D. T. Lakdawala Memorial Lecture 2019

An Inclusive Growth Dividend: Reframing the Role of Income Transfers in India's Anti-Poverty Strategy

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Preface

- Based on joint paper with **Karthik Muralidharan**, UC San Diego
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  - (Also draws partly from joint work with **Francois Maniquet**, CORE, Brussels forthcoming in the *Annual Reviews of Economics*, 2019)

Preface

- D T Lakdawala (1916-1992) spent almost his entire and highly distinguished career in the Department of Economics at the University of Mumbai as a faculty member and later as Director, with notable scholarly contributions in public economics and international trade.
- He was involved in major socio-economic surveys and also served in important policymaking roles, such as the Deputy Chairman of the Planning Commission.
- His work on poverty measurement remains relevant to date – he headed the Expert Group to review the measurement of poverty constituted by the Planning Commission in 1989, and the report (known as the Lakdawala Committee Report) came out in 1993.

Preface

"..during the late 60s when almost everybody who mattered was pro-poor, he too was in that mould. But he also argued that the pro-poor policies could not be sustained in the long run unless there was a mix of pro-growth policies with them in the short run. More recently, when almost every- body who matters has been pro-growth, he shared that concern. But he also argued that the pro-growth policies could not be sustained in the long run unless there was a mix of pro-poor policies with them in the short run. To him, it was a question of the right-mix-one thing more at one time and the same thing less at another time, depending upon which policies were dominant at particular points of time."

(J. C. Sandesara, EPW, April 25, 1992)

Today's talk proposing an Inclusive Growth Dividend (IGD) is a perfect fit in terms of theme and hence an appropriate tribute to Prof Lakdawala

The Proposal - an Inclusive Growth Dividend (IGD) for India

What is it?

- A **universal** and **unconditional** supplemental **income transfer**
- Per person transfer being pegged at a fixed % of nominal GDP/capita (so not a fixed absolute amount but a variable one that grows with overall economic prosperity & inflation adjusted) – we propose **1%** given fiscal feasibility considerations
- Paid at the **individual** as opposed to household level (with allowance for children being paid to mother's accounts, can be capped at two children)
- To be deposited directly into an individual's bank account on a regular monthly/quarterly basis.

Terminology

- IGD is related to but different from Universal Basic Income (UBI)
- UBI is a universal and unconditional stream of income paid by the government to every member of society - it is paid irrespective of whether an individual is working, of his or her existing income, and whoever he or she lives with (Van Parijs and Vanderborght, 2017)
- "Basic income" connotes an amount that is adequate to live on. This sets the expectation that the transfer amount will be large enough to eliminate poverty
  - Infeasible to implement without either eliminating other welfare schemes or substantially increasing tax collections - both of which are practically and politically daunting tasks

Terminology

- "**Dividend**" makes it clear that it is not a flat amount but a share (like Universal Basic Share or UBS but not "basic") and one component of a *portfolio* of income streams that people would have
- "**Inclusive**" captures the built-in progressivity of the idea.
  - The amount being the same for all citizens, the marginal value of the transfer is correspondingly greater for the poor
- "**Growth**" captures the idea that the amount will grow along with the growth of the overall economy
- Put together, an IGD would be a powerful symbol of universally shared prosperity that connects every citizen regardless of income/station

Outline of the Talk

- Background – income transfer programs in India
- Is to too large to be feasible?
- Is it too small to be effective?
- Desirability
- Addressing the main concerns
- Conclusion

Background

- There has been a surge in academic and policy interest in the idea of a Universal Basic Income (UBI) as a tool for poverty alleviation in India
  - Kapur et al (2008); Bardhan (2011); Joshi (2016); Banerjee (2016); Ghatak (2016); Davala et al (2015); Mundle (2016) and several others
  - Given policy salience in India by 2016-17 Economic Survey

- The term "**basic income**" connotes an amount that is enough to live on
- Most academic and policy discussions of a UBI have focused on amounts that are large enough to nearly eliminate poverty, which in turn have ranged from 3.5 – 4 % of GDP (Joshi, 2016, Econ Survey 2016) focusing on poverty gap to 10-11% of GDP (Bardhan, 2016, Ghatak, 2016) who focus on the head-count ratio.

Background

- As a result, the fiscal math simply does not work out, given an overall tax to GDP ratio in India of around 11%

- Our point of departure is to propose a variant of UBI

    - A *share* of national income and not an absolute amount (like UBS of Ray, 2016)
    - However, *fiscally realistic* - pegged as a small % of nominal GDP per capita

- Where does the 1% figure come from?

