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Guaranteed employment or guaranteed income?

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ABSTRACT

The paper critically reviews the arguments for and against both employment guarantees and income guarantees when viewed as rights-based policy instruments for poverty reduction in a developing economy. Decentralized implementation of the right-to-work poses serious challenges in poor places. Evidence on India's National Rural Employment Guarantee Act does not suggest that the potential for either providing work when needed or reducing current poverty is realized, despite pro-poor targeting. Instead, work is often rationed by local leaders, and the poverty impact is small when all the costs are considered. The option of income support using cash transfers also has both pros and cons. Widely-used methods for finely targeting cash transfers tend to miss many poor people, and can discourage those reached from earning extra income. Yet it cannot be presumed that switching to a universal basic income will reduce poverty more than workfare or finely-targeted transfers. That is an empirical question and the answer will undoubtedly vary across settings, belying the generalizations often heard from advocates. Nonetheless, more incentive-neutral, universal and/or state-contingent transfer schemes merit consideration in settings in which existing public spending is skewed against poor people and/or there is scope for raising taxes on the rich.

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1. Introduction

It is often hoped that creating new legal rights for things that matter to poor people will help reduce poverty.² Prominent rights-based social policies aim to either guarantee employment—whereby anyone who wants a job at a stipulated wage rate can get

it—or to guarantee income. The employment guarantee is generally implemented by “workfare” while the income guarantee is implemented using cash transfers. The latter can either be targeted or untargeted. When the cash transfer is uniform it is often called a universal basic income (UBI). These policies strive to assure the “right to work” (RTW) and “right to income” (RTI).³ But can these rights be assured in practice? The same factors that made some people poor

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² Rights-based ideas about distributive justice have had a long history (Fleischacker, 2004). In the context of poverty reduction see the discussion in Ravallion (2016a, Part 1).

³ The RTW is Article 6 of the International Covenant on Economic, Social and Cultural Rights; see United Nations (UN) (UN) (2006). RTW often heads a list of “economic rights”; see for example, Myers-Lipton (2015). RTI is close in spirit to Article 11 of the International Covenant, which requires that everyone has an adequate standard of living. Note that RTW should not be confused with “right-to-work laws” in the US, which have different aims.

in the first place may well operate to undermine attempts to expand their effective rights.

This paper critically reviews the case for these rights-based policies, with special reference to developing countries, and one country in particular, India, where there has been both a long-standing effort to implement employment guarantees, and much recent interest in the idea of a cash transfer option, such as a UBI. The discussion is relevant to other countries, but India will be the main setting considered here and main source of evidence. The paper does not advocate any specific policy, but rather tries to contribute to a better understanding of the policy debates.

A longstanding concern with rights-based approaches is that any policy can be justified, with no basis for setting trade-offs.⁴ The paper aims to judge the policy choices by efficacy in securing what is surely the more fundamental right, freedom from poverty. However, the paper takes a broad, welfare-centric, view of what “poverty” means. Nominal income is clearly not the only relevant variable. For example, prices clearly matter to welfare, which is well recognized. However, one can also be legitimately concerned about other welfare costs such as stigma and risk aversion. A broader concept of economic welfare is needed in thinking about impacts on poverty.⁵

One must also make clear at the outset how literally one is to take a rights perspective in this context. As normally understood, “rights” are obligations on the state to be fulfilled by all people within the relevant domain, such as a nation, A “right” is not something one only attains “on average.” From a rights perspective, if anyone is still (involuntarily) poor then there is work yet to do. However, while we can readily agree to the societal goal of eradicating poverty, it is too demanding to say that a specific antipoverty policy fails because some poverty remains. The key question is which policy has greater promise in reducing poverty and so bringing us closer to attaining that goal. And some averaging of the available data is almost certainly required in practice. This may take the form of a count of those whose right to be free from poverty is met, as in standard poverty measures. Or it may be an average level of consumption for poor people, possibly with higher weight on the poorest (as in Ravallion, 2016b, measure of the “consumption floor”).

Demanding the “right to work” for very poor people, rather than a “right to income,” may seem an odd idea. One usually thinks of “rights” as applying to things that have intrinsic value.⁶ While that holds for some types of work—jobs that have clear social value and garner public respect—it is not so obvious for the sort of work typically done in labor-intensive public works projects in developing countries. While some degree of job satisfaction cannot be ruled out, nor can the counterargument be dismissed that unskilled manual work is something most poor people in rural India mainly value instrumentally, as a means to a higher income, and what this allows. (Indeed, “right to leisure” might make more sense and not just in poor places.⁷) In this setting, we mainly care about RTW policies as instruments for securing freedom from poverty.⁸ That may still imply a strong case for workfare. In a developing economy, the “self-targeting” feature is attractive, and could, in principle, be important enough to make this option cost effective against poverty

(Besley & Coate, 1992; Ravallion, 1991). So too is the insurance feature of an employment guarantee, in settings in which credit and risk markets are far from perfect. It is ultimately an empirical question whether these potential advantages of RTW policies can make them the preferred option.

In contrast to RTW, it might seem self-evident that an income guarantee is good for reducing income poverty. But that too is far from obvious, especially when one considers incentives. There are two distinct ways of guaranteeing a minimum income, with very different rationales, information requirements and incentive effects. In the first, one imagines a set of transfers that fills all the poverty gaps, bringing everyone up to the poverty line. This is called (somewhat euphemistically) “perfect targeting.” Such a policy is “needs-based” rather than rights-based.⁹ The second is a UBI, providing transfers set at essentially the same level for all, with little or no targeting. This is generally motivated as rights-based. Between these extremes, transfers can be targeted to poor people based on observable proxies.

Inevitably, mistakes occur in targeting. As is well-recognized in the literature, the mistakes are either exclusion errors—leaving out some poor people—or inclusion errors—including some non-poor people. The idea of a UBI is in part a response to the (commonly-heard) complaints about the under-coverage of poor people in imperfectly targeted cash-transfer schemes. The rights perspective naturally attaches a high penalty to such exclusion errors. Hence advocates of RTW may come to favor UBI over targeted transfers that also aim to assure a minimum income, but fall short in practice. The inclusiveness of UBI also addresses concerns about the social stigma of targeting. Against this view, critics of UBI complain that the inclusion errors will be high. They claim that there are cheaper ways to reduce poverty. Budgetary pressures have led to a focus on reducing inclusion errors.

In discussing these policy issues, the paper emphasizes the constraints that tend to come with implementation in a developing country. Budget constraints are well recognized, but there are other (no less important) constraints. The information available to policy makers is a case in point. Policy makers in poorer countries tend to know less about the economic circumstances of residents, which naturally constrains efforts at targeting. An attraction of both the workfare and UBI policies discussed here is their minimal information requirements. Yet even if policy makers are reasonably well-informed, the information available to poor people can be a further constraint. Social exclusion often comes with weak connectivity to relevant sources of knowledge.¹⁰ There is evidence of significant social frictions to knowledge diffusion in rural India, such that poor people tend to be poorly informed about their rights in accessing a major anti-poverty program (Alik-Lagrange & Ravallion, 2018a).

