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How Cash Transfers Boost Work and Economic Security

Guy Standing

Abstract

There has long been a minority view that providing people with cash is an effective way of combating poverty and economic insecurity while promoting livelihoods and work. The mainstream view has been that giving people money, without conditions or obligations, promotes idleness and dependency, while being unnecessarily costly. Better, they contend, would be to allocate the available money to schemes that create jobs and/or human capital and that produce infrastructure. This paper reviews recent evidence on various types of scheme and on several pilot cash transfer schemes, assessing them by reference to principles of social justice.

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Guy Standing

Introduction

As welfare states and classical forms of social security have crumbled, and particularly as those models have failed to take hold in developing countries, where informal employment is the norm, governments have begun to look at other innovative methods for enabling people to pursue sustainable and 'decent' livelihoods. It is increasingly recognized that policies that *facilitate* work can be more valuable than policies that create short-term jobs. In this regard, there has been a great flowering of experimental schemes around the world—and renewed interest in other selective measures—in response to the fact that poverty and unemployment have remained persistently extensive in spite of economic growth.

To some extent, the emerging schemes have been shaped by the changing patterns of work and labour in the globalised economic system and by the realization that there is a growing incidence of social and economic *shocks* that expose people to more systemic insecurity, in which the livelihoods and reproductive capacity of whole communities are threatened, be it by a sudden economic decline or by a social collapse of entitlements due to a natural disaster, such as a famine, drought, a *tsunami* or earthquake, or an epidemic such as HIV/AIDS.

Besides critiquing traditional selective measures, this paper considers several cash-transfer schemes that have attracted policymakers and international donors in the globalization era, considering their effectiveness and feasibility as responses to economic insecurity and mass threats to livelihoods and work. A discussion of cash-for-work and public works schemes, as perceived alternatives, can be found in the chapter on demand-side employment schemes in the UN's Report on the World Social Situation 2007 (UN, 2007: ch. 6).

Traditionally, politicians and policymakers in developing countries, and most donor agencies, including the international financial agencies, have dismissed the idea that poverty and unemployment can be redressed through cash transfers. They have looked to *subsidies* to producers or consumers of specific products, and have relied on some nucleus of social insurance and means-tested social assistance for those affected by particular *contingency risks*, such as accidents, loss of job, disability or old age. Many have shown a remarkable enthusiasm for *public works*. But they have given a very limited role to cash transfers *per se*. Recently, that has begun to change.

One reason has been that poverty and inequality have been shown to be problems that defy the oft-made prediction that with economic growth will come 'trickle down' to the poor and economically insecure. With globalisation, such claims have been untenable. Another reason is that other forms of aid have been shown to have limited effectiveness, especially in contexts of *systemic shocks*, where there are mass entitlement failures in which whole communities are blighted by an economic setback, an ecological disaster or an epidemic.

There is still considerable political resistance to the use of cash transfers. One can only hope that more informed debate will take place in a spirit of openness to new or revised ideas. In that regard, to help in assessing their potential, it may be useful to:

- identify the nature of economic insecurity,
- clarify the types of income-support schemes, and
- set out the *principles* or criteria on which to judge the appeal of alternative ways of assisting the economically insecure and disadvantaged.

Economic insecurity

Debates about alternative forms of social protection have assumed an added urgency because globalisation and economic informalisation appear to involve more pervasive economic insecurity rather than less, and growing inequalities. The character of that insecurity has changed too. Identifying that is a necessary aspect of identifying appropriate policies, and their likely effects on livelihoods and work patterns.

Briefly, economic insecurity reflects exposure to several forms of risk and uncertainty and a limited capacity to *cope with* adverse outcomes and to *recover from* those outcomes. To a greater or lesser extent, any individual could be said to be exposed to, first, *idiosyncratic risk*, i.e., risk of an adverse event that reflects life-cycle contingencies, such as a spell of unemployment, a work-related accident or illness, or a disabling accident. This is the sphere of classic social security schemes. Second, there is *co-variant risk*, i.e., where a risk of one adverse event is tied to risks of others, where one adverse event has a high probability of precipitating one or more other mishaps.

This leads to the distinction between *shocks* and hazards. Shocks have become more numerous as a result of globalisation and global warming. Included are the sharp economic downturns that sweep whole communities, economies or regions. More generally, there are circumstances that one can characterise as *socio-economic disasters*, whether they be *quick-onset* disasters, as in the cases of earthquakes, floods, tsunamis or a sudden economic collapse, or *slow-onset* disasters, as in the case of famines, droughts or an epidemic such as HIV/AIDS, which threaten the livelihoods and reproductive capacity of whole communities as they affect more members of them.

These situations of shock should be distinguished from the notion of *hazards*, which are very important sources of economic insecurity in many developing countries and which may be defined as predictable (and often desired) life events that have a probability of an adverse effect, or a sequence of adverse effects, for an individual or family. These include a death of a relative, weddings, births, a migration event, and retirement.

In each of these cases—shocks or hazards—the resultant costs could erode a household's capacity to sustain its normal livelihood base, perhaps by pushing it into debt, into mortgaging land or by preventing it from buying seeds or fertilisers. Given the relatively high probability of such events, an insurance policy would entail high premia or more simply would not be feasible. For some types of event, an insurance scheme would involve a high *moral hazard*, i.e., the prospect of a compensatory payment would make it more likely that the event would occur, which would mean either that an insurer would wish to monitor very closely or that the amount of compensation would be linked to proof of actual costs associated with the event or to some predetermined acceptable level of costs to be covered.

Economic insecurity also arises from *uncertainty*. With uncertainty, one is unsure about one's actual interests or unsure how to realise them. The outcome of decisions cannot be predicted with any confidence, and often this is combined with a perceived inability to know what to do if an adverse outcome materialises.

A high degree of uncertainty pushes people into more risk-averse behaviour, especially if the consequences of an adverse outcome could be catastrophic. Those producing in agrarian economies or where economic activity is dependent on climate or ecological conditions are likely to face a high level of uncertainty. Anything that lessened that uncertainty could be expected to have a beneficial effect on higher-yielding investment, innovation and purposive decision-making.

Security arises from being able to deal with shocks, hazards and uncertainty. Although it will not be argued at length, it is a premise of this paper that basic economic security is essential for freedom and development, and would enhance the pursuit of 'dignified work'. Basic economic security is defined as a threefold set of circumstances.

First, it requires *limited exposure* to idiosyncratic, co-variant and systemic risks, uncertainty, hazards and shocks. Second, it requires an *ability to cope* with those if they materialise. And third, it requires an *ability to recover* from those outcomes. It is this last that has been insufficiently emphasised, and relates very much to the notion of *livelihood regeneration* and thus 'dignified work'. The schemes reviewed in this paper should be considered in terms of their ability to promote both economic security and dignified work.

Types of income scheme

At the outset, a key set of distinctions should be made. We may say that a scheme is *universalistic* if it is intended for all the population as a right, although perhaps based on citizenship or long-term residence. A scheme is *targeted* if it is intended for a specific group, defined by some sort of test of eligibility, be it poverty, age, employment capacity or whatever. A scheme is *selective* if it uses some specified criteria to determine eligibility, such as a means test or a "proxy means test". A scheme is *conditional* if it requires some specified behaviour, usually work-related, on the part of the recipient or intended recipient, or in some cases family members of the recipient.

In practice, there are instances of *targeted universalistic* schemes, in that all those belonging to a particular social group are made eligible regardless of their means. An example is the universalistic social pension, which has been introduced in several countries, such as Namibia and Mauritius. More common at the moment are *targeted selective* schemes, whereby the intended beneficiaries are defined by their social group (e.g., women with young children) and by their poverty (having an income or assets below some threshold value).

In this regard, *means-testing* has come in for a great deal of criticism because of the difficulty of applying meaningful tests in developing countries, where establishing a person's income is very hard, especially as it is likely to fluctuate erratically and substantially. Such tests are not only inequitable, but often prevent low-skilled workers, in particular, from being able to take up work opportunities, through what are known as *poverty traps* or *unemployment traps*.

The criticism that means-testing is impractical in low-income environments has led to the use of *proxy means testing*, which has been used in many countries since it was first used in Chile in 1980 (Clert and Woden, 2001; Raczynski, 1991). Proxy means testing is where visible indicators of income are used (such as quality of housing) to determine eligibility for a particular benefit. Such tactics have been used in countries as diverse as Argentina, Armenia, Costa Rica, Ecuador, Egypt, Indonesia, Jamaica, Honduras, Nicaragua, the Russian Federation, Sri Lanka, Turkey, Gaza and the West Bank, and Zimbabwe.

The trouble is that this technique requires the authorities to select relevant proxy indicators of social deprivation, such as location of residence, quality of the household's dwelling or type of economic activity the household is doing. None of these is a very reliable indicator of poverty per se. Accordingly, some authorities have been drawn to rely on relatively sophisticated statistical models using a few variables to estimate the profile of somebody who should be regarded as in need. Although a remarkably large number of countries have made use of proxy means tests in recent years, it must be said that the technique is prone to the three types of failure that should be used to assess any social protection scheme.

Schemes can have a high or low *exclusion error*—that is, they may end up excluding a large or small number of those for whom the benefit is supposedly intended. This is particularly likely with area-based targeting. Schemes may also have a high or low *inclusion error*—that is, they may include a few or many of those for whom the benefit is not intended. Third, schemes may have a high or low *administrative cost* relative to the cost of the overall scheme. Many schemes are vitiated by excessive administrative costs that mean that far fewer people can be beneficiaries, given limited resources.

In the case of proxy means tests, it should be clear that, unless done carelessly, collecting and analyzing data to be used in a formula to identify the targeted group will involve hefty administrative costs, starting with the collection of reliable data through complex social surveys, and substantial exclusion errors, in that even the best econometric equations only estimate about 50 per cent of the variability of income, implying a very imperfect means of identification of potential recipients of the transfer payment or selection for a public works slot (Coady, Grosh and Hoddinnott, 2004). And they also involve obvious *immoral hazards*, i.e., if the proxy indicator is known to the possible recipients they will have an incentive to do without it.

So, it is evident that the design of schemes can be highly variable, with scope for diverse forms of selectivity and conditionality. One would expect that the impact would depend very much on those design features. But what are most appropriate? What are the criteria one should identify in order to assess their relative appeal?

In what follows, we consider the main types of scheme intended to promote economic security in developing countries with a particular focus on their effects on livelihoods, work and employment. One might say, reasonably enough, that the ideal scheme should enable people to develop their productive capacities and livelihoods in conditions of improving human and community development. But that still begs a lot of questions about how to evaluate those on offer.

Policy evaluation principles

Could we agree on the principles by which one may assess the relative appeal of different types of policy intervention? One should surely be explicit and as transparent as possible about the criteria by which to judge policy options. One of the problems with political debate and 'assessments' of alternative policies is precisely that the principles by which they should be judged are made vague or left unspecified.

