Cash Benefits: The Politics of Reform

Guy Standing

Direct cash benefits can be a valuable part of social policy for the future, reducing poverty, economic insecurity and income inequality, while helping economic growth in low-income areas across India

FOR MANY years, the writer of this article has been working on what is today called 'direct cash transfers' or, more correctly, 'cash benefits'. I begin with that remark because recently there has been a tumult of shrill commentary in the media, much of it by commentators who appear to have little knowledge of what they involve and little respect for objectivity.

Let me give further context to the following. For the past four years, I have been working with SEWA and UNICEF on implementing and evaluating three pilot cash benefit schemes in different parts of India. What must be understood is that, even if the rationale for cash benefits were impeccable, the political strategy will be crucial. Public opinion will have to be convinced that they make sense. If reform is rammed through without intellectual preparation, it will backfire, and the legitimacy of a desirable reform could be so eroded that the cause will be put back for years.

Let us recollect what is at stake, and plead with advocates and critics for dispassionate analysis. Let us also make the heroic assumption that advocates and critics share a desire to reduce poverty more effectively, reverse the growth of inequality, boost economic development, and reduce government budget deficits to more sustainable levels.

If we could add a plea to all those involved in the debate to be intellectually honest and not indulge in political propaganda, insults, dirty tricks and caricature, then we might make progress in forging something close to a consensus. Nobody advocating cash benefits should imagine them as a panacea. Most advocates certainly do not think they are. And surely critics can appreciate that having money is a necessity for escaping from poverty.

I, among many, believe in a right to food for everybody and in well-constructed public social services. There are reasons for believing that cash transfers can help improve them.

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Putting polemical distortions on one side, recall some realities. For decades, the pillars of Indian social policy have been the Commodity Line and the Labour Line. The former has relied on an array of increasingly expensive subsidies, the latter on public works and the MGNREGS.

As far as subsidies are concerned, any Economist should be able to show they are always dubious. We also know that the main engine of subsidies, the PDS, is rife with corruption and that most of the money spent on it does not benefit the intended beneficiaries, as Rajiv Gandhi noted years ago, and as the Planning Commission and Minister of Finance have recognised. The Right-to-Food lobby wishes to universalise the PDS, somehow imagining that corruption could be overcome. But the corruption is not the fundamental problem. Subsidies distort legitimate market mechanisms, block off local production of foodstuffs, and are inherently inefficient, paternalistic and trap people in dependent poverty.

As for the MGNREGS, surely there is enough evidence now to show it cannot be an effective and equitable route for social protection. It is riddled with inefficiency and inequities, while not producing sustainable public infrastructure. For instance, in the 67 villages covered by our surveys in the past four years, not one has showed the scheme as working remotely like the way national statistics indicate. To continue to place great hopes in the scheme would be a triumph of hope over reality.

However, if those supporting the PDS and MGNREGS wish them to continue, that should have no bearing on how they think about cash benefits. There is no need to treat them as substitutes. Each should be justifiable or not on their own terms.

Consider cash benefits as a stand-alone policy. What are the criticisms? They are the claims that the money would not reach the lowest-income groups, they would be wasteful, they would be inflationary, their value would fall because of inflation, and they would induce laziness. All of these claims can be refuted, theoretically and empirically. A review of the evidence is presented elsewhere.

What are the advantages? Here, we can draw on extensive evidence from various types of cash benefit schemes in a variety of countries and socio-economic conditions. And we can draw on experience in India, notably from the pilots we have been undertaking.

The first advantage is that, being more transparent than alternative policies, they can be directed to those in need more effectively than any scheme that goes through layers of bureaucracy. Here, the authorities must be careful. The transparency and simplicity of the channels of distribution of cash must be preserved.

Second, cash benefits are emancipatory. They enable people to make choices on how to spend their money, depending on their priorities. Not everybody is “food poor”. Many are “health poor” and might wish to spend more on medicines or treatments. Some are primarily “schooling poor” and might wish to spend mainly on school-related expenses. Many are “debt poor”, trapped without the cash to chip away at the burden weighing down their lives. Some are “production poor”, unable to pay for items that would enable them to become productive. Cash benefits could facilitate investments, helping families break the shackles on small-scale production.

Third, cash benefits paid regularly, each month, provide a source of insurance. The regularity of money leads people to feel some basic security; as such, they can more control of their lives.

What we know from studies in India and other countries is that cash benefits lead to better nutrition and health, better school attendance and performance and improvement in women’s economic status.

However, it is the design of cash transfers and the implementation strategy that will determine their success. Here there is room for improvement. Cash benefits can be a supplement to other schemes, capable of inducing desirable outcomes that could not be done by subsidised commodities or the MGNREGS.

There are five design decisions to be made. First, should the cash benefits be universal or targeted? So far, government has presumed they should be targeted. However, in the SEWA-UNICEF pilots, the principle of universalism has been applied. Everybody in the nine villages was given the right to the cash each month. By contrast, the government seems to have accepted that cash should be targeted through the BPL ration-card system, with the intention of providing help solely to those holding the relevant card.

