

Social Protection

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There are hundreds of social protection schemes in India, from housing to food, from maternity benefits and child welfare to old-age support. Many of them are funded at very low levels that limit their effectiveness. While their performances across the country vary, it is broadly true that many of these schemes are beset with problems that make them less impactful than they could be.

First, there is the problem of eligibility. Often, those who should not be getting a benefit get it (inclusion errors), while those who should be getting it don't get it (exclusion errors).

Second, there is the problem of leakage, wastage and corruption in the delivery process.

Third, even if the implementation process were faultless – so that the first two problems were absent – administering these programmes uses up considerable manpower and resources.

Fourth, some of these schemes involve subsidies which distort the allocation of resources. For example, subsidies for water and electricity arguably cause environmental damage and supply-side problems (falling water tables and power

blackouts). Moreover, they benefit the relatively better-off more than they do the poor – since the poor consume less of the relevant good or service. For example, power subsidies favour those who have access to electricity and, among them, those who consume more power.

Finally, leaving aside the problems on the delivery side listed above, there is also a basic problem that subsidies or in-kind transfers have – they do not leave the decision to the recipients as to what their specific needs are.

The core principles of reforming social safety net should be to:

- Reduce the number of schemes drastically to a manageable number, all of which are aimed at the most important risks. However, removing any scheme, however inefficient, will hurt some vulnerable group and so there has to be a concrete plan for compensation for losers in the process of reforming the social protection system, along the lines of the direct benefits transfer (DBT).
- Move beyond the cash vs kind debate in the context of some specific welfare programmes by focusing on beneficiary preferences and taking a *choice-based* approach. For example, in the context of food distribution through the PDS, we propose giving beneficiaries the choice of opting for a cash transfer instead, instead of policymakers deciding between the form of transfer (e.g., PDS and DBT). Muralidharan, et al. (2017) in their study on DBT in food found that preferences for it varied across beneficiaries depending on access to banking. For example, cash transfers work well if there is ready access to banking services, as well as ready access

to markets, which is not true for remote rural areas. With mobile banking and the PDS being digitized with e-PoS machines to enable portability of benefits, such a choice-based approach has become feasible. This would also put pressure on PDS owners to stop diversion of their stock to the open market and to maintain the quality of the rations they supply. Also, as the study on DBT referred to above found, over time – as logistical problems are sorted out and people adapt to the new system – the acceptability of DBT to beneficiaries goes up. To minimize logistical problems, one should put in some reasonable restrictions on sticking to either the in-kind or cash transfer for a certain minimum period. There is also an issue of the entitlement of a family vs that of an individual. Under the PDS, the allocation is household-specific and so with a cash-transfer opt-in, one would have to ensure that the family has claims to it.

- In general, we favour moving to uniform and universal cash transfers as much as possible. Cash transfers reduce administrative costs, corruption and various distortions involved with in-kind transfers. Evidence from low- and middle-income countries suggest that, on average, cash transfers to the poor do not cause them to work less or spend their money on inessential consumption, which are the usual concerns that are raised about cash transfers (see Banerjee, et al., 2017; Evans and Popova, 2014). However, with the possibility of choice, there may be some scope for corruption, and so transparency regarding the implementation of the scheme is essential.
- Given the fiscal realities, we are restricting ourselves mainly to the forms of delivery of existing welfare

schemes as opposed to proposing new schemes, such as a fully-fledged universal basic income scheme. However, we are not opposed to a general means-tested cash transfer scheme (as opposed to a universal or non-means-tested one) or schemes aimed at specific demographic groups (e.g., old-age pensions or maternity benefits), so long as the amounts involved are not too small. A key part of making such schemes effective would be an automatic indexation to inflation to ensure that their value is not eroded over time. This is especially important as these schemes are aimed at the most vulnerable sections of society.

References

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