



RETHINKING SOCIAL SAFETY NETS IN AN ERA OF DECLINING POVERTY



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Main messages

1. Safety nets for a society in transition need a different mindset
 - ▣ Transient vs. chronic poverty
2. Focus on outcomes and not inputs
 - ▣ Many programs developed with heart rather than head and seem to be ineffective
3. Now is the time to build institutions for effective social safety nets for the future
 - ▣ Social pensions with electronic funds transfer
 - ▣ Property and land titling to prepare for an era when the corporate family will be a thing of the past

India Human Development Survey (IHDS) of 2004-5 and 2011-12

- Multi-topic panel survey of over 40,000 households spread nationwide ~ 1500 villages, 1000 urban blacks
- 83% recontact rate; 90% rural, 72% urban
- India's first nationwide panel survey
- Data are in public domain for free download from ICPSR
- All figures reported in 2011-12 Rupees and poverty lines based on Tendulkar definition

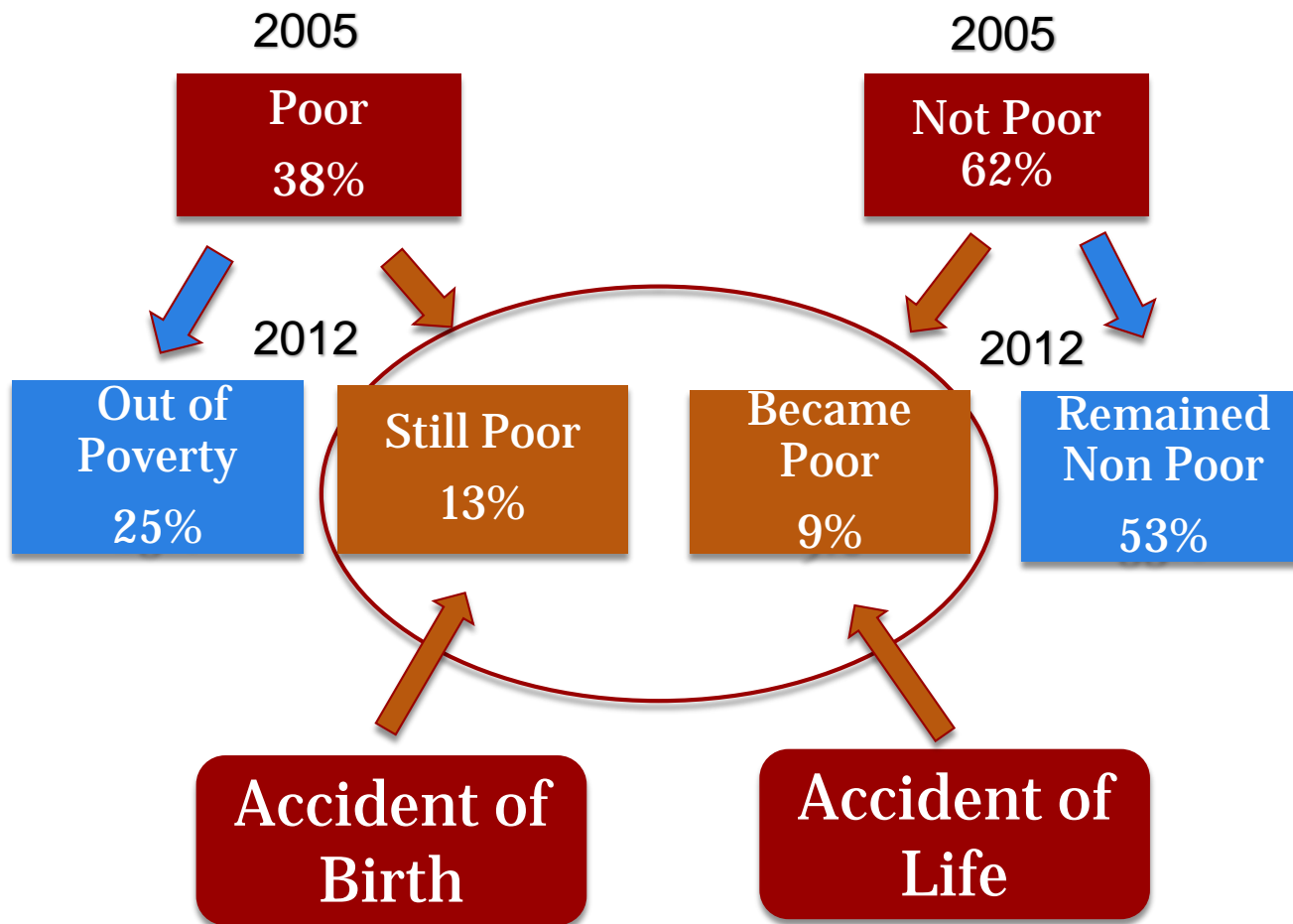
Changing Nature of Poverty in India

Accident of birth: Chronic poverty

Vs.