That system is inequitable and inefficient, as argued elsewhere, drawing on evidence from various studies. No amount of tinkering will overcome its failings. Social policy must be based on reality.

It would be fairer and less expensive to implement universal cash transfers, in which everybody would be required to apply to receive them. Where this has been done, what tends to happen is that some of the wealthy opt out by simply not applying. That should be their prerogative, as citizens. But cash paid out to above-poverty people could also be clawed back by making the tax system slightly more progressive. In addition, considerable savings would be made by not having to administer an expensive faulty BPL card system.

A universal system would also overcome the notorious *poverty trap*. This is an automatic feature of any policy based on giving only to the poor. It means that anybody who manages to go from being poor to being just above the poverty line loses entitlement to benefits and so can be worse off. The poverty trap encourages *moral hazards* – i.e., a person has no incentive to work harder – and *immoral hazards* – i.e., a person has an incentive to conceal income. A system that works like that cannot be good.

The second design question is even more controversial. Should cash benefits be conditional or unconditional? Conditionality means that recipients must undertake some prescribed type of behaviour or lose their entitlement.

Conditionality should be resisted, even though nominally CCTs (Conditional Cash Transfers) have been perceived as successful in Latin America and some other places. Their success is almost always because of the cash, not the conditionality. In Brazil, as the Minister responsible for the *Bolsa Familia* told me, it became impractical and unedifying to take the conditionality to its punitive limit of taking benefits from women who could not carry out the conditions imposed on them.

It may not be the fault of a mother that her child does not go to school for, say, 85 percent of the time, or whatever the rule might be. To take away the benefits because a condition is not met would worsen the situation for the child and the family. Accordingly, the system in Brazil has evolved into one based on "mutual responsibility", where mothers agree to try to send their children to school and to clinics while local authorities agree to make it easier for them to do so.

The next design feature is the decision on who should receive the cash. Again there is more thinking to be done. Should the cash benefit be given to "the family" or to individuals, and should it be given to one type of individual on behalf of the whole family or household or to individuals? The Delhi scheme has been based on giving a block amount, Rs.600, to the senior women of a household. The trouble is that a household size is highly variable and a senior woman might not be the most suitable person to be given the money.

A family is a stretched concept. Some families live together, some are scattered. If one takes the household as the unit for cash transfers, should the amount be determined by the number of usual residents or by some norm household size? What should happen if somebody leaves or enters? Should the amount be raised if people enter or be left as a standard amount? Merely to pose these questions should be sufficient to indicate the scope for unfairness that will arise if one proceeds on a family or household basis.

The only fair way is to calculate the amount to be paid on an individual basis, so that each and every person is treated as an equal, probably with children being entitled to a lower amount, and with that being paid to the mother or surrogate mother.

However, who should be the recipient? There is a tendency to think the money should be given to one woman in each household, on the grounds that women are more rational in spending money, and more likely to spend on children. But that is not always the case. And giving the money to any one person, be it a woman or the household head, sets up biases and potential frictions within households.

When we were designing the SEWA pilots, we debated this matter at length. Interestingly, women leaders from rural areas argued in favour of giving to each adult in the household, not just to women. There are sound reasons for this. One is easily overlooked. In cash-constrained households there is a tendency to give priority to certain individuals, such as the main earner, eldest son, and so on. This means the voice and needs of disadvantaged members are neglected. That unfairness can have severe consequences. But if each person has their cash benefit, all will be in a position to demand their needs are respected. This is particularly important for female adolescents, the elderly and the disabled. In short, individual cash benefits can enhance their bargaining position, status and welfare.

This leads to the next design feature, one that has attracted most comment so far, the desire to combine cash benefits with a national campaign for *financial inclusion*. The UID is a marvellous innovation. Anybody doubting that is like an ostrich with its head buried in the sand. But we should recognise that it will take several years to evolve, during which time there will be numerous hitches. No UID advocate should be sanguine or rely on the lazy line that short-term pain is necessary for long-term gain. Everything should be done to ensure that those who cannot afford to bear such pain do not do so. This means the initial distribution of cash benefits should be separated from the establishment of bank accounts, and that recipients should be advised that they have six months to open an account or establish a unique identity. The situation that arose in Kotsakim is unacceptable, and if repeated would erode the legitimacy of cash transfers in general.

There is much else to be debated as India comes to terms with the implications of moving towards a twenty-first century social protection system. It should not be based on patronising, paternalistic subsidies, nor on the sort of social security system developed in industrialised countries in the twentieth century. A social insurance system would not work.

We hope that many of the issues around cash benefits will be considered in the planned conference in Delhi in early 2013, when data from the evaluation surveys linked to the SEWA-UNICEF pilots will be presented. Nobody should claim cash benefits are a panacea, and nobody connected to our pilots have ever thought that.

Nevertheless, direct cash benefits can be a valuable part of social policy for the future, reducing poverty, economic insecurity and income inequality, while helping economic growth in low-income areas across India. But the design and how they are rolled out will determine whether the reformers succeed or not. Let us be strategic and wise. ❑

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