Following earlier work[1], this paper is based on a belief that policies should be judged, or evaluated, by whether or not they satisfy the following five policy principles:

1 See, for example, ILO (2004). The author was principal author of that report, which drew on extensive empirical work cited in it. See also, Standing (2002).

The Security Difference Principle

> *A policy or institutional change is socially just only if it improves the security and work prospects of the least secure groups in society.*

So, for instance, if a policy boosted the job opportunities of middle-income groups while worsening the prospects of more disadvantaged groups, that could not be justifiable unless the losers were compensated in ways they found acceptable. The Security Difference Principle stems from Rawls, who from a liberal philosophical perspective essentially argued that social and economic inequalities are only just if they allow for the betterment of the worst-off groups in society (Rawls, 1973).

Whether or not one accepts the Rawlsian perspective, this principle can stand as a moral precept. A policy should be judged by whether it helps the least secure. If it does not do so, one should be uneasy (especially if it benefits others who are not so insecure), unless some other principle is recognised that is demonstrably superior. If so, it would be up to the evaluator to state it and support it. A key point is that there should be a right to a minimal amount of resources so as to enhance the capacity to develop and to exercise 'effective freedom'.

The Paternalism Test Principle

> *A policy or institutional change is socially just only if it does not impose controls on some groups that are not imposed on the most free groups in society.*

The second principle is conveniently ignored by too many donors and elite analysts working comfortably in affluence. Paternalism is rife. According to this principle, forcing people to do certain forms of labour or 'job' when others in society are not forced to do them would be counter to social justice, even if the government authorities genuinely believed that the policy would be for the material betterment of those required to do them. Underlying this principle is the Millian liberal view that there is a *prima facie* case against paternalism (except in the case of young children and those who are medically frail), particularly against those forms that constrain the freedoms of the disadvantaged.

Among other aspects, this principle requires that all groups who could be subject to paternalistic direction have a Voice (collective and individual) in order to represent their interests. Only with Voice can people have some semblance of *control* over their work and lives, and only by having control can there be any decent meaning in the idea of *dignified work*.

Relevant to the paternalism principle, it is notable that recent research on the popular subject of *happiness* has reiterated that people who have *control* over their work and life are happier than others, even taking account of the influence of access to benefits (Haidt, 2006). Control means, among other things, having the capacity and opportunity to make decisions for oneself, without that being determined by the state, or by patriarchal figures or religious or other institutions that dictate how people must behave.

This principle is particularly important when considering how some governments have gone about *social integration* through welfare reforms. It is about 'effective' or 'full' freedom, for which basic economic security is essential.

The Rights-not-Charity Principle

> *A policy or institutional change is socially just if it enhances the rights of the recipient of benefits or services and limits the discretionary power of the providers.*

This third principle is also crucial for assessing the appeal of alternative benefit schemes. A right is possessed as a mark of a person's humanity or citizenship, and cannot be made dependent on some behavioural conditionality. So, for instance, people should not be expected to have to plead for assistance in times of need, or to have to rely on the selective benevolence of civil servants or politicians. Their social and economic entitlements should be *rights*, not matters for the discretionary decisions of bureaucrats or philanthropists or aid-donors, however well meaning those may be.

The *"right to work"*, much discussed and asserted for the past 150 years or more, is particularly relevant here. If there is such a right, then there must be an obligation on somebody to provide it. But who or what is it? And how could someone hold others to respect his or her 'right'? One cannot sensibly say that there is a right for every person to be given a job of their unrestrained choice. Not everybody can be President or Chief Executive.

What one could defend is the principle that everybody should have a *claim right* to have an equally good opportunity to pursue and develop one's work capacities and competencies. This equality of opportunity requires policies and institutions to enable every person in society equally to develop their productive capacities, should they wish to do so. Guaranteeing people jobs that they do not want is scarcely an affirmation of any right to work. But creating the space for them to pursue a decent working life surely is.

In this regard, there is much merit in the Article 1 of Title 1 of the *Charter of Emerging Human Rights* adopted at the Barcelona Social Forum in November 2004, drawn up by an international group including senior representatives of all the relevant UN bodies. This asserted the right to existence under conditions of *dignity*, which comprised a right to security of life, a right to personal integrity, a right to a basic income, a right to healthcare, a right to education, a right to a worthy death and a right to work, defined as:

> *"The right to work, in any of its forms, remunerated or not, which covers the right to exercise a worthy activity guaranteeing quality of life. All persons have the right to the fruits of their activity and to intellectual property, under the condition of respect for the general interests of the community. "*
>
> *In sum, schemes should be evaluated by whether or not they strengthen or weaken those rights, with those strengthening them being preferable.*

The Ecological Constraint Principle

> *A policy or institutional change is socially just only if it does not involve an ecological cost borne by the community or by those directly affected.*

This is a quintessential 21st century principle. In other words, potential ecological consequences must be built into the policy, not be put as an afterthought. For instance, there may be a trade off between jobs and ecological sustainability and revival. Does a short-term growth maximisation strategy benefit all or most of the people living in a country? The commercial drive to pursue growth and profits without taking account of social externalities is a recipe for global ecological disaster.

For evaluation purposes, what an ecological principle means is that transfer schemes or job creation schemes should be subject to the constraint that they should not deliberately or wilfully (carelessly) jeopardise the environment. In this context, for instance, one could argue that subsidies intended to boost skills, employment or job-creating investment should be modified to promote only ecologically beneficial work and skills.

The ecological constraint principle raises emotional reactions, with claims that any such condition is a protectionist device that penalises developing countries, forcing them to slow economic growth and incurring costs that hinder development. Regrettably, in the coming decades global warming and other forms of pollution—including many emanating from poor working conditions in the specious interest of job promotion—will hurt many more people in developing countries and do so more devastatingly. The principle must be respected everywhere.

The Dignified Work Principle

A policy or institutional change is just only if it does not impede people from pursuing work in a dignified way and if it does not disadvantage the most insecure groups in that respect.

To some degree, this work principle is incorporated in the *Rights-not-charity Principle*. However, the two-part test in this principle involves two implicit value judgments—that work that is dignifying is worth promoting (whereas any deterioration in working conditions or in opportunities would not be), and that the policy should enhance the range and quality of work options of the most insecure groups relative to others, or more than for others. While this may seem complicated, the main point is to determine whether or not a scheme favours the development of more freely chosen work opportunities and work capabilities.

In sum, we can proceed based on five policy principles for evaluating alternative income support schemes. We make no attempt to state priorities, merely that they can be used as a guide for evaluations and policy design. Schemes that satisfy all of the principles would be ideal. Although a comparative assessment of policies might be based on more than the five principles, they may be regarded as a coherent set of principles consistent with a belief in a complex *egalitarianism*, in which the expansion of full freedom is given priority, which requires basic economic security for all. One can criticise this position. However, if anybody wishes to specify alternative principles for evaluation, those should be stated clearly and transparently.

Before proceeding, it is also worth recalling Tony Atkinson's two measures of poverty-reduction efficiency—*vertical* and *horizontal*, the former measuring the extent to which there is leakage of money intended for the poor going to the non-poor, the latter measuring the extent to which the poor are actually helped (Atkinson, 1995).

The difficulty with that dualism is that, for example, a scheme may reach 70 per cent of a target group, but those may be the least severely affected, leaving the worst-off 30 per cent no better off or even worse off. Using the horizontal-vertical efficiency approach could produce other difficulties. For instance, if another programme reached 70 per cent who were the worst-off and did so at the cost of some leakage to the non-poor, that might be judged less efficient, without good reason. For this sort of reason, it is advisable to be cautious about evaluating policies using the language of efficiency.

The following deals briefly with several alternatives to direct cash transfers and then turns to more detailed discussion of conditional and universal forms of transfer. It leaves out of consideration *cash-for-work* and emergency public works. As noted earlier, these are assessed in chapter 6 of the UN's Report on the

World Social Situation 2007 (UN, 2007) that concentrates on the latest variant of that approach, the *Guaranteed Rural Employment Scheme* in India, using the same principles or criteria.

Food subsidies and food aid

Perhaps the most common, and most easily understood, form of poverty relief and emergency response is direct food aid, through 'food parcels' and the like. The provision of subsidized food or rations fits in the same mould, as does the distribution of other commodities in response to poverty or an emergency.

The primary claim in favour of food aid and food subsidies is that they respond to the priority needs of the poor. It is an anti-poverty device. It is also perceived to be better than other interventions because it is likely to be 'horizontally efficient' in that it is *self-selecting*. The poor will want the food aid, the wealthier will not value it because they will already have enough food, making their application for the food or subsidies unattractive. Food aid, it is reasoned, will also be relatively appreciated by recipients, while giving it out, or subsidizing food with tax or donor assistance, will be easy to legitimize with donors and the 'median voter'.

The main criticism of food aid, and of food subsidies, is that it is likely to involve an inappropriate type of aid, in that the vulnerable may not lack food *per se*, or may not see their future as made secure by access to more food. Such commodity-based aid is also *paternalistic*, in that it presumes that, first, what people want is more food, and/or second, that they would not spend money on food if given the freedom to make choices for themselves.

Food aid is also potentially market distorting, eroding incentives for local farmers, especially if the food is coming from outside the local community. It can thus disrupt local livelihoods and employment. Even the prospect of an influx of food aid must act as a deterrent to local farmers or producers or market traders. It may thus fail the Dignified Work Principle.

It also tends to strengthen a sense of charity rather than economic rights. Food aid or subsidies tend to make the food less appreciated than if the person has to pay the actual monetary value. This is always a consequence of a subsidy. So, it will tend to result in waste, due to undervaluation and/or excessive consumption because it is 'free'. Distributing food aid also has high transaction costs and high administrative costs. In India, the widely-used meals-for-school scheme is notorious—each rupee of food costs a rupee to distribute.

Waste due to undervaluation is likely to be compounded by *bureaucratic failure*, due to 'soft budget' constraints and lack of any pressure to maintain quality. People in receipt of charity cannot be too choosy. And bureaucrats dispensing charity are unlikely to be too careful.

Finally, food aid often leads to *perverse targeting*, giving to those without need for food while not reaching those who do need it, while also involving leakages due to locational failure, giving food to where needs are actually less than in some other areas.[2] Thus it may, perversely, fail to satisfy the Security Difference Principle as well.

Of course, food aid has been the classic form of aid in times of emergency. But recently it has been more widely recognized that either it is inappropriate or, more likely, that to be effective it must be com-

2 A series of People's Security Surveys in Africa and Asia found that it was the near-poor who were more likely to be aware of such schemes and more likely to receive them compared with the poor or destitute. ILO (2004).

bined with cash grants if the intervention is to prevent the collapse of livelihood capacity in the communities directly affected. There is now considerable evidence from many food aid schemes that, without money, many recipients have to sell their food aid or cannot retain their parcel of land or raw materials because of accumulating debt.

