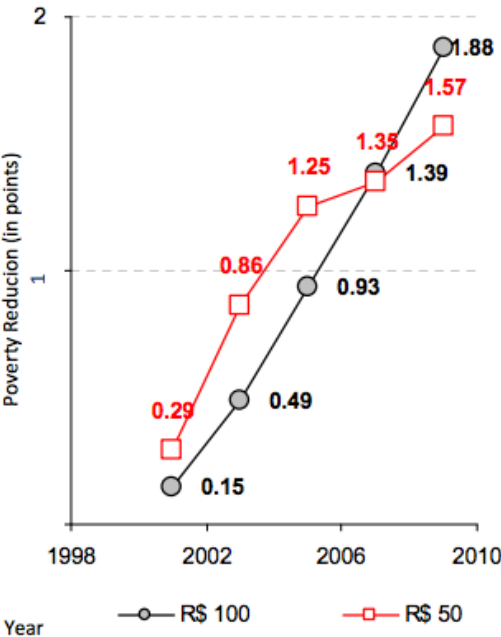
In the Indian study there were no conditionalities put on the recipients of BI besides voluntary participation in interviews and case studies that were conducted during the period of the intervention. The only requirement in order to receive the monthly payments was that, within three months after the beginning of the distribution, recipients needed to have a bank account to which the payments could be sent. This was done to lessen the administrative burden and to make transfers more efficient. Almost all of the participants were successful in opening a bank account (Standing, 2013).

In the Brazilian case, Bolsa Familia does impose conditionalities on its recipients. There are requirements of low income, conditions for school attendance, vaccination for children as well as maternal health check-ups for mothers. These controls are not put on the rest of the population, and therefore Bolsa Familia is not compliant with this principle.

**Poverty and Extreme Poverty in Brazil, 1999-2009, odd years**



Panel 1 – Poverty and extreme poverty



Panel 2 – Reductions due to *Bolsa Familia*

(Soares et al. 2010)

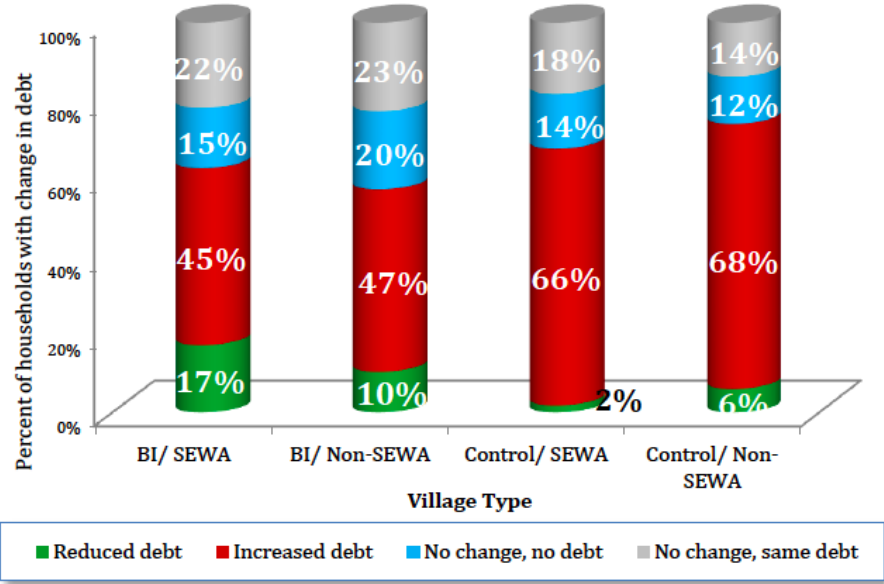
The graphs above demonstrate the drop in overall poverty and extreme poverty (to the right) and the raise in poverty reduction by percentage points (left) between the years BFP have been active in Brazil. Critics thought that the means-tested model in Brazil would make it less

successful, but despite these conditionalities, the program appears to have created a sense of social inclusion for the recipients of Bolsa Familia (Hunter & Borges Sugiyama, 2014). One aspect could be that since such a large proportion of the population is participating in the BFP there is less shame associated with it. Another explanation could be the fact that Bolsa Familia is partly funded by the combined virtual money transactions in Brazil. This contrast might lead to a sense of entitlement for the recipients, instead of feeling like a burden when receiving the payments. This is because the recipients are not likely to be the same people as the ones making money transaction on the financial market.