Background

- The debate about *whether* to have income transfers as a component of India's welfare/anti-poverty strategy is somewhat moot
- India adopted universal adult franchise-based democracy at a much lower level of per-capita income than most other OECD countries & so faced political pressure for redistribution and subsidized or free access to services at a much lower level of development compared to historical norms
- Moreover, the move towards income transfers for anti-poverty programs in India has taken on serious momentum in the past 18 months – especially for farmer welfare
    - Rythu Bandhu Scheme, KALIA, and especially PM-KISAN
- The PM-KISAN program - the Pradhan Mantri Kisan Samman Nidhi Yojana was launched in December 2018 and provided Rs 6000/year per family with cultivable landholding up to 2 hectares, subject to some exclusions.

Background

- In the first Cabinet meeting of the recently re-elected NDA government led by Prime Minister Modi, the scheme has now been extended to *all* farmers, regardless of landholdings and the budgetary allocation increased by almost four times
- With the extended coverage, it aims to reach 14.5 crore farming households (or roughly half the population) with an estimated cost to the Central Government of Rs 87217.5 crores for the year 2019-20 which amounts to roughly 0.5% of GDP at current prices.
- It is likely to be the world's largest income transfer scheme.
- The per-capita allocation of PM-KISAN works out to be Rs. 500/month per household or, given the average household size of 4.6 members, Rs. 110/month per person
- Doubling the allocation would amount to 1% of GDP and cover the whole population (total cost of a transfer of 1% of GDP per capita per person would be 1% of GDP), or, 7.6% of total central govt exp

Feasibility

- We assume that the main constraint is budgetary feasibility and assume that the investments in *Aadhaar*, *Jan-Dhan* bank accounts and mobile seeding provide enough of a foundation for implementation to happen if there is political will behind the program.

- The political will for large-scale income transfers to nearly half the Indian population has already been demonstrated in the context of PM-KISAN & so this seems like a reasonable assumption.

- If short-term fiscal constraints bind, it would make sense to target the most disadvantaged regions (say district or block) and make the transfer universal within that region in the coming year
  - Poorer states tend to have weaker governance, so by providing funding directly to citizens, the IGD improves the marginal effectiveness of funds allocated to poorer states for horizontal equity reasons

Feasibility

- Improves on PM-KISAN in important ways
  - Will also reach landless laborers and those without formal title to land
  - By being independent of occupation, it would reduce the likelihood that farmers continue to engage in economically unviable cultivation just to get the benefit
  - Reduces gaming by being at the individual level and not the household level
- Can assess and evaluate its performance before scaling up over the next four years to achieve universal coverage before the next elections.
  - Benefits will go to the most economically disadvantaged regions of the country – most benefits of a universal program will be realized.
  - Similar to how programs such as NREGS or Aspirational Districts have been initially rolled out in the most disadvantaged parts of the country
  - Can be accompanied by a high-quality evaluation

Feasibility

- Even if its agreed that income transfers are a more efficient way of achieving the goals of existing welfare programs, it is politically and practically infeasible to cut major categories of government welfare spending.
- In contrast, it is much more feasible to direct the *incremental* rupee that is earmarked for welfare spending towards income transfers.
- This is exactly what is happening with the Rythu Bandhu, KALIA, and PM-KISAN schemes - while no existing scheme has been replaced to finance these programs, they still represent a landmark policy pivot to spend the *marginal rupee* allocated to farmer welfare on direct income transfers as opposed to increases in distortionary subsidies, procurement prices, or loan waivers.

Feasibility

- This argument assumes a growing economy and a certain amount of incremental tax revenue that can be allocated for the IGD
- Other programmes are not committed percentages – absolute amounts that can be maintained in real terms or grown less than proportionally
- Given we have slow growth at the moment and tax buoyancy is absent, some existing transfer programs may have to be cut
  - Non-merit subsidies almost 6% of GDP (Mundle and Sikdar)
  - E.g., if we look only at the fertiliser and petroleum subsidies, which are considered neither efficient nor equitable, at 0.5% of GDP or 4.42% of central government expenditure – almost the entire additional amount needed
  - This year’s receipts budget confirms that revenue forgone on tax exemptions and concessions eat up another 5% of GDP.

