



CASH TRANSFERS: A REVIEW OF THE ISSUES IN INDIA

Guy Standing

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Guy Standing

The Social Policy Working Paper series is intended to promote debate and discussion on key issues in social policy that need attention to improve the well-being of women and children in India.

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EXECUTIVE SUMMARY

This paper provides a review of the arguments for and against 'cash transfers' in India. It begins by identifying changes in the Indian family and household as providing the context for a discussion on increased economic vulnerability, inequality and social protection reforms in the country. It then considers the principles by which any social policy should be judged and briefly reviews the arguments on the two main types of policy on poverty in India. The paper goes on to discuss cash transfers alongside other instruments of social policy such as the Public Distribution System (PDS) and Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). It then explores a typology of cash transfers and examines the principal hypotheses associated with the arguments for and against transfers as a social policy instrument. These debates draw upon international experiences and are also explored in the context of corruption, financing and the role of cash transfers in the aftermath of ecological, social or economic shocks. The paper concludes with a discussion on the viability of cash transfers in enabling choice and in changing individual attitudes and behaviour, especially with regard to demand for quality public services.

1. Introduction¹

The objective of this paper is to provide a review relevant to India of the arguments for and against of what are usually called 'cash transfers'. As we shall point out, the term is more nuanced than suggested by its use in casual comments in the media or by academic observers. Part of the problem with the state of the debate on cash transfers in Indian policy circles is due to the breadth of the term. What most commentators understand by cash transfers are non-contributory cash transfers or tax-based transfers.

As the writer of the following paper has been an advocate of an unconditional cash transfer policy for many years, he is likely to show a normative bias². However, every effort has been made to set out

1. This review is a personal perspective and its views should not be attributed to SEWA or UNICEF. However, thanks for comments and encouragement are due to Mirai Chatterjee, Sarath Davala, Renana Jhabvala, Astha Kapoor, Deepjyoti Konwar and Ramya Subrahmanian. Thanks are due, as well, to the National Advisory Committee members, to whom an early version of the paper was presented. Comments would be welcome and acknowledged. Email: <Guystanding@standingnet.com >. The paper draws in part on several earlier publications. Guy Standing, 'How cash transfers promote the case for basic income', *Basic Income Studies*, vol. 3, issue 1 (April 2008): pp. 1–30; idem, 'How cash transfers boost work and economic security', United Nations Department of Social and Economic Affairs, New York, United Nations, 2008.

Cash transfers and anti-poverty measures in general should not be considered as negating the need for universal and affordable public social services.

the issues in an objective manner in the hope that readers will be able to make up their own minds on the relative appeal of the different points. It begins by considering principles by which any social policy should be judged, and then briefly reviews the arguments for and against the two main types of policy towards poverty that have been taken in India.

The debate on cash transfers has been obscured by a rather strident tone adopted by some contributors to it. There are obviously ideological and philosophical issues, but in evaluating the potential for cash transfers, the writer asks readers to suspend their own biases and prejudices and to be as objective and dispassionate as they can. In particular, one should avoid red herring arguments. There should be no question about the need for an integrated, well-funded, efficient and equitable set of public social services available to all in an affordable way. Cash transfers and anti-poverty measures in general should not be considered as negating the need for such services. Of course there are controversies about how they should be provided and financed, but no society should contemplate diminishing its universally available public social services.

Above all, what we should all take as shared is a commitment to reducing poverty and economic insecurity across India. In that regard, we should begin by recognizing that, very clearly, the current set of policies and institutions is not functioning

2. The writer is a founder member of BIEN (the Basic Income Earth Network) set up in 1986 and is presently its co-president, with Senator Eduardo Suplicy of Sao Paulo and Professor Claus Offe. BIEN has generated extensive research on cash transfers and held its 13th International Congress in Sao Paulo in July 2010.

efficiently or equitably. After a remarkable and sustained period of high economic growth, the number of people in desperate poverty remains at least as high as before the 'take-off' began, despite statistics to the contrary, which are surely understatements of the extent of the problem. At a conservative estimate, there are over 300 million Indians living in dire poverty in spite of two decades of remarkably high rates of economic growth. The Tendulkar Committee, whose report was accepted by the Planning Commission in April 2010, revised the estimate of the number of people living below the poverty line, and it found that 37 per cent of the Indian population was poor, that is, 435 million people – almost ten percentage points more than the previous estimates. Others have put the figure even higher.

Moreover, income and wealth inequalities have become much sharper and more threatening to the social stability of the country. It is not just poverty but economic insecurity that mars the social structure. The Arjun Sengupta committee estimated that over three-quarters of the Indian population were economically vulnerable and living on less than Rs 20 a day, which was regarded as the minimum needed for bare survival at the time, that is, at 2004–2005 prices. Even so, the National Commission for Enterprises in the Unorganized Sector (NCEUS) issued a comprehensive report in April 2009, which revealed that despite many years of high economic growth, 77 per cent of India's population continued to live on less than Rs 20 per day. At 2004–2005 prices, the number in this category rose from 811 million in 1999–2000 to 836 million in 2004–2005, at a period when the national economy was growing at unprecedentedly high rates.

The report of the NCEUS (2009) revealed that despite many years of high economic growth, 77 per cent of India's population continued to live on less than Rs 20 per day.

In 2011, until September, the Planning Commission continued to keep Rs 20 as the cut-off for defining poverty, which even more artificially represented the extent of poverty, as there had been extensive consumer inflation in the past decade. Then the Planning Commission filed an affidavit in the Supreme Court settling the cut-off at Rs 32 in urban areas and Rs 26 in rural areas. In sum, given the persisting widespread poverty, defenders of the existing social protection system would seem to have a lot of explaining to do to justify retaining it.

That is the context in which we should be considering the appeal of cash transfers. And, we cannot fault 'government' for an overall lack of social spending, if we take account of the full range of policies covered by that term, including subsidies. It is not a problem, in short, of resource constraints or funding. The failure revealed by those poverty and inequality figures reflects a failure in design and implementation. In reality, the two aspects cannot be separated.

The other major contextual point to take into account is the government's recent announcements and associated actions on cash transfers. They were mooted in the Government's Economic Survey of 2010–2011, and the Finance Minister announced in his Budget speech of 2011 that consideration was being given to replacing some subsidies with direct cash transfers. This seems to be eminently reasonable, because it does not tie down the type of subsidy that would be 'replaced', while implicitly recognizing that in an increasingly monetized economy, having money is crucial.

Most importantly, in June 2011 the committee set up by the Finance Minister under the chairmanship of Nandan Nilekani reported on the phasing in of 'direct cash transfers' as what it described, cleverly, as a supplement to subsidized basic goods. We will consider aspects of the Nilekani interim report in a later section. But it is worth citing a statement from it.

*The Task Force does not recommend **substitution** of public provisioning by the State. Instead it recommends a solution whereby the subsidies that are being provided by the State now can be more efficiently provided to the intended beneficiaries directly. It **complements** public provisioning by the State, rather than supplanting it. It also enables the State to reach out to the deserving intended beneficiary more effectively³.*

Note the clever way of bypassing what has been the most controversial aspect of the debate. At this stage, we should accept the way this has been put, but we should go further by asking all those involved in the public debate to state the principles by which they think any social policy should be judged.

This does not mean that ultimately there must be comparisons between alternatives if they set out ostensibly to meet similar ends, which are, in this discussion, to reduce the incidence of poverty and economic insecurity or vulnerability to impoverishment. It would be intellectually dishonest for anyone in this great debate to deny that there is always an opportunity cost when it comes to

There is always an opportunity cost when it comes to the mobilization and allocation of resources for social policy.

the mobilization and allocation of resources for social policy.

In trying to take stock of the claims and counter-claims made about effectiveness of cash transfers, this paper starts by considering what philosophical or moral-ethical criteria should be used to evaluate the cash transfers, in absolute terms, and in comparison with the two main alternative social policy approaches to reducing poverty and economic insecurity.

Very briefly, the cash line must be evaluated in comparison with what we may describe as the food and commodity line (provision of goods and services for free or at subsidized prices for those designated as 'the poor') and the labour line (provision of labour to the poor, in return for monetary payment or food). These are the three main ways by which government can try to cut poverty and economic insecurity directly – through providing goods needed by people, through providing work or labour for payment so that they can buy the goods they think they want, and through providing money to buy such goods and develop work opportunities.

To do full justice to these issues, it would be necessary to write a long report or book. So we ask the readers' indulgence if the latter two approaches to economic security are treated rather schematically. It seemed to be essential to mention them as reference points. In reality, there is no need to see the three approaches as sharp alternatives. All of them can be used, but it is their relative effectiveness in addressing poverty and insecurity that should be kept in the forefront of our attention.

3. *Interim Report of the Task Force on Direct Transfer of Subsidies on Kerosene, LPG and Fertiliser*, New Delhi, June 2011, p.11. Emphasis added.

2. The Economic and Social Context

India is rapidly becoming a leading component of the global economy, and in considering how to construct an efficient and equitable social protection system, it is essential to design one that would correspond to the structure of Indian society of the future, not one suited to the past. This may seem to be obvious, but it can easily be overlooked by policymakers and their advisers steeped in traditional ways of looking at the social and economic structure.

It is likely that national income will double in a decade. Whether one likes it or not, market forces are spreading as India becomes an increasingly commercialized and monetized economy, in which liberalization and flexible labour markets will be dominant features almost regardless of governmental regulatory restrictions. India will also be increasingly urban, and the geographical mobility of the populations will surely grow.

In the process, families will be increasingly stretched, so that 'thin' relationships of mutual support will displace 'thick' relationships. More households will

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contain in-migrants, return migrants and potential migrants – a trend that should influence the design of the social protection system. Households and family patterns will be what economists call endogenous, that is, they will be determined in part by policy and not be just parameters for the design of social policy⁴.

For Indians, as for everybody, 'family' is precious. But policy should be constructed on an appreciation that the size and structure of households vary and evolve, and they should be allowed to do so without outside interventions that block people from making rational and free choices. Most people would agree that strengthening family relationships would be a laudable objective of social policy. But policies that serve to rigidify household structures are not necessarily 'family friendly'.

In any case, already the stretching of family relationships has led to erosion of informal familial and community mechanisms of social support, or what we have called family benefits and community benefits in the total social income of people in India⁵. In those circumstances, more and more people will be disinclined to provide income support to relatives or friends, because the reciprocity that underpins family-based social protection is being eroded. This will increase people's economic vulnerability in the face of shocks, hazards, risks and uncertainty. This trend has considerable implications for the desirability of a household-based or family-based system of social protection.

4. This point is pertinent for policy evaluations and the design of surveys to be used for that purpose.

5. For an empirical study showing this trend, see G. Standing, J. Unni, R. Jhabvala and U. Rani, *Social Income and Insecurity: A Study in Gujarat* (New Delhi: Routledge, 2010).

While households and families are being stretched, globalization has ushered in a related trend that also has implications for the type of system that would be feasible or desirable. This is the changing class structure of Indian society. One can see that there is something like a five-speed India evolving in the growth process⁶. Income inequality has grown but has also changed in character.

At the top of Indian society, there are a tiny number of vastly wealthy people who constitute an elite, with economic power that feeds into political power. They, along with others who live off financial and other capital, have seen their incomes rise sharply. Below them in terms of average income are the *proficians*, those with bundles of electronic, scientific or other skills that enable them to share in the affluent lifestyle. The elite and the *proficians* are enjoying a high-speed growth of income.

Travelling at a slower speed has been the *salariat*, many of whom are in the public sector or in large-scale corporate bureaucracies. They have relatively strong employment security and access to enterprise benefits, but their incomes have been lagging behind the first group and gradually they are facing growing employment and income insecurity. Almost certainly, the number in the *salariat* will shrink in the coming decade, and more in it will find that private benefits and state benefits on which they have relied will shrink and be inadequate to give them a strong sense of economic security and social protection. In the

6. One should not be distracted by the exact nature of the imagery. However, it is useful to keep in mind how development can stratify in new and more intensive ways. It is essential to escape from a dualistic approach, the most egregious of which is a sharp distinction between 'the poor' and 'the non-poor'.

coming years, this is likely to affect their attitude to social protection and to cash transfers in particular.

However, one may predict that it is the two strata below the *salariat* where economic insecurity will grow most. There is the old working class, always small in India but now shrinking, as it is in every part of the world. If we think of this group and the elite and *salariat*, one may underestimate that they account for about 15 per cent of the Indian population, most in the tax-paying range, even if many do not pay what they should pay.

There is a huge and growing precariat, people living on their wits, scraping a living, giving a modern meaning to the peculiarly Indian concept of 'the unorganised sector.'

Anyhow, below those three groups in terms of income and economic security is the huge and growing *precariat*, people living on their wits, scraping a living, giving a modern meaning to the peculiarly Indian concept of 'the unorganised sector'. There is a difference between people who survive year after year on some known economic activity, however low an income that provides, and the rapidly emerging precariat whose labour and work and income are volatile and unpredictable⁷. They are poorly placed to gain from the market-based economic growth that is inherent to globalization. To put it bluntly, they are slow-tracked.

Below the precariat and the informal economy in and around India's cities, there is village India. To a large extent, the rural population has been left out of the growth process, and their incomes have lagged, even though there is a diminishing number of villages that do not have some links to modern markets, and even though some villages have

7. G. Standing, *The Precariat – The New Dangerous Class* (London and New York: Bloomsbury, 2011).

flourished while many others have experienced some changes. But gradually the share of the population in village India will shrink, and village life will be subject to more and faster commercialization and cash-based relationships. One should not base social protection policy on an image of static communities of traditional activities and extended family networks of reciprocity. For better or for worse, the economic basis will continue to evolve, and this will surely have implications for the type of social protection system that should be developed.

Finally, in thinking about what system is desirable, it is essential to appreciate the changing nature of economic insecurity induced by globalization. If society were stable and characterized by extended families in virtually closed communities, then one could think of a system that would provide compensation for occasional mishaps. If society were to consist of almost the whole adult population in stable full-time jobs, then a system of social insurance could be imagined whereby so-called contingency risks could be predictable and thus enable government to calculate probabilities and to administer a system of compensatory payments in whatever form. But neither of these situations remotely resembles the India of today nor the India of any number of tomorrows.

Globalization and the market system are generating a situation characterized by a growing incidence of social and economic shocks. People are exposed to a high probability that whole communities will be hit by a growing incidence of costly hazards, where events that may be regarded as normal life-cycle events (such as marriages, births, illnesses and deaths) are economically threatening, because of their rising cost and their rising capacity to disrupt

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income flows. On top of shocks and hazards, there is a growth in the extent of economic uncertainty, which by definition is uninsurable.

If the population is exposed to shocks, hazards and economic uncertainty, there will be a high level of economic insecurity. In those circumstances, a system of social protection that tried to provide compensatory or ex post benefits would be inappropriate, if not largely irrelevant. One would need a system that gave a much greater weight to ex ante security, coupled with a capacity to respond to and recover from emergencies. In moving forward on social protection reforms in India, this background reality should be borne in mind.

