

Tsunami Recovery Grants

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All those who have watched their fellow human beings traumatised by the tsunami will warm to the outpouring of money intended to assist them recover and revive their lives. Major conferences of world leaders are hastily arranged; donor representatives convene to meet in Geneva. What should be done with the money being mobilised so dramatically?

In the immediate aftermath of a great disaster, the priority is food, shelter and medicine. Chaos reigns, infrastructure must be recreated, starvation and epidemics prevented. It is the post-emergency phase to all that where so much more can go wrong, and where so much more could be achieved with the resources that are mobilised internationally and that are expended.

One of the gravest errors of the Iraqi occupation came with the post-war social policy, of food rations and direct provision of goods and services. The predictable result has been administrative inefficiency and allegations of corruption. Ironically, the stated objective of the occupiers was to create a democratic market economy. If that were the intention, a better way would have been to find ways of reaching the people directly with money, so that they could choose how and on what to spend. Modest monthly Iraqi Freedom Grants, given to every citizen, would have been less costly to administer than rationing and less likely to be resented as paternalistic, arbitrary and discretionary.

Now the world is faced with an even more transformative challenge. The moving reaction of the world is a tribute to a collective sense of humanity and human solidarity. What will be done with all the money? The desire to do good is truly inspiring. And the film and reports from the scenes of disaster testify to countless examples of local goodness. Now imagine two possible scenarios.

First, suppose the aid flows to local and foreign bureaucracies. They will do their best; food is pumped in there by the planeload, funds are given to local “authorities”, and gradually the enthusiasm of the “international community” will wane. The result will be some recovery, but only a limited reduction in poverty or increase in sustainable recovery and development. It is likely that as with the Bam earthquake, much of the money initially promised will not materialise. Part of the rest will be lost to intermediaries. What will be very clear is that the victims and their communities will receive only a small share of the funds.

Second, suppose that after the initial focus on emergency relief, part of the foreign aid was allocated to what might be called Tsunami Recovery Grants, giving about \$20 a month to every individual living in the affected areas, without condition. A system of disbursement could be devised fairly easily, using biometrics for identification to prevent petty fraud. Simplicity and transparency are paramount if

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donors and policymakers are really serious about redressing the impoverishment of the already impoverished that is the main reality.

Tsunami Recovery Grants would stimulate the rebirth of a local market economy geared to the basic human needs of the remaining or returning local populations. They would also give people a sense of modest economic security in which to come to terms with the trauma of the life-shattering experience. In these disasters, even economists too easily look for a paternalistic option, wanting policymakers to be seen to be doing good, rather than relying primarily on the economic rationality of individuals, local communities and self-forming social groups. Of course, such grants need to be complemented by public investment, but strengthening local purchasing power is crucial.

Two objections are standard to this type of proposal. One is that grants would go both to those in need and those less in need. Critics will argue that this is poor targeting, and thus unnecessarily costly and inequitable. Toshi. In a natural disaster of a community-destroying type, almost everybody is heavily hit. And those communities need their richer members to stay to help to rebuild. If they receive the grant as well as the poor majority, that would help rebind the sense of social solidarity and commitment.

Second, would they not be inflationary? Pouring all those \$20 grants into the area would lead to demand for food, clothes and housing components in short supply. Prices would rise. Well, if we believe in a market economy, we should accept that this is the best way of stimulating an increased supply of precisely those goods and services wanted and needed by the poor and vulnerable. If the price of eggs went up in the first few weeks, suddenly a few youth would travel to buy chickens and set up a small 'farm'. If the price of cement went up, old battered lorries would be chugging long distances during the night.

A system of monthly grants paid to every individual would also be equitable in other ways. There is a tendency in many well-meant paternalistic schemes for certain groups to benefit more than others. Often it is young men who are provided with public works' jobs; sometimes, young women are deliberately favoured. Often the people excluded by such selective measures are the elderly and those with some disability. If every individual received a basic monthly grant, policymakers could focus on giving additional aid and assistance to those with specific disadvantages.

Above all, monthly grants, being *relatively* easy to administer, could be a visible way of recreating communities, giving purchasing power to the whole population and thereby encouraging community spirit and a sense of collective hope and solidarity.

How would the funds for the TSGs be managed? Obviously, the exact formula would have to be worked out locally. But let me suggest a simple procedure. In each community devastated by the tsunami, a Tsunami Recovery Trust Fund (TRF) should be established. Money should be deposited from foreign donations supplemented by tax or other funds from central government in the country concerned. One would anticipate that part of the TRF could be used to make loans to small businesses undertaking infrastructural investment (such as rebuilding local schools). But the

profits from such activities should be used to pay for the administration of the local Fund, and, if sufficient, for cautious investment to augment the Fund as a vehicle for the individual grants – much as has been done with the Alaska Permanent Fund.

One temptation for policymakers would be to turn the monthly grants into one-off lump sum payments, turning them from income to capital grants. That should be resisted, being both more expensive for the Fund (depriving it of investment income and possibly requiring it to borrow if the Fund is being supplied with money over a prolonged period, as the money flows into the country). One-off lump-sums would also be conducive to *weakness-of-will* consumption splurges by recipients, leaving some of them destitute late and thus a source of relief expenditure, unless the local authorities would leave them to die. Monthly modest payments would be more conducive to a slow growth of a sense of basic security, helping overcome the effects of the trauma and inducing people to make longer-term decisions.

What about the cost of this venture? The casual observer would be inclined to think of the number of recipients multiplied by \$20 multiplied by 12 or 24 months, if the scheme was envisaged for two years. Let us suppose that, in Sri Lanka or Indonesia, the number in each case were one million. That would translate into \$480 million. Critics might mumble that this would be too much to be affordable. Really?

Consider the *net* cost, along with some minor reasonable adjustments. First, one could, force majeure, plan for one year provisionally. Second, a lower monthly amount could be provided for all those aged below, say, 14, which corresponds to the lower weights given to children in consumer expenditure surveys. If 15% of the population affected is below that age, and if children were given 50% of the adult TRG, then one is talking of a maximum of \$222 million per year.

Then, the government would be able to deduct some of what they would be spending on income transfers in any case. The world is awash with inefficient and inequitable transfers and subsidies. Substituting the Grants for some of the other money flows would reduce the net cost somewhat.

There are also longer-term development effects, including the growth of tax-paying production of goods and services as the local economy revives. The sooner the community is regenerated, the sooner those tourists and their lavish spending are likely to return. They pay taxes on what they buy. In short, the net cost would be much lower than the gross cost.

Finally, for those concerned that providing the countries with *debt relief* would risk the unpaid money being used for other purposes, the donor countries and international agencies could make it a condition that the debt relief should be used to supplement the Tsunami Recovery Fund.

It may seem early to be thinking of the post-emergency phase, but unless policies are devised correctly now, piecemeal efforts will come when there should be a strategy in place. Governments should make a commitment to Tsunami Recovery Grants for an initial period of two years, and then see the effects on poverty, inequality and sustainable *taxable* development. It is feasible economically. It is common sense.