Too Small to be Meaningful? (I)

- IGD is small, but non-trivial
- The consumption expenditure surveys, which were canvassed along with the PLFS, have not been released
- A limited amount of data on consumption expenditure collected by the National Sample Survey Office (NSSO), as part of the other socioeconomic surveys, including the PLFS, are available (Himanshu, 2019)
- In 2018, prices, average consumption expenditure in rural areas declined from Rs1,587 per person per month (ppm) in 2014 to Rs1,524 ppm in 2017-18.
- The decline in urban areas was from Rs2,926 ppm in 2014 to Rs2,909 ppm in 2017-18.
- The IGD would be worth about 7.2% and 3.8% of average consumption expenditure per person per month in rural & urban areas in 2018

Too Small to be Meaningful? (II)

- Average consumer loans (for durables such as cooking stoves, water filters, LPG connection etc) by Indian MFIs range from Rs10-20k to be paid off in 1-3 years, for APRs ranging from 19-24%
- We do not have the updated poverty numbers yet, or distribution of consumption expenditure – can extrapolate from NSS 2011-12 numbers
  - According to the Rangarajan committee report, the poverty line in India was Rs. 32 per person per day in rural areas and Rs. 47 per person per day in urban areas (2011-12)
  - Adjusting for inflation, the per month figures turn out to be Rs. 1,200 and Rs. 1,800.
  - Notice that these are 78% and 62% of average consumption expenditure numbers according to latest estimates
  - The IGD works out to be about 9.1% and 6.1% of rural and urban poverty line income (price adjusted)

Too Small to be Meaningful? (III)

- Great deal of heterogeneity among those who are below the poverty line
- The IGD would augment monthly consumption by 10% or more for the bottom 30% of the rural population, and by at least 8% for the bottom half of the rural population
- If we were to define the ultra-poor to be the bottom 5th percentile of rural households, then the IGD will just about move everyone out of that (extremely low) threshold
- As the next table indicates, IGD will be of greater value given the disappointing growth in actual consumption expenditure numbers – the actual averages are 76% & 78% of nominal projections from 2011-12

Rural & Urban MPCE (NSS 2011-12 figures, price adjusted)

Fractiles	Rural		Urban	
	MPCE (monthly Rs. at current prices)	IGD as a Percentage of MPCE	MPCE (monthly Rs. at current prices)	IGD as a Percentage of MPCE
0-5%	734	15%	986	11%
5-10%	937	12%	1,279	9%
10-20%	1,102	10%	1,573	7%
20-30%	1,273	9%	1,917	6%
30-40%	1,432	8%	2,286	5%
40-50%	1,598	7%	2,656	4%
50-60%	1,782	6%	3,068	4%
60-70%	2,008	5%	3,585	3%
70-80%	2,315	5%	4,310	3%
80-90%	2,825	4%	5,477	2%
90-95%	3,597	3%	7,528	1%
95-100%	6,305	2%	14,468	1%
Average	**2,012**	**5%**	**3,700**	**3%**

Desirability – 1. Lump Sum

- Usual pros & cons of lump sum transfers
- Most controversial dimensions of a universal & unconditional income transfers are
  - Why cash? (gives individuals choices)
  - Why lumpsum & not proportional to income? (cuts bureaucracy, least amount distortion, income hard to verify, risk of exclusion errors is minimized)
  - Why universal and not targeted? (avoids the costs of targeting, & is effectively progressive since it has to be funded through taxes)
  - Portable benefits (across space/sector), to minimize distortion & misallocation

Desirability – 2. Built in Indexation

- Our IGD proposal, by pegging the transfer value to a fraction of GDP/capita, the IGD has built-in indexation (similar to Debraj Ray's proposal of UBS) and will grow over time at the rate of nominal GDP growth - accounts for inflation as well as for real economic growth
  - Addresses an important concern that benefits will not be indexed
- It might make sense to have it be a lagged average, say 1% of the average of the last five years of GDP
  - Prevents incentives to pump up nominal GDP before elections
  - Also provides insurance against recessions for the most vulnerable segment of the population
  - Provides a mechanical (and non-political) way to introduce a Keynesian-flavoured stimulus during recessions.