3. Principles of Evaluation

It is often asserted that a policy is successful or unsuccessful without a clear idea of what constitutes its success. Suppose, for example, politicians use a simple head-count figure of the number of people in 'poverty' following the introduction of a certain policy. A typical claim to success might be that as a result of this policy the number of poor went down, which might be interpreted as success. But this could have been achieved as a result of lowering the economic growth rate and thus raising the probability of more people being poor in the near future; or it could mean that the least-poor gained, while the most-poor were made worse off; or that 'success' was achieved at the price of forcing more of the previously poor to perform onerous labour that would increase the probability of impairing their long-term health or capabilities, and thus the probability of worse future poverty.

In all three cases, one might question the claim to success – such as a the policy that resulted in putting more people into 'near poverty' by diverting funds from schemes that would have given greater social protection to the economically vulnerable. Similarly, one should not evaluate the success or

One should not evaluate the success or failure of a policy without considering the efficiency and opportunity cost of the resources devoted to it.

failure of a policy without considering the efficiency and opportunity cost of the resources devoted to it. And one should measure success by considering whether that specific policy achieves the outcome more effectively or less effectively than available alternatives.

These points are 'obvious', but too often overlooked. They are particularly important when considering something as apparently emotive and ideologically charged as 'cash transfers'. Another problem with policy evaluation is the tendency to judge policies by what might be called 'low-hanging fruit' criteria, that is, by factors that are easiest to measure or observe. For instance, one cannot measure an increase in freedom or personal autonomy by the number of children sitting in a school or the number of people labouring on the road.

Bearing those points in mind, we can begin at the philosophical-ethical level and then move to less abstract criteria of evaluation. In this regard, as described at length elsewhere, the principles by which any social policy can be evaluated may be compressed into five. We reiterate them without detailed commentary, primarily to have them borne in mind in the following review.

1. The Security Difference Principle

A policy or institutional change is socially just only if it improves the security and work prospects of the least secure groups in society.

So, for instance, if a policy boosted the job opportunities of middle-income groups while worsening the prospects of more disadvantaged groups, it could not be justifiable unless the losers were compensated in ways they found acceptable.

The Security Difference Principle stems from the work of Rawls, who from a liberal, philosophical perspective essentially argued that social and economic inequalities are just only if they allow for the betterment of the worst-off groups in society⁸.

Whether or not one accepts the Rawlsian perspective, this can stand as a moral precept. A policy should be judged by whether or not it helps the least secure (or most insecure). If it does not, one should be uneasy (especially if it benefits others who are less insecure) unless some other principle is recognized that is demonstrably superior. If so, it would be up to the evaluator to state it and support it. A key point is that there should be a right to a minimal amount of resources so that it enhances the capacity to develop and exercise 'effective freedom'.

2. The Paternalism Test Principle

A policy or institutional change is socially just only if it does not impose controls on some groups that are not imposed on the most free groups in society.

The second principle is ignored by too many donors and analysts working comfortably in affluence. Paternalism is rife. According to this principle, forcing people to do certain forms of labour or 'jobs' when others in society are not forced to do them would be counter to social justice, even if the government authorities genuinely believed that the policy would be for the material betterment of those required to do them. Underlying this principle is the Millian

8. J. Rawls, *A Theory of Justice* (Cambridge: Cambridge University Press, 1973).

liberal view that there is a prima facie case against paternalism (except in the case of young children and the medically frail), particularly against forms that constrain the freedoms of the disadvantaged.

Only with voice can people have a semblance of control over their work and lives, and only by having control can there be any decent meaning in the idea of dignified work.

Among other aspects, this principle requires that all groups who could be subject to paternalistic direction have a voice (collective and individual) in order to represent their interests. Only with voice can people have a semblance of control over their work and lives, and only by having control can there be any decent meaning in the idea of dignified work.

Relevant to the paternalism principle, it is notable that recent research on the popular subject of happiness has reiterated that people who have greater control over their work and life are happier and the same holds true when taking into account the influence of access to benefits⁹. Control means, among other things, having the capacity and opportunity to make decisions independently without their being determined by the state, or by patriarchal figures, or religious or other institutions that dictate how people must behave.

This principle is particularly important when considering how governments have gone about social integration through welfare reforms. It is about 'effective' or 'full' freedom, for which basic economic security is essential. If integration is achieved by means that take away or limit the freedom of people to make decisions on their lives, one should be wary about regarding the policy as laudable.

9. J. Haidt, *The Happiness Hypothesis: Putting Ancient Wisdom to the Test of Modern Science* (New York: Basic Books, 2005).

3. The Rights-not-Charity Principle

A policy or institutional change is socially just if it enhances the rights of the recipient of benefits or services and limits the discretionary power of the providers.

This principle is also crucial for assessing the appeal of alternative social policies. A right is possessed as a mark of a person's humanity or citizenship and cannot be made dependent on some behavioural conditionality. So, for instance, people should not be expected to have to plead for assistance in times of need, or to have to rely on the selective benevolence of civil servants or politicians. Their social and economic entitlements should be rights, not matters for the discretionary decisions of bureaucrats, philanthropists or aid donors, however well meaning those may be.

The 'right to work', much discussed and asserted for the past 150 years, is relevant here. If there is such a right, then there must be an obligation on someone to provide it. But who or what is it? And how could someone hold others to respect his or her 'right'? One cannot sensibly say there is a right for every person to be given a job of their unrestrained choice – not everyone can be a president or chief executive. What one could defend is the principle that everybody should have a claim right to an equally good opportunity to pursue and develop their work capacities and competencies. This equality of opportunity requires policies and institutions to enable every person in society to develop equally their productive capacities should they wish to. Guaranteeing people jobs they do not want is scarcely an affirmation of any right to work, but

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creating the space for them to pursue a decent working life surely is.

In this regard, there is merit in Article 1 of Title 1 of the Charter of Emerging Human Rights that was adopted at the Barcelona Social Forum in November 2004 and that was drawn up by an international group including senior representatives of all the relevant bodies of the United Nations. This asserted the right to existence under conditions of dignity, which comprised a right to security of life, a right to personal integrity, a right to a basic income, a right to healthcare, a right to education, a right to a worthy death and a right to work, defined as follows:

The right to work, in any of its forms, remunerated or not, which covers the right to exercise a worthy activity guaranteeing quality of life. All persons have the right to the fruits of their activity and to intellectual property, under the condition of respect for the general interests of the community.

In sum, schemes should be evaluated by whether or not they strengthen or weaken those rights, with those strengthening them being preferable.

4. The Ecological Constraint Principle

A policy or institutional change is socially just only if it does not involve an ecological cost borne by the community or by those directly affected.

This is a quintessential twenty-first century principle. Potential ecological consequences must be built into the policy, not put as an afterthought. For instance, there may be a trade-off between jobs and ecological sustainability and revival. Does a short-term growth-

maximization strategy benefit all or most people living in a country? The commercial drive to pursue growth and profits without taking account of social externalities is a recipe for global ecological disaster. For evaluation purposes, what an ecological principle means is that transfer or job-creation schemes should be subject to the constraint that they should not deliberately or wilfully jeopardize the environment. In this context, for instance, one could argue that subsidies intended to boost employment or job-creating investment should be modified to promote only ecologically beneficial work and skills.

The ecological constraint principle provokes emotional reactions, which hold that any such condition is a protectionist device penalizing developing countries, forcing them to slow economic growth and incurring costs that hinder development. Regrettably, in the coming decades, global warming and other forms of pollution – including many emanating from poor working conditions in the specious interest of job promotion – will hurt many more people in developing countries and do so devastatingly. The principle must be respected everywhere.

5. The Dignified Work Principle

A policy or institutional change is just only 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 respect.

To some degree this is incorporated in the Rights-not-Charity Principle. However, the two-part test in this principle involves two value judgements – that work that is dignifying is worth promoting (whereas deterioration in working conditions or opportunities

The commercial drive to pursue growth and profits without taking account of social externalities is a recipe for global ecological disaster.

would not be), and that the policy should enhance the range and quality of work options of the most insecure groups more than for others. While this may seem complicated, the main point is to determine whether or not a scheme favours more freely chosen work opportunities and capabilities.

In sum, we can proceed, based on the five principles, to evaluate alternative policies. We make no attempt to state priorities, merely that they can be used as a guide for evaluations and policy design. Schemes that satisfy all the principles would be ideal. Although a comparative assessment of policies might be based on more than the five principles, they may be regarded as a coherent set of principles consistent with a belief in a complex egalitarianism in which the expansion of full freedom is given priority through basic economic security for all. One can criticize this position; however, if anybody wishes to specify alternative principles for evaluation, those should be stated clearly and transparently.

Before proceeding further, it is also worth recalling Tony Atkinson's two measures of poverty-reduction efficiency – vertical and horizontal – the former measuring the extent to which there is leakage (money intended for the poor going to the non-poor) and the latter measuring the extent to which the poor are actually helped¹⁰. The difficulty with this dualism is demonstrated in the following example: a scheme may reach 70 per cent of a target group, but those may be the least severely affected within the group, leaving the worst-off 30 per cent no

10. A. B. Atkinson, 'On targeting and family benefits' in *Incomes and the Welfare State: Essays on Britain and Europe*, A. B. Atkinson (ed.), (Cambridge: Cambridge University Press, 1995).

better off or even worse off. Using the horizontal-vertical efficiency approach could produce other difficulties as well. For instance, if another programme reached 70 per cent of the worst-off and did so at the cost of leakage to the non-poor, it might be judged less efficient, without good reason. For this sort of reason, it is advisable to be cautious about evaluating policies using the language of efficiency.

Finally, in thinking of principles by which to evaluate social policy, it is essential to understand the nature or character of poverty and economic insecurity. Poverty in one place may differ from poverty in another, just as economic vulnerability and insecurity vary by place, time and type of economy. If one were dealing with a chronic lack of food, then, obviously, increasing the supply of affordable food will have high priority. If one were dealing with an inability to afford available food, then an alternative policy might be more appropriate. Similarly, if one were dealing with an industrialized economy in which the vast majority were in stable full-time jobs or being supported by one or more people in such jobs, then a social insurance system might be the optimum policy, whereas if, as in India, the vast majority were not in such jobs or supported by anybody in them, then relying on social insurance benefits to compensate for economic risks would be futile¹¹.

These points are particularly relevant at this time of rapid structural and economic change across India. With economic growth rates that are extraordinarily rapid by historical standards, the nature of poverty and economic insecurity is likely to be changing quite sharply. It is likely that proportionately fewer of the poor are not

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'food-poor', but poor in the sense of lacking access to other needs.

11. Social insurance is the term used to describe schemes designed to provide compensation for a predetermined specific contingency risk through the payment of contributions, either by the person covered or by his or her employer. The contributions go into a designated 'fund' from which benefits are paid to those adversely hit by the specified risk. Crucially, it involves risk-pooling, so that if equal contributions are made, those with a low risk of the adverse outcome cross-subsidize those with high risk. Social insurance cannot work equitably if most people are not in a position to be covered. It also raises severe moral hazard problems, and in reality cannot deal with economic shocks or uncertainty, as discussed elsewhere in the paper.

4. The Food and Commodity Line

We spend far too much money funding subsidies in the name of equity, with neither equity objectives nor efficiency objectives being met¹².

This paper is intended to focus on cash transfers. But we must consider them in contrast to, or as a complement to, existing policies, the most notable being the provision of subsidized food, through the Public Distribution System (PDS). There has been a tendency to discuss cash transfers in India as if they exist purely as an alternative to a 'food security' policy. We reject this dichotomy, but let us recall some awkward realities.

In general, whether in India or anywhere else, a policy to provide free food or at subsidized prices for those designated as poor has several distinctive features. First, it implicitly presumes that what the poor lack

There has been a tendency to discuss cash transfers in India as if they exist purely as an alternative to a 'food security' policy. We reject this dichotomy.

most is food. Of course, in many parts of the country that is true, on average. Millions of Indians go to sleep hungry and wake up with little prospect of overcoming their hunger. However, in the emerging market economy of India, the presumption that the poor are suffering from 'food poverty' may not be as reasonable as it was in traditional village India. One may be wretchedly poor but may have access to just enough food. But the reality remains that food aid is easy to legitimize politically and socially.

The biggest problem is that the system of subsidized food targeted on the poor does not work¹³. And it is hugely expensive. Its defenders admit both these claims, but argue that the system could be improved. Sceptics might retort that this is wishful thinking at best. The degree of inefficiency is enormous, not marginal. Most observers know of Rajiv Gandhi's famous assertion that 85 per cent of the money poured into the system is diverted from the poor. Whatever the exact figure at the time, the inefficiency remains chronic.

The government and the World Bank admit that 59 per cent of the grain allotted to public distribution for the poor does not reach low-income households. The Deputy Chairman of the Planning Commission, Montek Singh Ahluwalia, said in 2009 that in his view only 16 per cent of the food allocated to the

12. Speech of Manmohan Singh, Prime Minister, at the inauguration of the golden jubilee year of the Institute of Economic Growth, 15 December 2007, available at < <http://pmindia.nic.in/lseech.asp?id=629>>.

13. In this paper, we will not discuss the assertion that the PDS provides private farmers with income security. There are arguments for and against having buffer stocks and minimum support prices. However, by comparison with the PDS, there are surely better ways to provide basic income security for farmers while improving incentives to raise productivity and output. Many observers believe the system benefits larger scale farmers to the detriment of smallholders. See, U. Misra and N.S. Ramnath, 'Are direct cash transfers better?', Business.in.com, 21 March 2011, < <http://business.in.com/article/briefing/are-direct-cash-subsidies-better/23422/0>>

PDS reached the poor¹⁴. At about the same time, the Planning Commission estimated that only 27 per cent of PDS expenditure reached low-income groups, and the Finance Minister described it as ‘an albatross around our neck and an opportunity for rent seekers to enrich themselves’.

While inefficiency and waste characterizes the PDS, some parts of the system of food aid designed to provide ‘food security’ are chronically inefficient. For instance, it apparently costs one Rupee to distribute every one Rupee’s worth of food for school meals. The Planning Commission estimated that the cost of transferring one Rupee of food cost 3.65 Rupees to administer, as was admitted by the Finance Minister at a meeting of the National Development Council on 19 December 2007¹⁵.

Defenders of the PDS argue that it provides both food security and income security by enabling the poor to spend on non-food essentials while protecting them from food price fluctuations. These were the claims, for example, made by the political group Rozi-Roti Adhikar Abhiyan Delhi in their note of protest against the Delhi pilot cash transfer scheme¹⁶. The claims deserve to be taken seriously. However, the advocates need to explain how the inherent and solidly established failings in the PDS could be overcome.