There are other constraints. Incentive constraints are important, and often emphasized by economists, though these constraints are possibly not as important in practice as some critics of antipoverty policies make out. There are costs that policy makers should consider, including any foregone earnings for participants and stigma or other welfare-losses. There are also limits to the capabilities of public administrators, associated with the generally poor infrastructure in developing countries. The reliance on local implementation is a common feature of developing countries. When we take the RTW idea to village India, say, it may well be in tension with the interests of local leaders for whom the assignment of pub-

⁴ This type of complaint about rights-based approaches was heard from the earliest times in economic thinking, in writings spanning (inter alia) Jeremy Bentham and Karl Marx (Fleischacker, 2004).

⁵ For a fuller discussion of this point see Ravallion (2016a, Chapter 3).

⁶ Some RTW advocates do include ancillary rights (beyond a job itself), such as safety at work and freedom to unionize, that are likely to have value in themselves.

⁷ For example, Ravallion (2017b) argues for including an allowance for leisure as a basic need in poverty measurement for the US, and provides illustrative calculations.

⁸ Though (again) not only in that setting; as recent advocates of an employment guarantee scheme for the US put it, “A job guarantee means fewer poor Americans” (Paul et al., 2017).

⁹ This distinction is made by advocates of the rights-based approach such as Gatenio Gabel (2016).

¹⁰ The existence of knowledge constraints on access to public support has long been seen as a defining characteristic of “social exclusion” (Silver, 1994). Also see the discussions in Narayan, Pritchett and Kapoor (2009), World Bank (2011) and Mansuri and Rao (2012).

lic benefits is an important source of power and wealth. Whether the desired rights are attainable in practice is an open question, and the answer may vary between places and over time.

The following section discusses the arguments for and against using workfare to implement RTW. A key issue is whether it is feasible in practice to guarantee employment; [Section 3](#) takes up that issue. [Section 4](#) discusses the arguments for and against the option of direct cash transfers for assuring RTI. [Section 5](#) concludes.

2. Workfare and employment guarantees

The idea of using workfare to help implement RTW has surfaced often in the history of social policy. For example, in the last few years of his life, Dr. Martin Luther King Jr. turned his attention from civil rights to poverty in America, where he saw high unemployment among poor families. King's response was that "We need an Economic Bill of Rights. This would guarantee a job to all people who want work and are able to work" (quoted by [Myers-Lipton, 2015, p. xv](#)). This appears to have been an instrumental case for RTW, in which ending poverty was the overarching goal; King's proposal "... would provide poor people of all races the money necessary to pay for housing, food, transportation and health care" ([Myers-Lipton, 2015, p. 6](#)). That also appears to have been true of earlier (pre-King) proposals by Presidents Franklin D. Roosevelt (FDR) and Harry Truman, and later discussions around the Humphrey-Hawkins Full Employment Act (influenced by King's proposals) passed under President Jimmy Carter ([Myers-Lipton, 2015, Chapter 1](#)). The idea of a Federal Jobs Guarantee has resurfaced recently in the US ([Paul, Darity, & Hamilton, 2017](#)).

RTW has also been influential in India, where the idea took the form of "Employment Guarantee Schemes." The first of these, the Maharashtra Employment Guarantee Scheme (MEGS), started in 1973 in response to the threat of famine. The idea was scaled up to the national level in 2005 in the form of the Mahatma Gandhi National Rural Employment Guarantee Act (NREGA for short), which is clearly the largest workfare scheme in the world. NREGA promises 100 days of work per household per year, on demand, to all adults willing to supply unskilled manual labor to labor-intensive public works projects. The projects are mostly for water conservation/harvesting, drought protection, irrigation, roads and sanitation. The work is to be paid at the statutory minimum wage rate notified for the program, and workers are to be paid within 15 days of doing the work. If the work demanded cannot be provided by the local authorities then an unemployment allowance is supposed to be paid by the state government.

Some assessments of such workfare programs have been very negative. For example, the author of a popular book proposing a UBI in preference to workfare writes that: "We can get rid of the whole bureaucratic rigmarole designed to force assistance recipients into low-productivity jobs at any cost..." ([Bregman, 2017, p. 43](#)).¹¹ But are such negative assessments warranted? The following discussion critically reviews a number of arguments that have been made on the potential benefits, as well as the costs.

Arguments in favor: Unemployment in poor families has long been an important motivation for these policies. In a minimal sense, RTW prevails when anyone who wants work can get it. This holds in a competitive labor market, as wages adjust to clear the market. Demands for a RTW thus stem in part from (involuntary) unemployment, which may take the form of underemployment—too little work. However, this "minimal sense" does not fully capture the aims of RTW policies. Full employment can co-exist with poverty, since (depending on the setting) the market-clearing wage rate may be deemed unacceptably low from a social welfare per-

spective. It can help to also set a minimum wage rate for the work provided, and this is common in practice.¹²

RTW implemented through workfare can then have general equilibrium effects in supporting a floor to the wage rates for labor generally, including in sectors of the economy where work is not in fact guaranteed ([Ravallion, 1990](#)). Indeed, India's various employment guarantees can be thought of as means of implementing a minimum wage rate in settings in which this is not otherwise enforceable. As long as work is available when wanted, and labor markets are reasonably competitive, the workfare wage provides a floor to all wages. There is some evidence that states of India where NREGA has worked better (such as in providing work on demand) have seen wage gains ([Imbert & Papp, 2015](#)).

There is also evidence that improving NREGA operations can lead to higher benefits to participating workers, at least in states where the scheme appears to already work reasonably well, such as Andhra Pradesh (AP).¹³ [Muraidharan, Niehaus, and Sukhtankar \(2018\)](#) found that the use of biometric "smartcards" to facilitate NREGA payments to workers in AP increased their earnings, and the benefits also spilled over in the form of higher wages for non-NREGA workers. However, in a state such as Bihar, where the scheme is not thought to be working as well, the evidence is more mixed on the scope for improving NREGA operations. [Ravallion, van de Walle, Dutta, and Murgai \(2015\)](#) found that a randomized information intervention at village level in Bihar led to higher NREGA wages for illiterate participating workers, but not for other workers, and there was little sign of other gains such as in access to NREGA jobs on demand. Similarly, in a large field-experiment in Bihar that aimed to improve administrative processes for NREGA, [Banerjee, Duflo, Imbert, Mathew, and Pande \(2016\)](#) found that corruption was reduced but there was little increase in the wages and employment of workers. (The discussion will return to this study.)

While an employment guarantee combined with a minimum wage rate can help reduce poverty, it cannot reasonably be expected to eliminate it. There is no in-built mechanism to assure that the gain in labor earnings suffices to meet the deficit between the poverty line and other income sources for all participants. That might be assured on average (say) but not universally given that many of the personal and household characteristics relevant to poverty are idiosyncratic, including the (physical and mental) capacity for work itself, which clearly varies across people. This points to the desirability of complementary transfer policies, as discussed further in [Section 4](#).

One argument that is sometimes made in support of workfare is that taxpayers and/or donors are more likely to support transfers to poor people if the latter do something costly in return. And non-poor people have long argued that work is something highly desirable for poor people to do—that one becomes a better person through hard work. Yet, against this view, taxpayers would not presumably be as supportive if they found out that the work was wasteful, and that there are more cost-effective ways of delivering help to poor people. Additionally, political economy arguments can point in the opposite direction—supporting greater universality than workfare provides ([De Donder & Hindriks, 1998](#); [Gelbach & Pritchett, 2000](#)). This suggests that funding is likely to be less generous for more finely targeted programs. There is evidence from cross-country comparisons suggesting that universal provision yields broader support for fighting poverty ([Korpi & Palme, 1998](#)).