Accident of life: Transient poverty

Changing face of the poor



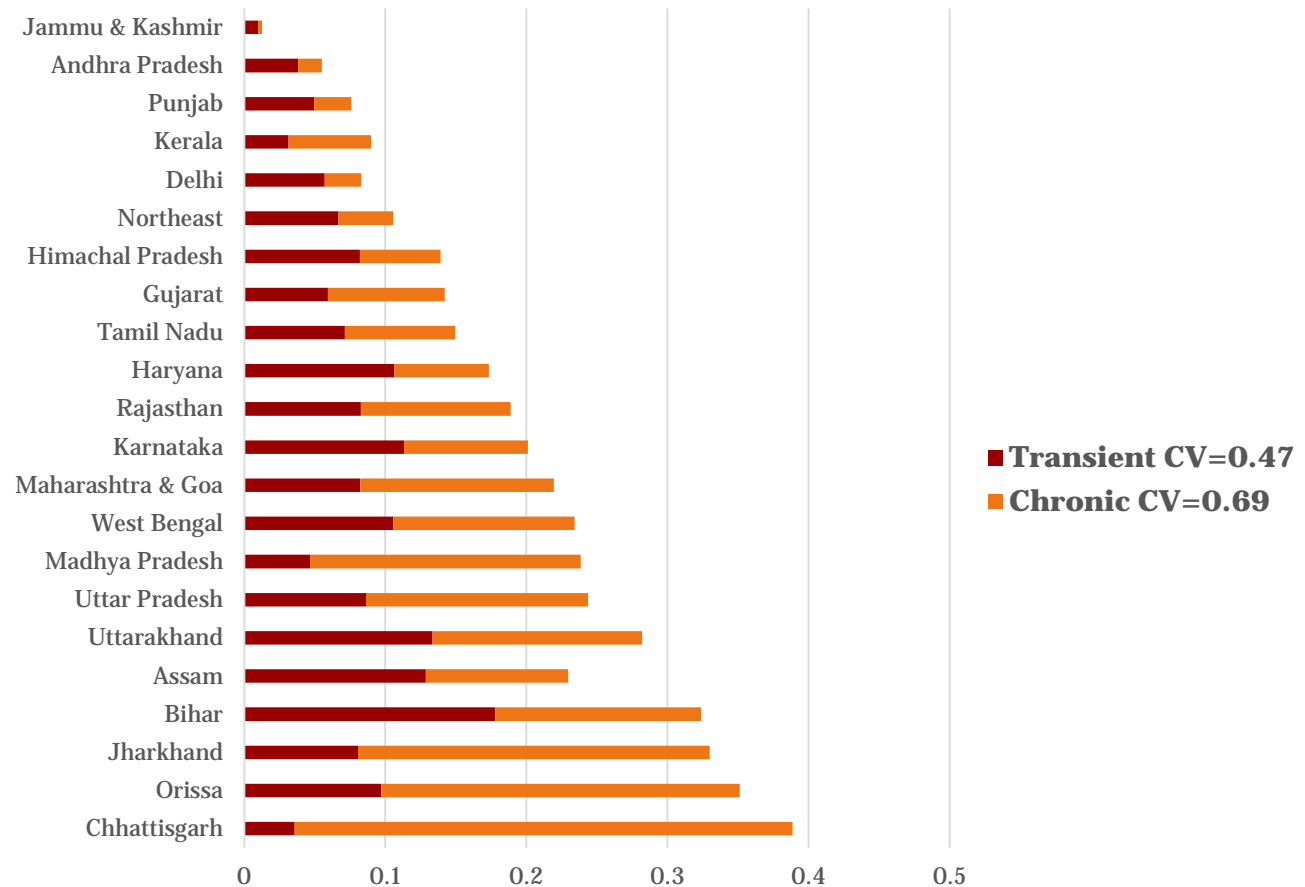
Chronic vs. transient poverty

- Focus on chronic poverty assumes that some exogenous characteristics of the household generates poverty
 - ▣ Place of residence
 - ▣ Caste/Tribe/Religion