This was found to be the case, for instance, in an evaluation of food aid given to refugees in Chad (LeJeune, 2004). In such cases, the visible *risk* for the local population may be malnutrition, but that does not mean that the appropriate intervention is food aid. What is required is intervention that can re-create conditions of adequate economic security to allow individuals, households and the local community to reproduce its productive and work capacity so that they themselves can produce or purchase food in local markets. In the case of refugees, of course, that means legitimizing their residential rights so that they can work without excessive fear of being driven away.

An example of a food aid scheme that highlights a failure to respect the policy principles outlined earlier is what happened in the Great Lakes region of Africa, where a review of emergency food interventions found that aid agencies had responded to perceived food insecurity with food aid and seed provision. It seemed that donor agencies decided in advance on what was required, and then focused on who to assist and how much to give, rather than consider the nature of the overall threat to the communities' livelihoods and work patterns (Levine and Chastre, 2004).

It turned out that what was most needed was cash support to enable the community to revive their livelihoods and deal with market pressures. The result was that economic revival was not achieved. The key lesson was that food security could have been enhanced if policies had enabled the community to work productively and securely. Cash transfers could have enabled the community to overcome the bottlenecks to revived production.

Another example highlighting the inefficiencies of food aid, and a failure to promote dignified livelihoods, is what has been happening in Afghanistan, where it has been extensively used. Beneficiaries have been found to be selling the food they had received as aid for less than a third of the cost of the delivery of the food (Development Researchers Network, 2003). This sort of situation is likely to occur with all forms of commodity-based assistance. But with an in-kind transfer, there is also a tendency for beneficiaries (or others to whom they sell it) to consume more of the subsidized good than they would do otherwise, meaning that consumption would go beyond the point where the marginal benefit (value to the person) is equal to the marginal social cost (Tabor, 2002).

Clearly, if the value of food aid is perceived as much below its production and distribution costs, something is wrong. Thus, an evaluation of food aid in Ethiopia concluded that households would have taken much less in cash than the market value of their food aid and been equally satisfied (Barrett and Clay, 2003). [3] Cash would have been less expensive, and would have been freedom-enhancing. Paternalism has typically prevailed, at the cost of limiting the revival capacities in local communities.

Nobody seriously questions the need for food aid in the immediate aftermath of major ecological disasters. However, beyond that situation, it tends to fail the Policy Principles enunciated earlier, particularly the Paternalism Test and Rights-not-Charity principles, since it involves a donor determination that what the recipients need is food *per se* and a determination to give them what the donors have available in particular.

3 See also Barrett, Holden and Clay (2002).

It does little to promote dignified work and may do ecological damage in eroding local staple production and altering tastes in favour of imports that cost more to produce and distribute.

Vouchers and Food Stamps

While food aid and commodity-based aid schemes have been edging back in favour, donors and policy analysts have shifted their hopes to various types of voucher, which have come into vogue in recent years, whether as a measure to boost education, or to boost nutrition or to overcome some forms of poverty. In developing countries, the most common voucher schemes have been for seeds and other agricultural inputs, the intention being to boost agricultural output and employment while curbing food poverty.

Vouchers have also been used in foreign aid to communities hit by economic or natural disasters. For instance, they were used in the aftermath of the *tsunami,* in Indonesia, Sri Lanka and elsewhere; they have been used in the occupied Palestinian territories, and were used by the UK government in its response to the Montserrat volcanic eruption. Significantly, in the latter case, the authorities eventually switched to cash grants after many recipients complained that the vouchers were too restrictive.

Among the claims in favour of vouchers is that they are, or could be made to be, *self-selecting* of those in need, if the items that can be obtained with the vouchers are what the wealthy have in abundance or simply do not want. To this extent, according to the claim, they should satisfy the Security Difference Principle. Some have even argued that there should be a stigma attached to receipt of vouchers precisely to increase the self-selectivity of the poor. This seems bizarre and unpalatable.

Claims in favour of the popular variant of *education vouchers* include the obvious one that they encourage more people to invest more in their skills and education, and thus obtain better jobs. The implicit claim is that they would not do so without the voucher, or would choose badly.

Among the criticisms of vouchers is that they require considerable planning and preparation, and require the agreement of local traders to accept the vouchers and a belief among traders that they will be compensated by the government or donors when they hand in the vouchers. There have been ample reports that shops do not like dealing with vouchers because they involve extra administrative cost and uncertainty.

Another criticism is that vouchers do *stigmatise* recipients. There is evidence that this is often a reality, and—contrary to the claim that it promotes self-selection—that it leads to non-take up. The acts of application and of trading a voucher are visible transactions and signs of poverty or dependency, leading many to fail to apply. An extreme case was in the UK, where the government abandoned a special voucher scheme for asylum seekers because many of the recipients were being identified by the public and were being harassed. If vouchers do stigmatise, that can be expected to lead to a lower take-up rate. And there is no reason to presume that this will result in self-selection by the poorest and most insecure.

Almost by definition, vouchers are *paternalistic*, in that they involve a decision by the state (or donor) on what it considers people should be spending money. However benevolent and well-meaning, that is undeniably a restriction of individual liberty. A related argument about the specific, and increasingly used, case of education vouchers is that it over-emphasises 'human capital' rather than broad education. And *paternalism* is inherent to vouchers. This is perhaps why the best form seems to have been 'seed vouchers' combined with 'seed fairs', in which the paternalistic element has been moderated by enabling recipients to choose from among a large range of seeds. There have been reports that such seed fairs have worked quite well in various parts of Africa.

Any subsidy tends to distort spending patterns, whether by design or not. Food stamps or vouchers have been found to result in people spending more on food than they would do if they received the equivalent in cash. Extensive research has found this to be the case in the USA with its food stamps programme. Given the high incidence of obesity among the US poor, that in itself would be a reason to convert the voucher scheme into a cash transfer. The latter would not ensure that it was spent on healthier food or other items, but there would be a lower probability that it would be spent on excessive food. How it would be spent would be a matter of individual freedom.

In sum, vouchers are an intermediate form of social protection, steering people to purchase what policymakers think they and their communities need, and implicitly steering them away from spending on what they would acquire themselves if left to make their own decisions on their needs. They may satisfy the *Dignified Work Principle*, in that they may boost agricultural employment or local schools. But even that positive effect would depend on the elasticity of supply of those goods and services. Vouchers may simply result in inflationary pressure and lower quality services, while not satisfying any of the policy principles outlined earlier.

Conditional Cash Transfers

Remarkably, as noted at the outset, until recently the idea of providing cash transfers as a means of reducing poverty in developing countries was dismissed and rarely used even as part of international aid in times of emergency. For instance, a review of all UN consolidated aid appeals in 2004 found almost no use of cash or vouchers; the appeals were dominated by traditional humanitarian responses, such as food aid, materials for shelter, clothing, seeds and so on.

However, there is a growing movement in favour of introducing cash transfers and even universal income grants, even in developing countries where it is commonly claimed that no universal system of social protection is financially feasible. This enhanced respectability has included interest within the UNDP, ILO, the WFP, the International Committee of the Red Cross and the World Bank, among other international bodies, as well as among important bilateral donors, such as the Swiss Agency for Development and Cooperation (SDC), the US Office of Foreign Disaster Assistance (OFDA), the UK's Department for International Development (DFID) and the German Federal Ministry for Economic Cooperation and Development, in their aid policies towards developing countries.

A conclusion of one review of cash transfer schemes and vouchers was that at present non-government and non-UN agencies were more favourably disposed to cash transfers than the UN agencies, adding that cash transfers are sometimes seen as threatening to aid agencies, since transparent cash transfers mean handing over power, control and responsibility to beneficiaries to decide for themselves (Harvey, 2005). This may have been the case, but attitudes are undoubtedly changing.

Even the World Bank has changed its tune. As one of its senior economists, in surveying the empirical literature, put it:

> *"The conventional wisdom in mainstream development policy circles is that income transfers to the poor, and safety net policies more generally, are at best a short term palliative and at worst a waste of money. These views are starting to be questioned at two levels. Firstly, evidence from careful evaluations has pointed to a number of success stories. . . . Secondly, the presumption of an overall trade-off between redistribution or insurance (on the one hand) and growth (on the other) has come to be questioned. " (Ravallion, 2003).*

Claims in favour of *unconditional* cash transfers overlap to a certain extent with claims for so-called *conditional* cash transfers. Currently, the latter is the type in vogue. The distinction is not as sharp as is sometimes depicted. One reason is that in some cases policymakers and their advisers use conditionality as a political device, believing that the attachment of a formal condition is a way of legitimizing the transfer, which would otherwise be more opposed by middle-class voters and financial agencies.[4] In practice too, the difficulty and costs of implementing the criteria used for identifying beneficiaries may lead to merely token or discretionary application of the formal conditions. This has been the case of the state old-age pension in South Africa, which has been a celebrated success in redistributing income and boosting local small-scale economic activities.

Nevertheless, when commentators talk about conditional cash transfers they usually, at present, mean a *selectivity* device that goes beyond conventional means-testing. The most well-known is the requirement that recipients should send their children to school. This is a form of *paternalism*, but it is a modest one given that society usually has a constitutional commitment to ensure all children are enrolled in and attend school. There are many other forms that are harder to rationalize on ethic or freedom-enhancement grounds.

It is a contention guiding this paper that the growing interest in *conditional* cash transfers as an aid and development tool will lead to a realization that most forms of selectivity and conditionality are conveniences at best while being costly, inequitable, inefficient and offensive to basic egalitarian principles. Nevertheless, the current phase of policy development is promising because experimentation with conditional cash transfers is proving that they can and do have a beneficial development role. We will come back to unconditional, universal income transfers at the end.

Whatever the claims and counter-claims, the revival in support for providing the poor and disadvantaged with straightforward cash grants has taken off. Examples of experimental schemes are multiplying. Humanitarian relief organizations have come to appreciate that their advantages include speed, transparency and the ability to allow those in need to make choices about how they spend the aid, thereby enabling them to retain a greater sense of dignity in times of crisis (Creti and Jaspars, 2006).

They also have low administrative costs (see box). Based on experience in Africa, Asia and Latin America, Oxfam has issued guidelines for such schemes, recognizing that they are particularly appropriate for socio-economic crises where local purchasing power has been wiped out while food and other basic goods are potentially available.