Thus, it is not enough to say there are ‘identification errors’ in identifying those to be called ‘poor’, which could supposedly be corrected. The simple

It is not enough to say there are ‘identification errors’ in identifying those to be called ‘poor’, which could supposedly be corrected. The simple fact is that there is no statistical method that would identify the poor accurately.

fact is that there is no statistical method that would identify the poor accurately. Whatever methodology is used, there will be substantial exclusion errors and substantial inclusion errors. Adding criteria and proxies merely open up scope for further errors and inefficiencies.

Even though defenders of the PDS recognize its long-established imbalances such as ‘irregular supply’ of food items and ‘food grain leakages’ before the food reaches the fair price shops, they contend that some states, such as Tamil Nadu and Chhattisgarh, have corrected for these failings. Thus they contend, that if the PDS could be improved elsewhere it would work optimally.

This is currently a popular view and lies behind the two versions of the Food Security Bill devised in the first half of 2011. The Bill was designed to broaden entitlement to subsidized food, opening up the prospect of a vast increase in government expenditure on food subsidies. One should accept the well-meant hopes in having more local procurement, local storage and local disbursement mechanisms. But even if a remarkable and unprecedented improvement were to occur in overcoming the distribution problems, and even if suddenly the petty and not-so-petty corruption were to end, the PDS would still suffer from fundamental structural failings. It is ultimately a distortionary device.

The fundamental trouble with a free-food or subsidized-food system is that an undervalued (subsidized) product will be undervalued by consumers. Of course ration shop owners defend the system, because it gives them a cosy monopoly. But this takes away any incentive or pressure to ensure that the quality of the food is high or that it

14. Reported in *The Economist*, 10 September 2010, p. 30.

15. Available at: <<http://pib.nic.in/release/release.asp?relid=34136>>

16. ‘We want food, not cash! Universalise and strengthen the PDS’, Delhi, March 2011.

is delivered and available on time and in adequate amounts. It should not be at all surprising that the PDS has become what one newspaper called,

...a clever ploy to palm off barely edible stuff to the vulnerable people. The premise, it appears, is that like beggars, they cannot be choosers. But miffed at the mouldy wheat and worse, those who are supposed to accept it gratefully are no longer doing so¹⁷....

In general, one could say that subsidized food transfers are relatively preferable in situations where markets are not functioning¹⁸. But the provision of subsidized food may simply ensure that proper markets do not develop or function well. As many studies have shown, food subsidies distort markets and act as a disincentive to work¹⁹.

Similarly, on the demand side, if one obtains certain food items at well below market price, the consumer will tend to be wasteful. And if the market price of food exceeds the ration shop price, which it usually will, this will become a powerful incentive for ration shop owners and others to divert food items so as to sell them in the open market and thus divert them from the intended beneficiaries.

Then there is the endemic problem that subsidies for specific non-food items tend to block technological change. This is strikingly apparent with regard to subsidized kerosene in India. One feels almost as if

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the subsidy was invented by producers of kerosene, since traditionally kerosene was not used much as a cooking fuel in rural India, while for lighting it is inferior to electricity, but it is subsidized even where there is electrification²⁰. There is plenty of international evidence that utility subsidies (water, electricity, kerosene, housing, etc.,) tend to benefit the non-poor more than the poor²¹.

Another peculiar claim made in connection with food transfers is that people not really in need of subsidized food will 'self-select' themselves out of the system because of stigma or time-cost and other costs of using it. This is strange because surely those with least energy or living farthest from ration shops (often in the poorest areas) will be the least able to access the ration shops.

Some defenders of the PDS say that the only way to make it efficient is to make it universal. In other words, every person in India would be entitled to subsidized food or at least certain types of food, such as those called 'staples'. This means that people who do not want or need it would nevertheless get it, opening up the prospect of a secondary market or, more likely, creating a tendency to forego the entitlement or treat it casually and wastefully. Here there is a contradiction – some social scientists have argued that the non-poor would be put off taking their entitlement because of 'long queues' and 'poor quality' of the food²², which

17. 'Editorial: PDS rot', *Tribune*, 27 July 2011. Url: <www.tribuneindia.com/2011/20110727/edit.htm#2>

18. U. Gentilini, 'Cash and food transfers: A primer', Occasional Paper No.18, Rome, World Food Programme, 2007.

19. See, for example, T. Beesley and R. Kanbur, 'Food subsidies and poverty alleviation', *Economic Journal*, vol. 98, 1988, pp.701–719.

20. D. Kapur, 'The shift to cash transfers: Running better but on the wrong road?', *Economic and Political Weekly*, vol. XLVI, no. 21, 21 May 2011, p.83.

21. See, for instance, K. Komives et al, 'Utility subsidies as social transfers: An empirical evaluation of targeting performance', *Development Policy Review*, vol. 25, issue 6, 2007, pp. 659–679.

22. For a non-committal review of this claim, see R. Shrinivasan, 'Against the grain: Ration saga', *The Times of India*, 19 March 2011. .<www.timescrest.com/society/ration-saga-5015>

would mean that high transaction costs and poor quality could be imposed on the poor as the means of making the system function. This would hardly be a desirable process.

Usually, the poorest people have the most onerous labour and work schedules, leaving them with little time or inconvenient time schedules to trek to ration shops and wait in queues in the hope that items would have arrived. In any case, self-selection out of a scheme is scarcely a laudable objective. The reasons why people do not try to use the PDS would be surely the low quality and unreliable supply of food, the stigma associated with being a menial claimant and the amount of time it takes to apply for subsidized items. In our Gujarat social income survey, we found all sorts of reasons why people were not being covered by the PDS system, some of which were mainly to do with the design and quality of the PDS, some to public infrastructure and some to the situation of villagers²³.

Finally, there is the well-established fact that a system of subsidies induces chronic corruption epitomized by, but not restricted to, immense 'food theft'. This was shown dramatically in Uttar Pradesh in reports in early 2011, although the events related to 2004–2005 and was described as 'the mother of all scams'²⁴. The corruption is so deeply ingrained that it would be naïve to imagine that it could be rectified.

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23. Standing, Unni, Jhabvala and Rani, *Social Income and Insecurity*, 2010.

24. G. Pandey, 'India's immense "food theft" scandal', BBC News South Asia, 22 February 2011. Available at: <www.bbc.co.uk/news/world-south-asia-12502431?print=true>

5. The Labour Line

The second popular route to tackling poverty and economic insecurity is the provision of labour for the designated poor. Obviously, in India this leads to consideration of the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS, formerly NREGS) and public works in general.

Again, we do not wish to be diverted into having a full debate on the claims and counter-claims made with respect to these initiatives. Indeed, there is no need to depict cash transfers as an alternative to them; they could be complementary, and perhaps cash transfers that are not linked to labour might help make labour-based schemes more effective. However, there are certain features of the labour line that should be borne in mind.

The main claims in favour of the labour line and the use of public works, in general, are that they

- i. are well targeted on the poor,
- ii. create jobs,
- iii. result in the construction of public infrastructure,
- iv. supplement incomes from other sources,
- v. tend to push down wages,

The second popular route to tackling poverty and economic insecurity is the provision of labour for the designated poor.

- vi. help to reduce seasonal income variability and
- vii. are equitable because they are self-selecting.

The morality of the last claim is suspect, because self-selecting is not equitable; only those in real economic need would undertake onerous labour, which is also stigmatizing. Therefore it would lead to a justification for making the labour as unpleasant as possible, which is scarcely a moral way of tackling poverty.

The arguments against the labour line as social policy are numerous. Almost by definition, they are paternalistic, offending the Paternalism Test Principle, because they involve controls imposed on those needing assistance. They are also short-term, not lasting, and often involve 'make-work' activities that have no economic justification beyond giving some people something to do²⁵.

Many critics also believe that, whatever the planners' intentions, applying the labour line route is bound to be selective and would result in poor targeting, because many of the most desperately poor will be excluded while more of the near-poor will be included. In other words, the policy in practice almost certainly offends the Security Difference Principle. For example, if the labour on offer and the payments are attractive, as they should be if the policy is to be ethically grounded, then the first to apply, the most persistent and vociferous and the best connected will be much better placed than others to gain from the policy.

25. For a good review of the international experience, see A. McCord and J. Farrington, 'Digging holes and filling them in again? How far do public works enhance livelihoods?', London, Overseas Development Institute, Natural Resources Perspectives, no.120, 2008.

Those with disabilities, or who come from labour-constrained households, or who come far from the places where labour is on offer, or who have no contact with the *sarpanch* or other well-placed intermediaries, will be pushed aside. There is no justifiable reason to suppose that the policy can be well targeted on the most insecure and poorest.

The opinion that the labour should be stigmatizing, since that will strengthen the self-targeting aspect, is a morally deplorable justification for it. Indeed, any policy that creates stigmatization is inappropriate. That many of the poor rush to perform low-wage labour on short-term projects does not mean they relish the prospect of such activity; it may merely mean that they need to survive in the absence of something else that would give them economic security.

It is often pointed out that public works usually result in very poor output, as in 'washed-away-roads' and bridges. Under the MGNREGS, for example, fewer than half the projects begun between 2006 and 2011, including road building and irrigation systems, were actually completed. It would have been cheaper to have had them built commercially, where the systems might have survived much longer. If they had not been completed or if they had collapsed afterwards the state could have held contractors financially responsible. Nobody can be held liable fairly if the objective is really to 'make-work' for the poor, and the contractors are denied the sensible option of being able to use modern machinery.

Inevitably, public works have very high administrative costs as well as high monitoring costs (which is one reason why usually they are not subject to careful monitoring). The people in charge of implementation rarely have proper incentives

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to ensure that the labour is efficient and of high productivity. They are aware that commercial criteria are not the primary justification for the policy. So, resources are systematically wasted. One estimate by S.Guhan has concluded that only 22 per cent of the expenditure on the Employment Guarantee scheme has reached the poor²⁶. But, the MGNREGS has not been subject to thorough evaluations of the sort that its defenders demand should be applied to cash transfers.

As for the poor and economically insecure who undertake the labour, they too know that producing excellent output is not the primary or even secondary objective. They are invariably poorly trained, and thus inherently relatively unproductive, unless the labour is essentially meant to be low-productivity work, in which case it does not matter. If evidence-based policy were the mantra, the MGNREGS would have been abandoned long ago. If the policy intention is to maximize low-skilled manual jobs, then it is a contradiction to assert that skill generation is an objective of the policy. Workers are not allowed to use machines that would raise the productivity and quality of their labour; instead, they must use heavy pickaxes and shovels. This suggests an approach scarcely consistent with the Dignified Work Principle.

This leads to one interesting argument that has been made in favour of the MGNREGS, which is that it has strengthened the bargaining position of workers in their local communities. Indeed, there have

26. Cited in D. Kapur, P. Mukhopadhyay and A. Subramanian, 'India's poor: From raw deal to new deal', *Business Standard*, New Delhi, 15 January 2008

been anecdotes of complaints by farmers that they cannot obtain labour or have to pay more for it. The question one should ask is whether the implied wage rise is due to people being unavailable because they are labouring on a MGNREGS project or because the workers have already earned money from the scheme so that they can hold out for higher wages. If the answer is the former, then the labour is acting as a constraint on local production. If the answer is that it is because the workers have more cash and can hold out for better wages, then production would not be constrained, and the farmers would be able to offer what is justified by the potential productivity on the farms. For people earning from MGNREGS, a non-labour-using cash transfer would be economically preferable and socially less onerous.

One positive aspect of labour-for-cash schemes is that they can help overcome seasonal income and consumption variability. In this regard, MGNREGS seems to have had some success²⁷. However, one is entitled to ask whether other forms of assistance could do that role better. In any case, because one can surely cite examples of income smoothing, that does not mean it does so in general.

Introducing labour-for-cash or labour-for-food schemes can also be disruptive of local livelihood strategies, for they may take away somebody from contributing to labour or work on family or other local activities at critical times, which could lower the output of the whole group. The labour line also discriminates against labour-constrained households,

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those without members who are available to take such jobs. The poorest households often have people who are ill, aged or frail who cannot go out to do such labour. Or drawing one person away may leave others in even more vulnerable circumstances. And they can be particularly onerous for women, who are already under time pressure owing to their household and other work, and who are expected to indulge in labour that is often energy-draining and hard. These realities often mean that the calories used up in the labour exceed the calorific value of food that could be purchased as a result of the low pay from the labour.

Public works and other benefit-for-labour schemes also have what are called substitution effects and deadweight effects. For example, if people are paid to labour on a public subsidized scheme, that in itself will lower the opportunity for private firms or individuals to do the type of activity. This substitution could be disadvantageous economically, since, in the long run, commercial firms survive by providing acceptable quality output that will lead them to being hired again and again. They will thus be discouraged and possibly just opt out of the economic activity altogether.

This leads to one peculiarity of public works and cash-for-labour benefits, which is that they tend to lower wages in low-income areas. In this regard MGNREGS has surely had a better record than its predecessors. It has had a fixed wage that has often been above the local market wage for unskilled manual labour. But usually the wage paid on such schemes is set deliberately below the market rate for comparable labour. This must drag down market wages, unless there is a tight labour market with minimal unemployment, which is scarcely the case

27. S. Ravi and M. Engler, *Workfare in Low-Income Countries: An Effective Way to Fight Poverty? The Case of NREGS in India*, (New Delhi: Indian Business School, 2008).

over much of the country. And there is ample scope for local administrators to use piece rates and other devices to lower the real hourly or daily wage.

Above all, in India the labour line is almost guaranteed to lead to political capture, bureaucratic capture and blatant corruption. It is impossible to prevent such schemes being 'discretionary' and discriminatory in some way or in many ways simultaneously. This is perhaps the most important reason that such approaches are supported by politicians and middle-class groups ensconced in public policymaking. They can intervene and steer schemes to groups whose support they want, or ostentatiously make it appear that it is due to them that certain groups have benefited. It becomes a form of patronage.

In sum, while one will always be able to point to particular successes and beneficial effects of a huge social policy, one should consider the opportunity cost of the resources poured into it. In general, the labour line mixes commercial and social objectives in an unsustainable way. It scarcely succeeds in passing the Policy Principles and has systemic economic drawbacks that make it poor social policy. However, it is worth reiterating that cash transfers could coexist with labour-for-cash schemes, should policymakers wish to persist in spending vast amounts on the latter.

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6. The Cash Transfer Line

The term 'cash transfers' covers a multitude of policies. Almost all governments and countries have some cash transfers in their system of social policies. But the modern debate is really about addressing poverty and economic insecurity through direct non-contributory cash transfers. Within that general description, there are a wide variety of possible schemes, which we may summarize as follows.

1. A Typology of Cash Transfers

Cash transfers figure in every social protection system. But the twenty-first century debate has been fired by the broad realization, by more and more economists and social policy designers, that the standard form of the twentieth century, namely, social insurance, cannot and will not work well in the open, informal, flexible labour market economies of the twenty-first century.