**4.3 Rights Not Charity Principle**

The idea that everyone got the BI was deemed important in the Indian pilot, as universality and rights-based payments were considered crucial for the success of the pilot. This reasoning is much in line with Rawls (1974) ideas. It could be that the history in India, with cast determining your social rank at birth, results in universality having a big role in this community. The BI seems to have enhanced the power of its recipients in the sense that financial liquidity made them less vulnerable when accidents or unexpected costs arose. Power was taken away from local loan sharks (who were the only ones with negative experiences from the BI test). The endebtment sunk during the pilot as receivers were able to save their own money with the BI:

**Percent of Households by Change In Debt and Village Type**



(SEWA Bharat, 2014)

The diagram demonstrates the difference between households in villages that received BI, the ones who received it and had the NGO SEWA present, and their respective control groups. The difference between the BI-groups and their controls when it comes to the households' capacity to reduce debt is 15% for the ones with SEWA present, and 4% for the non-SEWA ones. If one relates financial independence to power, then the Indian study fulfills this Rights-not-Charity Principle.

Liquidity is an aspect that needs to be emphasized in this argument. Relating to the Labor Supply Curve, we saw that the difference between starting from zero capital and to have a non-labor income is crucial, especially for the least secure groups in a society. Chances are that they are the least able to get a loan or to know someone who has financial assets. Liquidity is also connected to the power of decision-making, which is given to the recipients with the responsibility to make their own choices for what they need (Standing, 2012).

Critics to the Bolsa Familiar Program like Hall (2008) claim that it only serves as short time poverty alleviation and that it instead creates dependency relation from the receivers of the cash transfers to the government. This dependency problem would in that case be present in the Indian study too, but to a less extent since it is universal and all groups would be dependent but to different degrees, and then not comply with Rawls idea that everyone has the same entitlement since some would be more dependent than others.

Since BI is a relatively new policy it has not been institutionalized long enough in Brazil to expect it to be a fully integrated part of the political system. If it continues to be successful one could assume it would become a more given part of the political policies, and less of a dependency or charity phenomenon. As is the case today, the "Rights not Charity" principle is not fulfilled in the BFP since we cannot tell if power is in reality re-distributed to the vulnerable groups, or if success is short term and that the government who provide the transfers will continue to hold the concentrated power.

#### **4.4 Ecological Constraint Principle**

There were no direct links between ecological constraints and the BI pilot in India or the BFP in Brazil. One indirect consequence is the improved education results in both cases, through conditions in Brazil and autonomously in India. Assuming the primary education includes information on sustainability, it could be seen as an investment in future generations to make sure they lead environmentally conscious lives. The physical ecological cost and burden of transporting food subsidies before, compared to managing cash transfers during in the Indian

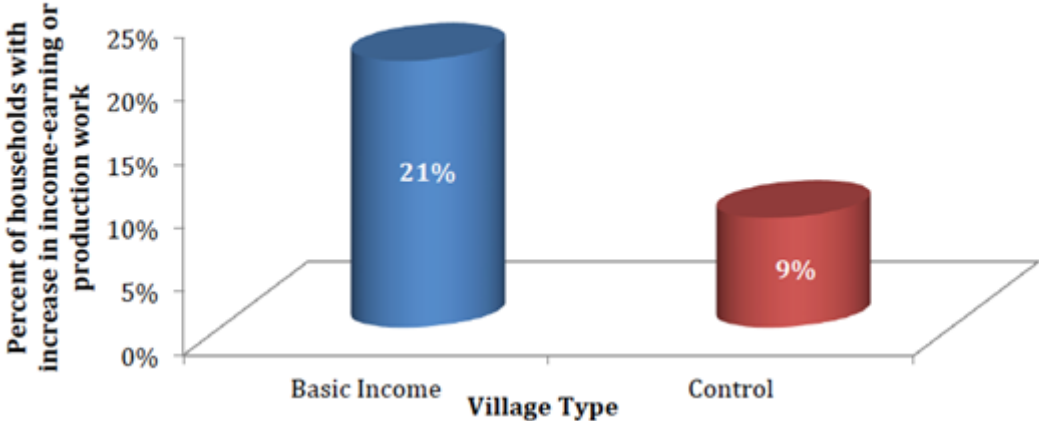
study is possibly a lightening of the ecological constraint. The de-centralized creation of markets in the villages instead of subsidy shops is likely more efficient in covering the local demand for (local) food, and also creates jobs in supplying food and selling it.