 - ▣ Access to productive resources like land, education
- With declining poverty, proportion of transient poverty to chronic poverty rises
 - ▣ Job loss, illness, draught may cause households into poverty

Chronic and Transient Poverty 2011-12

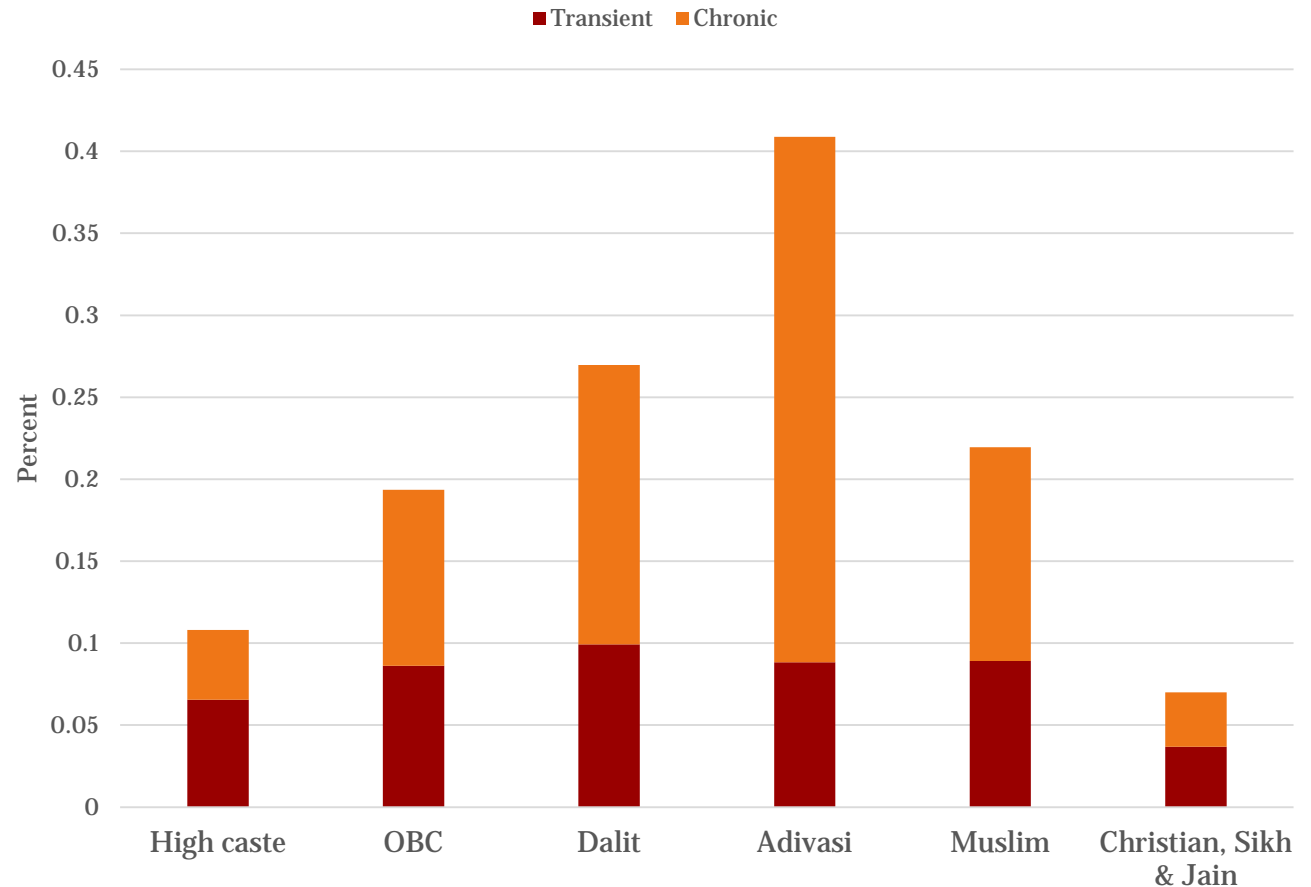
With declining poverty, smaller share of chronic poverty.

