Direct Cash Transfers: No Magic Bullet

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The reduction of poverty in India requires much more than solutions such as direct cash transfers.

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There is an almost irresistible seductiveness to the idea of direct cash transfers. It is also a reflection of great intellectual, policy and political ennui. The articulation of the idea by Kapur, Mukhopadhyay and Subramanian (April 12, 2008; henceforth KMS) is one of the best hitherto. As they say, putting together the current annual allocations for centrally-sponsored schemes with food, fertiliser and fuel subsidies, we get a figure of nearly Rs 2,00,000 crore. They ask: "Is this enormous expenditure through centralised mechanisms the best way of improving the welfare of India's poor and achieving India's development objectives?" (p 37). Why not instead transfer Rs 1 crore per annum to each of India's gram panchayats? A mouth-watering figure, indeed!

KMS suggest a twofold path for redirecting central expenditures: (a) outright transfers to individuals, and (b) transfers to local government. The expenditures they wish to cover in this way include (a) public distribution system (PDS) for food and fuel, (b) fertiliser subsidies, (c) rural housing (Indira Awas Yojana (IAY)), and (d) self-employment (Swarnajayanti Gram Swarojgar Yojana (SGSY)), which account for more than Rs 70,000 crore in the 2008-09 budget. Of their two ideas, let us state at the outset that transfers to local government potentially contain much more merit than direct transfers to individuals. But both proposals are instances of the fallacy of misplaced concreteness [Whitehead 1925].[1]

The starkest way of illustrating the point is the IAY. KMS would have us believe that IAY would work if direct cash transfers were to be adopted. But the IAY is already based on direct cash transfers. Obviously, houses are not being transferred to the rural poor. Indeed, the failure of IAY best illustrates the fallacy of misplaced concreteness. The problem is not transfer of money. The problem is translation of that money into concrete assets, in this case, houses. Thoughtless policymaking has meant that the IAY continues to transfer crores of rupees to gram panchayats and below poverty line (BPL) families each year but these families routinely do not undertake quality housing with that money. One, because that money is just not sufficient to build houses. Two, because at times families have other needs that gain priority over housing. Three, because families do not have other inputs available that are required for building a house (such as skilled masons, materials, etc). Of course, over and above all these reasons (all of which operate in tandem with each other) are the facts of faulty selection of beneficiaries and straightforward corruption by gram panchayat representatives.

Even more serious is the case of SGSY. This is the descendant of the notorious Integrated Rural Development Programme (IRDP).[2] Loans are provided to families for income-generating activities. Here again is an instance of mindless direct cash transfers, without in any way ascertaining whether the cash would truly generate incomes for families who receive these loans. Loans are made without ensuring the forward and backward linkages that would make this credit effective. In a typical bureaucratic drive to meet targets, little attention is paid to assessing whether families have access to technologies and markets that would ensure the loans work. The major consequence of the reckless direct cash transfers under both IRDP and SGSY has been the conversion of many of India's poor into bank loan defaulters, no longer able to access formal sector credit.

Microfinance

SGSY is a classic case study of mistaking microfinance to be a magic bullet. As innumerable studies have shown [see Shah et al 2007 for an exhaustive review], microfinance works only under very specific circumstances. The transfer of cash is hardly the constraint. There are so many concomitant conditions of success that need to be present for credit to be able to engender sustainable livelihoods. What KMS forget is that any anti-poverty programme will work only if it leads to an end to dependence on doles (what they term in more glorified terms as direct cash transfers). To end this dependence requires creating sustainable livelihoods for the poor. And these presuppose much more than transfer of cash. They demand skills, markets, technology, material inputs, infrastructure and institutions [Dichter 2004; Mahajan 2005]. It is these that are in deficit in rural India, more than cash. And it is their lack that accounts for failure of anti-poverty programmes, as much as leakages of cash (the exclusive concern of KMS).

KMS believe "that the poor should be trusted to use these resources better than the state" (p 37). "Yes", they say, "the poor will 'mis-spend' some of the money they receive. But who does not – and will not – make mistakes?" (p 40). This is an utterly strange way of making the argument. It appears that development is suddenly all about attitudes and intentions, not capabilities or concomitant conditions that allow people to translate these intentions (however pure) into tangible outcomes. After all, even a completely trustworthy poor person will not be able to do much with the cash directly transferred to her unless the conditions required to translate this cash into enduring outcomes are present. Let us remember that in the poorest parts of rural India market failure is rampant. A range of public goods (vital aspects of infrastructure) need urgent provisioning. The trustworthy beneficiary of your direct cash transfer cannot arrange for this all by herself. So, she will inevitably make what KMS term "mistakes". Not for any fault of her own or any moral defect in her personality. Only because of the circumstances of her life, within which she receives the direct cash transfer.[3]

Utilisation – the Main Issue

The question in either instance is not one of merely placing trust in the concerned entity (whether the poor, the bureaucracy or even gram panchayats) and then leaving the rest to fate, as it were. The issue is of setting up systems and creation of an environment that facilitates enforcement of accountability by the gram sabha upon whoever is made the "trustee" of public resources. The issue is not primarily of directness or otherwise of transfer. It is much more about ensuring effective utilisation of this cash, which needs both developmental inputs (markets, technologies, skills and materials) and political ones (social mobilisation to set up monitoring mechanisms/institutions).

As for the PDS, it is not clear how transfers of cash to the poor would allow them to buy grain from the open market at a time of steep inflation. The problem is that India's PDS is characterised by a whole range of inequities – its coverage is the weakest in the neediest regions and it fails to cover crops grown and eaten by the poorest [Swaminathan 2004]. The way forward is to reform the PDS and extend its reach to and density in the poorest parts of the country, where the need is the greatest.