In other words, the social security basis of welfare state capitalism, namely, contributory-based social insurance simply does not work efficiently or equitably in today's world. It is a regrettable

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characteristic of critics of new forms of cash transfers that they fail to appreciate that old contingency-based benefits, such as unemployment insurance benefits, are both ineffective and inequitable. They certainly do not reach those working informally or those in the rapidly growing precariat²⁸. We will not discuss social insurance here, but its defenders should explain how it could be 'extended' to the vast majority of the Indian population or indeed the vast majority of the global population.

Today, the most common image of cash transfers is one of cash handed out to the poor through direct transfer in a particular location or via bank accounts or postal accounts. This raises two possibilities. We may refer to this as the targeting dilemma. Either the cash transfer could be given only to 'the poor' or it could be given universally, that is to everybody deemed to be in the 'population at risk'²⁹.

Intuitively, those not versed in the debates are inclined to think that the latter – giving it to everybody – would be inequitable, wasteful and unaffordable. But there would be no reason to think that the government could not tax back the equivalent from higher earning individuals, either through income tax, or through VAT or sales tax on items purchased primarily by the richer groups. In other words, in principle, one could have targeting ex ante or ex post. Suffice to add at this stage that it is not obvious which route would be more efficient or equitable.

28. On the reasons, see Standing, *The Precariat*, 2011.

29. The term 'universal' is actually ambiguous. For example, should short-term immigrants be included, or those who are not legalized residents or those not classified as full citizens?

1.1 Targeting

The first distinction is between targeted and universal cash transfers. The idea of targeting is that only the poor are entitled to receive the cash. This obviously raises all sorts of questions about how potential recipients are to be identified. With the best will in the world, the outcome is inevitably somewhat arbitrary.

Although there are several forms of targeting – household means testing, proxy means testing, geographical targeting, community-based targeting and so-called self-targeting – the essential point of departure is a desire to focus benefits on those deemed to be poor, by using some notion of a poverty line.

A ‘poverty line’ must be subjective to some extent, because people in poverty or near poverty will tend to experience fluctuating levels of poverty. They may be just above whatever line has been chosen in one week while in another week they may be well below it. In India, the reality is that procedures are so cumbersome that determining whether or not some household is poor will be done years before entitlement to a benefit is put into effect. In short, targeting is riddled with errors, both conceptual and practical³⁰. At every point, difficulties arise, with ignorance, fear, mistakes, bureaucratic hostility or indifference, discretionary decision making and much else.

Targeting by means testing is always inaccurate, with large exclusion and inclusion (or Type I and Type II) errors. We do not need to repeat all the well-known reasons for these failings. Elaborate attempts to develop

30. For a critique, see R. Jhabvala and G. Standing, ‘Targeting to the “Poor”: Clogged pipes and bureaucratic blinkers’, *Economic and Political Weekly*, vol. XLV, nos 26–27, 26 June 2010, pp. 239–246.

Targeting automatically creates poverty traps. A policy that is supposed to be exclusively for the poor must create moral hazards and immoral hazards.

proxy means tests (sets of indicators correlated with income poverty) are no better, because they have identified the poor rather inaccurately, often at great expense and with long lags between the gathering of data and the classification of people and households³¹. This is what the Saxena Committee recommended for identifying those deserving to be BPL card holders³². It will prove to be cumbersome and as prone to high exclusion and inclusion errors as similar schemes have proven elsewhere in the world.

There is another more structural failing of targeting, whether means tests or proxy means tests are used. Targeting automatically creates poverty traps. A policy that is supposed to be exclusively for the poor must create moral hazards and immoral hazards. The former arise from the fact that if a person or household can obtain a benefit only if they are classified as poor, then it would pay to stay poor. One of the immoral hazards is that it would pay to pretend to be poorer than one is.

The effective cost of going from just below the poverty line to just above would be the equivalent of a marginal tax rate of over 100 per cent, since they would lose more than the gain in income. But it is this reality that also prompts the immoral hazard. A poor person who gains a little more earned income is going to have a big incentive to conceal it, so as not to lose entitlement to the means-tested benefit³³.

31. For a recent review that also reaches this conclusion, see Development Pathways, ‘Targeting the Poorest: An Assessment of the Proxy Means Test Methodology’, Canberra, Australian Government, AusAid, September 2011.

32. Government of India, Ministry of Rural Development, *Report of the Expert Group to Advise the Ministry of Rural Development on the Methodology for Conducting the Below Poverty Line (BPL) Census for 11th Five Year Plan, Delhi*, Ministry of Rural Development, August 2009. The Task Force was chaired by N.C. Saxena.

33. Means testing also create something that is never appreciated by planners, which I have called precarity traps. Standing, *The Precariat* 2011. There are heavy transaction costs for claimants, owing to the complex procedures that must be followed when applying for benefits.

Targeting also involves high administrative costs. Evidence from all over the world testifies to the fact that these are inherent to means testing³⁴. When evaluations measure the cost of a scheme, they should take account that, in principle, funds spent on administrative matters would be available to give the recipients more direct benefits.

The simple fact is that in India, targeting has been exposed as being thoroughly ineffectual, partly because conceptualizing and estimating the number of people below any agreed poverty line has been thoroughly discredited. Since 1992, the Ministry of Rural Development has conducted censuses to identify the number, and in the process the procedures have become more and more complex and cumbersome, and some economists want to make it even more so³⁵.

The resultant chaos, as it should be called, has been subject to withering criticism³⁶. And it led to the Saxena Report in 2009, which was as far as the system could go. As its chairman observed, the failure of targeting was shown up by the National Statistical Survey, which showed that vast numbers of really poor people were excluded from having a BPL card, and many who were not poor were allocated one³⁷.

There is another more general aspect of targeting

34. A study in Honduras found that the cost of identifying beneficiaries accounted for 26 per cent of all operational costs. N. Caldes, D. Coady and J.A. Maluccio, 'The cost of poverty alleviation transfer programmes: A comparative analysis of three programmes in Latin America', Washington, DC, FCND Discussion Paper No. 174, 2004.

35. See, for instance, S. Mehrotra and H. Mander, 'How to identify the poor? A proposal', *Economic and Political Weekly*, vol. XLIV, May 2009, pp. 37–44.

To reduce poverty most effectively, one should prevent it, especially bearing in mind that it is almost certainly less costly to prevent it than to help people to recover from it.

that receives too little attention. It implicitly presumes that social policy should address yesterday's not tomorrow's poverty in giving help to those who have fallen into poverty rather than to those in danger of falling into it³⁸. To reduce poverty most effectively, one should prevent it, especially bearing in mind that it is almost certainly less costly to prevent it than to help people to recover from it.

There have been several good studies that have looked at whether targeted or universal benefit programmes have the greater effect in reducing poverty. Since they minimize errors of exclusion, targeting schemes have fared rather badly. In the four largest Latin American countries, targeting schemes on average reached less than half of the poorest 20 per cent, which implies that they do rather badly by the Security Difference Principle. Similar failings were revealed by Brazil's Bolsa Familia and Mexico's Oportunidades³⁹. In China, a study found that cities where targeting was more developed were significantly less likely to reduce the incidence of poverty⁴⁰.

36. See, for instance, A. Saith, 'Downsizing and distortion of poverty in India: The perverse power of official definitions', *Indian Journal of Human Development*, vol. 1, no. 2, 2007, pp. 247–281.

37. N.C. Saxena, 'Do targeted schemes and programmes reach the poor?', paper presented at the International Seminar on Poverty in Bihar, Patna, April 18–20, 2010.

38. A. Krishna, 'For reducing poverty faster: Target reasons before people', *World Development*, vol. 35, no. 11, pp. 1947–1960.

39. K. Lindert, E. Skoufias and J. Shapiro, 'Redistributing income to the poor and the rich: Public transfers in Latin America and the Caribbean', Social Protection Discussion Paper No. 0605, Washington, DC, World Bank Institute, 2006;

F.V. Soares, R. Perez Ribas and R.G. Osório, 'Evaluating the impact of Brazil's Bolsa Familia: Cash transfer programmes in comparative perspective', IPC Evaluation Note No. 1, New York, United Nations Development Programme, International Poverty Centre, 2007.

40. M. Ravallion, 'How relevant is targeting to the success of an antipoverty program?', World Bank Policy Research Working Paper 4385, Washington, DC, The World Bank, 2007.

In sum, anybody retaining belief in the validity of targeting for any form of state benefits is allowing faith to triumph over facts. As one 'father' of the post-1945 European welfare states put it, policies that are for the poor only are invariably poor policies. Indeed, some have deduced a paradox of redistribution that the more the policies are targeted on the poor, the less likely that poverty and inequality will be reduced⁴¹. If there is one aspect of Indian social policy in general that needs fresh thinking it is targeting.

If there is one aspect of Indian social policy in general that needs fresh thinking it is targeting.

1.2 Selectivity

A second distinction is between selective and universal cash transfers. Prominent advocates of cash transfers in India have presumed that cash transfers would be selective and targeted and linked to the BPL card system⁴².

The idea of selectivity is that a decision is made that groups with certain characteristics are deserving of help, rather than others. The most common schemes are those that provide cash payments to only women who are mothers of young children, those that provide men and women over a certain age with a cash payment as a pension, and those that provide people with specific disabilities with a cash payment.

Commonly, cash transfer schemes have been designed to be both selective and targeted, so that, for instance,

41. W. Korpi and J. Palme, 'The paradox of redistribution and strategies of equality: Welfare state institutions, inequality and poverty in western countries', *American Sociological Review*, vol. 63, no.5, pp. 661–687; T. Mkandawire, 'Targeting and universalism in poverty reduction', Social Policy and Development Programme Paper No.23, Geneva, United Nations Research Institute for Social Development, 2005.

42. D. Kapur, P. Mukhopadhyay and A. Subramanian, 'The case for direct cash transfers to the poor', *Economic and Political Weekly*, 12 April 2008, pp. 37–43; idem, 'More on direct cash transfers', *Economic and Political Weekly*, 22 November 2008, pp. 85–87.

only women with children and with low incomes receive the cash payments. Note that with each decision on selective entitlement there are procedures that are not easy to apply in local communities. It should also be borne in mind that many of the reasons for the failure of targeting are similar in the case of selectivity. Both raise moral hazards and immoral hazards.

With selectivity, there is inevitably a tendency to omit people who are poor but who do not fit into the demographic or social category selected for special treatment, and there are usually plenty of people supported who would not otherwise be singled out for special social assistance. But immoral hazards are also strong. If a person will receive support only if she or he is in that situation, it will tend to induce people to enter it or stay in it. This can scarcely make for good social policy.

1.3 Conditionality

A third distinction is between conditional and unconditional cash transfers. This is perhaps the most controversial aspect of cash transfers at the moment. Conditional cash transfers (CCTs) have become enormously popular and in 2009 gained the official support of the World Bank, which poured loans of over \$2.4 billion to start and scale-up CCT schemes in 2009 alone. The Bank has defined them in a rather specific, narrow way:

*Conditional cash transfers are programmes that transfer cash, generally to poor households, on the condition that those households make pre-specified investments in the human capital of their children*⁴³.

43. World Bank, *Conditional Cash Transfers: A World Bank Policy Research Report* (Washington, DC: The World Bank, 2009), p.1.

However, CCTs have often had other motives and applied many other conditions that have little to do with so-called human capital. This has been one of the problems, because sometimes the various supposed objectives have been potentially in competition, if not in conflict.

CCTs have often had other motives and applied many other conditions that have little to do with so-called human capital.

Commentators have become too slack in their discussion of conditional cash transfers – as if they are all of one type. There are actually several types of conditions – those that have to be satisfied prior to receipt of a benefit, those that have to be satisfied during receipt of it, and, in more rare types, conditions that have to be satisfied after or as a result of the benefit.

The most common distinction is based on one or more behavioural conditions, such as entitlement based on a child's attending school for at least 85 per cent of the time, or on sending a child to a health clinic at least once a month. But actually the conditionality blends into selectivity and targeting. As such, the state becomes deeply paternalistic and really promotes forms of dependency.

Conditions in Latin American cash transfer schemes have been associated with a significant incidence of exclusion from receipt, because people who are entitled to the scheme withdraw when they cannot comply or find it hard to comply with one or more conditions. In Mexico, it was found that those who tended to be excluded in this way were predominantly the poorest, often because the burden of compliance was too great for them to bear⁴⁴. Among the team members conducting the SEWA-led pilot cash transfer projects, there was extensive discussion on conditionality. It led to a consensus that opposed the idea of conditionality⁴⁵.

It was also strongly backed by local leaders of SEWA. The fundamental reason for this decision is that it is presumptuous of policymakers to think that people need to be steered to make decisions in their own best interest. They are adults and can make such decisions for themselves.

By definition, conditions are paternalistic and may be patronizing and contrary to human rights and principles of freedom. Usually, they are costly to apply, inefficient and inequitable, and they may be counter-productive and may create barriers of suspicion and resentment among recipients towards those implementing the policy. They turn policy implementers into interferers, at best benevolent, at worst quasi-policemen.

They also raise a moral dilemma. Suppose, for example, an impoverished mother is told she can receive the cash transfer only if she sends her children to school every day; if she cannot force her twelve-year old boy to go to school, because she is stressed and distracted, will the policymaker take away the money, leaving the woman and her son in dire poverty? If not, what happens if somebody does not send her child to school? Too much discretion is given to the bureaucrats, which is not fair to the recipients or to the policy implementers. The only morally defensible condition to impose on

44. C. Alvarez, F. Devoto and P. Winters, 'Why do the poor leave the safety net in Mexico? A study of the effects of conditionality on dropouts', American University, Washington DC, Department of Economics Working Paper, 2006.

45. At the time of writing this paper, there is an ongoing series of pilots of unconditional and universal cash transfers conducted by several complementary means. For objectivity reasons, it is preferable not to discuss the details of these while they are in progress. The author is a partner in those projects, one of which is being supported by UNICEF and led by SEWA, the other by UNDP.

recipients is that they should adhere to the law, which should be equal for all citizens. A condition that deviates from the law is unfair; one that merely reiterates the law should be redundant.

The fact remains that there is a strong political campaign, nationally and internationally, in favour of conditional cash transfers⁴⁶. It must be hoped that more of those opposing cash transfers in general will turn their hostility towards the conditionality rather than towards the idea that low-income people should be assisted by having more cash to spend to improve their lives. And there is little point in having conditionalities if the services that the recipients are meant to use in return for benefits are defective or absent altogether. This would apply particularly strongly in many parts of India. Schools, for instance, suffer from high rates of teacher absenteeism. Obliging children to go to schools that have no teachers would scarcely be a rational policy.

There is also a danger that conditionalities beget conditionalities, and they would lead remorselessly towards a system of social engineering, in which cash transfers are used as state carrots and state sticks to be given or taken away depending on whether entitlement criteria are in accord with state-determined norms⁴⁷. In other words, there is a tendency for bureaucrats to reason from findings that a conditionality does not work, or does not work strongly enough, and

There is a tendency for bureaucrats to reason from findings that a conditionality does not work, or does not work strongly enough, and therefore tougher conditions are needed. Ethical principles easily slip into the shadows.

therefore tougher conditions are needed. Ethical principles easily slip into the shadows. It is not a road worth taking.

