Cash Vs In-kind

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CASH TRANSFERS are the new mantra for resolving all the problems that plague service delivery in India. However, cash transfers are neither new (scholarships, pensions and even NREGA payments are all cash transfers) nor does the much-hyped roll-out of Direct Benefit Transfers through Aadhar in 21 districts involve any scheme which is not already a cash transfer. The debate really is about the future possibility of converting existing in-kind subsidies such as food, fertiliser and fuel into cash. Theoretically, there is nothing wrong in a system of cash subsidy delivery so long as beneficiaries can purchase the equivalent amount of goods and services through the cash. Proponents of cash transfers see this as a magic bullet not because this improves outcomes in terms of the stated purpose of subsidies but because it may cure problems in present service delivery which at present is plagued with serious leakages. Another argument in favour of cash transfers is that current in-kind subsidies are market distorting and the belief that therefore cash transfers may be more efficient.

Unfortunately, the debate on cash versus in-kind transfers has not been backed by sufficient empirical evidence. The case in favour of cash transfers is usually built on the grounds that the existing public institutions involved in kind transfers are inefficient both in terms of reaching intended beneficiaries and in the costs they incur for whatever they deliver. Such perceptions are backed most often by reference to the Public Distribution System (PDS) where leakages are undoubtedly high and also complaints abound regarding functioning of the Food Corporation of India and the targeted public distribution system. However, the argument that a large part of the grain is used by the non-poor is a complex argument. A lot of the problems in this regard are because of the faulty selection of beneficiaries and also due to arbitrary capping of number of beneficiaries at the state level - problems which neither cash-transfers nor Aadhar will resolve. In fact, there is now strong evidence that states which have universalised their PDS have also managed to eliminate leakages to a large extent. The message

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from the successful states is that a reduction in food prices has led to elimination of leakages. Finally, this has also been made possible by the successful adoption of basic technology such as GPS and SMS in streamlining the function of PDS. But then these are problems which not only require innovative thinking but also a strong political will to eliminate leakages in the functioning of PDS. Similarly, there is now sufficient evidence that the FCI is not as inefficient as it is made out to be. Except for 2004-05, for most years for which data is available, economic cost of FCI is in fact lower than the prevailing market prices. This is despite the fact that FCI not only pays full MSP and taxes that the private sector often does not and incurs much higher costs on account of more long distance transportation and much larger storage obligations than that of the private sector.

Perhaps more importantly, many of the arguments against the PDS ignore two basic facts. First that those who use the PDS complain less than those who do not (a 2010 NCAER study shows satisfaction levels of about 80% among actual beneficiaries in most States other than Bihar) and that PDS does provide real purchasing power to the poor, particularly those at the bottom of the distribution. Our own analysis of consumption data from the NSS clearly shows that PDS alone accounts for a substantial part of poverty reduction between 2004-05 and 2009-10, particularly if one uses inequality sensitive measures such as the squared poverty gap. Moreover, there is clear evidence that those consuming from the PDS are the only group of households which have seen an increase in calorie consumption. This is significant considering that there has been a secular decline in calorie consumption of the population in the last three decades. Although, it is difficult to measure the impact on nutritional outcomes due to PDS consumption, the evidence on calorie consumption is sufficient to suggest that if the purpose is reducing levels of malnutrition, then PDS seems to have had an impact. While this evidence is clear, there is no counterfactual to test it with what would have happened with cash transfers. But a comparison of those with similar consumption expenditure level after adjusting for implicit income transfer of PDS consuming households does show that households with PDS access are likely to have significantly more calorie consumption and that a rupee transferred through PDS leads to about twice the increase in calorie consumption than a rupee given otherwise without access to PDS. In other words, if the choice is made between in kind transfers and cash transfers, then same amount of transfer in case of PDS increases calorie consumption by twice compared to cash transfer.

While this is convincing evidence of superiority of in kind transfers compared to cash transfers, there is some merit in continuing cash transfers for the vulnerable groups. This in fact has been the case in India where cash transfers such as social pensions (widow pension, disability pension and old-age pension) have been helpful in enabling households to access basic necessities including those from the PDS. But what makes these cash transfers important is the fact that these are not substitutes of existing in kind subsidies which are meant to improve outcomes of a particular kind of deprivation. This in fact is also the lesson from the Latin American countries which are seen as successful role models for cash transfers. Not only the level of deprivation in each dimension in these Latin American countries much lower than India, these countries use cash transfers only to supplement other benefits and universal provision of basic necessities. In fact most of these cash transfers including the famous Bolsa Familia are programmes which give cash incentives to encourage these households to access the basic in-kind services already in place. These are not a substitute for the government's commitment to provide universal basic services. But these conditionalities are important and useful when there is abundant supply of these, unlike the Indian case where there is hardly any supply of the basic amenities and services.