Variation across states far greater in chronic poverty (Coefficient of variation 0.69 vs. 0.47)



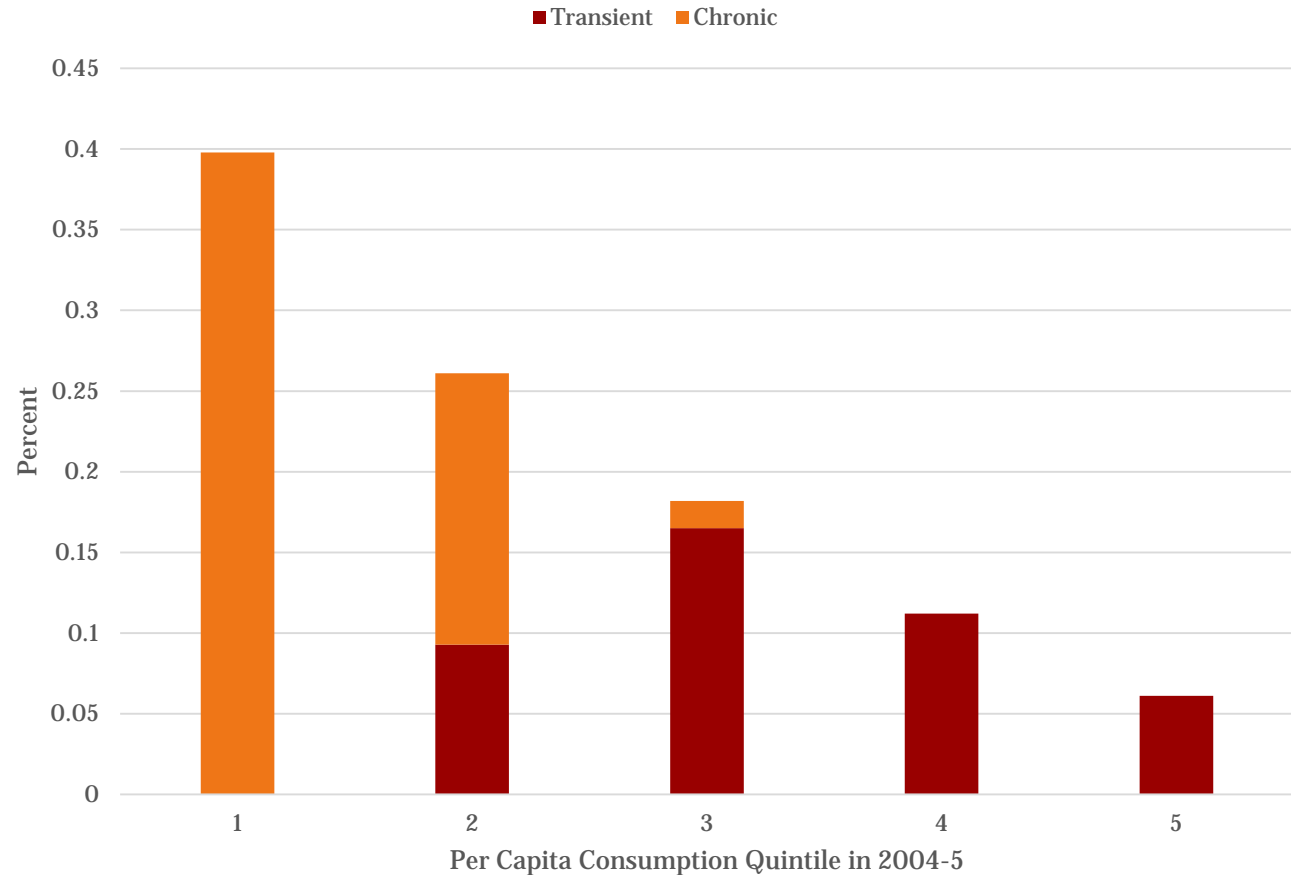
Transient Poverty Similar Across Social Groups, Chronic Poverty Varies