Desirability – 3. Gender Empowerment (I)

- Moving to individual as opposed to HH-based transfers AND transferring the allowance of children into mother's accounts could be a game changer for female empowerment and intro-household targeting
- Consistent with global evidence that independent sources of female income improves both measures of empowerment and child health/education outcomes

Desirability – 3. Gender Empowerment (II)

- Intra-household inequality: targeting by household may not reach all poor
  - Substantial number of poor in non-poor households and vice versa
  - In Bangladesh, Brown et al. (2019) show that women, children, and the elderly are at a risk of living in poverty even within households with per-capita expenditure levels that exceed the poverty threshold.

- Universal, non-targeted income transfers (with the allowance for children going to mothers) may actually improve targeting to the most vulnerable members of society relative to a system that targeted transfers on mean household income.

Desirability – 4. Rank preservation and psychological well-being

- Targeting only the poorest households can change relative ranking of households by income
- Such ranking reversals can be quite unpopular and may also be a cause for the targeting errors that happen in targeted programs (including the pre-election NYAY proposal)
- IGD avoids them

Desirability – 5. Relaxing Borrowing Constraints

- Rates of return to capital in developing countries are high (see Baird et al. 2018; Banerjee & Duflo 2005; Banerjee et al. 2019; de Mel et al 2008.)
- But average returns to micro-credit are low (Banerjee et al. 2015)
  - Pessimistic view is that credit is not going to be transformative
- But a different view is that people have either investment or consumption smoothing opportunities that generate an IRR of ~25%, but these returns are mainly absorbed by interest costs (which in turn reflect intermediation costs)
- In this view, a small monthly transfer could deliver the benefits of credit (at least for consumption smoothing) without intermediation costs (and catalysing savings)
- It could also make it easier to borrow: cash flow versus collateral (Drechsel 2019)
- Finally, it may increase the productivity of borrowing by facilitating investments in more illiquid and longer-term investments with greater return, while using the transfers to service the debt (Field et al 2013)

Desirability – 6. Mitigating Risk (I)

- Relatively small sums of income transfers can have large effects on income generation, other than contributing towards providing some subsistence support.
- Poor households face risk and seasonality of income
- Yet few poor households have any insurance
  - Only 10-11% of household in rural and urban areas had access to any kind of insurance, whether it was health or life (Banerjee & Duflo 2008)
  - Yet, with insurance, farmers choose crops that are riskier but have higher average returns, and there is higher investment (review by Banerjee et al. 2019)
- A small, regular payment to household bank accounts could mitigate the risk of investment or choosing certain types of employment

Desirability – 6. Mitigating Risk (II)

- A particularly striking example of how small the relevant investments might be for returns that are quite significant is provided by the experimental study of Bryan et al (2014).

- Working with a sample of poor households in rural Bangladesh, who suffer considerable hardship in the lean season, they offer a randomly-selected subsample a payment of 600 Takas in 2008 (which is around $8.50) conditional on migrating to nearby urban areas, and an additional bonus of 200 Taka (approximately $3) if the migrant reported to the survey team at the destination. This effectively is the cost of a bus-ride.

- This small inducement to migrate for urban work opportunities resulted in much higher migration rates and improved household welfare on several measures – migration for job prospects was previously too risky a strategy for poor rural households

Desirability – 7. Alleviating Savings constraints (I)

- Savings can serve both the role of consumption smoothing as well as accumulating resources for productive investments
    - Yet, saving is difficult for reasons of lack of access to formal banking, risk of theft while saving informally, demands by friends and extended family, and temptations for spending on inessential consumption
- An experimental study on expanding access to bank accounts to small enterprise owners in rural Kenya find a very high take-up rate (nearly 87%), which is in sharp contrast to microfinance (Dupas & Robinson 2013)
    - Women used the bank accounts more actively than men, increased their total savings, and investment in their business.
- In the Indian context, a recent RCT in Chhattisgarh showed that savings increased significantly when earnings were directly deposited in beneficiary bank accounts, as opposed to being given out in cash (Somville & Vandewalle 2018)
- An income transfer program combined with bank accounts is likely to meaningfully boost formal savings of the poor.