1.4 Choice of Recipient

Beyond targeting, selectivity and conditionality, there are questions over who should be the direct recipient of the cash transfer and the related but not identical issue of whether or not the cash transfer should be paid on a household, family or individual basis. These have exercised us in our pilot projects.

There is a popular view that women should be recipients, since it is widely believed that they make decisions on spending more 'responsibly' than men, on average⁴⁸. But not all women do that, and not all men should be presumed to be less responsible. Moreover, if just one person is given the cash, intra-family tensions will be encouraged. It is likely that many women would be under intense pressure to 'share' the money.

We believe it is fair if each individual is provided with an equal amount. This does not mean that intra-household or intra-family pressures will disappear. But it does set up a fair process and provide scope for gender-based and age-based bargaining within households.

1.5 Household or Individual?

As for linking cash transfers – or any form of benefit for that matter – to family size and structure or

46. For a reasoned argument in favour of conditional schemes in the Indian context, see K.S. Prabhu, 'Can conditional cash transfers work in rural India?', *The Wall Street Journal*, 15 July 2009. This article praised the Dhanalakshmi CCT scheme in particular.

47. In the longer term, this should be one of the major objections to conditional benefits of any kind, and this is why social scientists should be wary of what is called libertarian paternalism. For an expansion of this argument, see G. Standing, 'Behavioural conditionality: Why the nudges must be stopped', *The Journal of Poverty and Social Justice*, vol. 19, no. 1, February 2011, pp. 27–38.

48. This is the position advanced by, for instance, Daves Kapur and Arvind Subramanian, 'Rahul's role? Garibi hatao', 23 May 2009, mimeo.

household size or structure, it should be recognized that these are not what economists call exogenous units. In other words, the size and structure of households can change in response to policy changes. For instance, if the amount to be paid was determined by how many people were 'staying' in the dwelling, people would have an incentive to have temporary migrants classified as usual household residents. There are other moral hazards one could imagine.

Because households are endogenous, it is desirable neither to provide cash transfers on a household basis nor to analyse their effects solely or largely in terms of households. This may be hard to grasp, because most people like to think that everything revolves around the household as a fixed unit, which quite simply, it is not. And this is going to be the reality to a greater and greater extent.

It is easier and more equitable simply to provide cash transfers equally to individuals but perhaps with lower amounts for children under a selected age, such as those who are below 14 or 16 years. In this way, intra-household bargaining can be facilitated and a message can be conveyed that each person in any household counts as an equal, even if patriarchal practices and other cultural factors have ruled otherwise.

2. Mechanisms of Introduction

Much has been said and written about the practicalities of cash transfers in the context of India today. We will not deal in detail with the options here, though it is worth noting what the options are. We know that the majority of the Indian population is 'unbanked', that is, they do not have bank accounts, and they do not know what is involved in having bank accounts nor do they

trust banks to look after their money. But cash transfers do not require banks or bank accounts, although they are obviously desirable for many reasons. They would be merely easier to administer and less prone to corrupt interference if there were universal bank accounts.

The debate on cash transfers cannot be divorced from the discussion on the extension of financialization to the Indian population, or what is popularly known as financial inclusion.

The debate on cash transfers cannot be divorced from the discussion on the extension of financialization to the Indian population, or what is popularly known as financial inclusion. This is laudable, but it would be a mistake – and would be unnecessary – to make implementation of cash transfers dependent on prior or simultaneous financialization, even if having individual bank accounts would make it easier to operate cash transfers.

What both critics and advocates of cash transfers should appreciate is that the introduction of cash transfers could trigger a desirable expansion of not only bank services but postal and other forms of income transactions as well. This would create a virtuous circle, accelerated by the introduction of cash transfers.

In this regard, an intriguing aspect of the pilot unconditional cash transfer scheme in Namibian villages in 2008–2009 was that after the initial distribution of money (through a mobile service where a van would be used to visit villages once a month), the villagers themselves decided to build a post office where the money was deposited. The post office enabled the villagers to take out part or all of the money when they needed it⁴⁹. The point is that the presumption that policies will not prompt changes in

49. The pilot scheme set up in Namibia provided unconditional grants in two rural areas for 24 consecutive months. The author was a member of the team that designed the project and helped in the analysis of the resultant evaluation data.

institutional structures or behavioural patterns in local communities is unfounded; these can take place rapidly and effectively.

There is a more practical aspect relating to mechanisms of implementation. Some commentators baulk at the prospect of suddenly introducing a cash transfer scheme across India, daunted by the enormous practical challenges⁵⁰. The fear is surely well founded, but it raises the prospect of various forms of 'roll-out', analogous to the form it took when the anti-retroviral (ARV) treatment campaign in dealing with HIV-AIDS was rolled out in southern Africa.

Thus, one could imagine that cash transfers could start in certain states or areas where there was an urgent need for cash injections, or where the infrastructure was most congenial or where there is a concentration of vulnerable, impoverished groups, and then it could proceed with an explicit commitment to roll out the scheme over the whole country within a feasible planning period. In short, if cash transfers are to become a more important part of the social protection system, more attention should be given to how they could be rolled out efficiently and equitably across India.

One argument is that traditionally state benefits have tended to be diverted to 'ghost beneficiaries', that is, people who do not exist or those who have died. One study found that when biometric methods were introduced in Andhra Pradesh, 12 per cent of beneficiaries were found to be 'ghosts'⁵¹. Direct cash transfers can be phased in using biometrics, but there will still be a need for safeguards, since the registration of deaths would need to be accurate and rapid to avoid fraud,

In short, if cash transfers are to become a more important part of the social protection system, more attention should be given to how they could be rolled out efficiently and equitably across India.

particularly for children for whom an adult care-provider would be the recipient of the cash transfer, and frail elderly whose accounts would be accessed by younger relatives. Methods can be introduced to limit such fraud, but they must be part of the process of implementation.

50. See, for example, S.A. Aiyar, 'Cash transfers are a good idea but hasten slowly', *The Times of India* blogs, 13 March 2011.

51. D. Johnson, 'Case study on the use of smart cards to deliver government benefits to Andhra Pradesh, India', Institute for Financial Management and Research, 2008; <<http://ifmt.ac.in/conf/casestudies/Johnson%20SmartCard.pdf>>. On the issues of biometrics and identification challenges, see A. Gelb and C. Decker, 'Cash at your fingertips: Technology for identification and payment in resource-rich countries', Centre for Global Development, 2011, draft.

7. Principal Hypotheses with Cash Transfers

In this section, we summarize the various arguments made for and against direct cash transfers, beginning with the common claims made against them. Note that we are dealing only with non-contributory cash transfers, not social insurance, contributory pensions or private insurance⁵². The latter could be seen as potential supplements to non-contributory cash transfers. To focus on the criticisms and claimed advantages, we will not consider the issues of targeting, selectivity and conditionality here, the drawbacks of each of these having been highlighted earlier.

1. Arguments against Cash Transfers

The vehemence of opposition to cash transfers in India is extraordinary and seems to be largely

52. On the traditional forms, see P. Dutta, S. Howes and R. Murgai, 'Small but effective: India's targeted unconditional cash transfers', *Economic and Political Weekly*, 25 December 2010, pp. 63–70.

ideological or the standard resort to any relatively new idea⁵³. Much of the opposition seems to derive from a belief that cash transfers are actually a 'smokescreen' for a wider policy of dismantling the public system of support for 'the poor'. The tone of some of the critics amounts to questioning the good will or intelligence of those proposing some form of cash transfer.

1.1 'Cash Transfers Hide an Ulterior Ideological Motivation'

Many advocates are fully committed to the preservation and strengthening of public social services and public anti-poverty measures beyond cash transfers.

Often the criticism seems to be motivated by a belief that the proposal for cash transfers is the thin end of the wedge for a wider strategy of moving towards a free market economy in which the protective side of the state is dismantled, privatized and commercialized. There may be proponents of cash transfers who do have such a goal in mind. But there is no necessary connection; many advocates are fully committed to the preservation and strengthening of public social services and public anti-poverty measures beyond cash transfers.

The denigration of cash transfers by their opponents in strident terms is neither fair nor helpful⁵⁴. Thus, to describe proponents of cash transfers as singing a 'siren song' is emotive hyperbole, since we all know that the sirens lured the sailors onto the rocks and to destruction.

53. A. Hirschmann, *The Rhetoric of Reaction: Perversity, Futility, Jeopardy* (Cambridge, Mass.: Harvard University Press, 1991).

54. For a critical reaction, see M. Shah, 'Direct cash transfers: No magic bullet', *Economic and Political Weekly*, 23 August 2008, pp. 77–79. For a response, see D. Kapur, P. Mukhopadhyay and A. Subramanian, 'More on direct cash transfers', *Economic and Political Weekly*, 22 November 2008, pp. 85–87.

The idea that giving poor people cash would destroy them is deplorable scaremongering⁵⁵. Perhaps the writers of such articles would like to do without money for a while and just subsist on ration goods set by a benevolent but inherently inefficient state.

In principle, the main criticisms of cash transfers can be split into strategic, behavioural and practical. We also need to recall the design features covered by targeting, selectivity and conditionality. But it might be useful to start by considering the claims made by prominent Indian critics. Jean Dreze, for example, has said that proponents suffer from an 'illusion' that cash transfers can replace public services, which is 'remarkably dangerous'⁵⁶.

This is unfair, because not only are many proponents of cash transfers (including this writer) strongly in favour of public social services, but the arguments for public services and the arguments for cash transfers stand on their own. How public services are funded and how user costs are paid are separate issues. There are strong arguments in favour of having users pay at least part of the cost of using public services, such as schooling, health services, roads, electricity, gas and water.

If something is provided 'free', as noted earlier with respect to food, it tends to induce carelessness by some users, a lack of appreciation and a lack of

55. J. Ghosh, 'The siren song of cash transfers', *The Hindu*, 2 March 2011. The article goes on to mock proponents of cash transfers. See also J. Ghosh, 'The cash option', *Frontline*, vol. 28, issue 5, 26 February – 11 March, 2011. <www.frontlineonnet.com/fl2805/stories/201103110311280510900.htm>. In the latter article, she describes cash transfers as 'a fad', and as being presented by proponents as 'a silver bullet'.

56. J. Dreze, 'The cash mantra', *The Indian Express*, 11 May 2011. For a response, see G. Standing, 'Give cash some credit', *The Indian Express*, 28 May 2011.

What should be of great concern to defenders of public services in India is that the economically vulnerable do not have the resources to buy goods and services.

desire or need to look after the good or service in question. Since we pay for the water we use, we are more likely to turn off a running tap than let it run had it been supplied free of cost. What should be of great concern to defenders of public services in India is that the economically vulnerable do not have the resources to buy goods and services.

1.2 'Cash Transfers are Unjustified Handouts'

Another traditional argument against cash transfers is that they are A 'handout' that gives something for nothing. This claim, whether valid or not, could be made with equal force to any form of direct support except for those that apply conditions to entitlement. Indeed, it has been used to justify conditionality and was one factor in the development of conditional cash transfers in Brazil and Mexico, when it was thought opposition from the middle class would block legitimization of cash transfers in general.

There are several ethical or philosophical arguments that proponents of cash transfers have to refute this claim. First, wealthy people in the country obtain a wide range of benefits without being required to give something in return. Children of the wealthy receive handouts from the day they are born that children from villages could not even dream about. Cash transfers could be seen as a minor correction for brute ill-luck. Second, the liberalization of the economy has undoubtedly benefited a small elite and a privileged middle class to a far greater extent than the low-income groups in the villages and slums.

Third, there is what might be called the Painian Principle. Tom Paine observed in 1795 that the wealth and income of individuals in society actually owe very little to their own endeavours and skills and much more to the endeavours of the generations

that came before them. But we do not know if those who made the greatest contributions were our own ancestors or those of others around us.

So, a universal cash transfer would represent a social dividend on the investment made by all those preceding generations. One could extend this argument by saying that the natural resources belong to everybody in the country and therefore a dividend should go to everybody.

However, it is probably the instrumental response to the objection that is most telling for mainstream policymakers. This is, as will be argued when we come to the advantages, that they are essentially social investments, rather than free handouts. If they improve, directly or indirectly, health, education and productive activity, then they operate to reduce other social policy costs and assist in economic growth and development. It may be hard to demonstrate all of this statistically, but the economic logic is surely telling.

1.3 'Cash Transfers Induce Dependency and Laziness'

Related to the argument that cash transfers would be giving something for nothing is the view that they would promote dependency and laziness, resulting in a reduction in labour supply. This would occur because a guarantee of income, regardless of work status, age, marital status and 'need' would allow people to reject labour or to labour less. Theoretically, this criticism, if valid, would apply to any form of benefit, unless conditions were applied. But is it valid?

There is no evidence that in India or anywhere else people are inherently lazy or indolent. The normal human condition is to want to better oneself – or,

If an impoverished person is suffering the common effects of poverty – malnutrition, listlessness, lack of energy and confidence, a proneness to illness and so on – then a modest cash transfer could produce an improvement that would make it possible for people to concentrate, learn, apply themselves and labour.

in the jargon, to develop one's capabilities. And if an impoverished person is suffering the common effects of poverty – malnutrition, listlessness, lack of energy and confidence, a proneness to illness and so on – then a modest cash transfer could produce an improvement that would make it possible for people to concentrate, learn, apply themselves and labour.

Another related claim is that people would 'waste' the money if it were given in cash without conditions, spending it on private 'bads', such as tobacco and alcohol. This is a patronizing presumption implying that people cannot learn to make rational choices. On that basis, one could say that the rich should have their money taken away because many waste it on whiskey and cigars. The argument is disingenuous, at best. Chronic insecurity is at least as likely to induce privately 'bad' behaviour.

1.4 'Cash Transfers Have Leakages'

Then there are practical objections to cash transfers, such as the one made by the Rozi-Roti Adhikar Abhiyan Delhi, which said that 'leakages will remain even in cash transfers'. But crucially, they envisaged a targeted cash transfer scheme, that is, it would go only to those designated as poor. Others have made a similar presumption, without targeting being either necessary or desirable.

If cash transfers were of a universalistic type, the problem of leakages would surely be greatly diminished. It is the targeting that is the major cause of huge leakages, since it gives scope for discretionary activities by bureaucrats and classifiers. Subsidies have inherent tendencies for leakages, but cash is at least transparent and has fewer avenues open for leakages including leakages

into the pockets of government officials and others with whom they could collude to siphon off funds.

A related point is that some opponents of cash transfers actually want an 'incentive for people to self-select themselves out of the system'. Why should this be a policy motive? It is at best a very crude way of discouraging applicants, and there is no evidence that those who would be deterred would be the least poor or disadvantaged.