### 4.5 Dignified Work Principle

This principle says one can test if a policy is just by testing if it fulfills these two steps: 1) work that is dignifying is worth pursuing 2) the policy should enhance the range and quality of work options for the most insecure groups more than for others.

In India, the BI transfers created markets in the receiving villages since respondents were able to buy better seed and grow more crops, which resulted in a more productive labor and trade activity compared to the control villages. Corruption decreased, which was an integrated part of the food subsidy system (Standing, 2013; SEWA Bahrat, 2014).

### Percent of Households with Increase in Income-Earning Work, by Village Type



(SEWA Bahrat, 2014)

The graph shows how many percent of households increased their income-earning or productive work (blue column to the left) in the BI villages compared to the control villages (red column to the right). This result is not compliant with the Labor Supply Curve, which instead suggested that labor would drop when people receive more non-labor income.

The exception to this is the tribal plot: where more ownership over property and gadgets, along with less time spent working as a contractor on someone else’s projects and more time to tend to their own projects was reported by the tribal BI village respondents (Standing, 2012). This phenomenon can be seen both as a drop in the labor supply for paid labor from

the tribal workers participating in the pilot and as increased freedom to choose not to work when it is not dignifying.

In Brazil's a small, borderline significant decrease in labor supply was detectible as a result of receiving the BI (Lindert et al. 2007). In the case of the BFP the hypothesis from the Labor Supply Curve is somewhat correct, when people receive non-labor income they are less likely to work. The reason why this differs between the studies could be any of the different designs aspects (conditionality, means-testing, universality) in the models of the policies, and should be subject to further research to clarify which ones. Soares (2012) for example argues that looking for a job is a costly activity, and therefor receiving a non-labor income should *improve* employment chances, regardless of it being means-tested or not.

#### **4.6 Economic and Implementary Constraint Principle**

In the Indian BI pilot, the amount given to each adult was 300 rupees (4.2 euros) per month, and 150 rupees for children (www.valuta.se, 2015). The sum is not sought to be compensating for a wage, but rather complementary to it. Designers of this study imagined that the transfer would therefor not be a dis-incentive to work, but still enough to keep extremely poor people afloat. Banks were involved in order to help villagers (who did not already have one) open up bank accounts, and 98.1 % of the participating people successfully did (Standing, 2012; SEWA Bahrat, 2014). The administrative cost of having someone distributing the physical money was thereby cut, along with the risk of corruption or errors in the transfers. One of the most impressive results in the Indian Pilot is that the total cost of handing out BI to the villagers was actually cheaper than the combined cost of different policies that had been implemented in the villages before. Standing (2013) believes the high level of corruption is mainly to blame for the inefficiency and expensiveness of having a centralized policy for poverty alleviation.

Brazil's decentralized implementation of Bolsa Familia on a municipality level is believed to have had a role in its success in targeting and implementing the cash transfers (Lindert et al. 2007). Unlike the Indian pilot, the BFP limits the cash transfers to households under a poverty line and/or under an extreme poverty line and also depending on how many children the household has.