¹² RTW advocates sometimes add qualifiers on the type of work and working conditions, beyond requiring that all those who want a job have one at some stipulated wage rate. For example, India's National Rural Employment Guarantee Act also stipulates facilities on worksites (including drinking water and a crèche).

¹³ A good measure of state-level performance of NREGA is the rationing rate—the share of rural households who wanted work on the scheme but did not get it ([Dutta, Murgai, Ravallion, & van de Walle, 2012](#)). The rationing rate in AP in 2010 was 25% as compared to 44% nationally. By contrast, the rationing rate in Bihar was 79%.

¹¹ Also see the comments in [Standing \(2005\)](#) and [Murray \(2016\)](#).

Workfare is an example of a class of policies that apply behavioral conditions for participation. These are not only motivated by *current* poverty reduction, but also hope to promote *future* poverty reduction. In the case of workfare, that condition is the work requirement. Advocates argue that this will provide skills and work habits that help participants in the future, and create assets that benefit poor areas over time. Another example of this class of policies is the Conditional Cash Transfer (CCT), which requires that the children of recipients attend school and (in some cases) comply with health-care requirements.¹⁴

In workfare, the cost of compliance with the conditions tends to rise with income from other sources, which yields the classic “self-targeting” feature (Ravallion, 1991). As long as the workfare wage rate is not too high, the non-poor will not seek relief and participants will have an incentive to take up other work when it becomes available. Screening is achieved without explicit targeting. This has long been an important reason for imposing work requirements in settings with limited information about who is in need.

Programs that impose behavioral conditions for participation are not necessarily self-targeted in this way. The cost of compliance with the conditions in a typical CCT may well fall as income rises; it is more likely to be the children of poor families who are not already in school and hence incur a cost of compliance. Given that a CCT is unlikely to have a (pro-poor) self-targeting feature, these schemes invariably come with an additional targeting mechanism. This usually relies on observable proxies for household income.¹⁵ Workfare schemes can avoid the need for explicit targeting.

There are other economic arguments for using workfare to implement RTW. This can provide insurance in settings in which risk markets are imperfect or non-existent. A shock induces participation, which falls in the recovery period. The empirical relationship between rainfall and participation in the MEGS is suggestive of this insurance function, at least in the period in which job guarantee appears to have been honored (Ravallion, Datt, & Chaudhuri, 1993). Insurance against risk can also help support longer-term efforts at promotion from poverty, given that (with incomplete markets) uninsured risk spills over into production and portfolio decisions.¹⁶ However, there is not much evidence on the insurance benefits from NREGA, possibly reflecting its more decentralized implementation and associated rationing of work opportunities by local officials. If NREGA work cannot be obtained when needed then the insurance benefits vanish. (Section 3 returns to this issue.)

It has also been argued that a workfare scheme can directly serve longer-term development goals by generating assets that improve the wealth distribution, or shift production functions to permit higher returns to existing assets. The assets could be of direct benefit to poor people, or of indirect benefit, such as through the revenue implications of using the scheme to produce taxable gains to non-poor people. In practice, workfare schemes in India and elsewhere have primarily been seen as short-term palliatives against poverty. There is a trade-off here that cannot be ignored: durable asset creation in workfare tends to make the program less labor intensive, with lower impact on current poverty.¹⁷ How one addresses that trade-off is a key issue for program design, and the solution will clearly depend on the context; in a crisis one will nat-

urally put higher weight on the short-term direct gains to workers through extra earnings than in more normal times.

It would be fair to say that asset creation and productivity enhancement are rarely prominent in the policy rationales for these schemes in India. While there is not much solid evidence on the extent of asset creation under NREGA, it is reasonably clear that the assets created do have some value. One often hears anecdotes that NREGA assets are mostly worthless; certainly, “NREGA roads” have a bad reputation in rural India, often washed away in each monsoon. But this is a questionable stereotype. The field work by Verma (2011) assessing water-based projects under NREGA found that some projects brought lasting positive benefits, although Verma’s sample was selected in favor of the “best-performing” projects and so cannot be used to confidently generalize about the portfolio of projects. A survey of NREGA projects in Maharashtra by Narayanan, Ranaware, Das, and Kulkarni (2015) found that the listed assets generally existed and that local beneficiaries were generally satisfied with the assets created based on their subjective assessments.¹⁸ Anecdotal observations have also pointed to weak local capabilities for identifying and maintaining NREGA projects and little interest among local engineers (Verma, 2011; Zimmerman, 2013). There have also been anecdotal observations that durable asset creation under NREGA has tended to favor local landowners and politicians, rather than poor households directly, who are typically landless. Certainly, many NREGA projects are on private lands, and are not local public goods; cost recovery from benefiting farmers seems to be unheard of. Nonetheless, the survey by Narayanan et al. (2015) found that many farmers with relatively small holdings reported that they benefited from the assets created.

While one can certainly point to examples of asset creation under workfare schemes, there are undoubtedly better ways available to produce assets or enhance productivity than a scheme such as NREGA. The scheme’s insistence on highly labor-intensive production methods limits the cost-effectiveness and durability of any public goods created. There is often a lower cost method for implementing a NREGA project, such as using earth-moving equipment, that is officially precluded by NREGA’s requirements for a minimum unskilled labor share. This creates an incentive for corruption, whereby local officials can pocket the difference in cost. The deeper policy rationale still rests in no small measure on the self-targeting ability of the work requirement and the ability to guarantee work when needed.

Arguments against: These potential benefits must be balanced against the costs generated by the work requirement. There are administrative costs, including supervision on worksites and any non-labor inputs. These costs are more visible than others that are no less important for a complete evaluation. While workfare participants may well be underemployed otherwise, they will rarely be idle, especially if poor, as their survival may then be in jeopardy. There is likely to be a net income gain from taking up the work, but that gain will often be less than the gross earnings. Poor households can be expected to behave in ways that attenuate this forgone income, such as through the intra-household allocation of work, as shown by Datt and Ravallion (1994) for Maharashtra. Nonetheless, there will typically be some forgone income for participants even when there is widespread underemployment. Dutta, Murgai, Ravallion, and van de Walle (2014) find that workers on NREGA in Bihar had to give up work days equivalent to 40–45% of the total NREGA employment received.¹⁹ There are also costs

¹⁴ CCTs have emerged in a number of developing countries, following early examples such as the *Food-for-Education* (FFE) program in Bangladesh and the *PROGRESA* program (renamed *Oportunidades* and most recently *Prospera*) in Mexico. Fiszbein and Schady (2010) and Ravallion (2017a) review the literature.

¹⁵ There may also be scope for introducing self-targeting features into the services that are provided on complying with the behavioral conditions of a CCT, such as “no-frills” child health facilities in the local language.

¹⁶ Evidence on this point for rural China can be found in Jalan and Ravallion (2001).

¹⁷ For further discussion of this trade off and its implications see Ravallion (1999).

¹⁸ Though here too the sampling was not representative, but instead Narayanan et al. picked the scheme’s best performing block within each district. Results from a representative sample would probably not look as good.

¹⁹ Other evidence on forgone incomes in workfare programs can be found in Datt and Ravallion (1994) (for Maharashtra India) and Jalan and Ravallion (2003) and Ravallion, Galasso, Lazo and Philipp (2005) (both for Argentina).

of supervising the labor and providing any materials needed. The costs will undoubtedly vary from one setting or time to another, with implications for the policy choice and program design (Ravallion, 1999).