Historical disadvantages greater predictors of chronic poverty than transient poverty



Slide into poverty possible for even top 40% in Wave 1

Slide into poverty not only for people close to poverty line, even the top 40% can slide into poverty if faced by adversity



Over time as transient poverty becomes more important...

- We may need a different approach to safety nets
 - ▣ Insurance
 - ▣ Disaster relief
 - ▣ Income support when some accident befalls

- **Key message: Vulnerability rather than poverty**
 - ▣ In IHDS 2011-12, 60% of the poverty is chronic poverty and 40% transient

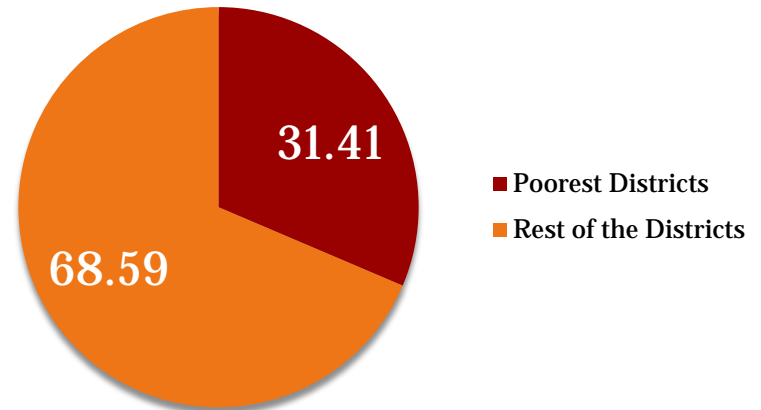
How should we target benefits?

- Geographic targeting (e.g. 200 poorest districts)
- Identification of poor households (e.g. Below Poverty Line -- BPL cards)
- Natural targeting (e.g. MGNREGA)
- Unconditional transfers or basic income