Fortunately, the recent announcement of Direct Benefit Transfer (DBT) cannot yet be seen as a move towards cash transfers. Cash transfers have existed as means of poverty alleviation for long in india and the current move is at best an attempt to streamline the delivery of these existing cash benefits to the beneficiaries in a different manner. Most of the schemes (mainly scholarships) which will benefit from the DBT are already cash transfers and most of them are also direct in the sense that they are delivered to beneficiaries' bank account directly or through cheques. Incidentally, there is no scheme of the Ministry of Rural Development which is the nodal ministry for most of the social pensions.

The only addition to this scheme of things is the introduction of one more layer of verification and that is the aadhar. While this in itself is not problematic, there are concerns that the DBT may be a costly way of approaching the problem. Since the penetration of aadhar numbers itself is at a low level in most of the districts selected for rollout in the first phase, there is genuine apprehension that even the existing beneficiaries may face delays and rejections due to non-availability of aadhar numbers or due to rejection of biometric ids. However, this is not much of a concern since majority of the programmes which reach the poor such as social pensions are not yet covered by the programme. Most of these transfers do not involve any significant amount of ghost beneficiaries and there is limited utility of linking these with aadhar numbers. However, But even for the remaining, the non-availability of adequate infrastructure and safeguards has meant that the initial rollout has been limited to only 21 districts as against the proposed 51 districts. According to reports, this will cover at most 2 lakh beneficiaries. Significantly, the government has so far maintained that there is no plan of shifting in kind subsidies such as food and fertiliser to cash.

Clearly, the only objective of the new announcement is to test the efficacy of aadhar as an authentication tool. Such pilots are already underway in Jharkhand (MGNREGA), Karnataka (LPG) and Andhra Pradesh (food) for more than a year. The results so far have not been very encouraging even after a year except in the pilot at East Godavari district of Andhra Pradesh. However, it is also worth mentioning that the East Godavari experiment is the only one which does not deliver benefits in cash. It delivers benefits in kind. But two other reasons why the East Godavari experiment performs better than the Karnataka and Jharkhand experiment are the fact that the East Godavari experiment is universal (for all beneficiaries without targeting) and it has aadhar penetration of more than 99% among the beneficiaries. In fact, given the level of banking penetration in East Godavari, even with all these safeguards, a system of cash delivery would have met the same fate as that of its counterparts in Karnataka and Jharkhand.

In fact, the learning from the yearlong experiments clearly point towards the necessity of universal coverage (or quasi-universal) but also the fact that the system of aadhar authentication works only when the coverage is more than 99%. While these two are necessary conditions for the system to work, the results also show that the technology itself is neutral to whether the benefits are given in kind or in cash. The reasons are quite obvious. While aadhar is a proof of identity, it is no substitute for proof of eligibility which is essential in a targeted regime of benefit delivery. The hurry with which the government has moved towards making aadhar compulsory for transfer of benefits does not show any seriousness in either improving service delivery or better identification of those truly in need. On the other hand, it appears to be a back door manoeuvre to increase the aadhar penetration in the absence of necessary legal sanction from the parliament.

The big message from the available evidence as well as the pilots is clearly that the DBT is neither a magic wand nor is it undesirable. However, the message is also that use of technology without sufficient penetration may actually do more damage to the credibility of the technological innovation rather than help streamline delivery of subsidies in a better way. On the other hand, there is clear evidence that any such move should remain restricted to existing cash benefits alone. Attempts to convert in kind subsidies to cash subsidy may prove more seriously detrimental in the absence of adequate infrastructure such as availability of banking and other infrastructure. But even if banking and other infrastructure is put in place, and the purpose is to improve nutritional outcomes, cash transfers are unlikely to be a substitute for the PDS. The problem here is hugely behavioural with even poor people spending less on food than on other things to keep up with neighbours. The way out is reforming the existing PDS not dismantling it. But even here cash transfers and Aadhar may have a role if cash can be transferred to the PDS outlet at the point of delivery. In short, much more thinking is required to use the technology properly. ❑

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