In an early assessment, Ravallion and Datt (1995) found that, once one takes account of all the costs involved, the labor earnings from the original Maharashtra scheme are unlikely to have had a higher impact on current poverty than a (budget-neutral) UBI. Twenty years later, the same conclusion was reached by Murgai, Ravallion, and van de Walle (2016) who found that NREGA in Bihar does not have a higher poverty impact than a UBI. The potential of NREGA is great; Dutta et al. (2014) estimate that if the scheme worked as its designers intended then it would reduce the rural poverty rate in Bihar by at least 14% points (from 50% to 36%). In reality, however, the impact was estimated to be a 1% point drop in the poverty rate—about what a UBI could do with the same budget. Both these studies for India found that the self-targeting feature worked well. The poor performance stemmed instead from the failure to assure that everyone who wanted work could get it, and be paid in a timely way, and the costs incurred by both recipients and the government in supervision and implementation (including corruption). Section 3 looks more closely at how rationing can arise with decentralized implementation.

These studies have not even considered all the welfare costs involved. To understand this gap in the literature we need to go back to a key theoretical paper on the policy choice between workfare and transfers, namely Besley and Coate (1992). In their model, workfare permits screening of the poor from the nonpoor, given imperfect information on abilities. Yet the Besley-Coate analysis has two features that are inconsistent with the arguments made in favor of workfare schemes in poor rural economies. Those arguments have emphasized the existence of higher involuntary underemployment among the poor and the fact that the type of work provided gives disutility. Besley and Coate assume instead that there is full employment and that the policy maker attaches no welfare loss to the type of work done. While past empirical research on workfare programs in developing countries has allowed for unemployment, the work itself has not been seen to entail any welfare loss to participants.²⁰

Having a good and worthwhile job undoubtedly adds to one's satisfaction with life, but that is not plausible as a rule for the type of work provided in workfare schemes in poor countries. That work is typically, and deliberately, unpleasant. And work is typically done; it can be granted that there are exceptions, such as the “ghost workers” who are signed up for wages but do not work, but this is clearly not the norm. In the case of India's NREGA, the work provided is monotonous manual labor, often toiling for long hours in the open sun. Of course, some people are not physically capable of such work. However, even among those who are, very few are likely to enjoy this work, which is clearly part of the reason why relatively well-off people rarely turn up at worksites (even aside from their higher opportunity costs of time). People join NREGA projects because they need the extra money.

Alik-Lagrange and Ravallion (2018b) have generalized the theoretical model of Besley and Coate to allow for both unemployment and a welfare loss associated with the work requirement.²¹ With full-employment, whether or not the policy maker cares about the welfare loss implied by the work requirement does not fundamen-

tally alter the Besley-Coate conditions for the workfare program to be cost-effective, although internalizing at least part of the welfare loss increases the length of the work requirement and the transfers needed for poverty alleviation.

However, all this changes when there is unemployment. A workfare evaluation should internalize the welfare loss implied by the type of work observed when poor participants are more often unemployed than richer ones in the absence of the scheme. Taking account of the welfare loss from the type of work done can readily switch the cost-effectiveness ranking in favor of a UBI. Theoretically, there are two opposing effects of allowing for a welfare loss from the work. For any given participant, we will tend to over-estimate the benefits of the program by ignoring a welfare cost of doing the kind of work that NREGA provides. However, ignoring any welfare cost of doing casual manual work can also lead one to understate how well targeted such a program is to poor people, who will be even poorer (in terms of welfare) than their consumption suggests.

Using survey data for rural Bihar, Alik-Lagrange and Ravallion (2018b) compare the poverty measures attributable to NREGA with those implied by a “rural UBI”—a uniform (untargeted) allocation of the same budget outlay across the population of rural Bihar.²² They find that, over a plausible range of parameter values, the welfare losses from the work requirement tend to dominate the gains from better targeting performance. (This also holds when one uses poverty measures that exhibit an aversion to inequality among the poor.) The scheme reaches even poorer people, but it does less to raise their welfare because participating requires effort. In the standard evaluation method in which the evaluator ignores any welfare loss from the type of work offered, the wage earnings from the scheme have about the same impact on current poverty as a rural UBI in which everyone receives the same amount whether poor or not. This changes if the evaluator internalizes some welfare losses associated with the type of work offered. Then a UBI clearly dominates workfare.

It appears then that unless NREGA generates sizable indirect benefits to poor people, such as through the assets created, a rural UBI will be a more cost-effective antipoverty policy.

3. Constraints on realizing an employment guarantee

Many of these potential benefits from workfare require that people can get this work when they need it. The guarantee of work at a stipulated wage rate can be interpreted as a means of implementing a “living wage” as a labor-market equilibrium in settings in which that is not enforceable as a legal mandate. Then the general equilibrium effects could be large. The guarantee also promises much needed insurance benefits to poor families. But all this begs a key question: Is the guarantee attainable in poor areas?

The administrative records on NREGA indicate virtually no unmet demand for work on the scheme (Dutta et al., 2014). This is not believable. What is called “demand for work” in the administrative data is unlikely to reflect the true demand since state and local governments have neither the means nor the incentive to identify and report un-met demand. (One reason for weak incentives is that acknowledging the excess demand implies the state government should pay unemployment allowances to those workers.)

A better measure of demand for work is obtained by asking people directly, in the privacy of their homes and independently of the scheme. Suitable data for this purpose can be found in the 66th Round of India's National Sample Survey (NSS) for 2009–10. This

²⁰ Examples include Ravallion and Datt (1995), Gaiha (1997), Jha, Bhattacharyya, Gaiha and Shankar (2009), Jha, Gaiha and Pandey (2012), Ravi and Engler (2015), Murgai et al. (2016).

²¹ Note that the welfare loss referred to here is relative to an unconditional transfer. When an unemployed worker gets some extra work there is an income and utility gain relative to the prior (pre-intervention) position, by bringing the worker closer to her unrationed optimum. But that is not the relevant counterfactual here, which is the (revenue-neutral) transfer equivalent that does not come with conditions attached.

²² Note that the simulated UBI excludes urban areas, so it implicitly includes a degree of pro-poor targeting.

round included questions on participation and demand for work in NREGA that allow one to estimate demand and rationing rates across states. In some states, NREGA appears to conform fairly closely to its designers' intentions, and in those states there may well be larger impacts on wages, and larger insurance benefits.²³ But that is not the norm in much of India. Using the NSS, Dutta et al. (2012, 2014) find evidence of extensive rationing, as determined by asking survey respondents if they wanted work on NREGA but did not get it. Nationally, Dutta et al. find that 44% of those who wanted NREGA work did not get it. This was confirmed in a more recent independent survey by the National Council of Applied Economic Research (NCAER), which found even greater rationing than suggested by the NSS data (Desai, Vashishtha, & Joshi, 2015).

The existence of this rationing is not news to those who had studied these schemes in the past. For the original Maharashtra scheme, Ravallion et al. (1993) provide an econometric model of the relationship between monthly employment on MEGS and rainfall, and find a large reduction in employment after a doubling in the MEGS wage rate. This is suggestive that the wage hike led to rationing, which appears to have been mainly achieved by selective opening and closing of worksites.

Another salient observation about NREGA is that the incidence of rationing tends to be greater in poorer states of India, where the scheme is presumably needed the most. This pattern can be seen in Fig. 1, which plots the incidence of rationing (as a proportion of rural households) against the official poverty rate. The share of the rural households rationed ranges from an average of about 10% in the least poor states to around one-in-three in the poorest states.²⁴ There is a variance at any given poverty rate; for example, with about the same poverty rate, Bihar has far more rationing than Chhattisgarh. But the tendency for more rationing in poorer states is evident.