4 This was a common theme among early advocates of the *bolsa escola* and *renda minima* schemes in Brazil.

Cash transfers involve modest costs

> *The Colombian experience with cash transfers suggests that the costs of distributing them are very low. As a World Bank study concluded:*
>
> *"The cost of SISBEN design and application has been modest in absolute terms (about US$0. 21 per person in the registry, US$0. 52 per beneficiary), and relative to the total amount of resources that have been targeted with SISBEN. It has been estimated that to target US$100 dollars to a beneficiary costs less than 70 US cents. For some programs, such as the Conditional Cash Transfer (CCT-Familias en Acción), the cost of SISBEN is about 0. 5 percent of the total cost of the program (assuming this is the only program using SISBEN)." (Castañeda, 2003).*

One such scheme that has been particularly carefully evaluated is the *Cash for Relief Programme* (CfR) in Ethiopia. One of its primary objectives was to enable households that had been hit by crop failure to rebuild their assets, so as to restore the basic infrastructural relationships that underpinned the sustainability of those communities. The evaluation done for the primary funders of the scheme, USAID, found that the cash grants had been very successful in regenerating the livelihoods of people living in the area (Brandsetter, 2004). Rather than merely consume (which would have been likely with food aid alone), they had controlled debts and they had invested in restoring land productivity. The donors found that cash grants

> *"allowed individuals and communities to begin making a series of decisions, giving them the power to prioritise needs for their families and presenting them with a creative way to receive relief assistance with dignity. " (USAID, 2004)*

Also in Ethiopia, in the face of annual food crises, Save the Children, a UK-based NGO, has implemented several cash relief projects, and evaluations have concluded that they too have functioned efficiently, have been more cost-effective than food aid and have had no inflationary effect (Gebre-Selassie and Beshah, 2003; Save the Children, UK, 2004; Knox-Peebles, 2001).

Another example is the *Emergency Cash Relief Program (ECRP)* implemented in a drought-affected and politically contested zone of Northeastern Somalia in 2003-04. Some 13,380 socially vulnerable households, identified as such by an NGO, were each given a one-off US$50. The initial rationale for providing direct cash transfers was that it constituted a rapid response to what was an emergency. The programme coordinators found that it unblocked the critical economic constraint to livelihood revival.

While there was food available locally, the purchasing power of the local population was extremely low and the local credit system was overstretched. What the cash transfers enabled people to do was reduce their debts, purchase food and water, and give themselves some sense of 'empowerment', resulting in their being able to maintain their livelihoods and the complex arrangements of work and social support that bound their community together. Without the income grant, work and the community would probably have collapsed altogether.

The targeting used in the ECRP was complex—the formal conditions for entitlement being that the person should be a destitute pastoralist and belong to a "structurally vulnerable group" (with priority being given to women, minorities, elderly, disabled, and members of large families). Village Relief Committees were in charge of identifying suitable beneficiaries. Each of those conditions no doubt had some anomalies.

But, crucially, the coordinators found that the overhead costs were comparatively low—17 per cent of total costs compared with 25-35 per cent for other, commodity-based relief interventions. The conclusion was that the cash transfer scheme functioned relatively effectively. In our terms, it helped generate work and economic security in very difficult circumstances.

Another example is the *Meket Livelihood Development Pilot Project* involving cash transfers provided in two areas of Ethiopia in 2001-2004. In the evaluation carried out for Save the Children, it was found that the cost of implementing the scheme was much less than the equivalent for food aid schemes (Kebede, 2005). The latter had substantial transaction costs for beneficiaries (which are rarely taken into account in monitoring and evaluation analyses). For instance, because recipients had to share food aid, they had to work out how to share, which resulted in time and food being wasted in the course of exchanges of food items between households wanting one and not another item; the work time involved was also considerable, including the cost of waiting for deliveries and for loading and transporting.

By contrast, simple cash transfers allowed the beneficiaries to make strategic choices for themselves. The evaluation observed that not only did the cash transfers allow households to build up assets, notably through the acquisition of livestock, but they also enabled many households to reduce the distress renting out of land. Indeed, among the benefits were that they enabled recipients to obtain higher crop prices, partly because it allowed them to sell when prices were more favourable, rather than when they were desperate for cash. This is a classic advantage of basic economic security. They also helped some recipients to pay off debts, others to pool savings in an *equb* (group saving scheme) and others to buy seeds, sheep or goats, thereby enabling them to *work*.

Another advantage of the cash transfers was that they enabled more people to *work locally*, reducing the pressure to migrate temporarily in search of cash income. In doing so, it also had a positive impact on the children, allowing adults more time at home to care for them and strengthening the parents' moral pressure on them to attend school. This is surely a powerful development advantage of cash transfers.

Another successful example is the pilot *Kalomo Social Cash Transfer Scheme* initiated by the Zambian Government with financial support from the German development agency GTZ in two districts of Zambia. The regular cash transfer was unconditional, in that it did not require recipients to spend the money in any particular way, thus enabling beneficiaries to have a sense of autonomy on how they spent the cash grant. But it was targeted in being means-tested. Beneficiaries were selected by local Community Welfare Assistance Committees, in which a participatory method was used to identify the poorest 10 per cent of households, by means of a hunger poverty line. So, it involved a sort of hunger poverty test, and was not wholly unconditional. But crucially the selectivity was based on a Voice mechanism, i.e., involvement of a body representing the community.

It also tried to differentiate households by whether or not they consisted of members who were unable to work or who were excluded from other poverty schemes, such as the food-for-work scheme. It focused on giving cash transfers to the most 'labour-constrained' households, setting up bank accounts for those in most critical need, and providing a modest grant for each household ($8 per month if the household had children, $6 otherwise).

Those operating the scheme have claimed that the money was spent on basic consumption goods and education and healthcare for family members (Schubert, 2005). In other words, it showed that people were able to spend such cash transfers rationally and for their own longer-term welfare. It was also apparent that a majority of the beneficiary households were headed by elderly persons or women, about half of the households were AIDS-affected, and nearly half contained orphans. And, as with other schemes of this sort, it was evident that when women, rather than men, controlled the transfers they were more likely to spend a large part of them on their children and their family.

The Zambian scheme had a more general message. It has been estimated that if it were scaled up to reach the poorest 10 per cent of all Zambian households the cost would amount to merely 5 per cent of the total overseas aid to the country, or about 0. 5 per cent of its Gross National Income. In other words, a national scheme is financially feasible. It would be much cheaper than the country's food aid, and would have the advantage of going directly to the poor and vulnerable, without the high administrative costs and various forms of corruption associated with commodity-based schemes. And whereas food aid damages local food markets, by deterring local producers, cash transfers would do the opposite by helping to stimulate local markets. In Zambia, no less than 70 per cent of all social transfers are spent on locally produced goods and services, thus generating local employment or livelihoods (DFID, 2006; Samson and others, 2006).

Cash grants in Africa

"Childcare grants, disability allowances, pensions and other direct transfers of cash can be used even in countries with poor infrastructure, little capacity to deliver services or no interest in reform. "

—Commission for Africa Report, 2005.

The Zambian, Ethiopian and Somalian cash transfer experiences offer encouraging evidence that they are affordable and are conducive to livelihood revival in chronically poor areas. In times of emergency, cash grants should not be seen as pure alternatives to other forms of commodity-based aid. Such transfers might be inflationary if local food supplies are not available, and this may mean that in the initial aftermath of a disaster, particularly a quick-onset disaster, food aid should complement cash transfers, to restrain inflationary pressures, with direct commodity aid being gradually faded out as local producers respond to the increased demand for staple goods and services. Cash transfers need complementary programmes designed to boost local supply, as was found to be the case following the Mozambique floods a few years ago (Abt Associates Inc., 2002).

Following those floods, USAID funded cash grants of about US$92 for 106,280 flood-affected rural families. Implemented by a private firm, recipients were issued with cheques at local sites, while a commercial bank provided tellers who were able to cash the cheques, all protected by a local security firm. The outcome has important lessons. An impact evaluation found that most of the money was spent on local goods and services, which stimulated the local economy, regenerating livelihoods in a sustainable way(Abt Associates Inc., 2002; Christie and Hanlon, 2001; Hanlon, 2004).

Such schemes have not only been taking place in Africa. Among the growing number that have been launched outside Africa as part of emergency and rehabilitation programmes funded by foreign donors is the *Cash for Herder* scheme in Mongolia, implemented by the Swiss Agency for Development and Cooperation and the Red Cross in 2003. The evaluation two years later found that while another in-kind project that they had operated was "appreciated" by recipients, it had not helped regenerate the local economy, whereas the cash transfer had led to investment in assets that regenerated their livelihoods.

The evaluation concluded,

> *"The cash approach made use of the creativity and experience of beneficiary families to develop strategies out of their crisis…[It] showed that poor people and people under severe economic stress are very well capable to handle cash responsibly and develop and take strategic decisions on what to spend the money in order to improve the livelihood and their families in the medium and long term…. . most important, beneficiaries do become economic and social actors in their own community again, taking their decisions on how to spend the money" (SDC-IFRC, 2005).*

The evaluation found additional advantages, in that *"the response and preparation time"* was short, and the administrative overheads were low. These advantages can be considerable for hard-pressed officials running such schemes.

By 2005, the SDC had implemented 13 cash grant projects of this type in eight countries, including such difficult places as Ingushetia and Mongolia. Its assessments have been sufficiently favourable to make the SDC continue to rely on them. But it is not alone. In the past few years, the US Office of Foreign Disaster Assistance (OFDA), which long regarded cash transfers as out of the question, has provided quite substantial funds for cash grants in various countries, including its scheme in Ethiopia in 2003.

Tellingly, the growing legitimacy of simple cash transfers was reflected in the G8 Statement of 2004, which, when referring to the international response to famines, made the commitment,

> *"We will unleash the power of markets through cash-for-work and cash-for-relief programs." (G8 Statement, 2004)*

Thus the scope for cash transfers in Africa and Asia is recognized, becoming a significant part of non-contributory social protection and a means of enhancing work opportunities. Meanwhile, in Latin America, cash transfers have become a central part of social and *development* policy. As considered in the next section, the main type of scheme has been targeted on families with school-age children.

Incomes-for-school attendance and child benefits

One form of conditional cash transfer that has become enormously popular in the past decade or so is a form of family allowance, a monthly sum of money paid to families, or more usually to mothers, on condition that their children attend school. Obviously, the starting point of this type of scheme is that it is targeted at a particular social group, women with children of school-going age, a group perceived as likely to be poor and/or economically insecure. But such income-for-school-attendance schemes should be distinguished from standard family allowances and from the means-tested *Child Support Grant* as introduced in South Africa in 1998.

In general, such schemes appear attractive for several reasons. The main claim is that they lower the poverty and economic insecurity of women and lower child poverty. It is hard to dispute this. By the same token, it is claimed that they reduce child malnutrition, as well as promote child school enrolment and school attendance. It is also obviously less *paternalistic* than food parcels and food aid, or other commodity-based forms of transfer to the poor. It is also a means of redistributing income that is relatively easily legitimized among the middle class and 'median voters', thus making it a politically sustainable policy.

However, such schemes are subject to several criticisms. One is that they focus on one particular group to the neglect of other groups of deserving poor. By focusing only on school-age children they neglect families with children under the age of seven, which is the group most at risk of ill-health due to malnutrition and impoverishment. As such, they raise questions about the *equity* of that selectivity. A second claim is that, by giving to young women, they discourage female labour force participation. A third claim is that they involve a high administrative cost, particularly as they are means-tested.