Desirability – 7. Alleviating Savings constraints (II)

- Households at the 25th percentile and below of the Indian wealth distribution had zero financial assets/savings (Badarinza et al. 2017)
    - Even at the median, the financial savings were only Rs. 2,200 per household
    - This figure has likely improved in recent years with large-scale expansion of Jan-Dhan bank accounts. Yet, as of December 2018, ~23% of the 33.6 crore Jan-Dhan accounts were dormant

- Even those with bank accounts rarely use them
    - In the World Bank 2017 Global Findex Survey, 77% of rural Indians have accounts but 48% did not make any deposits or withdrawals in the last year (Demirgüç-Kunt et al. 2018)
    - Such inactivity in turn leads to banks automatically deeming the accounts dormant, which makes them unusable without reactivation

- A regular inflow of funds into these accounts (the IGD) will lead to greater usage of these accounts, and by definition, these accounts will be active due to the monthly deposits they will receive
    - Can help move people from a cycle of credit to one of savings

Addressing the main concerns

1. Income transfers versus direct provision of goods and services
2. Substitution versus supplementation
3. Targeted versus Universal Income Transfer Programs
4. Will people spend cash transfers badly?
5. Effect on work incentives

1. Income transfers vs direct provision of goods and services (I)

- Critics argue that income transfers:
  a) Crowd out spending on important public items, such as health or education (Aiyar; Roy 2019)
  b) Represent giving up on the idea of a "developmental state" and moving towards a "compensatory state," equivalent to an abdication of core state responsibilities (Roy 2019)

- How should we assess this concern: Key consideration is
  a) Expenditure on public goods versus redistribution (publicly-provided private goods)
  b) Quality and effectiveness of public expenditure on each

- Returns likely to outweigh costs in spending on public goods and infrastructure, but most expenditure is on redistribution, not public goods
  - e.g. The 2018 Union Budget includes 11x as much funding for interest and fertilizer subsidies than on agricultural research *and* extension.

- Value for money under the status quo is low, and the returns to simply increasing spending along existing patterns are also likely to be low

1. Income transfers vs direct provision of goods and services (II)

- *Quality* of public expenditure is low
  - Education: Public spending per student in government schools is over 3x higher than the total cost per-student in affordable private schools, but private schools show equal or greater student learning. (Muralidharan and Sundararaman 2015).
  - Health: 70% of primary health care visits in rural India are to fee-charging private providers, even when the village has a public health clinic (Das et al. 2016); ~quality at much lower cost
  - Revealed preference: "What does it say about the quality of your product, that you can't even give it away for free?"
- But does not warrant blanket statements of public vs. private because of considerable heterogeneity across time, space, and providers (Romero et al 2019)
  - Examples from PDS & ICDS: Considerable heterogeneity in preferences & valuation
- Choice-based approaches can both empower beneficiaries and mitigate risk
  - Allocating one component of anti-poverty spending to income transfers makes it easier to implement a choice-based architecture for service delivery over time
  - Key idea is neither public nor private – but better accountability; thus income transfers serve as an "index fund" for benchmarking quality of public expenditure
  - Other design issues will remain (including information/disclosure and regulation of private providers) – but these are needed anyway (given large private share)

2. Substitution versus supplementation

- Substitution of programs with DBT is both politically & practically risky
- Implementation challenges for transfers are non-trivial
  - Starting in 2015, GoI tested replacing PDS with direct benefit transfers (DBT) in Chandigarh, Puducherry, and Dadra Nagar Haveli. Our process monitoring study (Muralidharan et al. 2017) found that government records reported 99% transfers successfully made, but that 1/3 of households reported not receiving transfers
  - In ongoing work in Jharkhand, we found 30-50% of women and AWC workers reported exclusion from the flagship Prime Minister’s Maternity Benefits Scheme (PMMVY), compared to reports of no exclusion from senior level government officials.
- Cannot in good conscience recommend blanket substitution
- Further, the political economy also makes it difficult to remove
  - More difficult to change existing spending than it is to improve the quality of new spending (Muralidharan and Subramanian 2015)
  - This is what we are also seeing with RBS, and PM-KISAN
- Thus, relying on substitution for fiscal space (as in UBI conversations) is likely to delay the benefits of income transfers
  - A modest supplementary income transfer to all citizens that will allow us to get started on the pathway towards realizing the many benefits of income transfers

3. Targeted versus universal income transfer programs

- Targeting versus universality – issues are well known
  - Targeting creates errors of inclusions and exclusion
  - Increases potential for corruption and leakage during implementation
  - Increases costs of determining who should be targeted, and costs to intended beneficiaries who need to ensure they are included in the scheme
  - Universal programs have broader political support

- Main advantage of targeting of course is larger transfers for the poor
  - But may have greater negative impact on work incentives (phase out)

- In settings of lower state capacity for targeting and implementation (like India); the case for universality is stronger

- In the Indian context, PM-KISAN is a much better designed program than NYAY.