A further point of interest is that the scheme only comes into action (in expectation) when demand for work exceeds 17% of rural households (with a standard error of 3%) (Ravallion, 2018). Thus, while the average participation rate is 0.56, the marginal rate is substantially higher and not significantly different from unity (Ravallion, 2018). Rationing appears to be less of a problem at the margin.

The rationing rules found in practice need not work against the interests of poor people. Indeed, there is some evidence that certain groups (such as defined by caste and landlessness) that are associated with above average poverty rates tend to be favored in the local rationing process (Drèze & Khera, 2011; Dutta et al., 2014). Those with the more typical profile of India's rural poor are less likely to be turned away. Possibly local officials strive for "pro-poor" targeting to help reduce poverty. But that is not the only explanation as we will see soon. The key point for now is that RTW is not being attained in general.

How might this rationing arise? Inadequate funding by the central government is an obvious reason. If the center fixes both the wage rate and the overall budget and the latter is inadequate then the need for rationing is likely. This can also take the form of delays to wage payments, which have been reported.²⁵ This is plainly inconsistent with the objectives of the scheme—to provide NREGA work on demand and pay wages in a timely way.

Here the focus will be on explanations for why we observe local-level rationing even when the center is willing to guarantee

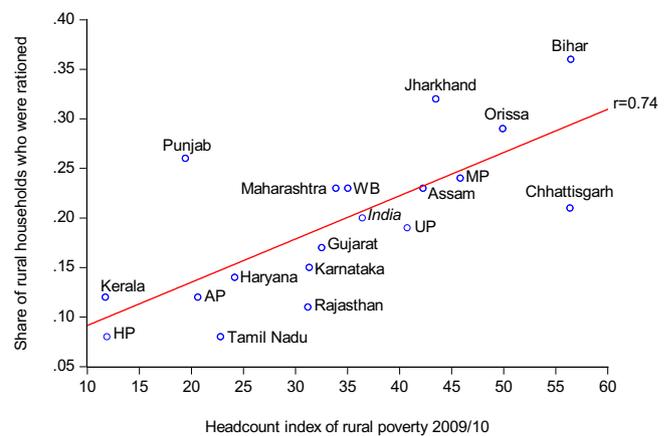


Fig. 1. Incidence of rationing in India's Employment Guarantee Scheme plotted against the poverty rate across states. AP = Andhra Pradesh; HP = Himachal Pradesh; MP = Madhya Pradesh; UP = Uttar Pradesh; WB = West Bengal. Source: India's National Sample Survey 2010.

work. The first explanation relates to local costs of implementation using workfare, while the second relates to local corruption. Both also suggest how rationing might be reduced.²⁶

Administrative costs: Decentralized implementation is expected to foster local-level participation in the choices about what work gets done, with the presumption that this will make for better projects. However, this mode of delivery also imposes costs on local implementing agents. Some degree of cost-sharing between the central and local governments is considered desirable for incentive reasons. The center covers a large share of the visible cost of NREGA projects, but not all, and there are also local costs that are hidden from view in official accounts. Diverting scarce skilled labor in the local-government bureaucracy from other tasks to deal with the center's "red tape" of reporting and approval requests entails opportunity costs. It takes personal effort on the part of a (possibly overworked or possibly lazy) local official to open a new worksite for NREGA.

Decentralized implementation should be seen in the relevant institutional context. More systematic assessments have supported the anecdotal observations from field work that there is a chronic underinvestment in local state capacity in India, as evident in under-resourced and over-worked local bureaucracies (Dasgupta & Kapur, 2017). Also important to the functioning of the scheme at local level is the availability of "brokers" who can be trusted by local leaders to mediate between them and the various stakeholders, including workers but also local officials and landowners (Witsoe, 2012). Local leaders or their close family members often act as money lenders as well as contractors, making advance payments to workers and intervening between the delivery point (often the local post office) and the intended beneficiary.

While it is plausible that the local implementing official incurs a cost per worker employed on the scheme, it is unlikely that the official is indifferent to the amount of unmet demand for work. The local official has the option of not hiring all those who want work, but the official surely does not want to drive employment down to zero. If one is thinking about a local government in a federal system then one can imagine that the local official is either sympathetic to the objectives of the scheme, or that he or she perceives a likely (economic or political) penalty of unmet demand for work. This penalty falls to zero when everyone who wants work gets it but rises with higher unmet demand. It is plausible that the

²³ As noted, the findings of Imbert and Papp (2011, 2015), International Labor Organization (2012) suggest that the scheme has had more impact on casual wages in states with more effective implementation.

²⁴ Expressing the rationing as a % of those wanting work gives higher numbers of course.

²⁵ For example, in 2018 civil society groups in India reported substantial delays to the payment of NREGA workers, apparently stemming from inadequate funds made available from the center (The Hindu, 2018).

²⁶ The following discussion is intuitive; for a more formal model of endogenous rationing under decentralized implementation of a workfare scheme see Ravallion (2018).

penalty rises more steeply as the excess demand rises; at very high levels of unmet demand the protests may well be vastly greater than at low levels. The local official minimizes the direct cost plus the penalty attached to rationing. Thus the official sees a trade-off between the cost of employing extra workers under the scheme and the desire to come at least some way toward meeting the local demand for work.

The upshot of this argument is that local costs of implementation imply that rationing can emerge as an equilibrium outcome in a scheme such as NREGA even when the central government makes an open-ended commitment for funding a large share of the cost. The rationing only emerges above some critical level of the local unit cost of employment (Ravallion, 2018). Importantly for policy, the implied rationing rate (as a proportion of demand) is likely to be lower at the margin than on average, so the average rate will tend to fall as demand increases. This pattern is consistent with evidence on how NREGA employment varies across India's states (Ravallion, 2018).

Reducing local administrative costs (including enhancing the capacity and productivity of local administrators) will make RTW more feasible in this type of scheme. Alternatively, a similar outcome may be possible through some form of results-based payment to implementing agents, whereby the center rewards (verifiable) success in accommodating the demand for work locally. However, we must also consider the scope for corruption and the role of central efforts to fight corruption, to which we now turn.

Corruption and the employment guarantee: It is not too surprising that we often hear in the Indian press about (for example) Bihar's "millionaire Mukhiyas" (Gupta, 2013).²⁷ The aforementioned administrative challenges in implementing RTW through workfare come with scope for corruption. Less obviously, as we will see, central governmental efforts to fight corruption can have perverse effects—increasing the amount of rationing and so further undermining RTW. Deeper reforms are needed.

At first glance, corruption is probably not an intuitively obvious reason for rationing. If corrupt officials can skim off their 10% (say) from workfare participants then they will still have an incentive to provide work to all who want it. The model of corruption in a program like NREGA appears to be more complex than suggested by such a fixed-share rule.