These criticisms have been swept aside for the moment. Country after country has opted for this policy. The main examples are in central and south America, starting in Mexico, where the original *progresa* (literally 'progressing') scheme, introduced in 1992, has evolved into the *Oportunidades* scheme. [5] The *progresa* was supposed to support school-age children in poor households in marginalized rural communities, but in 2002 *Oportunidades* extended that aid to other rural and urban areas.

The Mexican scheme has evolved into a complex mechanism of social engineering. The cash transfer actually consists of three components—a household nutrition allowance, a schooling subsidy for each school-age child that rises in amount by grade and that is higher for girls of secondary school age, and an annual payment to cover the cost of books and uniforms. This makes the scheme quite complex. To complete the social engineering function, the amount of cash transfer that any household can receive is capped, one intention being to avoid giving families an incentive to have more children, another being to reduce what the policymakers think might be 'benefit dependence'. To receive the transfers, children must maintain a school attendance record of 85 per cent , while mothers and children must have regular medical checks and parents must attend 'parenting classes'.

The targeting takes place via a two-stage process. First, poor geographical areas are identified, with existing health, schooling and transport infrastructure; second, poorer households in those areas are identified via use of a proxy index of poverty (using indicators of housing, health, and schooling, which are taken to indicate vulnerability to poverty). As a result of this procedure, about three million Mexican households are reached at any one time.

Although awkward questions remain about the efficiency and equity of the selectivity process, *Progresa* has been legitimized. It has been shown to be less expensive to distribute than food aid (Gertler, 2005). Above all it has been shown to have reduced poverty in recipient households and to have resulted in increased school enrolment and attendance, as well as improved health in beneficiary households (Skoufias, 2001). Its successor scheme can be expected to do much the same. In short, the Mexican scheme has become a central part of the country's social protection system.

The other major example is Brazil's *Bolsa familia* ('family stipend'), set up in 2001. This has become the flagship of Brazil's cash transfer schemes, and undoubtedly contributed to President Lula's re-election in October 2006. It evolved from a series of localized schemes introduced in urban areas during the 1990s. Among the precursors were the PETI (Programme for the Eradication of Child Labour), introduced in 1996 in coalmining areas, then sugar cane and sisal production areas, and then extended to all areas in 1999. Various forms of *bolsa escola* ('school stipend') and *renda minima* schemes spread in the late 1990s, and these became a federal programme in 2001, which reached over eight million children in five million households by 2003. In 2004, four income transfer schemes, including the *bolsa escola*, were consolidated into the *Bolsa Familia*.

5 The original scheme was called the programme for education, health and nutrition, symbolizing its multiple objectives.

That became a central part of the Lula Government's *Zero Fome* (Zero Hunger) campaign, and has been seen as a way of reducing the country's enormous income inequality. It has also unified a variety of more paternalistic and selective schemes, such as the gas allowance and school stipends. An intention has been to break the inter-generational transfer of poverty by conditioning access to the transfers on key human development objectives (schooling, nutrition and health). It is also seen as a means of 'empowering' women, giving them more bargaining power in their households and enabling them to make decisions on their children's education and on their own work.

By 2006, the *bolsa familia* was reaching over 11 million households living below the official poverty line, or over 44 million people. The scheme is nominally means-tested, with the transfer amount being determined by number of children in the household. Autonomy is granted in the sense that recipients can choose how to spend the money, but the conditionalities ('incentives', so-called) are restraining, and include school attendance by children aged 5-15, anti-natal classes for pregnant women, and vaccination for children under the age of seven.

The *bolsa familia* has generated enormous global interest. Although a comprehensive evaluation by the Ministry of Social Development had yet to be completed by early 2007, the scheme has been particularly beneficial for those lacking access to income-earning employment. Already there have been a series of evaluations and monitoring research projects. Some have been critical, but most have been favourable (see Britto, 2005; Fonseca, 2005, *inter alia*). The consensus is that the cash transfers have reduced female poverty, increased school attendance and learning performance in school, and apparently led to *increased* female labour force participation. Indeed, one study of the earlier scheme concluded,

"Instead of the expected negative correlation between bolsa escola and work, we find the opposite: those receiving the stipend are the ones that work more." (Schwartzman, 2005)

The effect on *child labour* is more nuanced, since it seems to have resulted in children doing fewer hours of labour but not necessarily stopping it altogether (Cardoso and Souza, 2003; Rocha, 2000). This is partly because prohibiting child labour is not a formal part of the programme. Child labour has continued to play a significant role in the subsistence survival of poor households in rural areas and urban slums, accounting for over 20 per cent of family income in about a third of all families. The stipend is too modest to displace that contribution.

The Brazilian scheme is well-established, in spite of criticisms of its design. In Latin America, at least, it seems the way to move cash transfers up the policy ladder. Other schemes similar in type to *Progresa* and *Bolsa Familia* are Colombia's *Familias en Accion*, Honduras' *Programa de Asignacion Familiar (PRAF)*, Jamaica's *Programme of Advancement through Health and Education (PATH)* and Nicaragua's *Red de Proteccion Social (RPS)*, which predated the Brazilian model by becoming operational in 2000.

Outside Latin America and the Caribbean, there is growing interest, and the beacon is Bangladesh's *Cash for Education* scheme. Three aspects of such societies are holding back the appeal of this type of cash transfer. The lack of a proper registration system is often one of them. Operating a means-tested conditional scheme of the scope and complexity of an income-for-school attendance is daunting in a low-income society. And often pushing more young children into school is not practical in the short term.

More generally, to what extent does this type of scheme satisfy the Policy Decision Principles enunciated earlier? The way it has operated in Mexico and Brazil, one cannot pretend that the policy is not *pater-*

nalistic. Probably most observers would accept that it is desirable to impose conditions that benefit children, and would be satisfied with that as long as the scheme did not put families into some kind of *poverty trap*.

The Mexican scheme, for instance, does seem to go much further than that, and raises questions about the possibility of excessive bureaucratic intervention in family life of an intrusive kind that would lead to stigma and even non-application for the cash transfer. The Brazilian scheme may be less intrusive, and to the extent that there is a political commitment to weaken the conditionality rather than to increase it, the *bolsa familia* may offer a better prospect of avoiding becoming too paternalistic and a vehicle for invasive social engineering. And one may choose to believe that this is actually desirable.

As far as the Security Difference principle is concerned, the very complexity of the targeting procedure described above must raise questions about horizontal efficiency and the omission of many households that are among the poorest in rural and urban Mexico. There is also the reality of a poverty trap if households would lose entitlement to the benefit if they were to move out of poverty, thus discouraging work and modest social mobility. More evidence is needed on this.

As far as targeting is concerned, research has suggested that the *Progresa* in Mexico was quite effective in reaching very poor households in very poor areas, but was less effective in reaching the 'moderately poor' (Skoufias, 2001, p. 43). To that extent, it could be said to have satisfied the Security Difference Principle in being 'horizontally efficient'. But in all schemes of this type, conspicuously excluded from coverage are households with only pre-school age children and all impoverished households without any children, as well as orphans and others living outside family households altogether. As such, one cannot claim that the targeting reaches the most impoverished in society. There is also evidence that they do reach many others. In both Nicaragua and Mexico, it was found that about 20 per cent of the beneficiaries were non-poor (Coady, Grosh and Hoddinnott, 2004). In Bangladesh, where targeting has been much weaker, about 40 per cent of beneficiaries have been found to be non-poor. Given that the targeting is supposed to exclude the non-poor this suggests that none of the schemes has been that successful on its own criterion. Whether or not they should be concerned to achieve such 'efficiency' is another matter.

Hidden in the design of such schemes is a presumption about registration. They require a sophisticated and updated system. In Brazil, where the rapidity of the roll-out of the *bolsa familia* was impressive, much depended on the judgment one makes about the efficiency of the Federal Government's registration procedures (based on Registration Administration Records). Those households not registered cannot participate in the scheme and cannot obtain benefits. Even if the registration scheme were efficient, the registration condition would surely be very likely to result in the denial of benefits to a great many families that are poor and economically insecure. Besides that, the economically insecure tend to have incomes that fluctuate above and below any imaginable poverty line, making it a bit of a lottery whether or not they manage to qualify.

To succeed in the broader social aims, this type of conditional income scheme depends on there being adequate local schooling and health and transport infrastructure. In urban areas of Latin America and the Caribbean, these may exist to a sufficient degree. In rural areas of those countries, and in large parts of Africa and Asia, the imposition of school-attendance and clinic-attendance conditions may impose onerous burdens on poor households, and actually hit the very poor more than anybody else.

Even in Latin America, some observers have questioned the desirability of the extensive conditionality imposed on these schemes, and it is this that may prove to be their greatest weakness in the longer term, leading policymakers to conclude that a move towards less conditionality would be a more efficient and equitable way to go. The very complexity of requiring potential beneficiaries to prove they are poor and vulnerable, and to demonstrate regular attendance in schools and clinics (or to prove that they had a valid reason for not doing so) is surely off-putting for people cowed by poverty and chronic insecurity. It is also clearly expensive in administrative time and paperwork (Ayala Consulting, 2003).

The biggest question is one at the heart of all debates on social protection in the 21st century. Some observers ask whether or not all the conditions are *necessary* if the objective is to promote human development and if those conditions simply require people to do what is in their best interest. Does the state or some agency know what that is? Obliging a mother to send a child to school might seem obviously beneficial, but the pressure to do so—and the fear of income loss if she does not—may lead to a perverse outcome of a mother sending a sick child to school, to the longer-term detriment of the child and the family. One can think of many other personal circumstances that should cause disquiet.

The fact is that the imposition of conditions for entitlement presumes that a poor person is irrational or incapable of learning, does not know his or her long-term interests, lacks information or cannot or will not act in the child's longer-term interest because of some impediment. Dealing with those issues directly would surely be more successful than imposing behavioural conditions that eat up public resources in administering them, while perhaps ignoring the structural factors that impede seemingly rational behaviour. Even in the case of children, one cannot accept state paternalism uncritically.

This concern is one that may come to preoccupy the second-generation reformers as assessments of income-for-school attendance schemes unfold. What is clear is that they are perfectly compatible with more independent economic activity. The Dignified Work Principle seems to be supported by the fact that women's labour force participation has been boosted by such schemes. That in itself is encouraging, because it stands in opposition to those who claim that cash transfers foster 'dependency'. That is simple prejudice.

Social pensions

If Latin America has been the continent leading the way with cash transfers for the young, Africa has been the region of the world where non-contributory cash transfers at the other end of the age spectrum have been gaining most ground.