Geographic Targeting is Impossible

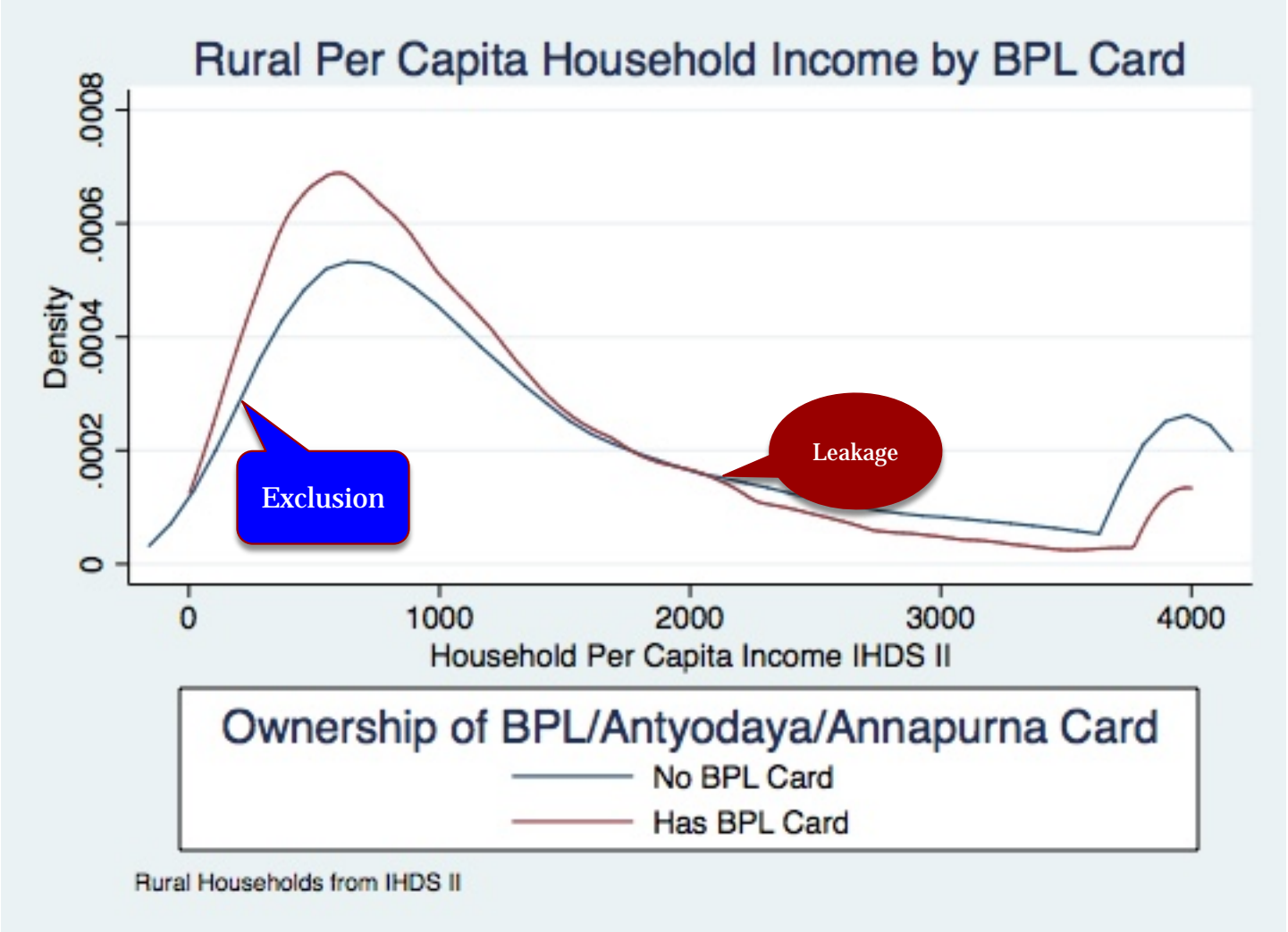
- Planning Commission identified 200 poorest districts
- While it is true that poverty rate is higher in these districts, the difference is smaller than one expects
 - 27% vs. 23% poverty rate

Most of the Poor Live outside Poorest Districts



Household identification is fraught with errors

- Households are identified as being Below Poverty Line (BPL) through periodic censuses
- Full of errors, elite capture, out of date data
- Many attempts at developing better identification systems – none acceptable
- Many states are still using the BPL list prepared from 2002 Census



