



## Cash vs. in-kind transfers: Indian data meets theory



Reetika Khera\*

Department of Humanities and Social Sciences, Indian Institute of Technology Delhi, MS 644, Hauz Khas, New Delhi 110016, India

### ARTICLE INFO

#### Article history:

Received 3 July 2013

Received in revised form 9 February 2014

Accepted 7 March 2014

#### Keywords:

Cash transfers  
In-kind transfers  
India  
South Asia  
Entitlements  
Philosophical

### ABSTRACT

This paper uses qualitative and quantitative data from a survey of over 1200 rural households in nine Indian states to explore the arguments for and against cash and in-kind (in this case, food) transfers. When respondents were asked to think about, argue, and ‘choose’ between the two, two-thirds of the respondents expressed a preference for food. Rather than the choice made by respondents, the focus here is on understanding the reasons behind their choice, as explained by beneficiaries themselves. Two main findings emerge. First, some arguments corroborate existing theory (e.g., paternalism, fungibility), but others (e.g., self-control, transition costs) are not incorporated in existing theory on the advantages of in-kind transfers. Second, context is important. Most importantly, respondents’ reported preferences were associated with the benefits they were experiencing under the status quo: where the PDS performed better at distributing food, respondents were more likely to report preferring food to cash transfers. The contention of traditional theory that cash is superior fails to factor in contextual concerns.

© 2014 Elsevier Ltd. All rights reserved.

### Introduction

In their comprehensive survey on the theoretical arguments for in-kind transfers, Currie and Gahvari (2008) note a ‘disconnect between the theoretical and empirical work on in-kind transfers. Many theories seem to be unmotivated by deep knowledge of the programmes and the empirical work seems to largely accept the paternalism theory and move onto other questions.’ The authors highlight that the existing literature on theoretical explanations for in-kind transfers discusses the role of paternalism, interdependent preferences, enhanced self-targeting, intra-household redistribution, pecuniary benefits, asymmetric information among agents leading to market failures, and the role of political economy factors (see also Thurow, 1974).

The “disconnect” alluded to has been conspicuous in the debate on replacing in-kind food transfers with cash in India. This paper, based on an empirical investigation of the question of cash transfers vs. in-kind transfers of subsidised food in India, is an attempt to bridge this gap in order to open up more research on these issues.<sup>1</sup> The contemporary context for this enquiry is a policy debate on replacing in-kind transfers of subsidised food through the Public Distribution System (PDS) with cash transfers. The main arguments

in favour of cash transfers are corruption in the functioning of the PDS and its high operational costs.<sup>2</sup> Proponents of cash transfers are optimistic, with much of the optimism stemming from the largely positive evaluations of cash transfer programmes such as Bolsa Família (Brazil) and Oportunidades (Mexico).<sup>3</sup> This paper contributes to the cash vs. in-kind debate in three ways.

One, it examines primary qualitative and quantitative data from a household survey. Empirical evidence corroborates several theoretical factors mentioned above—“paternalism”, interdependent preferences, pecuniary benefits, and intra-household distribution issues. Quite importantly, the evidence here calls for recasting the “paternalism” argument either as an issue of “self-control” or as a “nudge” (Thaler and Sunstein, 2008).

Two, the paper also draws attention to the context specificity of the debate both for India and within India. The socio-economic conditions under which the Latin American ‘successes’ were achieved are outlined, which raises the issue of whether such conditions apply in the Indian scenario. Within the Indian context, arguments not adequately discussed in the earlier theoretical literature are examined. To individuals living on the margins of subsistence, sometimes in areas with poorly developed markets or in patriarchal societies that suffer from other forms of social inequality (based on caste or gender),

\* Tel.: +91 9958801227.

E-mail address: [reetika@hss.iitd.ac.in](mailto:reetika@hss.iitd.ac.in)

<sup>1</sup> In India, many government transfers are in-kind transfers (school meals, subsidised food, medical care) though a range of cash transfers also exist (e.g., old age pensions, widow pensions, maternity entitlements).

<sup>2</sup> See Svedberg (2012) and Khera (2011b).

<sup>3</sup> There is very rich literature on this. See, for instance, Lindert et al. (2007) on Bolsa Família and Levy (2006) on Oportunidades.

in-kind transfers provide a protection that cash transfers may not ensure.

Three, the paper analyses the beneficiaries own arguments for the two options. These provide valuable insights into the cash vs. food debate. Further, wherever possible, the regressions investigate the empirical validity of their arguments (e.g., “bank is far”) is examined using available primary data to check if this is a valid claim (e.g., how far does the respondent live from the bank). Secondary data is also used to shed light on these issues. For instance, since maintaining the purchasing power of the cash transfer is expressed as a concern, what evidence is there that indexation might be operationally difficult?

In a nutshell, even though the context specificity does appear in earlier literature, the *theoretical* work does not seem to adequately take context into account.<sup>4</sup> Broadly speaking, the five contextual factors that are important in this study are presence and maturity of local markets, preparedness of the financial system, socioeconomic status of recipients, cultural norms and status of current transfer programmes. Further, while the discussions have focussed on the cost-effectiveness of cash transfers, not enough attention has been paid to the fact that when one switches from in-kind transfers to cash transfers, many of the government’s transaction costs are passed onto poor beneficiaries. The size of these transaction costs and the extent to which (if at all) beneficiaries are compensated for these would determine the distributional consequences of the shift to cash transfers. Besides transaction costs, a switch from one to the other also imposes ‘transition costs’ (e.g., disruption, learning about the new system, etc.), an issue that is rarely discussed in the literature.