Africa is not alone in that regard. With global 'ageing' and with the social dislocation of families that is pushing a lot more elderly people out of family-based support networks, the form of social protection that has perhaps gained most support and credibility is what is called a *social pension*. *HelpAge International* has been at the forefront of a campaign to legitimize this, and one could argue that a social pension is the only feasible way of meeting the commitment made by governments in 2002 in the Madrid International Plan of Action of Ageing to halve the number of elderly people in extreme poverty by 2015.

In many developing countries, there is some sort of means-tested state pension, but more interesting is the non-means-tested variety, that is, a basic universal state pension provided to all citizens above a certain age without prior conditions, such as a record of contributions, being required to gain entitlement. [6] It is sometimes depicted as a primary pillar of a multi-pillar pension system. The interest arises not just because it

6 For one review of these, see Palacios and Sluchynsky (2006).

offers the prospect of cutting old-age poverty quite dramatically but because it may be a *productive investment* as well, directly and indirectly boosting dignified work and livelihoods.

It seems somewhat ironic that social pensions have been pioneered in a few developing countries where poverty and inequality are rife and where many economists would say that there are not the resources available to pay for such schemes. Variants exist in South Africa, Namibia, Nepal and Mauritius, where the amount paid rises with the age of the pensioner, and Botswana, Bolivia, Samoa, rural areas of Brazil and Lesotho, which introduced it in 2004 for those over the age of 70. The NOAPS in India (National Old Age Pension Scheme) is tending towards being a social pension as well, albeit giving a very small amount and with notorious inefficiency. A country that has brought in a scheme recently is Chile, its Government taking advantage of a surge in foreign exchange earnings due to the rising price of copper to spend on a basic pension. In addition, by 2007 over 30 other developing countries and transition countries were operating means-tested, non-contributory pensions (Johnson and Williamson, 2006).

Besides enhancing old-age income security, social pensions are potentially significant instruments for influencing the patterns of work and labour in society. The primary claim in favour of the non-means-tested variant is that it is universal and rights-based—all citizens above a certain age are entitled to receive a monthly cash transfer. Advocates point out that social pensions reduce old-age poverty better than any alternative, are redistributive, affordable and transparent, while having very low administrative costs. They typically account for a very small percentage of GDP; in Costa Rica, for example, they took only 0. 3 per cent in 1999, and in Zimbabwe only 0. 1 per cent (Coady, Grosh and Hoddinott, 2004; Munro, 2003). Another strong empirical finding is that the South African pension has been the only successful redistributive social policy in the post-apartheid era (Case and Deaton, 1998).

It is still often claimed that such schemes are costly precisely because they are universal. The main response to that is that by being universal they reach nearly all the elderly, and do so remarkably cheaply. It falls to Namibia to have the simplest and most efficient social pension, operated via an electronic card and biometric identification of claimants. Each month, vans go to the numerous villages and urban payment spots, each van containing cash dispensing machines and computers. The pensioners (or designated surrogates if the pensioner is too ill or frail to go) present their cards at the van and are paid the equivalent of US$30 (as of 2006). The take-up rate is close to 90 per cent , which is remarkably high by comparison with all other pension schemes in developing countries, and is higher than any means-tested scheme operating anywhere.

The scheme in Namibia is administered by a private company on contract to the Government. The costs are equivalent to about 30 US cents per person per month, also remarkably low by comparison with other systems. To counter the possibility of fraudulent claims made on behalf of dead people, the authorities ingeniously introduced a *burial insurance* scheme within the pension; the pensioner, on registering to receive the pension, takes out a mandatory life insurance, whereby funeral costs are covered when he or she dies; application for the burial funds enables the authorities to cancel the card at the same time. Given the symbolic significance of decent burials and their cost, the insurance scheme has been found to be very successful in all respects.

Also remarkable, which relates to the Dignified Work Principle, is the effect on *work* and *livelihoods.* In this regard, social pensions have proven very effective, in that they have helped preserve family structures, enabled grandparents to pay for the schooling of grandchildren, paid for the care of family members suffering from HIV/AIDS, made the elderly creditworthy and promoted sustainable livelihoods, particularly in rural areas.

Too many economists have simply failed to appreciate that social pensions are *productive*. In this, they have forgotten a lesson from European history, which is that old-age security acted as a powerful force in modernizing agriculture, precisely because it led to more risk-taking innovation. But enhanced old-age security has also been shown to do so in rural areas of Brazil. As one study concluded,

> *"The regularity, certainty and liquidity of pension benefits meant that they played a key role in shifting households from subsistence to surplus agriculture. " (Barrientos and Lloyd-Sherlock, 2002: 17)*[7]

> *Besides its consistency with the Dignified Work Principle, the social pension is relatively likely to satisfy the Security Difference Principle if it takes the non-means-tested form. Being universalistic, in that it provides for all those beyond a certain age (albeit a very high age as in the case of Nepal), it should reach all the poor in that age group. It is also paid to individuals, thus satisfying a universalistic concern. It is also non-paternalistic, in that it allows the beneficiary to spend on what he or she chooses, and is conveyed as a right rather than a discretionary matter of charity. In brief, it is a feasible first step in the direction of a universal right to income security, which has been shown to promote livelihoods and personal development.*

Again, a prejudiced view about cash transfers is beginning to lose its force. Contrary to the convenient view of all elites throughout history, providing the poor, even the elderly, with a little income security does not promote idleness and 'dependency'. It fosters a sense of independence and boosts dignified work, in part enabling the elderly to carry out work with some access to financial assets, in part enabling the elderly to pay for care, and in part enabling those able and fit enough to do so to provide care for younger relatives and the sick.

The debate on whether a basic state pension should be universalistic or means-tested is rumbling on. The signs are that the universalistic variant is gaining ground. In 2007, South Africa was just one country in which the pressure was growing to end the residual use of means-testing in its social pension. There and elsewhere in Africa, the IMF and other financial agencies have been trying to move governments in the other direction—including Namibia. But the evidence that this would be sensible from an equity or efficiency point of view is simply not there.

Disability grants

Another form of targeted, selective income transfer is what is known as the *disability grant*. Here we will deal with a particular variant, as introduced in southern Africa, in Mauritius, Mozambique, Namibia and South Africa. This is an income transfer that is both means-tested and work-tested. As operated in the region, it is not the most brilliant piece of social policy devised to give social protection, enhance the well-being of recipients or promote decent work.

The leading scheme has been that operated in South Africa. A *permanent* grant is supposed to be available to anyone with a disability that is expected to last for more than a year, a *temporary* grant is supposed to be given to anyone with a recognized disability expected to last between six and twelve months. If a person deemed disabled is below the age of 18, they can obtain a *care dependency grant* instead. Access to

7 See also Barrientos and others (2003).

either is based on a complex means test, based on an *assets value test* and an *earned income test*; there is also a *joint assets test*, since for married couples the joint assets must be less than a designated amount to entitle the person to a grant. But the conditionality does not stop with those means tests, since the scheme also requires applicants to demonstrate a medical condition and an incapacity to work. It is this cocktail of tests that provides a recipe for a social disaster.

Before considering the reasons for this conclusion, note that in Namibia, although the social pension (a basic income for the elderly) has been the pillar propping up many small communities, a disability grant modelled on the South African scheme has been growing in significance. In the context of the HIV/AIDS pandemic, the disability grant there has already become the country's second most prevalent income support mechanism. The disability grant is part of an evolving system of selective, targeted cash transfers in Namibia, which also include three family benefits—the foster parent grant, the child maintenance grant and the orphan's grant. So far, only a few households are receiving any of those. All are means-tested, and thus involve poverty traps and the conventional moral hazards that come with all means-tested schemes.

Being means-tested, it is scarcely surprising that in Namibia the disability grant reaches no more than about 20 per cent of all those who should be reached, according to Census figures for the number of people suffering from a chronic physical or mental impairment. [8] It is moot whether it reaches many of the AIDS victims, many of whom become disabled as the sickness intensifies. The trouble is that if it does not reach them, treatment with anti-retrovirals (ARVs) will fail since unless a person can eat reasonably well the medication will not work. However, if it were to reach a large proportion of the AIDS victims the fiscal cost would be large.

The immediate problem, however, is the *conditionality* attached to the disability grant. To be entitled, a person must obtain a doctor's certificate stating that he or she is not only disabled but also unable to work in income-earning activity. The rule has been that those with a CD4 count—a measurement of the body's immunity—that has fallen to below a value of 200 are entitled to a temporary disability grant, if they pass those means tests. They are supposed to de-register if their CD4 count improves to above 200 due to anti-retrovirals. Because of this, coupled with the nature of the ARV roll out, in Namibia as in South Africa, a bizarre *"sickness poverty trap"* has been created.

In those areas where the roll out of ARVs is operating thus far, if an AIDS victim has a sufficiently severe sickness level, he or she qualifies for treatment. Most of the recipients are wretchedly poor. So, it should not be surprising that two tendencies have emerged. Some of those receiving ARVs have been sharing their pills with relatives and friends who are not quite sick enough to qualify. Taking half the dose does not slow down the rate of recovery from the disease; it merely makes the treatment ineffectual, if not building up resistance to the treatment.

Second, those who are poor who receive ARVs have been prone to go one stage further—they have been selling the pills. In Namibia, some have been selling them over the border in Angola. The need for food to survive in the short term overrides the need for health to survive in the longer term. Thus, the ARV roll out is likely to fail because it is not linked to income security.

Third, even more ironically, the work capacity test for eligibility for the disability grant is creating a unique *moral hazard*. If the ARV treatment begins to improve the physical and social condition of the patient, so the capacity to work improves. If it does, the doctor is supposed to indicate that the person can

8 For a review of the evidence, see Standing (2006).

work, which means he or she would lose entitlement to the benefit. This creates a rather sordid dilemma. The benefit is needed to ensure the person can have an adequate diet to enable ARVs to work!

So, there should be no surprise that already, in Namibia and in South Africa, there are credible anecdotal reports that people are stopping ARV treatment in order to push themselves back below the physical capacity-for-work level, for fear of losing the grant.[9] According to the Treatment Action Campaign, which has been advocating a universal basic income instead, there have been many instances in which patients have simply refused treatment for fear of losing their disability grant.

There is also a new more menacing fear involving a yo-yo effect, in which sick individuals take treatment for a while, see their health improve slightly, stop until it worsens, start again, stop again, and so on. This, it is widely believed, is contributing to the development of treatment-resistant strains of the disease. If true, this would be the ultimate *moral hazard*—people dying of a disease opting to put themselves back into that category because they need to survive.

The disability grant as it has operated in South Africa and Namibia must rank as one of the worst designed cash transfer schemes in the world. It is unlikely to satisfy any of the policy principles outlined earlier.

The poverty traps and moral hazards are evident. If the grants are provided only for the foster parent or single parent who is classified as "poor", they will encourage those on the margin of poverty to conceal their earned income or not to try to move above the nominal poverty line. This is particularly relevant when in any case incomes typically fluctuate erratically above and below the "poverty line" used for the means tests. Indeed, determining eligibility is often fairly random, so that some who usually have a below-poverty income might not qualify, while others who usually above it but not when asked would receive the benefit. Procedural delays are also likely to be long, so if a household fell into poverty or if it had lost entitlement it is likely to take many months of 'queuing' for consideration before entitlement could be gained or re-gained.