* Bump in the tail due to collapsing households with 4000+ income

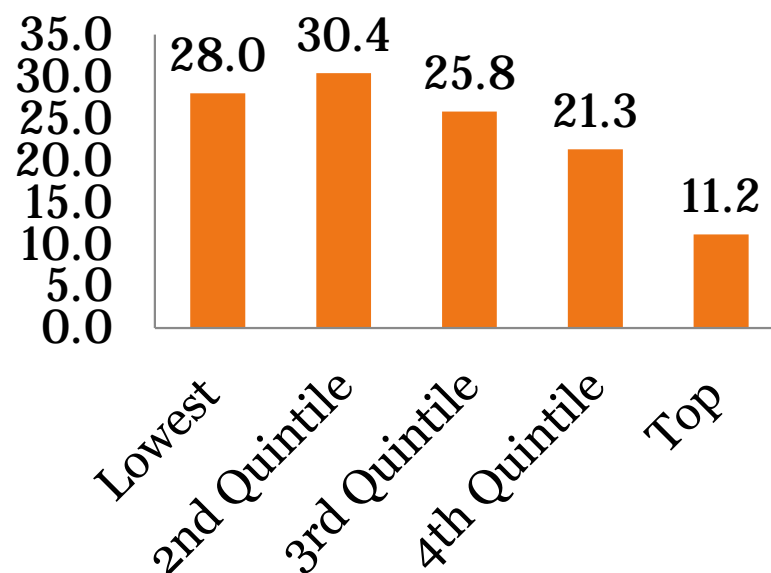
Employment Programme (MGNREGA of 2005)

- 25% households participating in work programs via Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)
 - Participant households earn a median income of INR 4,148
- Universal program at fixed rates per state providing work to households for 100 days per year on demand
- Equal wages for men and women
 - Decent participation of women (about 40% workers are women)
 - Higher participation rates for Scheduled Castes (36%) and Tribes (29%) vs. Forward castes (16%)

Natural Targeting (MGNREGA)

- Looking at 2004-5 incomes for MGNREGA participating households (before MGNREGA income kicked in)
 - ▣ 75% had monthly per capita incomes below INR 1000 (in 2011-12 constant Rs.)
 - ▣ 50% had monthly per capita incomes below INR 625

MGNREGA Participation in 2012 by Household Income Quintile in 2005



Unconditional Cash Transfers

- Frequently proposed
- If universal can only be very small
- If targeted, how can one target?

2. Focus on outcomes not inputs

Many programs setup with hearts rather than heads and their effectiveness is never examined

Identification of outcomes requires clarity of purpose, very rare, lots of post-hoc rationalization

LACK OF DATA CRIPPLES SENSIBLE POLICY DESIGN.

Food subsidies through fair price shops

- National Food Security Act of 2013 expands subsidies to cover about 67% of India, not fully implemented
- But even between the period 2004-5 and 2011-12 there has been a massive expansion of subsidies under Public Distribution System
- Having 43% of Indian children under 5 being underweight and 48% stunted adds to the imperative to eliminate hunger

Cereal Purchase via Public Distribution System (Before NFSA)

- Proportion of households purchasing from fair price shops in 2011-12 from IHDS
 - 48% do not purchase
 - 37% use as Below Poverty Line/Antyodaya card holders (Highly subsidized)
 - Median subsidy for cereal purchase Rs. 319 per month per household (average price – PDS price for amount purchased)
 - 15% use at Above Poverty Line card holders (At economic cost but still often below market price)
 - Median subsidy Rs. 180 per month per household
 - Median subsidy per household (users and non users) – INR 34 per month, mean subsidy Rs. 162