Finally, to the National Rural Employment Guarantee Act (NREGA), which KMS uphold as an example of direct cash transfer. This also ties in to the point we wish to make regarding the glib references to panchayat raj institutions (PRIS) by KMS. It has become fashionable among scholars of rural India to wave PRIS as some kind of politically correct magic wand, a solution for all ills. We certainly see PRIS as critical to the success of programmes like the NREGA, even to the future of Indian democracy itself. But PRIS in large parts of India today are nothing more than work-in-progress. They have a very long way to go before they can become instruments of democracy and development at the grass roots. They need massive support from the state to be able to realise their potential. This is the whole unfinished agenda of reform of rural governance, the reform of the public sector in rural development.

Reforms Needed

Since the 1990s, India has been hailed as a great success story of reforms. India's elevated rates of growth have been attributed to a new liberalised policy regime. It has also been acknowledged at the same time, that this process has failed to draw into its ambit millions of rural Indians who have suffered unprecedented distress, whether in the form of hunger (malnourished children, anaemic women) or farmers' suicides. And this has happened despite thousands of crores being spent in the name of rural development each year. A major part of the explanation for this lies in the very poor quality of implementation of these programmes (as KMS rightly point out). What KMS completely fail to note, however, is that these programmes continue to remain low quality because, unlike India's corporates, our rural poor do not have a voice in pushing for reforms that matter to them. Even left-leaning politicians across the political spectrum or civil society activists, all of whom claim to speak for the rural poor, have failed to make reforms in the rural public sector, a key ingredient of their political agenda. This has meant that rural Indians continue to have to cope with the same corrupt and insensitive bureaucracy that has ruled their lives since independence. Rural development desperately needs infusion of professional inputs. It is high time we gave up thinking of rural development as routine administrative work or charity. At the same time, we need to build strong systems of transparency and accountability into anti-poverty programmes.[4]

Without these changes, a constant reference to PRIs as the answer will only amount to buttressing abdication by the state of its responsibility for rural development.[5] A misplaced Gandhian overemphasis on "voluntarism" will also end up only reinforcing this tendency of the state to withdraw. It is patently unfair to burden PRIs with massive tasks of development without providing them the requisite support. Funds, functions and functionaries are all vital (as the PRI minister likes to say). But more than that a reformed, accountable, performing system is a must.

Viewing NREGA as a mere cash transfer scheme, as KMS do, would actually guarantee its failure. Ever since independence, rural development has largely been the monopoly of local contractors. Almost every aspect of these programmes, including the schedule of rates that is used to measure and value work done, has been tailor-made for these contractors, who invariably tend to be local power brokers. They implement programmes in a top-down manner, run roughshod over basic human rights, pay workers a pittance and use labour-displacing machinery.

The NREGA

The NREGA is poised to change all that. It places a ban on contractors and their machines. It mandates payment of statutory minimum wages and provides various legal entitlements to workers. This is not an old-style famine relief kind of welfare programme. This is a development initiative providing crucial public investments, which can trigger private investment in the most backward regions of India.[6] It visualises the involvement of local people in every decision – whether it be the selection of works and worksites, the implementation of projects or their social audit. All of this is obviously incompatible with programmes where the main goal was, in effect, the maximisation of profits of the contractor.

But even after the enactment of NREGA, things have been slow to change on the ground. Displaying remarkable ingenuity, the old order is already finding ways to sidestep the radical provisions of the Act.[7] Contractors deploy machines with impunity, even as forged muster rolls are filled up with fictitious names and thumbmarks of workers, to show as if the work was done by labour. The ostensible purpose is to overthrow the old contractor-raj but little has been done to offer an adequate replacement. Gram panchayats have been designated the chief implementing agency but they have not been provided with the support structure required to execute the programme. A new bottom-up, people-centred approach to planning of works and social audit is spoken of but the social mobilisers and technical personnel required to make this a reality have not been supplied.[8] The schedules of rates remain the same that the contractor-raj used. They underpay labour and discriminate against women. If we view NREGA merely as a means of cash transfer, we will fail to attend to these critically important dimensions that need urgent change.[9]

Thus, anti-poverty programmes to succeed in India demand rather more than cash transfers (whatever be the degree of their directness). They require simultaneously addressing many challenges – building people's institutions, extension of appropriate technology, leveraging markets for the poor and skill development, along with wise and adequate public investment. Only then can sustainable livelihoods be generated and an end visualised to both poverty and anti-poverty programmes.

NOTES

1 What is called "reification" in the Marxist tradition.
2 See Shah et al (2007) and Kabeer and Murthy (1999) for a review of the IRDP disaster that all but ruined public banking in India and set the stage for the rollback of formal sector lending in rural India after 1990.
3 Our argument is not very different here from the case against cash compensation being provided to persons displaced due to "development" projects.
4 Andhra Pradesh has set a shining example of this in its implementation of the NREGS. But this has hardly even been noticed, let alone being highlighted. The smart cards advocated by KMS may already be an outdated expensive option, even before being tried. Apparently, rural India has leapfrogged into the era of mobile telephony!
5 See Shah (2007) for why the role of the state remains crucial in rural development in India.
6 For one of the earliest articulations of an employment guarantee based on such a vision, see Shah et al (1998).
7 See Ambasta et al (2008) for an account of the problems of NREGA implementation.
8 These are vital "development" inputs and must not be viewed derisively as "administrative costs" as the government does.
9 Ambasta et al (2008) provide an outline of the reforms needed in NREGA implementation for it to realise its potential.

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