The disability grant also fails the Security Difference Principle because it effectively gives less to women than to men, because women's needs linked to disability tend to be greater, while the grants given are the same for men and women (Goldblatt, 2007). There is also ample anecdotal evidence that the administrative procedures reduce the take-up rate most among the most deprived and most badly incapacitated.

In short, the disability grant as it has operated in southern Africa is a classic case of how a combination of means-testing and behaviour-testing can achieve precisely the opposite of what policymakers intend. Surely, enough is known to scrap the work test and the means test in disability grants.

A contrast with those selective conditional cash transfer schemes is shown by what was implemented in Mozambique in the early 1990s following the country's civil war. The government introduced a simple unconditional cash transfer scheme for those disabled or displaced known as GAPVU, or 'cash payments to war-displaced urban destitute households programme'. This reached about 16 per cent of urban households, and raised average household incomes by as much as 40 per cent , significantly reducing poverty (Devereux and others, 2005; DFID, 2005; Samson and others, 2006). But it also helped boost small-scale employment and the livelihoods of the urban poor, having a notable effect on food production and trading activity. The programme had a means test, but the authorities largely ignored it, which contributed to the programme's success.

9 On the situation in South Africa, see Nattrass (2006a; 2006b).

The main point of relevance is that the transfer helped to boost informal productive work. This is what a good income security scheme should do, not by obligations but by giving security in which rational choices can be made.

Why targeting and conditionalities will fade

Selectivity, targeting and conditionality go together with the notion of *"the deserving poor"* and with its opposite *"the undeserving poor"*. But that distinction has always been arbitrary, as well as subjective. The principal way of making it during the 20th century was usually some measure of the capacity to labour, coupled with the idea of *contingency risk* against which a wage worker could be *insured*, such as "involuntary" unemployment, sickness, work accidents, maternity and old age. A person deemed capable of working in the labour market was deserving of income support if he (or less often she) had a misfortune deemed to be beyond his or her 'fault'.

Put those ideas together with the idealised notion of the nuclear family, consisting of workers ("breadwinners") and dependants, and a simple model for social protection emerges. Basically, under this model, the state or some surrogate for it provides compensation for adverse outcomes to contingency risks for those who are adequately insured and it gives charitably to those in need who are deemed incapable of labouring. Underlying that is the notion of social solidarity, based on reciprocity.

In the globalisation era, that model, always highly dubious as a generalisation, breaks down irretrievably. All aspects fragment—family structures, stable full-time employment from which to make contributions to social insurance, the nature of risk exposure, the distinction between 'breadwinners' and 'dependants', notions of disability, the structural basis of social solidarity, and so on.

The old dualistic model has broken down, and yet still policy designers act as if it was operational or as if they believe it will be restored. The resultant intellectual confusion is tragic.

In industrialised affluent countries, the reaction has been to redefine the distinction between deserving and undeserving, and to extend the boundary for defining those capable of labour. Those who fall into a state of 'need' (poverty) are deemed to be either culpable in some sense or in 'need' of assistance to return them to the mainstream of society, capable of labour. The result is a mix of *means-testing* and *behaviour-testing*, coupled with a drift towards *social therapy*. But this moralistic drift is profoundly disturbing since far from reviving the vital sense of social solidarity and universal *citizenship*, it divides society into saints and sinners. It has been tried before, and it has failed.

In the context of globalisation, there is a counter-movement, and it is being led by what is happening in developing countries. There the baggage of 20th century social security is light. Politicians and their advisers may have received their tertiary education in some rich industrialised country, where they learned about 'welfare state' policies. But the industrial labour model clearly does not apply. Most people, as workers, are outside the 'formal' wage labour system, and most importantly the range of *risks* to which most people are exposed do not correspond to the simple contingency risks that underpinned welfare state development.

In particular, communities and individuals are exposed much more to *systemic* or *co-variant risk*. It is also absurdly arbitrary to make sharp distinctions between the deserving and undeserving in contexts where brute ill-luck and chronic uncertainty are the undeniable realities. It is in these contexts that international aid and technical assistance is becoming a source of enlightenment. Emergencies, shocks, crises—all force those involved in shaping policy and reacting to events to abandon old prejudices and look to what works.

What does that mean? Ultimately, it means not just having food at the end of some dusty road, but being able to develop sustainable livelihoods in viable communities based on functioning systems of social solidarity. That lesson is being re-learned, and those in civil society organisations are helping to make sure it is learned and that the policymakers are being obliged to take note, and reshape their interventions accordingly. It is this that has revived faith in *cash transfers*, and it is this that is beginning to pose awkward questions to those wedded to selectivity, targeting and conditionality.

A principal claim in favour of unconditional cash transfers is that being *universal* it is socially just. It is *non-labourist*, in that it does not presume that some forms of work are deserving of income support and other forms not.[10] By making all forms of work equally deserving, it helps to promote *work*, and allows individuals to make choices between types of work more easily. For that reason, among others, its proponents argue, universal cash transfers favour women relative to many forms of social security because each individual receives an individual transfer and because those doing non-wage work such as childcare or eldercare are not penalized, unlike the case of *"labourfare"*.

Because a universal, unconditional cash transfer is definitionally a rights-based approach, being granted as a citizenship right, it would enhance full freedom. It would also enhance the bargaining position of disadvantaged groups, many members of which usually have to accept degrading working conditions and low wages because they are desperate. From an economic point of view, the argument is that it would shift money into the hands of those most likely to spend on locally-produced goods and services, thus helping to boost local demand and employment.

Compared with means-tested social assistance and social insurance schemes, a universal cash transfer would remove the infamous *poverty trap*, whereby someone who raised their earned income just above the threshold used to determine eligibility for the cash transfer would lose all their benefit, and the related *unemployment trap*. As such, proponents believe, it would immeasurably reduce the incidence of *moral hazards* and *immoral hazards*.

Another reason for believing that sooner or later universal basic income security will emerge as the sensible and equitable objective from experience with targeted, conditional cash transfers is that surveys in many countries have found that strong majorities of people believe that everybody should have basic

Table 1:
Support for income security principles, by economic security, Mozambique, 2005

Principle	*Upper limit*	*Minimum Income*	*Limit differences*
Security in main work			
Secure	61. 2	81. 1	51. 7
Insecure	60. 9	88. 0	53. 8
Satisfied with income			
Satisfied	59. 7	71. 1	37. 5
Not satisfied	59. 4	89. 3	58. 9
Total	58. 6	86. 3	52. 4

Source: Mozambique People's Security Survey, n = 440.

10 By contrast, "workfare" schemes should be called "labourfare" in that they require individuals (usually unemployed) to do designated labour if they wish to gain entitlement to some payment in cash or in kind. The underlying coercion or obligation is contrary to any notion of a right to work.

Table 2:
Ghana and South Africa: Per cent supporting income principles
(per cent responding "Yes", by personal characteristics)

Principle		*Upper income limit*	*Lower income limit*	*No limit, but policies to help poor*	*Similar income for all*
Ghana, 2002					
Education level	No schooling	38. 7	59. 1	63. 0	22. 4
	Primary	32. 7	60. 3	68. 9	21. 6
	Secondary	36. 0	60. 2	68. 7	17. 5
	Tertiary	40. 4	63. 0	71. 5	16. 1
Sex	Male	38. 7	60. 1	68. 4	19. 0
	Female	34. 3	60. 2	67. 2	19. 1
Region	Urban	30. 8	64. 3	73. 9	11. 8
	Rural	40. 9	56. 7	62. 6	25. 0
Income level	0-50,000	34. 8	51. 1	53. 0	24. 2
	51,000-100,000	34. 3	54. 5	63. 2	17. 7
	101,000-200,000	36. 3	63. 4	70. 5	18. 6
	201,000-400,000	37. 6	55. 2	71. 4	24. 8
	401,000+	41. 0	69. 4	69. 7	13. 1
Income for healthcare	More than sufficient	32. 0	60. 4	65. 3	16. 3
	About adequate	36. 2	61. 7	69. 4	17. 0
	Insufficient	36. 6	59. 2	66. 6	20. 6
Income for food	More than sufficient	42. 6	61. 1	62. 3	15. 4
	About adequate	34. 8	60. 6	69. 2	18. 1
	Insufficient	36. 5	59. 6	67. 0	20. 8
Total		36. 3	60. 2	67. 7	19. 0
Cape Town, South Africa, 2001					
Schooling level	Primary	44. 5	55. 5	60. 5	30. 2
	Secondary	42. 2	60. 1	69. 8	26. 4
	Tertiary	42. 5	65. 0	77. 5	17. 5
Sex	Male	45. 8	57. 4	63. 8	27. 6
	Female	42. 2	56. 7	63. 3	29. 7
Region	Urban	52. 1	53. 4	58. 3	31. 1
	Rural	45. 9	50. 5	58. 7	46. 7
Household income	1-200	44. 3	47. 6	50. 4	33. 6
	201-600	50. 9	56. 9	57. 2	36. 5
	601-1600	44. 7	58. 8	70. 4	28. 4
	1601+	44. 2	64. 3	72. 1	17. 2
Income adequacy for healthcare	Sufficient	41. 8	50. 3	70. 3	23. 3
	Adequate	46. 0	60. 7	63. 8	32. 8
	Insufficient	41. 8	55. 4	60. 4	26. 3
Income adequacy for food	Sufficient	40. 3	53. 1	69. 4	23. 7
	Adequate	45. 8	61. 1	63. 5	31. 2
	Insufficient	42. 7	53. 5	60. 1	28. 4
Total		43. 7	57. 0	63. 5	28. 8

Sources: Ghana People's Security Survey, n=2081 and South African People's Security Survey, n = 2099.

income security as a right (ILO, 2004: ch. 13). In a small way, this is shown, for example, in a survey in Mozambique carried out by the ILO in 2005, where over 80 per cent of what was admittedly a small sample believed there should be a guaranteed minimum income (Table 1). As can be seen, a large majority believed that the government should try to ensure that everybody has a minimum income on which to survive. A majority supported this even among those who were not poor themselves.

It is also apparent that people who are economically insecure are more likely to support a basic income, and people who are 'individualists' (i.e., those who believe that life chances are determined primarily by individual capacities) are more likely to do so than 'fatalists' (i.e., those who believe that personal circumstances are due to external forces). Given that globalization and economic liberalization, and 'modernisation', are associated both with more economic insecurity and more individualism, the percentage supporting a basic income can be expected to rise.

The standard arguments against providing a universal basic income are essentially fivefold.[11] The first counter-claim is the cost, the claim being that to achieve a universal income transfer that gave basic economic security would cost too much of national income. Second, it is argued that an unconditional transfer, or a conditional transfer that required school attendance by the family's children, would result in a lower labour supply, with women in particular dropping out of the labour force.