One can illustrate this by augmenting the model of decentralized administration sketched above to allow for corruption (Ravallion, 2018). Suppose that local official chooses the level of employment she wants to provide, given an exogenous demand for work on the scheme. There is a pecuniary benefit to the official that naturally depends on the level of employment. We can think of this as the official's cut on the wages paid. But there is also a cost facing the local official. This includes the side-payments that the official must make to cooperating agents, and the cost must factor in the risk of getting caught and the penalty. The total expected cost of corruption also rises with the number of workers employed, as this will require opening more work sites and higher payments to "ghost workers," with further side payments required to cooperating workers and officials, and higher risks of exposure. It is also likely that the expected marginal cost of corruption facing the official will rise as employment rises. The local official may have to expand the set of people he bribes beyond his own "comfort zone" of those he trusts, and even those he trusts will face greater risk of exposure at larger scale, and so require higher compensation.

The marginal cost of providing extra employment now includes the expected marginal cost of corruption as well as the local administrative cost already discussed. The ideal level of employment from the perspective of the local official equates the total

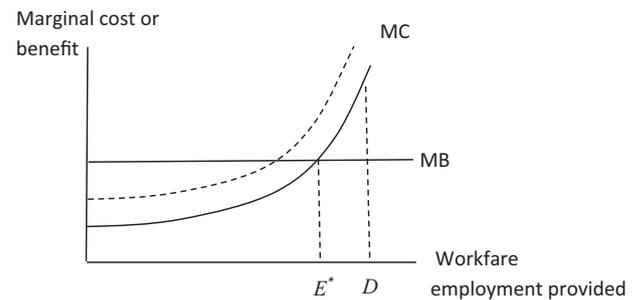


Fig. 2. Local officials facing a steeply increasing marginal cost of corruption.

marginal cost (MC) with the marginal benefit (MB), as illustrated in Fig. 2. If this turns out to be less than the number who want work then rationing arises in equilibrium.

Suppose now that the central or state government tries to clamp down on local corruption by (*inter alia*) imposing higher fines or jail terms, or with extra auditing/policing and/or more transparent record keeping, implying a higher probability of being caught. This can be interpreted as a shift in the expected marginal cost of corruption facing the local official. That will decrease employment and increase rationing—making RTW harder to attain as can be seen from the shift in the MC curve in Fig. 2. High levels of rationing in poorer places (as seen in Fig. 1) may well reflect central and state government efforts to clamp down on corruption in such places.

On combining local administrative costs with corruption we can understand the ambiguity of partial reform efforts. The benefits to workers of a reform that reduces local administrative costs can evaporate when the reform also increases the expected marginal cost of corruption facing local officials. This offers a new interpretation of the Banerjee et al. (2016) finding for Bihar that better administrative processes for NREGA reduced corruption but did little to increase the wages and employment of workers. The reforms in this experiment essentially combined a lower local administrative cost with a higher expected marginal cost of corruption facing local officials. Corruption fell but employment did not change indicating that the rationing largely remained.

There is likely to be heterogeneity in the cost of corruption facing a local official, depending on characteristics of workers. Suppose, for example, that literate and/or higher-caste workers are more likely to complain about an official's corrupt rent-seeking efforts, with implications for the probability of the official getting caught. In particular, suppose that the expected MC of corruption is higher for such workers. Then, of course, the official will tend to favor other, more acquiescent, workers in deciding how to assign employment. Thus, one can understand why Dutta et al. (2014) find that the implicit rationing rules in Bihar's NREGA tended to favor workers with the more typical profile of the poor, and we can understand this finding in the literature without believing that the officials are necessarily trying to reduce poverty.

In summary: While there may be little option to decentralized implementation, rationing can then emerge in equilibrium given the local costs of employing workers and the scope for corruption. Thus, the RTW need not be incentive compatible. Nonetheless, the share of demand that is rationed may well diminish as the scheme expands. By implication, the insurance and other benefits of the work guarantee will tend to emerge as the scheme expands above some point. Those benefits will also rise if local implementation costs are reduced. But it need not help in attaining RTW to implement reforms that simultaneously reduce the local administrative cost and increase the marginal cost of corruption facing local offi-

²⁷ "Mukhiya" is the local name for village leaders.

cial. Assuring that local agents do not have the power to ration work will require a deeper local institutional reform. “Social audits”—open village meetings fostering public disclosure of concerns—could help, backed up by credible procedures for responding to grievances (Dutta et al., 2014).

4. Cash transfers as an alternative antipoverty instrument

Both approaches to guaranteeing a minimum income level—perfect targeting and a UBI—have instructive histories. The Speenhamland System of 1795, introduced by the justices of Berkshire, England, guaranteed a basic income to local working-class residents.²⁸ Current wages were topped-up to assure that the income of the family reached the stipulated poverty line, with the unemployed receiving full payment. The Speenhamland System was more needs-based than rights-based. Its aim was close to that of perfect targeting.

The UBI idea also goes back to at least the C18th. Paine (1797) argued that agricultural land was “natural property,” to which every citizen had a claim, but that an efficiency case existed for its private ownership. Instead of being nationalized, Paine argued that agrarian land should be privately owned but subject to taxation—a “ground rent,” the revenue from which should be allocated equally to all adults in society, as all have a claim to that property. And this was not to be seen as charity but as a right.

There were a number of local-level pilot experiments with basic income in North America in the 1960s and ‘70s, with generally positive assessments. Indeed, President Nixon put forward a Family Assistance Plan, which would have provided a modest basic income for the US. (This passed the House but not the Senate.²⁹) More recently, Alaska puts a share of its oil and mineral revenues into the Alaska Permanent Fund, which makes dividend payments as uniform transfers to all Alaskans (following, it seems, Paine, 1797, advice). And Finland introduced a pilot UBI in 2016, for those receiving unemployment benefits.

The UBI idea is getting a great deal of attention today, especially in the (conventional and social) media. The idea appears to be popular. An opinion poll by Dalia Research in 2015 indicates that about two-thirds of Europeans support a UBI. The popularity must presumably depend on the details of design and context, and this does not always come out in the arguments made by supporters.³⁰ There is a certain amount of advocacy, with weak theoretical and empirical foundations, and even some confusion. The following discussion provides a critical review of the arguments for and against a UBI, noting issues for which more research is called for.

While the (limited) examples of UBIs to date have been for relatively rich countries, a number of authors have argued that a UBI is no less relevant in low and middle-income countries and may well be more efficient at reducing poverty.³¹ The *Economic Surveys* by India’s Ministry of Finance for 2016–17 and 2017–18 are sympathetic to the UBI idea, which prompted much debate.³² Davala, Jhabvala, Mehta, and Standing (2015) and Joshi (2016) also propose a UBI for India.

As done above with regard to RTW policies, the following discussion will critically review the arguments for and against UBI and targeted options for RTI in a developing country setting. Since a full national UBI has not yet been tried (in India or anywhere for that matter, at national level), we do not have the same type of evi-

dence as cited in Sections 2 and 3, but there is still a body of relevant theory and evidence to draw on.

Arguments in favor: Advocates in rich countries have seen a UBI as an administratively convenient way of reducing poverty and inequality. Some supporters are especially keen on the simplicity of the idea, greatly reducing the “entire bureaucratic apparatus of government social workers” (Murray, 2016).³³

Low administrative cost is also expected to come with less scope for corruption than is the case with workfare or targeted transfers in which local officials have power in deciding who gets help and how much. This advantage of a UBI rests on the assumption that everyone knows their precise (common) entitlement. That should be feasible in practice, though there may still be some uncertainty, such as in identifying who exactly is eligible within the country, which can empower local agents, leading to corruption even for a UBI. Nonetheless, it seems plausible that a UBI would be less prone to the types of problems discussed above regarding corruption on workfare schemes.

