# Beyond Introductory Theory: Cash vs In-Kind Transfers & the Indian Welfare State

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# Introduction

- Cash transfers increase purchasing power; in-kind transfers involve direct distribution of specific goods.
- Both can be conditional or unconditional.
- Universal vs. Targeted: Transfers may be available to all or specific demographics/groups.
- Introductory Theory: Cash transfers preferred due to minimal distortion in optimal consumption choice. 1 unit currency on cash transfer typically provides higher welfare than subsidy.

# Basis for Cash

- Narayan (2011): Cash transfers excel in providing social protection for the elderly, supplementing children's income, & demonstrating significant benefits in education & access to health services, particularly conditional.
- Kapur et al. (2008): Expansion of transfers eliminate paternalism, ease financial constraints, & reduce administrative costs. They may curb leakages in developing countries, & lower costs & easier accountability compared to in-kind transfer schemes.

# Not Just Transfers?

- Kapur (2011):
  - Replacing in-kind with cash requires addressing fundamental subsidy objectives; Should not be done just out of fiscal concerns.
  - Cash transfers may not achieve long-term goals without complementary policies.
    - Example: If beneficiaries use cash transfers to purchase goods & services from the private sector, then policy aimed at enhancing market infrastructure, such as access to roads or rural supply chains, would lead to beneficiaries receiving greater value for their money (since market competitiveness would increase)

# Indian Policy - Public Distribution System

- PDS is a national food security program providing food & non-food items to the poor at a subsidized rate.
- Arguments in favour of replacing with Cash Transfers are made on grounds of reducing leakages & administrative costs etc.
- Khera (2014) uses empirical data from 1,227 households in 9 Indian states & finds preference for cash or food transfers is highly context dependent. Preference for food over cash may be due to;
  - Poorly developed rural markets that are distant (particularly for elder beneficiaries),
  - Distance or lack of access to banks,
  - Previous experience with cash transfers,
  - Intra-household conflict with respect to how the cash transfer must be used.
- Ghatak et al. (2016) surveys 2006 Bicycle distribution in Bihar & finds 55% recipients prefer in-kind due to similar reasons.

# PDS, Continued

- Satapathy et al. (2022) conducts a primary survey of 1069 recipients in 3 states & finds that;
  - Low-income households with little land & low education prefer in-kind transfers (86%) over cash (14%).
  - Lack of banking facilities deters more than two-thirds from preferring cash.
  - The preference for food declines as household income per person rises.
  - The likelihood that people will choose food over cash increases with the quality of the food grains.
- Gadenne et al. (2021) finds that expansions of the food transfers through the PDS not only increase caloric intake but also reduce sensitivity of calories to local prices; Showing that in-kind transfers serve as insurance against price volatility.

# Experimental Work

- Gangopadhyay et al. (2015) conducted a RCT in New Delhi, finding support for unconditional cash transfers in urban areas.
  - The study found that food security was not compromised by cash transfers, & households receiving cash were not worse off than those relying on the PDS.
  - Cash transfers allowed households to choose healthier, non-cereal options without evidence of wasteful expenditure like alcohol, addressing concerns of intra-household conflict.
  - May have to do with well-developed markets (Like Khera (2014) argued)
- Abbink et al. (2022) conducted an incentivized field experiment finding that beneficiaries values cash transfers over cash value of rice but female-headed households contrasted valuing rice more
  - Intra-household conflict is an important determinant of preference.

# General Effects

- Cash transfers tend to have positive effect on the economy; Large body of evidence exists on this.
- Egger et al. (2022) conducts a RCT involving transfers in rural Kenya, summarizes mechanism for growth - Cash transfer recipients spent most of the transfer, increasing local business revenues. Demand increased income for non-transfer households, causing them to spend more. Both the local economy & households receiving & not receiving the transfer benefited greatly. Revenue increased significantly in both treatment & comparison villages.
- Gerard et al. (2021) find evidence that expanding a cash transfer programme in Brazil boosted local economies within Brazil, as a 13.6% increase in total payments resulted in an increase in the number of formal private-sector jobs, which resulted in a 2% increase 2 years after the reform.

# Price Effects

- Cunha et al. (2011) show that in-kind transfers can have a larger impact on local prices than cash transfers through a RCT in rural Mexico. In-kind transfers of food lowered prices more than cash transfers did. This benefited consumers but hurt local producers. The price effect of in-kind transfers was equivalent to 11% of the direct transfer value.
- Creti (2010) studies the impact of short term cash transfers in unstructured markets using a programme in Northern Uganda;
  - Livestock markets had poor local integration, local farmers were unable to meet the increased demand, & the transfer was significant relative to people's income, covering a significant portion of the local population.
  - The short-term cash transfers had no long-lasting negative effects on market outcomes, & after the buying period, prices immediately resumed their previous levels.
  - Even brief price increases tend to have the greatest negative effects on low-income households due to their lack of negotiating power & access to the market.

# Conclusion

- Introductory theory tends to favour cash transfers.
- Cash is effective, but contextualization is needed.
- A simplistic shift is not ideal; Facets like intra-household conflict, local price volatility, intensity of the possible inflationary effects of the transfers, underdeveloped markets, & problems in political economy such as state capacity need to be considered.
- Even if Cash Transfers are prioritized, contexts need to be studied to better design transfers - Indexing to inflation, investing in complementary infrastructure etc.

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