Third, it is claimed by some political scientists that it would offend the 'reciprocity principle' by giving someone a right without requiring them to display some return 'responsibility'. Fourth, opponents claim that it would be hard to legitimize politically, since the 'median voter' would be opposed to giving tax income to everybody in society, regardless of their 'contribution'. Fifth, it is claimed that an unconditional cash transfer would actually lower wages, since employers would feel that they need not pay workers so much because they would have another source of income.

For many years, critics held sway in debates on cash transfers. Now conditional cash transfers are legitimized. But the flaws of all forms of targeting and the unnecessary costs are making more people question the need for them. What we can say is that only universalistic transfers would satisfy all the Policy Decision Principles enunciated earlier. And no other policy on offer could so strengthen a sense of *social solidarity*.

Concluding remarks

Globally, social protection systems are in a mess. The family as an institution of social support is weakening; local communities are often unable to provide social and economic security because of the tendency for whole communities to be struck at the same time; the state has been cutting back on universalistic income support; social insurance is giving way to social assistance, with an array of poverty traps and unemployment traps; and enterprises of employment are cutting back on their social benefits and services, at least for their workers.

This is the downside picture as the global economy lurches into what might be the next phase of a Global Transformation akin in many ways to the Great Transformation analysed by Karl Polanyi in the middle of the 20th century.[12] The major new development has been that China has been moving towards a

11 There have been numerous articles and books produced within BIEN on these issues since it started in 1986. For articles dealing with the claims and counter-claims in industrialized country contexts, see Standing (2005).

12 For a development of this theme, see Standing (2007).

system in which cash transfers are growing, in the form of means-tested social assistance. They seem to be doing very little to arrest the high levels of poverty and inequality, or the social unrest associated with them. The state has introduced the means-tested *dibao* (minimum livelihood grants) for all the urban poor and for some of the rural poor, which will be extended to all the rural poor by the end of 2007. But the take up rate and coverage are worryingly low, even in urban areas (Chen, Ravallion and Wang, 2006). And one may predict that they will stay that way. Meanwhile, the other emerging industrial giant, India, has yet to confront the challenge of modernizing its chaotic social protection system. There are hundreds of selective schemes, some providing small or negligible cash payments, most languishing on the statute books and reaching very few people, except just before elections. There has been some political debate about the need for a minimum income support scheme for "unorganized workers". But there seems an acute reluctance to address the subject seriously until after the next General Election.

Meanwhile, non-contributory cash transfers have surely been legitimized in many other parts of the world, and—at long last—in international agencies. Among the outcomes is the recognition that schemes that provide people with economic security actually encourage people to do more socially valuable and freely chosen forms of work. They do not "breed dependency" and passivity; they foster independence and activity.

A pathological fear of cash for the poor?

> *"The fear of giving money is almost pathological among aid agencies, even though, or maybe because, it would be simpler and cheaper to give than any other form of help."* (Sesman, 2004)

If decent work is to flourish, policymakers will have to rethink their commitment to *universalism*, social solidarity and social rights, to finding ways of moving towards a situation of basic economic security. Fortunately, there are economic and social reasons for doing so, as well as moral and political reasons. Universal schemes of security are fundamentally *market neutral*, i.e., they do not introduce market distortions and, therefore, have relatively little effect on competitiveness. Unlike social assistance, involving means-testing, universalistic schemes do not introduce negative incentives to *dissave* (which would merely store up economic vulnerability), and there is no tendency to reward *labour* relative to other forms of work.

At present, the dominant discourse is still in favour of *targeting, selectivity*, and *conditional* benefits for the deserving poor. However, more social scientists and policymakers are raising critical questions about the efficiency and equity of selective interventions, while the imposition of behavioural conditionalities is paternalistic and presumes that the poor and insecure are irrational. If they are indeed unable to behave in the ways desired by the policymakers, then policy should focus on overcoming the obstacles or on providing them with improved information and education, rather than force them to do what the policymakers believe is in their interest.

Universal security schemes are administratively simple and low-cost, as has been demonstrated by the Namibian old-age pension. There is relatively little scope for bureaucratic abuse, discretionary behaviour or petty corruption. The benefits are non-stigmatising, and being universal, they help strengthen social solidarity. They can help strengthen community and social cohesion, and may even assist in developing a sense of national pride. And above all, universal economic security fosters full freedom. In such circumstances, decent work could flourish.

Putting money where their mouth is?

> *"Putting money in the hands of the poor can yield very high rates of return, partly because they use their assets so intensively and partly because the cost of falling below a critical consumption level is so great, small amounts can yield a high effective return."* (Subbarao, 2003: 28)

Societies in which decent and dignifying work can flourish must surely be based on economic security, which is ultimately underpinned by the system of social protection. For that to be meaningful, it must enhance principles of social solidarity, freedom, autonomy and *fraternity*. This leads to a crucial point, which is that social protection should be linked to stronger Voice in society, if it is to strengthen social solidarity and promote decent work. During the 20th century, trades unions played a vital role in linking social protection to labour market involvement. Unions have weakened. In the 21st century, the economically insecure will wish to rely on other forms of civil society organization, which will be needed to protect them as they indulge in more flexible and more informal forms of work.

Meanwhile, overcoming the cutback in social provision is the immediate challenge. An integral feature of the economic liberalization model of globalization is the incessant pressure to cut social protection expenditure. In giving way to this pressure, governments have made the social protection system much less of a counter-cyclical stabilizer. This means that economic recessions lead to greater declines in consumption and employment and more volatility and uncertainty in incomes. That, in turn, leads to sub-optimal risk- taking by those in relatively insecure situations, as they have to be prepared for shocks or adverse outcomes in the external economic environment.

At the international level, one promising development associated with the international trend towards *inter-agency* cooperation in aid programming is that the *livelihoods* approach is becoming increasingly central to the way donors and the UN's specialized agencies consider policy options. This means that single commodity-based approaches, reviewed earlier in this paper, are less likely to be the most common, standardized response to development needs. This may influence Poverty Reduction Strategy Papers, if they continue, and lead to a shift to cash transfers and income grants as part of a package of remedial interventions. This may become a powerful means by which decent work opportunities expand. Policymakers may come to accept that encouraging people to take productive risks will be among the most effective ways to promote decent work.

For a basic income to become a reality, policymakers and aid officials must first come to accept that cash transfers are a viable way of combating poverty and income insecurity, and a viable way of promoting *sustainable livelihoods*.

In general, one of the political and socio-economic dilemmas about moving in the direction of universal basic income transfers concerns *prioritization.* The Latin American schemes have focused on households with children, using child school attendance as the primary condition. Reformers there often talk about extending the transfers to other groups by stages, the groups chosen being determined by the depth of poverty and vulnerability in the group and the political ability to legitimize transfers to particular groups. In Africa, more advance has been made at the other end of the age spectrum, with social pensions.

The cost of cash transfers is not the primary issue, since even poor countries could afford modest schemes, and most could do so if more aid were diverted to that end. The bigger question is whether the world wishes to combat poverty directly by this means and enhance the livelihoods and work of those currently trapped by poverty and inequality.

The UNDP has conducted a simulation study, finding that targeting all rural children rather than all the identifiably poor children would have a greater poverty reduction effect if just 0. 5 per cent of GDP were allocated to such cash transfers (Kakwani, Soares and Son, 2005). They reckon that cash transfers to achieve an income of 40 per cent of the poverty line would cost 5 per cent of GDP for the Ivory Coast and more for some other African countries. But even small cash transfers would have a big effect in reducing poverty in all the 15 countries studied.

Other simulation studies have found that in countries such as Namibia and South Africa a modest basic income as a monthly grant is affordable, and at least one government committee in South Africa has recommended its introduction.[13] Such a scheme was also proposed as a response to the Indian Ocean *tsunami*, and basic 'freedom grants' were proposed by various economists for the aftermath of the invasion and occupation of Iraq. In the case of the post-*tsunami* recovery phase, it was significant that the Swiss Agency for Development and Cooperation actually implemented such a scheme, with apparent success in terms of the effects observed in pilot schemes described earlier.

At the outset of this paper, five policy evaluation principles were laid out. The one worth reiterating in this conclusion is the *Dignified Work Principle*, since the evidence is gathering that cash transfers are a viable way, and perhaps the most efficient and equitable way of promoting dignified work and sustainable livelihoods. Contrary to elitist claims that giving the poor basic economic security would induce dependency and passivity, the evidence is accumulating that they promote independence and energetic work. Thus, one study, drawing on data from various surveys conducted by Statistics South Africa (the official agency for national statistics), showed that the country's old-age pension, the Child Support Grant and the Disability Grant, all helped to raise labour force participation and employment (Samson and others, 2004).

This paper has been discussing conditional and unconditional cash transfers paid on a monthly or continuing basis. Another type of scheme is lump-sum or capital grant schemes, which have been more popular in industrialized countries as part of the "stakeholder society" agenda. We need not discuss them in the present context, but two schemes of this type have been put into effect, which could have a future in certain developing countries with one or two valuable commodities, where commodity price rises could threaten to produce a variant of "Dutch disease" unless the surplus is redistributed in some way.

The first is the provision of regular lump sums paid out to all citizens from a social investment fund, so that the amount given to people is determined by the rate of return and size of the capital fund. Something like this was proposed in the 1970s in Sweden, under the name of *wage-earner funds*. But the main example in practice has been the *Alaska Permanent Fund*, under which all residents of Alaska receive an annual dividend to spend on whatever they wish. The scheme has been popular in Alaska, and research has found that recipients have been enabled to improve their spending on consumer durables, in particular. The point is that it provides a modicum of economic security, without in any way undermining the willingness to work.

13 See, for example, the papers in Standing and Samson (2004) and Taylor Committee (2002).

The other type of lump-sum scheme is the *baby bond*, which was launched by the New Labour Government in the UK. It is intended as a modest means of income redistribution, aimed at reducing child poverty, although the actual pay out is made only when the child becomes a young adult. Some prominent US politicians have proposed that such a scheme should be introduced in the USA, and more ambitious proposals for larger capital grants have been made by academic analysts (Ackerman and Alstott, 1999; Ackerman, Alstott and van Parijs, 2006).

Such ideas may seem way off the radar screen in developing countries. But if the globalization process continues to result in high returns to key commodities coupled with a steady shift of national incomes from labour to capital, the scope for ingenious cash transfers to the economically insecure and poor may become much more interesting for those who have faith in the creative and work capacities of their people. The debate is in full flow.

A final point: There is a frenzy of renewed interest among social scientists in *happiness* and *well-being*. Both are seen as depending, in part, not just on income level but on economic security. The latter is seen as producing more productive individuals and more socially-cohesive communities. As such, providing basic income security may have cumulative advantages and lead to more productive and engaged working communities. That is what dignified work should be all about.

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