From a public finance perspective, a UBI can be interpreted as a budget-neutral way of integrating social benefits and income taxation. Some reform proposals for existing welfare and tax systems have included a UBI.³⁴ When financed by progressive income taxes, the UBI is equivalent to Friedman (1962) negative income tax.

The administrative capabilities of a country are naturally relevant to the case for a UBI. For example, given that richer countries tend to have more formalized workforces, the payment system for work creates an administratively simple and transparent means of implementing transfers to workers, as an explicit line item on each payslip. (Other means are needed to reach the non-working poor.) Poor countries do not have the same administrative capabilities. However, administrative capabilities also matter to the policy options to UBI. The same capabilities in rich countries create scope for more finely targeting transfers, such that the poor benefit more than under a UBI. Those capabilities include the ability to implement a progressive tax system. And while administratively weak countries may have a hard time implementing a UBI, they may well have an even harder time doing fine targeting or progressive income taxes. (The discussion will return to this issue.)

Different aspects of UBI have appealed to different people. The “freedom” concept is key for some advocates. A sufficiently high UBI benefit level will free people to do whatever they like, including self-employment and unpaid work.³⁵ In the vision of advocates, a UBI can provide the freedom to *not* work—to pursue whatever occupation one likes even if it is not especially remunerative personally. One of the arguments against tying transfers to work (such as the US Earned Income Tax Credit) is that doing so generates an static efficiency loss from poor people working too much (Kasy, 2018), which can also have adverse longer-term implications, such as through over-worked parents spending less time with their children in the important early years of life. This way of thinking is clearly a significant break from past employment-oriented welfare policies, including workfare.

Another break is with past family-oriented approaches to social policy. UBI proposals are for a common payment to all *individuals*, with implications for the distribution of power and income within households. In some settings, a UBI will enhance the bargaining power of women. (Though some observers have seen this as a bad outcome!³⁶) The opposite holds if the existing transfer policies

²⁸ For further discussion of this policy see Ravallion (2016a, Chapter 1).

²⁹ There is a good discussion in Bregman (2017, Ch. 4).

³⁰ In a referendum in Switzerland in 2016, only 23% of those voting were in favor of a UBI. The referendum proposal was rather vague and the uncertainty about cost and financing probably did not help assure support.

³¹ See Ravallion and Datt (1995), Bardhan (2011), Murgai et al. (2016), and Government of India (2016).

³² See Government of India (GOI) (GOI) (2017, 2018). Contributions to the debate include Drèze (2017), Khosla (2017), Sandefur (2017) and Mundle (2018).

³³ A similar comment is found in Bregman (2015).

³⁴ See, for example, Atkinson and Sutherland (1989) and Browne and Immervoll (2017).

³⁵ See, for example, Van Parijs (1995), Standing (2005) and Bregman (2015).

³⁶ Bregman (2015, Chapter 2) tells how UBI proposals for the US were shelved in 1978 when it was found that divorce rates had risen sharply in a pilot UBI experiment (in Seattle). As it turns out, this was a data processing error, and divorce rates had not been impacted. But the belief derailed the policy.

that are displaced by a UBI are targeting women (which is now widely advocated in developing countries).

UBI advocates have not seen any serious tension between a UBI and a capitalist-market economy. Indeed (similarly to [Paine, 1797](#)), [Van Parijs \(1995\)](#) argues for “basic income capitalism”—combining the power of private ownership and free markets, but recognizing that this can leave too much poverty and inequality, so some minimum income must be assured for all. This is an instance of a more general motivation for social policies (on top of ethical objections to poverty and inequality), namely a desire to “save capitalism from itself” ([Abramovitz, 2004, p. 22](#)), including compensating losers from reforms.

Nor do most UBI advocates appear to see this as something that is time bound. A UBI is viewed as a long-lasting policy, and this can have benefits in supporting people’s longer-term plans. The ideal UBI is an increment to permanent income. One implication is that it is not clear how relevant past evaluations of (almost always) relatively transient cash transfer programs are to the UBI debate. Clearly a short-lived program can have very different effects on inter-temporal decision making, including in relaxing credit constraints that limit the investments made by poor people, including in human capital.

Arguments against: Top of the list of concerns is the cost and how it is to be financed. One cannot meaningfully assess the poverty impacts of any cash transfer program without allowing for the impacts of its method of financing, which will entail either higher taxes or less spending on something else. When transfers are financed by cutting public spending on other programs, the benefits and costs of those programs must be considered, though that has not always been so.³⁷ While most countries already spend on direct interventions against poverty, they also spend on services that are typically un-targeted but benefit poor people. Transfers will clearly look worse if introduced at the expense of (say) better quality schooling for poor people than if financed by taxes on the rich. It has been argued that a UBI diverts attention from other priorities such as health and education. For example, in the Indian context, [Drèze \(2017, p. 2\)](#) warns of “...a real danger of UBI becoming a Trojan horse for the dismantling of hard-worn entitlements of the underprivileged.” This is a serious concern. Simulations for selected countries in Europe indicate that there will be both gainers and losers among the poor from replacing existing benefits by a UBI, with the potential for a net increase in the poverty rate ([Browne & Immervoll, 2017](#)).

This relates to a critique of UBI as “...a concept of social justice on the cheap” ([Piketty, 2016, p. 1](#)). By this view, and variants, there are important non-income dimensions of welfare relevant to social justice, such as education and health care, for which progress requires coordinated action, typically (though not only) through public provision. An inherently individualistic UBI need not help much in this regard. However, it is not reasonable to demand that a UBI serves all the goals of social policy. (Every policy option may be deemed to fail if we require that each one must serve all our goals, as [Watts, 1968](#), observed with regard to policy debates on the US War on Poverty in the 1960s.) Social justice will clearly require a dashboard of policies and their related indicators.

In thinking about UBI, it would make sense to define “income” more broadly than just cash income. A full-income concept for a UBI could include imputed values for services in kind, such as publicly-provided health insurance and schooling ([Ravallion, 2017c](#)). If the shadow prices for imputation cannot be determined with adequate confidence then we will need a “dashboard” of full-

income components.³⁸ A UBI discussion would then embrace these non-cash dimensions of welfare, including those that require collective action (rather than relying solely on markets for private goods). The composition of the basic full-income package would then be a policy choice. That choice would be important, and it will never be easy. There are concerns about paternalism—overriding the preferences of poor people. But the key point is that non-cash benefits should be factored into any characterization of what, exactly, is guaranteed.

Protestations about the cost of a UBI ring hollow without specifying what spending it replaces and how else it is financed. A key question is whether the same resources can be better spent on a UBI, even if a rather modest benefit level. In some countries, the existing welfare system might well do better than a UBI from the perspective of poverty reduction.³⁹ Other countries—such as those relying heavily on subsidies on the consumption of normal goods such as food and fuel—could do better with a UBI. India has many subsidies that benefit the non-poor more than the poor. [Bardhan \(2011\)](#) and Government of India (2017, 2018) have argued that cutting these subsidies and replacing them with some form of UBI could well have greater impact on poverty. More remarkably, a UBI could well be more cost-effective than India’s main programs targeted to the poor. As noted in [Section 2](#), it appears that, once all the costs are considered, a UBI would be as cost-effective against current poverty as India’s employment guarantee programs.