Striking Growth in PDS usage not matched by decline in underweight

	Prop of Households Purchasing Rice & Wheat from PDS (NSS)		Proportion of Children under 5 Malnourished	
	2004-5	2011-12	NFHS-3	DLHS-IV
Kerala	39.7	81.9	22.9	20.9
Himachal	51.6	89.5	36.5	28.5
West Bengal	13.2	44.6	38.7	37.4
Punjab	0.5	19.8	24.9	25.2
Andhra	58.5	76.1	32.5	28.1
Tamil Nadu	72.7	87.1	29.8	32.5
Karnataka	50	63.1	37.6	29.7
Maharashtra	22.1	33.1	37	38.7

Addressing child malnutrition may need a different approach

- Water and sanitation
- Dietary diversity and micronutrient supplementation
- Parental recognition of children's growth retardation
- Emergency intervention, including hospitalisation for severely malnourished children
- Nice example in Karnataka Nutrition Mission

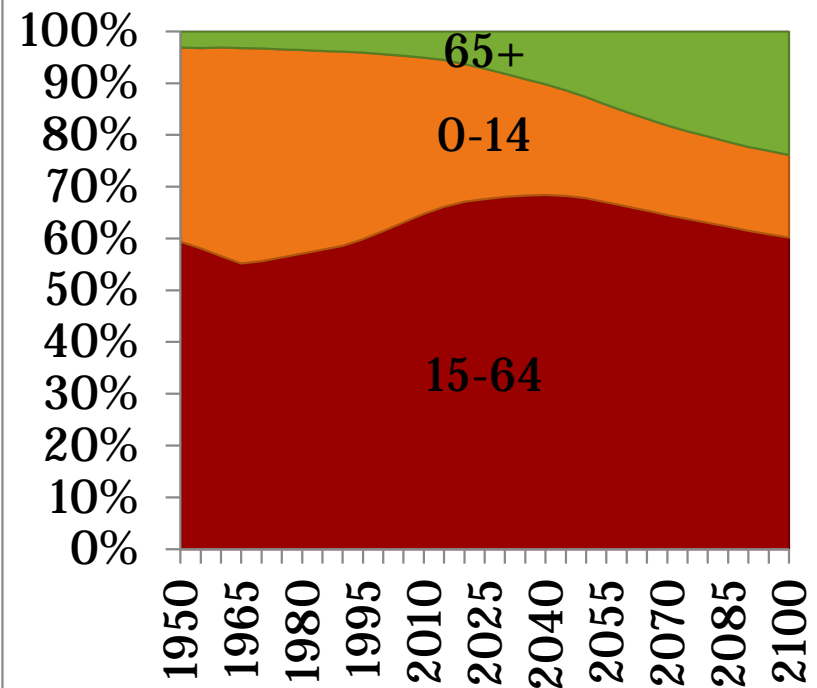
3. Building institutions for the future

We must anticipate future needs and focus on institutions to address those needs.

Demographic debt – the other side of demographic dividend

- Proportion of elderly in India will continue to rise
- Already 9 states and UT have TFR of less than 2
- We can expect more migration
- So more and more elderly will end up without an adult son with whom they can live

Projected Indian Age Distribution 1991-2100
UN Population Prospects, 2012, Medium Variant



Already we see minor signs that coresidence is declining

- Even in the 7 years between IHDS I and II there is slight decline in elderly ages 60+ living with married children

	Men		Women	
	2004-05	2011-12	2004-05	2011-12
Single	1.11	2.02	3.82	5.78
Couple	12.24	17.02	7.33	10.18
With Unmarried Children	15.81	14.88	5.73	6.76
With Married Children/Others	70.84	66.08	83.12	77.28

Planning for future needs of the elderly population requires...

1. Putting in place a pension system – social pensions & self/employer funded
 - ❑ Over time may want to think of a combination
 - ❑ Direct cash transfers for modest social pensions will put in place mechanisms for future expansion
2. Thinking through legal reforms that will allow elderly to build their own wealth
 - ❑ Titling of property for a time when corporate family will disintegrate and we will need to move away from inheritance systems such as Hindu United Family (HUF)