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NYAY e-Symposium: Four concerns around cash transfer policies

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Bharat Ramswami (Professor of Economics, Ashoka University) discusses four sets of caveats in implementing NYAY *as an add-on cash transfer. He contends that the emergence of cash transfers as a sustainable tool of redistribution depends on how they mesh with existing subsidies and if they crowd out public budgets for health and education.*

The first time cash transfers were debated seriously in India was in the run up to the National Food Security Act (NFSA). The context was whether food subsidies could be provided in the form of cash transfers. Also debated was a related question: should the subsidies be tightly targeted (to minimise inclusion errors) or should they be near-universal (to minimise exclusion errors).

The strongest argument for cash transfers was that it did away with the incentives for fraud that led subsidised grain to be illegally sold in the open market. The strongest arguments against cash transfer were (a) feasibility and last mile connectivity, and (b) the absence of credible means of indexing the transfer to inflation.

As it happened, the NFSA opted for in-kind transfers, expanded coverage, and left a window open for cash transfers. In the years since, the beneficiary database of the public distribution system (PDS) has been computerised and A*adhaar* identification is the stated primary means of reducing 'ghost' beneficiaries and corruption. The experience is mixed – some states (for example, Andhra Pradesh) do much better than others (for example, Jharkhand). This is relevant to cash transfers because A*adhaar* authentication is again the principal means for accessing the banking system.

Cut to 2019. Farm finances have turned precarious because of the collapse of farm prices. In an election year, agrarian distress has leapt from the pages of the Economic and Political Weekly to mainstream media. The seeming political success of Telengana's *Ryutu Bandhu* that pays Rs. 10,000 per hectare has put cash transfers back on centre stage. Earlier this year, the central government announced the PM *Kisan* programme that will distribute Rs. 6,000 to farm households that own less than 2 hectares of land. The Congress party's election plank includes a monthly cash transfer of Rs. 6,000 monthly to the bottom 20% of the population.

Manifest in all these is an implicit admission that we do not have development strategies to alleviate farm distress or the lack of well-paying jobs. In this view, sacrificing a few percentage points of GDP (gross domestic product) to cash transfer based safety nets is the price to pay for this failure. There is much to be said for this argument especially when GDP grows at 7% or more while income hardly budges for the bottom 50%.

One set of dangers is about financing these transfers especially when the economy slows down. My focus in this post is about a different set of caveats.

First, unlike the earlier context, when cash transfers were proposed as a substitute for in-kind subsidies, the present policies offer them as add-ons. The efficiency gains from lump-sum **subsidies** that economists fantasise about remain a dream. On the other hand, the nightmare of distorting subsidies is not going away.

In the agricultural sector, large negative externalities flow from the power subsidy (estimated to be Rs. 900 billion). Electricity consumption in Indian agriculture is far greater than in any comparable large country. Correspondingly, the Indian withdrawal of groundwater is more than that of China and the United States put together. Direct benefits transfer (DBT) (with other policies such as separation of agricultural feeders and metering supplies) is an immediate policy imperative here.

A second concern is whether these policies would **crowd out productive investments** – especially those in human capital that increase the productivity of the poor. Farm subsidies alone are greater than all public expenditures (central + state) on health. The publicly provided services of healthcare and education have been the bane of our development strategies. But can we give up on them? The markets for these services do not work well either and it is hard to see how regulatory policies can rectify that.

A third set of concerns is about **implementing cash transfer policies**. While ownership of bank accounts is now widespread, accessing them through *Aadhaar* authentication could be a stumbling block. According to newspaper reports, the DBT implementation of the fertiliser subsidy was put on hold after a pilot found glitches in *Aadhaar* authentication either because of poor connectivity or issues with the technology itself. Making *Aadhaar* authentication seamless has to be a top priority.

Identification of beneficiaries is another problem. The cash transfers to farmers have required a definition of cultivators based on land ownership. But in a country where land titling is hardly conclusive, errors and disputes will be the consequence. Even when land ownership is definitive, a subsidy proportional to ownership (as in the Telengana *Ryutu Bandhu* programme) is highly regressive. Furthermore, it leaves out land tenants (likely to be under-recorded in the data). In a textbook model of perfect markets, the gains of cash transfer subsidies will go to the owners of the fixed factor, that is, land even if these subsidies are offered to the farm operator rather than the owner. But policy cannot operate on this presumption. More fundamentally, land-based cash transfers offer nothing to the politically friendless landless workers at the bottom of the income pyramid.

The proposed cash transfer scheme of the Congress does not restrict the benefits to farmers but is directed to all of the poor. This avoids the worst regressive aspects of the land ownership-based cash transfers. However, it throws up another problem – of identifying the bottom 20%. A more feasible alternative would have been to build on the beneficiary database of the PDS – about two-thirds of the population. The transfer could be commensurately lower – at about Rs. 2,000 per month.

To conclude, the implementation concerns of cash transfer schemes have dominated immediate responses to them. It is also important to examine whether cash transfers can emerge as sustainable tool of redistribution. That may depend on how they mesh with existing subsidies and on whether they crowd out public budgets for health and education.

This post is part of I4I's e-Symposium on NYAY: *https://www.ideasforindia.in/topics/poverty-inequality/decoding-congress-nyay.html*