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The siren song of cash transfers

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Cash transfers are the latest fad of the international development industry, as the preferred strategy for poverty reduction. And now Indian policymakers are busy catching up. The idea was mooted in the Government's Economic Survey for 2010-11, and the Finance Minister made an explicit announcement in his budget speech for replacing some subsidies on goods with cash transfers.

So what exactly is this strategy all about? In the recent international experience, cash transfers can be conditional (subject to the households meeting certain demands) or unconditional; targeted (given only to households or individuals meeting particular criteria) or universal. But essentially they amount to just what they sound like — the transfer of money to people by governments, rather than the provision of goods and services.

The basic idea sounds so simple and easy that a toddler could think of it: Why are people poor? Because they have no money. So let's give them money — then they won't be poor anymore!

The proponents of cash transfers tend to present this as a radically new idea, but it actually has a long history. Kautilya's *Arthasastra* specifies a system of taxation payments from the rich in order to enable transfer payments to the poor, including not only financial assistance during calamities but welfare payments to the chronically indigent and those unable to earn their own livelihood. Islamic rulers in the Middle Ages were required to follow the tenets of *zakat*, using state revenues to provide income transfers for the poor, the elderly, orphans, widows and the disabled. Other historical examples abound.

The purpose of cash transfer schemes is to provide poor people with money and give them the freedom to choose what to do with it. Of course, this then generates other choices that have to be made: Who gets the transfers? How much do they get? If they are universal, that usually spreads the money around rather thinly, so they account for very little. But if they are targeted, then the familiar problems of targeting (unfair exclusion, unjustified inclusion, large administration costs, possibilities of leakage) all become significant.

If they are to be effective at all, cash transfers have to be assured, relatively easy to deliver and monitor, and large enough to affect household income. But that also means that they have to be reasonably significant chunks of public spending. And this begs the question of what expenditures they are replacing.

Several of the more well-known recent “success stories” involve targeting and conditions on recipients that range from light to onerous. Brazil's *Bolsa Familia* is a grant provided to families with less than a threshold monthly income, with the requirement of attendance at government clinics and 85 per cent school attendance. The *Oportunidades* programme in Mexico is a highly conditional cash transfer system based on a complex system of eligibility (age, gender and level of education of each family member, electricity and tap water, household assets) and requiring family members, especially mothers, to meet various time-intensive conditions like attending meetings and providing “voluntary” community labour.

There is no doubt that progressive redistributive transfers are desirable. Indeed, redistribution is a major, even critical element of any fiscal system of taxation and public expenditure. Minimum income schemes for the destitute, pension payments for the elderly, child support grants, unemployment benefits and other forms of social protection are obviously desirable in themselves and constitute requirements for any civilised society, even the poorest one. They also contribute in the short term to more effective demand and therefore have positive multiplier effects, and in the long term to healthier, better educated and more secure populations.

So the question then is not whether or not to oppose cash transfers in general, but rather what specific importance to give them in an overall strategy of development and poverty reduction. Cash transfers cannot and should not replace the public provision of essential goods and services, but rather supplement them. However, the current tendency is to see this as a further excuse for the reduction of publicly provided services, and replace them with the administratively easier

option of doling out money.

In many countries, the argument has become one of encouraging governments to give the poor cash transfers that will allow them to access whatever goods and services they want that are generated by private markets, rather than struggling to ensure public provision.

Such a position completely misses the point. In Brazil, for example, *Bolsa Familia* can be based on minimum school attendance only because there are enough public (and free) schools of reasonable quality that children of poor households can attend, which in turn means prior and continuing public investment in quality schooling and teacher education. Similarly, providing small amounts of cash to allow people to visit local private quacks will hardly compensate for the absence of a reasonably well-funded public health system that provides access to preventive and curative services. Cash transfers are less effective in periods of rising prices of essential goods. And so on.

This is important, because ultimately social and economic policies are all about choices, and this is most starkly evident than in the allocations of public expenditure. Governments typically do not have the luxury of being able to ensure enough spending to provide good quality public services and provide cash transfers that are large enough to be at all meaningful.

In most developing countries, the choices to be made are not only about having good quality schools versus transfers that incentivise parents to send their children to school but even more basic choices: road or health clinic; electricity or piped water; schools or higher education institution; one airport or many railway stations; this region or that one?

It is evident that the agenda of the UPA government is to bring in cash transfers to replace public distribution of various essential items, including food. To begin with, Finance Minister Pranab Mukherjee has proposed that the existing system of subsidies for kerosene and fertilizers be done away with and replaced by direct cash transfers to chosen beneficiaries.

In his speech, he said “The government provides subsidies, notably on fuel and food grains, to enable the common man to have access to these basic necessities at affordable prices. A significant proportion of subsidised fuel does not reach the targeted beneficiaries and there is large scale diversion of subsidised kerosene oil ... To ensure greater efficiency, cost effectiveness and better delivery for both kerosene and fertilizers, the government will move towards direct transfer of cash subsidy to people living below poverty line in a phased manner.”

There are two immediate problems that are evident in this approach. First, what ensures that the amount of the transfer will be sufficient to fully compensate for any price increases in the newly deregulated markets of these goods? Second, how will the government ensure that the cash transfer actually goes to those who were intended to be the beneficiaries of the subsidised kerosene and fertilizer?

The second problem is well known in India, where all public delivery systems have some element of leakage and diversion. How much simpler and easier it will be to divert cash than goods that have to be stored and resold!

The government seems to be under the delusion that a technological fix (such as a Unique Identity number provided to all residents) will somehow eliminate all the potential problems of targeting. But determining who is actually poor and which farmers deserve the cash subsidy are socio-economic decisions that are affected by a complex set of political and social forces as well as power relations. Technology simply cannot address those, they require very different responses.

In India, where much of this basic part of the development project still remains woefully incomplete, the urge to adopt this latest international development fashion involves several risks. In the case of choice between direct public provision of some essential goods (like food and fuel) and cash transfers to consumers instead, the most immediate threat is that the rising prices in these deregulated markets will make such goods unaffordable for those who need them most.

Posing the problem in this way is also misleading, because it completely leaves out the feasible and much more just alternative of universal provision of some essential items, which would ensure better access and create public pressure for greater accountability in public delivery.

Cash transfers cannot and should not replace the public provision of essential goods and services, but rather supplement them.

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