4. Will people spend cash transfers badly?

- Common concern – but very little evidence to support it
- People may spend more when they receive large windfalls (Imbens, Rubin, and Sacerdote, 2001)
- People spend less or the same on temptation goods (alcohol, tobacco) when they receive ongoing, smaller transfers (Evans & Popova 2017)
- People increase spending on household food expenditure, school attendance, use of health services, dietary diversity, savings, livestock ownership, and purchase of agricultural inputs (Bastagli et al. 2016)
- One source of the concern is that each ministry considering a switch to DBT wants *all* the money to be spent on its vertical (health, PDS, ICDS); this is unrealistic and the wrong way to think about the problem

5. Effect on work incentives

- For both developing and developed countries, there is no systematic evidence of various cash transfer programs having a negative effect on labour supply (see Baird et al. 2017, 2018; Banerjee et al. 2019; Ghatak & Maniquet 2019; Hanna & Olken 2018; Imbert & Papp 2018; Stecklov et al. 2018; and more)
  - In one example, an Iranian program similar to UBI faced political criticism about disincentivizing work by the poor, but careful analysis shows that there was no evidence of reduced labour supply and if anything, the labour supply of women and self-employed men actually went up (Salehi-Isfahani and Mostafavi-Dehzooei 2018).

- Income effects (modest for small transfers) and substitution effects (substantial for targeted programs that need to be phased out)

- This point is often misunderstood by commentators on anti-poverty programs, but in general the empirical evidence from global settings suggests that it's the phase-out that causes the bigger incentive problems and not the transfer

5. Work incentives (contd)

- The value of the IGD transfer is too small to have any adverse impacts on incentives to work
- Income effect on leisure from such a modest transfer are likely to be miniscule
- There is no phase out of the benefits, which means that there is no disincentive to work during that period
- An IGD could actually *increase* worker productivity.
    - Even very modest income transfers to people that are predictable and reliable can significantly improve productivity by increasing their ability to search for better opportunities and take on the small risks needed to “invest” in such search

Conclusion - Summary

The Inclusive Growth Dividend:

- 1% of GDP (~Rs. 110 per person per month at current levels)
- Only one part of a large portfolio of policies aimed at alleviating poverty
- Avoids many of the challenges of a UBI
- Consistent with key principles that guide our inclusive growth strategy, especially equity (including, inter-regional equality) and efficiency
- Financially feasible
- Consistent with political willingness to implement income transfers (of the same magnitude as seen by PM-KISAN)
- Can also pilot/evaluation in 10-20% of poorest districts/blocks
- Actionable by 15th Finance Commission, Centre, or State governments

Conclusion – Putting IGD in a broader policy framework (I)

Augmenting State Capacity

- Implementing an IGD would involve identifying every citizen, matching him or her to a bank account (or a parent/guardian with a bank account), and being able to reliably send monthly transfers to over 1.3 billion people
- It would have the indirect benefit of developing demonstrable state capacity to credibly reach every citizen and reliably deliver a benefit for the first time in independent India
- In the longer-term, the IGD infrastructure may enable:
  - A strengthening of tax collection capacity by connecting every citizen to the state and vice versa
  - Improved pricing of scarce resources such as water and clean air
  - Greater range of policy options based on using the tools of the IGD infrastructure

Conclusion – Putting IGD in a broader policy framework (II)

- Building such state capacity is no longer a pipe dream
  - This is the logical culmination of the investments in the past decade in the Aadhar platform combined with JanDhan accounts and mobile seeding (JAM)

Conclusion – Putting IGD in a broader policy framework (III)

IGD as a benchmark for development spending and enabler of choice

- Some push to replace ineffective programs with income transfers
  - E.g. the pilot of replacing PDS with DBT in 3 union territories.
  - E.g. similar push for pilot studies of substituting Take-Home Rations (THR) in the ICDS (which are believed to be poorly implemented) with DBT
- However, beneficiaries' revealed and stated preferences vary
- Any blanket attempt to replace would be ill-advised
- Rather, an IGD can be used to discipline all other government spending by making it an attainable benchmark

Conclusion – Putting IGD in a broader policy framework (IV)

- So an IGD can be like an "index fund" for development spending
  - If public provision delivers more value than cost, people can choose that; but if not – they can opt for an income equivalent
  - Value of transfer may well increase over time – but driven by beneficiaries
  - In the long-term, both public and market provision of goods and services are important – especially for each to keep a check on the other through choice and competition

Thank you

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