1.5 'Cash Transfers Would Be Useless'

Another argument made against cash transfers in India is that even if they could be justified on the grounds that people could use the cash to buy services and goods, they would be 'useless', because there are insufficient public schools and health services for them to use the money properly. This, it has been said, is quite unlike the situation in Brazil where the cash transfer programme Bolsa Familia has been successful⁵⁷.

What this argument neglects to bring out is that in Brazil, when the cash transfer scheme was being gradually rolled out across the country, there was also a dearth of decent social services, including schools and medical clinics. The cash transfers helped create a public demand for them and generated public pressure to provide better facilities. This led to funds being allocated to reward those who did so.

A more graphic example can be seen in the outcome during the course of the pilot basic

57. Ghosh, 'The siren song of cash transfers', 2011.

income grant scheme in Namibia. Before the introduction of cash transfers, the local medical clinic was a run-down little place, which had few medicines and which was staffed by some demoralized nurses. It functioned in dirty surroundings where doctors who were supposed to visit the clinic from the nearest town refused to come to see patients. And the vast majority of the HIV/AIDS sufferers simply did not go to the clinic to take any ARV treatment, because they could not afford to buy adequate food or have proper nutrition essential for the treatment, which was free because it was a public service.

It is a combination of cash transfer and voice for the recipients that offers the optimum way forward.

The cash transfers transformed the situation. What happened was that the villagers were charged a small amount for each medical visit; the nurses used the money to buy better medicine and to improve the clinic; patients started having greater trust in the efficacy of the public treatment; the HIV/AIDS sufferers started to buy better food and thus were nutritionally able to take the treatment. In other words, the cash transfers released a virtuous circle. There was no conflict between a public social service and the cash transfers. The complementarity resulted in an improvement in the public social service.

One might argue that this might be a unique case. But the point is that the critics seem far too keen to jump to conclusions, rather than explore the options on how cash transfers could be used optimally. In this regard, we will come to the theme of the SEWA-led pilot projects in the final section of this paper, namely, the hypothesis that it is a combination of cash transfer and voice for the recipients that offers the optimum way forward.

1.6 'Cash Transfers Would Be Inflationary'

It is sometimes contended that cash transfers would be inflationary. Narendar Pani, for example, argued that this is the most significant danger of cash replacing subsidized commodities, seemingly because it would lead to an increase in demand through more spending power⁵⁸.

Of course, this is just one-sided economics for it neglects the supply side. If the supply of goods is price inelastic, then it might be inflationary, but there is no reason to believe that this would be true, given that the money would be spent mostly on basic goods and services. And to lessen the likelihood of initial inflation coming with the introduction of cash transfers, it could be arranged that stocks of food and other basic goods could be released until there was time for supply to increase through the market.

Again, evidence from other countries suggests that the influx of money into local economies via cash transfers induces a relatively rapid increase in the supply of basic goods and services, partly by inducing people to grow more food crops, make more clothes and so on, and partly by inducing merchants to direct more goods and services into these economies.

2. Arguments for Cash Transfers

Let us now turn to the claimed advantages of cash transfer schemes. For convenience, they can be split into philosophical, economic, practical and

58. N. Pani, 'Cash transfers can be inflationary', *Business Line*, 2 August 2011.

behavioural. In this paper, we will focus on the last type simply because most of the empirical research has been devoted to these aspects. But there is also the macro-economic effect of cash transfers, in which the influx of money into local economies stimulates spending and investment and thus raises economic growth⁵⁹.

2.1 'Cash Transfers Would Strengthen Economic Citizenship'

Let us start with the moral or philosophical claims. Humanitarian relief organizations have come to appreciate that the advantages include speed, transparency and the ability to allow those in need to make choices about how they spend the aid, which thereby enable the people to retain a greater sense of dignity in times of crisis⁶⁰.

Beyond that, cash transfers offer a feasible, transparent and equitable means of reducing the growing inequalities that are endemic and systemic in an open, liberalizing economy. The level of inequality and its growth are neither healthy socially nor economically necessary or beneficial. Indeed, some economic research has suggested that high and rising inequality actually reduces a country's economic growth, and it also threatens social stability and worsens the welfare of those experiencing declining or stagnant incomes.

Cash transfers offer a feasible, transparent and equitable means of reducing the growing inequalities that are endemic and systemic in an open, liberalizing economy.

59. Multiplier effects, associated with Keynesian economics, refer to the income generated that exceeds the initial input. Estimating these effects is complex, but for an attempt to do so in Africa, see S. Davies and J. Davey, 'A regional multiplier approach to estimating the impact of cash transfers on the market: The case of cash transfers in rural Malawi', *Development Policy Review*, vol. 26, no. 1, 2008, pp. 91–111. See also I. Hirway, M. R. Saluja and B. Yadav, 'Employment Guarantee Programme and Pro-Poor Growth in Developing Countries (Academic Publishers, 2009).

60. P. Creti and S. Jaspars (eds), *Cash-transfer Programming in Emergencies* (London: Oxfam, 2006).

In this regard, think of the strategic political issue. At present, the Indian state is the biggest subsidy state in the world. All the subsidies being strewn around are selective, in that they are intended to benefit certain groups in the population and not others. Look carefully and one will soon realize that most are actually regressive, because they go to middle-income or even richer groups at least as much as to the income poor.

A subsidy on fuel, for example, goes to those who can afford to have motor vehicles. The total cost of fuel subsidies provided by the Indian state each year, estimated at over 2 per cent of GDP, would be sufficient to fund a universal basic cash transfer scheme. One may ask rhetorically why the critics of cash transfers do not contrast them with existing subsidies rather than with public services.

The first and perhaps most important argument in favour of cash transfers is that they would give recipients a greater sense of basic economic security and economic freedom. People who have an assurance that they will have some income to cover their most basic of needs will have basic security and will be better placed to make rational choices about consumption, work and labour, and personal relationships.

In effect, cash transfers could satisfy the Security Difference Principle as long as they are universal and unconditional. The caveats are important. If they were targeted, for instance, they would almost certainly exclude some people who would be among the most insecure in society.

It must be constantly reiterated that no means-tested social assistance scheme in the world has been

successful in reaching all of its intended beneficiaries. Again and again, research findings show that targeting through designating who is poor and who is not result in large numbers of 'poor' not receiving benefits and some who are not poor receiving them. This is something inherent in such schemes.

Targeted cash transfers are no different from targeted subsidies or targeted public services in this respect. They all suffer from what statisticians call Type 1 and Type 2 errors, that is, exclusion and inclusion errors. They also induce what are called moral hazards and immoral hazards.

Finally, as far as economic citizenship is concerned, there is international evidence that individualized cash transfers strengthen financial self-reliance and the dignity of family and community members who are structurally weak. In particular, they have been shown to strengthen the relative position of the elderly and women.

2.2 'Cash Transfers Would Combat Paternalism and Enhance Freedom'

A second advantage of universal unconditional cash transfers – and not of conditional cash transfers – is that they would satisfy the Paternalism Test Principle, as outlined earlier, at least better than any available alternative policy. Paternalism arises from a presumption made by policymakers, and by many commentators and economists, that they know what the poor lack and what they want and need. Paternalism takes away people's sense of agency.

One implicit view is derisible, which is that the poor lack the ability to make rational choices about how to spend money, and for this reason they should be given things that are good for them. One

Paternalism arises from a presumption made by policymakers, and by many commentators and economists, that they know what the poor lack and what they want and need. Paternalism takes away people's sense of agency.

suspects this attitude is pervasive and is linked in complex ways to the caste system with its baggage of patronizing prejudices that is translated into structural limitations of choice.

One could even hypothesize that a system of universal cash transfers could help break that structure and be a means to indirectly erode caste inequalities. Once a person possesses the means to make choices rationally, he or she tends to learn from trial and error. To say that people lack the ability to make choices is the reason for opposing cash transfers is equivalent to justifying the persistence of any such inability.

This does not mean that people do not make bad choices; we all do. What are required are better information, better infrastructure and better opportunities to make rational choices. That could not come from a rigid system of predetermined disbursement of selected commodities. By extension, conditional cash transfers are also freedom constraining, which is one reason for preferring unconditional transfers⁶¹.

Finally in this regard, it is mildly amusing that opposition to cash transfers tends to come from people who would not want their own freedom of choice to be constrained by a lack of ready cash. They invariably want the freedom to make choices about how they spend their income. Even if people spend unwisely, they would bitterly resent being told how

61. I. Orton, 'Reasons to be cheerful: How ILO analysis of social transfers worldwide augurs well for a basic income (with some caveats)', paper presented at the 13th International Congress of the Basic Income Earth Network, Sao Paulo, Brazil, 30 June–2 July, 2010.

to spend their money well. They should respect their fellow citizens by the same token.

2.3 'Cash Transfers Would Limit Bureaucrats' Discretionary Power'

A third advantage is that they would satisfy the Rights-not-Charity Principle. This is not the same as the Paternalism Principle, in that it relates to the actual process of policy implementation. What defenders of the existing subsidy system cannot sensibly deny is that it gives administrators and bureaucrats tremendous licence to be lax, discretionary and arbitrary in the way they conduct themselves and interpret the policies.

Policies give too many people in the complex structure the opportunity to make judgements on whom to help and whom not to help.

Though the most attention is given to blatant corruption, this is not the fundamental problem; it is that the policies give too many people in the complex structure the opportunity to make judgements on whom to help and whom not to help. It ill becomes progressive critics of cash transfers to ignore this inherent feature of policies that must rely on subjective judgements by bureaucrats, from the top all the way to the bottom of the edifice of the subsidy state.

Would direct and universal cash transfers (UCT) overcome the discretionary tendency? It may not do so entirely, but the very transparency and simplicity of UCT would tend to minimize the opportunity for bureaucrats to be discretionary. This is an advantage by any right. And that everybody is entitled to receive it must strengthen a sense of social solidarity and thus prompt a collective defence of UCT, which ensures every person receives his or her due.

In such circumstances, anyone being cheated in some way would be in a relatively strong position to elicit support and moral suasion from others

in the community and thus put pressure on local bureaucrats to fulfil their duties.

Universal cash transfers would not offend the Ecological Constraint Principle; instead it would help in respecting it. At least they would weaken the pressure to use public works as the primary weapon against poverty and income insecurity, since we know that casual low-paid labour by unskilled or untrained people tends to use up resources while creating low-quality goods that have a record of low durability.

Finally, in terms of respecting the five policy principles, universal cash transfers particularly respect the Dignified Work Principle, because they would give people greater confidence to object to exploitative and oppressive labour, people would have less fear of becoming destitute, and the cash transfers would give them greater opportunity to do work that is not labour. After all, it is the poor who have to labour more because of the low returns they get for their labour.

2.4 'Cash Transfers Would Increase Social Policy Efficiency'

What then are the practical advantages? As cash transfers are in money form, they necessarily involve less administration and transaction costs than other forms of benefit. If there is a comprehensive banking system to facilitate cash transfers, it would be the easiest way to implement transfers. But even without such a system, there are other means by which cash payments can be made that are far easier and transparent than are involved in, say, food transfers or public works schemes.

Cash transfers have been criticized for being difficult to operate in the absence of individualized bank

accounts. But think how much more difficult it is to operate a national system of distributing subsidized goods, with all the complexity of purchasing, collecting, storing, pricing, measuring and distributing items across thousands and thousands of villages.

The international evidence is encouraging for those who believe cash transfers would reduce the administrative costs of social policy. In Mexico, for instance, once the initial take up costs were covered, annual administrative costs fell to five cents for each dollar's worth of transfer. If one compares this sort of cost with the huge per Rupee cost of the PDS and NREGS in India, one can imagine the huge savings that could be made through cash transfers.

Finally, and most importantly in terms of conventional evaluations, there are the behavioural and attitudinal advantages of cash transfers. Let us deal with the latter first, since too little attention is given to them in the theoretical and empirical literature on cash transfers.

2.5 'Cash Transfers Would Reduce Poverty'

The truth of this statement is not obvious; some sceptical economists would even say that cash transfers would not reduce poverty. So, it is worth emphasizing that there is extensive evidence from elsewhere that they can reduce and have reduced the incidence of poverty substantially. Many examples could be given, but it would suffice to note a few. In Mexico, the Oportunidades scheme reduced the poverty headcount ratio by 10 per cent, the poverty gap by 30 per cent and the poverty severity index by 45 per cent⁶².

There is extensive evidence from elsewhere that cash transfers can reduce and have reduced the incidence of poverty substantially.

62. E. Skoufias and S. Parker, 'Conditional cash transfers and their impact on child work and schooling: Evidence from PROGRESA program in Mexico', *Economia*, no.2, 2001, pp. 45-96.

In the pilot basic income scheme in Namibia, the cash transfer was shown to reduce the number who had insufficient income for food, basic housing needs and access to schooling and health facilities. In other words, it showed that the poor use their additional money to improve their basic living standards.

Others have shown that a basic social security system based on cash transfers can make the difference between achieving and not achieving the key MDG (Millennium Development Goal) of halving poverty by 2015⁶³. Critics might argue that other policies could do even better. However, there is little doubt that cash transfers can and do reduce the incidence and extent of poverty.

2.6 'Cash Transfers Would Strengthen Social Solidarity and Reduce Inequality'

If people are guaranteed a modest basic cash transfer, coming in month after month, they have basic security. Psychologists have shown that this is associated with a greater sense of altruism and social solidarity, which are intangibles with considerable social value. People who feel secure themselves are more inclined to be tolerant towards others, particularly towards others with different characteristics than their own⁶⁴.

In India, this is particularly important, given the lingering caste system and the religious tensions that

63. I. Ortiz and J. Yablonski, *Investing in People: Social Protection for All* (Manila: Asian Development Bank, 2010).

64. This was shown, for instance, in a series of surveys, one of which was conducted in India, that were summarized in ILO, *Economic Security for a Better World* (Geneva: ILO, 2005).

65. There is also evidence that schemes that are for all groups strengthen a sense of social solidarity, whereas schemes that are only for the poor invariably become poor programmes, a point made by Richard Titmuss many years ago and reiterated by Amartya Sen, among others. A. Sen, 'The political economy of targeting', in *Public Spending and the Poor: Theory and Evidence*, D. van de Walle and K. Nead (eds), (Baltimore: Johns Hopkins University Press, 1995).

Cash transfers would tend to reduce income inequality. If a specific amount was paid equally to all, cash transfers would obviously represent a greater relative share of income of lower income groups.

have marred its history. If people feel that all of them are receiving cash equally, there is strong reason to think that they will feel less resentful towards others⁶⁵.

Cash transfers would tend to reduce income inequality. If a specific amount was paid equally to all, cash transfers would obviously represent a greater relative share of income of lower income groups.