## BFP amounts 2004-2011

<b>Eligibility Levels and Benefits</b>					
<b>Date</b>	<b>January 2004</b>	<b>July 2007</b>	<b>June 2008</b>	<b>July 2009</b>	<b>March 2011</b>
Law	Lei 10.836	Decreto 6157	Lei 11.692 and Decreto 6491	Decreto 6917	Decreto 7447
Extreme poverty line	R\$50	R\$60	R\$60	R\$70	R\$70
Poverty line	R\$100	R\$120	R\$120	R\$140	R\$140
Variable benefit	R\$15 (0–14)	R\$18 (0–14)	R\$20 (0–15)	R\$22 (0–15)	R\$32 (0–15)
			R\$30(16–17)	R\$33(16–17)	R\$38(16–17)
Fixed benefit	R\$50	R\$58	R\$62	R\$68	R\$70

Source: SENARC/MDS; Casa Civil/Presidencia.

(Soares, 2012).

In 2011, as can be seen in the table above, the fixed amount was 70 real which is equal to 16,1 euros (valuta.se, 2015). The variable benefit is added per child, the maximum amount of children for which you can receive the extra benefit has been raised from 3 to 5 due to the low birth rates in the country (Lindert et al. 2015). Note also that these amounts are for a household and not per individual, and that it is in nominal and not real terms. According to Soares and Terron's coefficient (2012) the estimated total cost of the Bolsa Familia Program was 0.5% of Brazil's total GDP in 2006.

The BFP is registered by the National Citizens Income Secretariat (Secretaria Nacional de Renda de Cidadania – SENARC) and paid out and run by the federal bank Caixa Econômica Federal. The payments are not entitlements in the sense that they are distributed according to coverage, when the budget is filled no more families can enter unless another family leaves (Soares, 2012).

Taxation on income could be an alternative way to finance Basic Income policies, in order to balance out the differences and also to be able to identify the most efficient amount. This way everyone would receive the BI but people who make more money would also pay more taxes, and that way be allowed to pursue higher wages if they wish to, but still ensuring everyone has enough to survive. A good way to re-distribute financial resources could also be to target

the banking sector, as is the case in Brazil, which is often not included or taxed through the government.

#### **4.7 Other Results**

One important result is that BI seems to be efficient when implemented in a decentralized way. That is, it needs to be easy to distribute and done so in an effective way close to the receivers. Delegating responsibility to municipalities in Brazil is one way of moving the policy closer to its receivers, limiting the number of steps it has to go through before reaching its target. In the Indian study, the variable of having an active NGO in the villages had a positive effect on the results of most categories.

Since both studies are deemed successful, although the Brazilian one does not fulfill most of the principles in the framework, it seems that there are other factors relevant to the success of a policy than the ones brought up. The methodology might simply not be covering enough aspects of what determines the successfulness of a policy, or perhaps what can be concluded is that these factors differ and have different importance in different communities.

Another result that should be highlighted is the positive effects on fighting inequality that was present in both studies, which goes hand in hand with poverty reduction and social inclusion. Differences seem to be diminished when people are given the same rights-based advantages.

#### **4.8 Summary of Results**

1. What were the results of the Indian and Brazilian BI study, and where they similar to the ones that could be expected from theoretical and empirical experience?
2. Are results convincing enough to make future policy recommendations in favor of Basic Income in other countries?

The results differed between the two studies, the BFP seems to be a little more in line with what was expected from the classic economic theories in that it generated a small drop in labor supply. Besides that, results from the BFP did not confirm Rawls (1974) theories emphasizing the importance of the cash transfers being rights based and not means tested. The Indian study complied with most of the framework for a successful policy, and differed a lot in policy design from the BFP.

Since both studies generated impressive and positive results in terms of reducing poverty (primarily in the short term results) but used quite different BI policies, it is relevant for



future research to look at what these ‘other factors’ that affect the result are, before recommending other countries to implement a specific Basic Income policy. Further research on the connection to and interaction with the labor market will also be necessary before concluding the successfulness of Basic Income as a policy for poverty alleviation.

## **5. Conclusion**

Basic income seems to have a positive effect on the relative and absolute poverty reduction in the cases of Bolsa Familia in Brazil, and the pilot of Unconditional Basic Income Grants in India. It also decreases inequalities and improves social inclusion in these two cases. More research is needed around what other social and cultural conditions enable BI to be successful before recommending other countries to implement the policy, in order to explain why these two different models both reached positive results.

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