

DIRECT CASH TRANSFERS

The poor are responsible too

Our surveys show cash transfers made people work more, improved their health, and education levels also rose

The debate on cash benefits has been poisoned by ideological posturing, amid claims of ulterior motives. The question should be whether direct monetary payments to individuals and families could overcome the failings of the existing system so as to induce structural changes that would revive economic growth while addressing the disgraceful fact that over 350 million people remain mired in poverty after two decades of high growth.

In 2011, we launched two pilots to test the impact of what are best called basic income grants, funded and overseen by UNICEF, with SEWA as coordinator. In eight villages in Madhya Pradesh, every man, woman and child was provided with a monthly cash payment of initially ₹200 for each adult and ₹100 for each child paid to the mother or guardian; these were later raised to ₹300 and ₹150, respectively. The money was paid individually, initially as cash and after three months into bank or cooperative accounts. Painful lessons were learned about how to do that, which national and state authorities must heed if they are to succeed in rolling out direct cash benefits.

There was no substitution for other schemes. And no conditions were imposed on recipients. This we regard as crucial. Those who favour conditionality are effectively saying they do not trust people to do what is in their best interest and that the policymaker knows what is.

We also operated a similar scheme in a tribal village, where for 12 months every adult was paid ₹300 a month, every child ₹150. Another tribal village was used as a comparison.

Basic income grants are not a magic bullet. They work optimally with good public services and social investment. And we believe they would operate better if implemented alongside a Voice organisation. So, in half the villages selected, SEWA was operating; in the others, it was not.

We studied the impact over 18 months using a randomised control methodology. We have much more to do with the data, but the story is fairly clear. Before reviewing the findings, note that contrary to some assertions, a majority did not prefer subsidies, and with experience of cash grants more came to prefer cash to subsidies. The locals do not call the PDS ration shops "control" for nothing.

So, to eleven results. First, many used money to improve their housing, latrines, walls and roofs, and taking precautions against malaria. Second, nutrition was improved, particularly in

SC and ST households. Perhaps the most wonderful finding was the significant improvement in the average weight-for-age of young children (the WHO z-score), more so among girls. There was a shift from ration shops to markets, made possible by the increased financial liquidity. This improved diets, with more fresh vegetables and fruit, rather than the narrow staple of stale subsidised grains, often mixed with stones in the bags acquired through the PDS (aptly named) "control" shops.

Third, better diets probably helped account for the improved health and energy of children. We observed a much reduced incidence of seasonal illness and more regular taking of medicines, as well as more resort to private health care. Public services must improve!

Fourth, better health helped explain the improved school attendance and performance. Also contributing was the fact that families were able to buy things like shoes and pay for transport to school. An important point here is that families were taking action themselves. There is no need to apply expensive conditionality. People can think for themselves! People who are treated as adults learn to be adults; people who are treated as children remain childlike. No conditionality is morally acceptable unless you would willingly have it applied to you, your wife or your daughter.

Fifth, the scheme had positive equity outcomes. In most respects, we found a bigger positive effect for disadvantaged groups—lower-caste families, women and those with disabilities. Suddenly, they had individual money and thus a bargaining position in the household. Empowering the disabled is



GUY STANDING

sadly neglected.

Sixth, the basic income grants were associated with investment in small-scale ways—more and better seeds, sewing machines, establishment of little shops, repairs to equipment, and so on. This was associated with more production, and thus higher incomes. The positive effect

on production and growth means that the elasticity of supply would offset inflationary pressure due to any increased demand for basic food and goods.

Seventh, contrary to the sceptics, the grants led to more labour and work. But the story is nuanced. There was a shift from casual wage labour to more own-account farming and business activity, with less distress out-migration. Women gained more than men. Isn't that what we want?

Eighth, there was an unanticipated but wholly welcome reduction in bonded labour. This has huge implications for local development and equity.

Ninth, those with grants were more likely to reduce debt and less likely to go into increased debt. One reason was that they had less need to borrow for short-term purposes, at 5% or more a month. Indeed, the only group to complain about the pilots were moneylenders.

Tenth, one cannot overestimate the importance of financial liquidity in low-income communities. (Money is a scarce and monopolised commodity, giving moneylenders and officials power. Bypassing them in the distribution is not the only way by which cash grants would erode corruption.) Even though families were desperately poor, they managed to put some money aside as savings, and thus could avoid going into deeper debt and be more resilient when financial

crises hit, via illness or bereavements.

Eleventh, unlike subsidised targeted schemes that lock economic structure and power structures in place, entrenching discretionary, corrupt dispensers of BPL cards, rations, special schemes—of which there were 358 in the areas covered—universal unconditional basic income grants allow villagers greater control of their lives. And they have beneficial equity and economic growth effects.

Policymakers must realise that universal schemes can be less costly than targeted schemes. Targeting, whether by the discredited BPL card, which I am glad is being abandoned slowly, or by other methods, is expensive to design, implement and maintain. All targeting methods have high exclusion errors. We found only a minority of the poorest that BPL cards. I am prepared to bet with any IPL-free bookie that within a year of the introduction of any targeted mechanism there will be overwhelming evidence of chronic inefficiency, inequity and corruption. Advocates of new methods should put their money where their mouth is. There are teething costs with direct cash benefits. This is one reason for recommending that any substitution for subsidy schemes is done after they have been established, not before or at the same time. A final recommendation is that government should involve reputable independent civil society groups in the implementation and not rely solely on the BC model.

These are momentous times in Indian social policy. Old-style paternalism must be rejected and a new progressive system constructed.

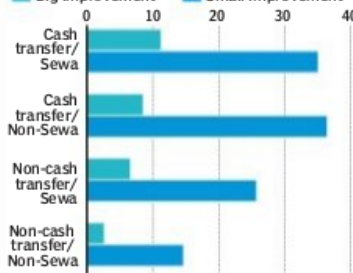
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CASH TRANSFER WORKS

CHILDREN IN CASH-GRANT FAMILIES MORE LIKELY TO IMPROVE SCHOOL PERFORMANCE, 2012

% households with change in school performance

Big improvement Small improvement



GAINFUL WORK INCREASED FOR CASH GRANT FAMILIES, 2011-12

% change in income-earning/production work

Increased Decreased