To the objection that it is inefficient to give rich people as well as poor people a modest cash transfer, two arguments can be presented. The first is that the money could be recovered through a clawback of higher taxes on luxury goods and services that only the rich consume. The second would be to devise a strategy on the lines of what Iran has done since 2010. There, a universal cash transfer was introduced to replace the hefty oil subsidies. In order to become eligible for the new monthly cash transfer, citizens were required to fill in a tax form. For most Iranians, this did not matter, since they did not have enough income on which to pay tax. But the government announced that if the rich did not want to receive the cash transfer, they need not fill in the form; and they actually encouraged them not to apply⁶⁶.

A more interesting aspect of how cash transfers can reduce income inequality is that they tend to lessen the debt and credit restraints on lower income groups. In the Namibian universal cash transfer pilot, it was observed that in the year following the introduction

66. Ironically, initially this led to only about 80 per cent of the population applying for and receiving the cash transfer. However, after a few months, many more of the relatively affluent lost their fear and applied as well, resulting in a take up of well over 90 per cent. For an excellent analysis, see H. Tabatabai, 'The basic income road to reforming Iran's price subsidies', *Basic Income Studies*, vol.6, issue 1, August 2011, pp. 1–23.

of the grants, the earned income of those who had been among the poorest beforehand went up more than for those who had been higher income earners. A reason was that the poorest were able to buy seeds and small-scale equipment, such as sewing machines, and pay off their debts.

From Latin American CCT experience, there is little doubt that they can and do reduce inequality⁶⁷. The evidence reminds us that Brazil, in particular, is one of the very few countries that have reduced inequality in the twenty-first century, and this achievement is precisely linked to the introduction of the extensive cash transfer scheme. Meanwhile, inequality grew dramatically in India.

2.7 'Cash Transfers Would Boost Human Development – Education'

Now we come to the tangible behavioural effects. There are three aspects that have been analysed more than any other (education, health and nutrition, and economic activity). First, there is a link between cash transfers and 'human capital' formation, measured mainly by enrolment, attendance and performance in school. Here the arguments and evidence, although strongly positive, are difficult to unravel, since the predominant form of cash transfer has been the proverbial conditional cash transfer in which the primary 'condition' is proof of regular attendance in school by children of the recipient. We may list the primary education-related hypotheses that have been associated with cash transfers:

From Latin American CCT experience, there is little doubt that transfers can and do reduce inequality.

- i. They raise school enrolment.
- ii. They raise school attendance.
- iii. They improve school performance.
- iv. They reduce school drop-out rates.
- v. They lead to a prolonged schooling, mainly through the effects of (i) to (iv).
- vi. They reduce child labour that disrupts schooling, both through an income effect and through the increased propensity to attend and continue schooling.
- vii. They reduce the inequalities in school attendance and attainment associated with family background, wealth and household income.
- viii. They reduce gender inequalities in all the above respects.

The primary difficulty of interpreting most of the empirical evaluations of CCTs is separating out the effect of the cash transfer per se from the effect of the conditionality. What is clear is that the evidence is very strong that CCTs in Latin America and elsewhere have been associated with increased school attendance, although the evidence is less strong with respect to school performance, albeit mostly positive⁶⁸.

In Mexico, for instance, since Oportunidades was introduced (initially as Progresa), secondary school enrolment has risen by a third and school drop-out

67. See, for instance, S. Soares, 'Conditional cash transfers in Brazil, Chile and Mexico: Implications for inequality', New York, International Poverty Centre Working Paper No.35, 2007.

68. For reviews of the evidence of conditional cash transfers, largely focussing on Latin America, see A. Fiszbein and N. Schady, with F.H.G. Ferreira, M. Grosh, N. Kelleher, P. Olinto and E. Skoufias, *Conditional Cash Transfers: Reducing Present and Future Poverty* (Washington, DC: The World Bank, February 2009); R. Slavin, 'Can financial incentives enhance educational outcomes? Evidence from international experiments', *Educational Research Review*, vol.5, no.1, 2010, pp.68–80.

rates have fallen by 20 per cent. There and elsewhere, attendance rates have also been up. A major question is whether unconditional cash transfers would have the same positive effect, or to it put differently, whether conditionality is necessary or positive in its effect. Here, there is evidence that conditions are indeed unnecessary. For instance, the evidence from the pilot unconditional cash transfer scheme in Namibian villages in 2008–2009 is encouraging. In Namibia, it was found that, almost immediately, school attendance rates went up sharply, even though there was no pressure, moral or other, on the parents to send their children to school assiduously.

The dynamics in the local community were revealing. The primary school was a public state school, but parents were required to pay a modest fee (equivalent to about Rs 50 for each term) for each child registering in the school. Before the launch of the cash transfer scheme, school registration and attendance were low, and the school had too little income from fees to pay for basics, which made the school unattractive and lowered the morale of the teachers. Once the cash transfer scheme started, parents suddenly had enough money to pay school fees, and teachers had enough money to buy paper, pens, books and items such as posters, paints and brushes. So the school environment became more attractive, giving parents and children an incentive, while raising the morale and, probably, the teaching capacity of the teachers.

An evaluation of another scheme in Africa, ostensibly conditional, also suggested that it is the cash transfer rather than the conditionality that was likely to have had the positive effect. In this scheme, the evidence was accidental in that the scheme was meant to be a CCT one, but in one area the designers forgot to

inform the recipients about the conditions and also forgot to implement the conditionality. So, the evidence that subsequently emerged was by chance.

The pilot was conducted in Malawi, another low-income country with poor infrastructure and long distances for children to travel to and from school. A sophisticated econometric evaluation concluded that 'a \$5/month transfer to a household made conditionally had roughly the same impact on schooling outcomes as a \$15/month transfer made conditional on school attendance⁶⁹.'

In general, both unconditional and conditional cash transfer schemes have been associated with a rise in school enrolment as has been found in Latin America and in various African countries.

In general, both unconditional and conditional cash transfer schemes have been associated with a rise in school enrolment as has been found in Latin America and in various African countries. In South Africa, the effect was particularly large for very young children⁷⁰. Similarly, in Malawi, cash transfers resulted in higher school enrolment and a reduction in the drop-out rate from school⁷¹. More generally, there is growing evidence that the impact of cash transfers varies by age group. In low-income areas, they are likely to have a particularly strong impact on early school attendance, whereas in higher income areas, the effect is more likely to be observable for older age groups.

69. S. Baird, C. McIntosh and B. Ozler, 'Designing Cost-Effective Cash Transfer Programs to Boost Schooling among Young Women in Sub-Saharan Africa', World Bank Policy Research Working Paper No.5090, (Washington, DC: The World Bank, October 2009) p.22.

70. A. Case, V. Hosegood and F. Lund, 'The reach of the South African Child Support Grant: Evidence from KwaZulu-Natal' Research Programme in Development Studies Working Paper 224, Princeton University, 2005; M. Samson, U. Lee, A. Ndelebe, K. MacQuene, I. van Niekerk, V. Gandhi et al, 'Final Report: Social and Economic Impact of South Africa's Social Security System', Cape Town, Economic Policy Research Institute Research Paper No.37, 2004.

71. C. Miller, M. Tsoka and K. Reichert, 'The impact of the Social Cash Transfer Scheme on Food Security in Malawi', *Food Policy*, vol. 36, no.2, pp. 230–238; MCDSS/GTZ, 2006.

The evidence from various countries suggests that the positive effect on school enrolment is particularly strong for young girls as found in Bangladesh and Cambodia as well as in Latin American countries⁷². This strong effect is surely of great significance for India today, where the lack of attention to girls has been a social sore of shame.

Finally, there is the impact of cash transfers on the incidence and extent of child labour, particularly in hazardous forms and in forms that interfere with schooling. The evidence is mixed, although mostly positive. In Brazil, a study by the Inter-American Development Bank estimated that the CCT reduced child labour substantially. Other studies have been less sure. But on balance, if cash transfer programmes have positive effects on schooling, it is likely that they also have a modest negative effect on the extent of child labour.

2.8 'Cash Transfers Would Improve Health and Nutrition'

Then there is the effect on health. Some state that cash transfers have not had much effect⁷³. But there are many studies that suggest strong positive effects on child nutrition, child and adult health status, the incidence and severity of illness, and use and effectiveness of medical services. There are also a number of anecdotal narratives that highlight the dynamics.

The evidence from various countries suggests that the positive effect on school enrolment is particularly strong for young girls as found in Bangladesh and Cambodia as well as in Latin American countries.

We may list the variety of the main health-related effects of cash transfers as follows:

- i. They improve maternal health, thereby reducing female morbidity and health problems related to child-birth, as well as reduced maternal mortality.
- ii. They improve child nutrition, resulting in less stunting and improved weight-for-age and height-for-age.
- iii. They result in a greater incidence of timely vaccinations among children against diseases such as polio, diphtheria and tetanus.
- iv. They result in greater use of health services, including greater use of services involving user fees, and greater resort to preventative health services.

Let us start with the impact on child nutrition and health. One must acknowledge that there are some studies that have been sceptical about the impact⁷⁴. However, the majority have been positive. For instance, in Colombia the conditional cash transfer resulted in improvement in the average height-for-age among children⁷⁵. In Mexico, United Nations research indicated that the CCT had reduced stunting among babies by 39 per cent for girls and 19 per cent for boys. The trouble with these and several other studies is that it is unclear how much of the positive effect has been due to the conditionality or to the

72. See, e.g., S.R. Khandker, M. Pitt and N. Fuwa, 'Subsidy to promote girls' secondary education: The Female Stipend Program in Bangladesh', Munich, mimeo, March 2003: <<http://mpr.ub.unimuenchen.de/23688>>; D. Filmer and N. Schady, 'Getting girls into school: Evidence from a scholarship programme in Cambodia', World Bank Policy Research Paper 3910 (Washington, DC: The World Bank, 2006).

73. S. Narayanan, 'A case for reframing the cash transfer debate in India', *Economic and Political Weekly*, vol. XLVI, no.21, 21 May 2011, p.43.

74. For scepticism on schemes in Honduras and Brazil, see J. Hoddinott and I. Barrett, 'Conditional cash transfer programmes and nutrition in Latin America: Awareness of impacts and strategies for improvement', Washington, DC, International Food and Policy Research Institute, 2008.

75. O. Attanasio, E. Battistin, E. Fitzimons, A. Mesnard and M. Vera-Hernandez, 'How effective are conditional cash transfers? Evidence from Colombia', London, Institute for Fiscal Studies, IFS Briefing Note 54, 2005.

cash in itself. Fortunately, there is also evidence that unconditional cash transfers have similar positive effects⁷⁶.

The experience of the pilot cash transfer scheme in Namibia is worth highlighting here. Using the WHO's z-score methodology, it was found that within six months of the start of the unconditional cash transfers, the weight-for-age figures for infants aged 0–5 years dramatically improved, with underweight children moving towards the norm and overweight children also doing so as a result of improved diets. Note that there was no pressure put on families to spend the cash in any particular way – there were no conditions. People acted in the way most people would act – they looked after the development interests of their children.

Unconditional cash transfers have been shown to lead to dietary diversity, a beneficial development associated with enhanced child nutritional status⁷⁷. Because many more conditional schemes have been launched, there is more evidence on their direct effects. For instance, Sri Lanka's Samruddhi cash transfer scheme has been associated with improved child nutrition. And in many places, including India, such schemes have been associated also with a reduction in neo-natal and peri-natal deaths⁷⁸. There is also a huge amount of evidence, mainly

based on Latin American experience, that conditional cash transfers result in a substantial increase in the use of preventative health services. Conditional cash transfers have been associated with an increased incidence of health check-ups⁷⁹. This has also been found in India⁸⁰. But note that this positive effect was also shown in the unconditional cash transfer scheme in Namibia.

There is also anecdotal evidence that having cash with which to pay for medical services results in pressure being put on public and private services to improve what they provide.

This should not be surprising, given that people are rational and can soon work it out that it is beneficial to go for health check-ups from time to time if they can afford it and have the time, and if the facilities are available. Thus, in those Namibian villages, the cash transfers meant that suddenly visits to the local clinic became affordable, while the clinic was able to make modest improvements to the premises to make it more attractive and also raise the morale and status of the nurses. With cash transfers, small user fees obviously become more affordable. But this does not mean that fee waivers should not be used for individuals or groups deemed chronically poor or chronically prone to illness and medical expenses⁸¹.

Finally, there is also anecdotal evidence that having cash with which to pay for medical services results in pressure being put on public and private services to improve what they provide.

76. See, for instance, J.M. Aguero, M.R. Carter and I. Wooland, 'The impact of unconditional cash transfers on nutrition: The South African child support grant', Brasilia, International Poverty Centre, 2007.

77. See, for instance, M. Adato and L. Bassett, 'Social protection to support vulnerable children and families: The potential of cash transfers to protect education, health and nutrition,' *AIDS Care: Psychological and Socio-Medical Aspects of HIV/AIDS*, 21, no.1, supplement 1, 2009, pp.60–75.

78. R. Himaz, 'Welfare grants and their impact on child health: The case of Sri Lanka', *World Development*, vol. 36, no.10, 2008, pp.1843–1857.

79. F. Bastagli, 'From social safety net to social policy? The role of conditional cash transfers in welfare state development in Latin America, Brasilia, IPEA-UNDP Working Paper No.60, 2009.

80. S.S. Lim, L. Dandona, J.A. Hoisington, S.L. James, M.C. Hogan and E. Gakidou, 'India's Janani Saraksha Yojan, a conditional cash transfer programme to increase births in health facilities: An impact evaluation', *The Lancet*, 375, no. 9730, 2010.

81. For a review of the issues, see R. Bitran and U. Giedion, 'Waivers and exemptions for health services in developing countries', Washington, DC, Social Protection Discussion Paper Series No.308, The World Bank, 2003.

2.9 'Cash Transfers Would Enhance Women's Economic Activity and Labour Supply'

Beyond the two standard outcomes – education and health – there are also arguments that cash transfers to low-income people and communities result in increased economic activity and increased labour supply. There is quite a lot of evidence to support this claim. It has been given insignificant attention by critics of cash transfers. Again, the evidence comes from large-scale statistical evaluations, from small-scale pilots and from anecdotal research.

In Brazil, for instance, the Bolsa Escola and its successor Bolsa Familia have been associated with an increase in female labour force participation, because it seems that women were enabled to spend on transport and to obtain alternative child care⁸². In Mexico, evaluations of Progres-Oportunidades concluded that the cash transfers had no effect on labour force participation⁸³. There and elsewhere cash transfers seem to be associated with some reduction in child labour, which was compensated by an increase in adult labour.

In Namibia, the provision of unconditional cash transfers was followed by an increase in work and labour force activities by women and an increase in job-search activity both by men and women. In South Africa, the labour force participation rate of those receiving cash transfers increased by 13–17 per cent compared with those in similar

82. See research summarized in ILO, 2004.

83. See, for instance, E. Skoufias and V. di Maro, 'Conditional cash transfers, adult work incentives and current poverty', Washington, DC, The World Bank, 2005.

The arguments in favour of cash transfers rest on their potential for having multiple positive effects.

households who did not receive them, with the greatest increase coming for women⁸⁴.