‘Methodology’ discusses methodological issues. ‘Insights from qualitative data’ lays out the analytical arguments in favour of in-kind food transfers based on the empirical work. It also briefly discusses the advantages of cash transfers. ‘Some quantitative results’ reports and discusses the result of probit regressions using the quantitative data to test the strength of factors listed in section ‘Insights from qualitative data’ on the preference expressed by respondents. ‘Conclusion’ ends with some concluding remarks.

## Methodology

This paper is based on a household survey covering more than 1200 rural households across nine Indian states. The survey was conducted in May–June 2011 among predominantly poor households who currently have access to subsidised food transfers from the PDS. The PDS provides subsidised foodgrains (and other essential commodities) through a network of fair price shops (FPS). The PDS has been criticised as an inefficient and expensive mechanism of enhancing food security. Poor targeting, corruption (or ‘diversion’), and high operational costs are among the reasons used to justify the move from a universal PDS to the Targeted PDS (TPDS) in 1997. Based on their economic status, households were classified as Above Poverty Line (APL) or Below Poverty Line (BPL); while BPL households continue to receive subsidised foodgrains through the TPDS, APL households receive subsidies. Many states have recently been putting in their own resources to return to the universal system.

The nine sample states are: Andhra Pradesh, Bihar, Chhattisgarh, Himachal Pradesh, Jharkhand, Odisha, Rajasthan, Tamil Nadu and Uttar Pradesh. Using secondary data for 2004–2005, Khera, 2011a groups major Indian states into three categories based on

the performance of the PDS: “functioning”, “reviving” or “languishing”. The selection of states for the PDS Survey relied on that grouping of states: three functioning states (Andhra Pradesh, Himachal Pradesh and Tamil Nadu), three reviving (Chhattisgarh, Odisha and Uttar Pradesh) and three languishing (Bihar, Jharkhand and Rajasthan) were chosen.<sup>5</sup>

Two Blocks in each of two sample Districts in each state were visited by the survey teams.<sup>6</sup> Sample districts and blocks were selected to maintain a balance between more and less developed areas of the state, and also between different agro-climatic regions. For instance, in Bihar, Nalanda (in “South Bihar” and two hours from the state capital) and Katihar Districts (in “North Bihar”, on the border with Nepal) were selected. In Tamil Nadu, both sample districts (Dindigul and Dharmapuri) are known as “backward” districts. Given Tamil Nadu’s exceptional PDS performance, we were interested in seeing how the scheme fares in the worst areas of the state.

In each of the 20 sample Districts, six villages (three each in two different Blocks) were selected for investigation. Selected villages were a random sample from the list of census villages with a population of 500–1500.<sup>7</sup> Investigators were supposed to interview 12 randomly selected households in each village.

In six out of nine sample states, surveyed households were a random sample selected from the BPL list. In the remaining three (Andhra Pradesh, Himachal Pradesh and Tamil Nadu), where the PDS is universal or quasi-universal, the voter list was used for sampling.<sup>8</sup> The BPL lists are far from reliable (e.g., some households on the BPL list happened to have an APL card or no card at all), but they were good enough for our purposes (in such cases, investigators were instructed to skip that household), with the partial exception of Jharkhand. Households with Antyodaya cards, meant for the poorest of the poor, were included (these households are generally, but not always, selected from the BPL list). The survey (hereafter “PDS Survey”) covered 1227 households in the nine states.

Investigators sought the views of respondents on whether they would prefer an in-kind transfer of subsidised food (as it exists today) or a cash equivalent. Specifically, respondents were asked what they thought of the following proposal: the ration shop is closed, the government opens a bank account for them (if they do not have one already) and each month credits adequate cash for them to buy on the open market the same basket of goods that they currently get from the ration shop. The amount of cash deposited would be indexed to a suitable price index so that its purchasing power does not diminish over time. Investigators were asked to first explain the proposal carefully, engage respondents in a discussion of the proposal so that they have time to think about the pros and cons and record the respondent’s stated reservations or preference for either option. The questionnaire included pre-coded options in favour of and against both options. For instance, some of the pre-coded concerns with respect to cash were ‘misuse

<sup>5</sup> This survey finds further support for this categorization, except that two more states from the “languishing” category (Jharkhand and Rajasthan) seem to be “reviving”.

<sup>6</sup> The sample Districts are Chittoor and Warangal (Andhra Pradesh), Katihar and Nalanda (Bihar), Mahasamund and Surguja (Chhattisgarh), Mandi and Sirmour (Himachal Pradesh), Dumka and undivided Ranchi (Jharkhand), Nuapada and Sundergarh (Odisha), Bharatpur and Pali (Rajasthan), Hardoi and Jaunpur (Uttar Pradesh) and Dharmapuri and Dindigul (Tamil Nadu).

<sup>7</sup> The proportion of the sample District’s rural population living in villages in the 500–1500 population range varies from 9% to 17% Andhra Pradesh, 19–21% Bihar, 52–63% Chhattisgarh, 38–44% Himachal Pradesh, 42–45% Jharkhand, 49–60% Odisha, 29–35% Rajasthan, 5–13% Tamil Nadu and 26–36% Uttar Pradesh. Though sampling was done systematically, in some states, the sample villages are more likely to be the “typical” size; but in the southern states of AP and TN, this is less likely. There does not appear to be any systematic variation in the performance of the PDS or in people’s responses to the key questions on cash-food preferences, by size of village.

<sup>8</sup> In Dumka (Jharkhand), we were unable to find the BPL list; the voter list was used.

<sup>4</sup> At least some of these issues have been addressed in the literature on appropriate interventions in disaster management or “response analysis”. See for instance, Barrett et al. (2009), Farrington et al. (2006), Gentilini (2007) and Harvey (2005) cited in Narayana (2011).

Download English Version:

<https://daneshyari.com/en/article/5070519>

Download Persian Version:

<https://daneshyari.com/article/5070519>

[Daneshyari.com](https://daneshyari.com)