In sum, the arguments in favour of cash transfers rest on their potential for having multiple positive effects. Unlike the labour line, they do not impose onerous labour on already disadvantaged people, and unlike the subsidized commodity line, they enhance the freedom and agency of people who surely need and want more of both.

84. Economic Policy Research Institute, *The Social and Economic Impact of South Africa's Social Security System: Final Report*, Cape Town, Department of Social Development, EPRI Research Paper 37, 2004.

8. The Corruption Issue

It is well established that social policy in India has been blighted by endemic corruption for many years at all levels. At least two questions arise in our context:

- i. Would cash transfers be subject to the same degree of corruption as the existing system?
- ii. Would it be easier or harder to tackle corruption in cash transfers than in other forms of benefit?

The answers to these questions are not obvious, and both sides of the debate should acknowledge that, in particular, one must recognize the role of distrust in the market system per se induced by many years of fraud, 'crony capitalism' and profiteering. This has created a psychological barrier to rational discussion of the potential of cash transfers⁸⁵.

85. B. Panda, 'Cash may yet be king', *Indian Express*, 8 June 2011.

86. 'Editorial: India's welfare muddle', *Economic Times*, 21 September 2011, p.16. <<http://economictimes.india.times.com/opinion/editorial/indias-welfare-muddle/articleshow/10061162.cms>>

87. McKinsey and Co, 'Inclusive Growth and Financial Security', October 2010, cited in S. Agarwal, 'Ministry approves proposal for UID-linked direct subsidy transfer', *Mint*, Delhi, 21 September 2011

Cash transfers that go directly to bank accounts would provide a channel for public vigilance, even if governance structures may be needed to overcome any tendency by banking correspondents to use monopoly powers.

Cash transfers by themselves certainly would not eradicate the corruption that has been a deep feature of India's welfare system. Indeed, some cash transfer schemes have been exposed as very corrupt, as in Uttar Pradesh, where a vast scam was exposed in a scheme supposedly giving cash support to pregnant women⁸⁶.

However, if one thinks of social policy as having a series of steps of decisions and actions, then one might conclude that simply because there are fewer steps in the provision of direct cash transfers, which consist of known and equal amounts, there are fewer steps or points at which corruptions could occur. And cash transfers that go directly to bank accounts would provide a channel for public vigilance, even if governance structures may be needed to overcome any tendency by banking correspondents to use monopoly powers.

Moreover, with universal cash transfers, the value of what should be received would be known to everybody, and so any deduction or non-delivery would be visible and traceable. This must act as a strong deterrent to any intermediary corruption. And local people would have a vested interest in supporting anybody who was cheated of their cash, since it could easily be him or her next.

Above all, there are exciting electronic possibilities that hold out the hope of making huge savings in the delivery of cash transfers. McKinsey, the multinational consultancy, issued a report in October 2010 that concluded, 'An electronic platform for government payments to and from individual households can save an estimated Rs.100,000 crore a year – almost 10% of the total payment flows between the government and households.'⁸⁷ With the advances in electronic technology, the figure may now be somewhat more.

9. The Governance of Cash Transfers

One form of corruption, which is rarely recognized as such is political manipulation of policies to secure election outcomes or to reward supporters and penalize opponents. Some critics of cash transfers might worry that their level would be adjusted just prior to elections in order to garner more support for a government in office. This is always a strong possibility with any welfare policy.

However, with cash transfers there is a relatively easy measure that could reduce the likelihood of such manipulation. This is to set up an Independent Cash Transfer Commission (ICTC) to oversee the whole policy, with a mandate to adjust the level depending on such factors as economic growth and inflation. Such a commission would have to be transparent in its dealings, take evidence from experts in a public accountable manner and have members who were representative of all the relevant interests, including most importantly 'the poor' themselves.

As with any social policy, there would be a democratic governance gap to overcome. One of the

One of the greatest failings of social policy in India and in the whole world is that the intended recipients are treated as objects, or at best as beneficiaries of state charity.

greatest failings of social policy in India and in the whole world is that the intended recipients are treated as objects, or at best as beneficiaries of state charity. There has been much talk about empowerment and participation, but little about how this democratic governance gap could be closed. What are needed are mechanisms for representatives of the poor and the precariat to be on boards of administration or their equivalent.

10. Calculation of Suitable Amounts for Disbursement as Cash Transfers

Any discussion of cash transfers would be incomplete if it avoided the simple question: How much? In the protracted international debate on basic income, this has been controversial for obvious reasons. Philosophical reasoning and sophisticated arguments are in favour of a full basic income that would be sufficient to give an average income for the country.

However, the two most popular positions have been based on economic rationales. The first holds that the amount should be sufficient to provide for the basic necessities for survival, which would, obviously, be a low amount. The second holds that it should amount to what would be a social dividend, that is, a return on the natural resources of a country, so that the amount would be indeterminate a priori. The latter is essentially what has been the case of the Alaska Permanent Fund, which has been in operation since the early 1980s, designed to distribute an annual cash transfer to every legal resident of Alaska based on the return to investment made from part of the profits of the oil industry there.

Philosophical reasoning and sophisticated arguments are in favour of a full basic income that would be sufficient to give an average income for the country.

A third rationale has been based on assessments of the behavioural impact of different amounts. The typical argument is that if the amount is high it will tend to reduce labour supply and economic incentives. So, as the argument goes, the amount should be quite low. In that regard, it is interesting that in Nicaragua after five years of cash transfers the monthly amount was lowered slightly, and this caused an increase in labour supply⁸⁸. We observed earlier that there is evidence that cash transfers in themselves can raise labour supply. But clearly there is a balance to be sought. One should also ask the question whether an increase in labour supply is actually desirable, given that most people have a lot of work demands that are outside the labour market.

Finally in this regard, there is the pragmatic approach. That is to say that one should start with a very low amount of cash or start by targeting one group (for example, the elderly, women with young children, young children themselves, or the disabled) with the intention of gradually rolling it out to others and eventually to every legal citizen of the country. This would combine moral and fiscal rationales.

Critics would argue that if the amount was very low, it would not be worth providing. But if there was a commitment to rolling out the scheme as and when the country could bear the cost and in the light of the effects of the amount being provided, there should be no reason for this being an impediment to its progressive realization.

88. J.A. Maluccio, 'The impact of conditional cash transfers in Nicaragua on consumption, productive investments and labour allocation', Rome, Food and Agricultural Organisation, ESA Working Paper No.07-11 2007; F. Bastagli, 'Conditional cash transfers as a tool of social policy', *Economic and Political Weekly*, vol. XLVI, 21 May 2011, p.63.

11. Cash Transfers for 'Shocks'

There is one type of situation for which cash transfers should be considered separately from the mainstream Indian debate. That debate has been shaped by whether or not they should be a substitute or a complement for subsidies and the labour line. But, what about their potential role in the aftermath of ecological, social or economic shocks?

As noted in the contextual introduction, the incidence of shocks of one kind or another has been rising sharply in the globalization era. The reality is that in India, and elsewhere, the social, economic and ecological shocks have included earthquakes, tsunamis, floods, droughts and epidemics.

The conventional approach has been to react to such events with a series of ad hoc responses. In that context, insufficient attention has been given to the potential role of cash transfers. Yet there is now a wealth of examples from around the world to show how and when they could be invaluable in helping in the recovery phase.

There is considerable evidence that cash transfers do make responses to shocks much more effective⁸⁹.

The key lesson is that cash transfers must be part of a package of reactive policies. By themselves, they certainly would not solve the crisis.

They may make other schemes work better at the same time, and enable community-based health insurance schemes to survive shocks⁹⁰.

The key lesson is that they must be part of a package of reactive policies. By themselves, they certainly would not solve the crisis. It is first necessary to re-establish supply of basic goods and services. But at that stage, an influx of cash can regenerate the local economy as well as raise morale and economic purchasing power.

89. See, for instance, P.M. Mvula, 'The Dowa Emergency Cash Transfer Project: A study of the social impacts', Johannesburg, Regional Hunger and Vulnerability Programmes, 2007; D. Datta, A. Ejakait and K. Scriven, 'Cash transfers through mobile phones: An innovative emergency response in Kenya', London, ALNAP Innovations Case Study 1, 2009.

90. For the value of these in general, see M. Ranson, 'Reduction in catastrophic health care expenditure by a community-based health insurance scheme in Gujarat, India', *Bulletin of the World Health Organisation*, vol. 8, no.8.

12. The Choice Approach

A unique feature of an ongoing pilot scheme in Delhi orchestrated by SEWA was that residents in one area of Delhi were offered a choice of continuing to receive the rationed subsidized food and other basic commodities or receiving cash transfers⁹¹. This free choice created vehement opposition to the pilot experiment. However, it might have helped to defuse some opposition and suspicion among the local population if not activist groups with political agendas.

The idea of giving people a choice is initially attractive, and it has virtue in offering a means by which sceptics can opt for continuing with the existing scheme if they wish. But it does have potential drawbacks that should be recognized. One is that people could shift back and forth opportunistically and at short notice, if, for example, rations do not come into the shop or if they have stocked up on rations and then opt for the cash

91. This is not the same as the pilot to which reference was made earlier, which is an additional cash transfer scheme, without any displacement of subsidies for consumption.

What cash transfers should be judged on is their impact on welfare, behaviour and attitudes not on whether some people want food and some people do not as much.

transfer, which would be an additional benefit rather than a substitute. But these are practical issues that could be resolved by making switches acceptable only with a month or more of notice or some such rule.

A more generic criticism of the choice approach is that it suggests that those who pose the choice see the policies as in competition and as alternatives. This is being unfair to cash transfers. What cash transfers should be judged on is their impact on welfare, behaviour and attitudes not on whether some people want food and some people do not as much. There is no need for this extra weight to be put on the evaluation exercise.

Human rationality being what it is, there is a common tendency to fear losing what we already have, which even if we are offered something better deters us from taking it. People, particularly if economically and socially insecure, and even more so if they lack knowledge and distrust bureaucratic officials dealing with them, tend to opt for what they have, rather than risk having something better. This is one further powerful reason for being cautious about the choice approach.

Another factor, which is one this author used in responding to Jean Dreze's critique of cash transfers, is that the choice is not adequately captured⁹². Dreze proposed that the poor should be asked whether they would prefer food or the equivalent in cash. But this is not what is confronting social and economic

92. Dreze, 'The cash mantra', 2011; Standing, *The Precariat*, 2011.

policymakers. If only 40 per cent of the expenditure on food through the PDS reaches its target (and one must wonder if that is actually an overestimate, given that much of the food reaches the non-poor rather than the poor), and if the policy decision was to replace the PDS by cash transfers, then the fair choice should be between the actual value of the food received and the per capita expenditure on the PDS in cash form. If the value of PDS food was Rs 200 a month, for example, then the fair question should be, 'Would you prefer to receive the PDS food worth Rs 200 a month or receive Rs 500 in a cash transfer?'

There is also a practical and rather ugly reality of the choice option. This is that posing a choice to insecure residents of a low-income area leaves them open to intimidation by opponents of change. This was evidently the reality in Delhi in the early months of 2011. Some critics, including ration shop owners, have frightened participants in the pilot project by telling them that their BPL cards would be withdrawn if they participated in the project. In effect, the objective testing of cash transfers could be distorted by the nature of the opposition on behalf of vested interests and ideologically driven intimidation.

In its favour, the choice option approach would also put pressure on the ration shops to improve the service they are supposed to provide to the poor. The privileged shops will fear losing customers. This is also an argument in favour of having competition in the food markets. Another is that the option of returning to the ration shops will put pressure on the government to provide a 'fair amount of cash', enabling the cash to be an 'automatic stabilizer'.

One must doubt the efficiency of this mechanism, since the main cost would be borne by frustrated

Cash transfers should and could be adjusted to become automatic stabilizers.

people who switch back to the BPL system and thus put pressure on its supply chain at short notice. Cash transfers should and could be adjusted to become automatic stabilizers, but it would surely be unwise to mix up that function with low-income consumers switching under duress.

Ultimately, the authorities and the critics must come to the realization that the BPL/APL card system is a mess – chronically inefficient, chronically inequitable and an impediment to the development of a sound social protection system.

13. Concluding Reflections

Cash transfers can affect people's morale, their attitudes to others, to their communities and other policies, and their behaviour. Most studies of cash transfers have only focussed on some of the last mentioned type of effects. Other aspects may be even more important in the longer term frame of development and social cohesion.

In evaluations of cash transfers, there should also be a range of effects to consider – on the individual recipient, on his or her household and wider kinship group, and on the communities in which the individual is situated. Most evaluations have focussed on the narrower issues, rather than on the potential for community development and social solidarity.

In India, as elsewhere, we are at a critical stage in the debate on cash transfers. So far the debate has been rather aggressive as seen in the posturing and pejorative comments. In that context, it should be recognized that there are essentially four perspectives that should be defining the contours of the debate. Let us conclude by trying to articulate each of these fairly and transparently.

First, there are some who see cash transfers as part of a grand design to create a free market economy, in which the role of the state as a social protection agency shrinks and occupies a peripheral status. This is the 'neo-liberal' model. It should be stated categorically that the majority of those involved in the debate proposing cash transfers do not take this approach.

Second, there are those who oppose cash transfers on ideological grounds. They are convinced that they are no more than a wedge opening up the economy to market forces and a means of making privatization and commercialization feasible and tolerable. From this perspective, critics feel that they would be unable to ensure conditions that would counteract the effects of an unregulated market economy and that would make cash transfers work for the redistributive or progressive objectives they claim to want to promote.

Third, there are those who see cash transfers as a necessary or desirable complement for a state-based social protection system in which public social services are an integral part. The critics who attack cash transfers and their proponents, as if they are set against a social state, do themselves and the cause of the poor and economically insecure a gross disservice. Indeed, what we should be struggling to achieve is a strategy to strengthen economic security through cash transfers while providing better and more public services. This could be helped through ridding the country of the hugely expensive and inegalitarian subsidies that eat up a large part of national income and corrode trust in the public sphere in general.

Meanwhile, it may well turn out that universal cash transfers are an important way to induce better and

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greater use of public social services. People with money can demand better and can help to induce better services from providers.

Fourth, and by no means in contradiction with the third perspective, there are those who believe that cash transfers can work efficiently and equitably only if combined with mechanisms that give voice to the economically insecure and vulnerable. For more than twenty-five years, the writer of this paper has been arguing that cash transfers should never be seen in isolation or as a stand-alone policy. They could be used for good or they could be used for something many social policy analysts would regard as evil.

A danger is that, if the conditionalists have their way, they could fall prey to social engineering and be used politically for their compliance with unsavoury policies in other spheres or to influence elections. There is no reason to think that either of these possibilities will come to be a reality. But it is essential to pre-empt trends that could push the state in that direction. The paternalists must be opposed. The strongest way to do that is to ensure that collective-voice institutions and associations exist to combat potential misuse and to assist people unfamiliar with financial matters to make better use of cash when they receive it.

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