Another common complaint about UBI and transfers in general is that (to paraphrase) they “destroy incentives to work.” By this view, recipients become lazy and dependent. It can be readily agreed that high marginal tax rates (MTRs) on poor people should be avoided, though the MTRs implied by the formal rules need not hold in practice.⁴⁰ Taking account of likely labor-supply responses, one can characterize optimal MTRs from the point of view of poverty reduction, as in [Kanbur, Keen and Tuomala \(1994\)](#). Positive MTRs are desirable but the optimal rates are likely to be well below 100%. Incentive effects at the moderate MTRs implied by targeted transfer schemes in practice may not be a serious concern, as shown by [Banerjee, Hanna, Kreindler, and Olken \(2017\)](#). And the concerns about incentive effects are even less persuasive for a UBI since (unlike targeted transfers) nobody would be able to do anything to change how much they got. Granted, there will still be an income effect on demand for leisure that may reduce labor supply (though, as noted, some supporters don’t think this is a bad thing). But here too there is a risk of exaggeration. The evidence for the US reviewed in [Marinescu \(2018\)](#) suggests that the effect on labor supply is likely to be small; indeed, many studies suggest that it is close to zero.⁴¹ With reference to the Alaska Permanent Fund, [Jones and Marinescu \(2017\)](#) find evidence of macroeconomic gains through higher effective demand, and little sign of employment effects.

Transfers (in various forms, including UBI) can sometimes help relax other constraints facing poor families, including uninsured risk and credit constraints, with positive implications for employment and wealth creation, including in human capital formation. These effects may well offset any income effect on demand for leisure. The evidence is mixed on this issue, with some studies finding longer-term effects of transfers consistent with relaxing credit

³⁸ This is a similar idea to the [International Monetary Fund \(IMF\) \(2017\)](#) “Social Protection Floor.”

³⁹ Examples can be found in [IMF \(2017\)](#) and [Browne and Immervoll \(2017\)](#).

⁴⁰ For example, China’s large targeted cash transfer scheme, *Dibao*, has a 100% MTR on paper but it has been found that local implementing agents greatly reduce the MTRs in practice by smoothing the transfers in response to recipient income changes ([Ravallion & Chen, 2015](#)).

⁴¹ Summarizing the evidence for the US, [Marinescu \(2018\)](#) concludes that many studies find no impact on labor supply, and for those that do find an impact it is small—among those studies, a 10% increase in income from unconditional cash transfers results in an average 1% drop in labor supply.

³⁷ For example, [Khosla \(2017\)](#) argues that the calculations in Government of India (2016, Chapter 9) of poverty impacts in India of a potential UBI do not take proper account of the impacts of the other welfare programs that would probably be cut to make way for the UBI.

constraints, but others finding little effect.⁴² There are many differences in the context, design and scale of the programs studied in this literature—differences that may well account for the lack of a consistent picture. (For example, as already noted, a transient transfer payment is likely to have very different behavioral effects to a near-permanent one.) But it is notable how hard it is to find any solid evidence for adverse longer-term effects of transfers consistent with the “horror stories” of laziness and dependency among transfer recipients that one has heard so often in the media, and have been so influential.

*Targeted transfers as an option:*⁴³ Some of the evidence reviewed above may lead one to advocate transfers to poor people, but not a UBI. Critics of the UBI idea have claimed that poverty can be reduced at a much lower cost—that we don’t need a UBI if poverty reduction is the goal. For example, Bregman (2017, p. 43) (who advocates a UBI) claims that “. . . the world’s developing countries had it within their means to wipe out poverty years ago.” A seemingly supportive footnote claims that global poverty can be eliminated for only 0.7% of global GDP (Bregman, 2017, pp. 274–5). Bregman calculates this by multiplying \$1.25 per person per day (a poverty line proposed in 2005 prices by Ravallion, 2009) by the number of poor people living below \$1.25. Another popular calculation claims to bring the cost of eliminating poverty down even further by measuring each poor person’s poverty gap and adding up the implied transfers, i.e., perfect targeting. Poverty is then eliminated—or so it seems. A budget to cover the current aggregate poverty gap will almost always be much smaller than the cost of a UBI, and also smaller than the cost of a uniform transfer to all of the poor.⁴⁴ One widely-cited calculation gives the aggregate poverty gap for the \$1.90 a day poverty line for 2011 (anchored to the \$1.25 line for 2005) at about \$70 billion in 2015 (Chandy, Noe, & Zhang, 2016),⁴⁵ which “. . . is roughly what Americans spend on lottery tickets every year, and it is about half of what the world spends on foreign aid.” (Lowrie, 2017). The implication drawn is that it is relatively easy to eliminate global poverty using transfers.

However, these popular calculations are deceptive.⁴⁶ There are four main reasons. The first concerns the *information constraints* on targeting, which can be severe in poor countries with weak administrative capacity for data collection. Policymakers in practice have access to a limited subset of the information needed to reliably establish who is poor (as required by Bregman’s calculation) or how poor they are (as required by the poverty gap calculation used by Chandy et al. and others). A common targeting method uses a *proxy means test* (PMT). Here a statistical model is used to calibrate a score to proxy income, based on a limited set of household characteristics in a sample survey—characteristics that can also be readily observed in the population as a whole, such as location, household size and some assets and consumer durables. Those with a sufficiently low score receive a transfer. However, prevailing methods of fine targeting using PMT have often disappointed in practice. Even

with a fixed budget sufficient to eliminate poverty with perfect information, optimally designed transfers as a function of the (incomplete) information that is available do not come close to eliminating poverty, as shown for multiple countries in Africa by Brown, Ravallion, and van de Walle (2018a). Even with the aggregate poverty gap as the budget, three-quarters of the poverty in the Brown et al. sample for Africa would remain even when optimally calibrated.⁴⁷

In the case of India, transfers (including through the food rationing system) are based on an assignment of ration cards—“Below Poverty Line” (BPL) cards that are provided to those deemed to be poor. As noted, a budget-neutral re-assignment of spending on NREGA in Bihar would have about the same impact on poverty if it was turned into a UBI (Murgai et al., 2016). That also turns out to be true if instead the transfers were based on the BPL cards, with everyone holding a BPL card getting the same payment (Murgai et al., 2016). The targeting of the BPL cards is not all that different to a random allocation.

Information asymmetry is also relevant, with more information available locally than at the center. This creates horizontal inequities of targeted policies. At the community level, targeting using PMT may appear opaque or almost random. People can see that equally poor families are treated differently, with some getting help and others not. The obvious unfairness can generate social conflict and undermine well-intentioned social policies. There can be gains from tapping into community-based information, but there are risks too, notably elite capture at local level (Mansuri & Rao, 2012).⁴⁸

The key point is that we should not presume that there are large gains to poor families from exploiting the information actually available to policy makers. And we know even less about living conditions at the individual level, as shown by Brown et al. (2018a, 2018b) for Africa. Intra-household inequalities and covariate exposure to health risks can entail that poor and/or nutritionally vulnerable individuals are spread quite widely across the distribution of household wealth, with a large share not found in observationally-poor households.

Second, when the budget is free to vary, finer targeting may well undermine public support for anti-poverty policies (Sen, 1995). Political economy models have elaborated this point (De Donder & Hindriks, 1998; Gelbach & Pritchett, 2000). The poor may well end up with a larger share of a smaller pie, with theoretically ambiguous gains. However, whether this happens in practice will depend on many factors, including program design, public promotion, and the extent of income risk (such that often electorally-powerful middle-income groups face significant downside risk that the program could help address).

The third reason why the potential cost saving from targeting (relative to a UBI) may prove to be limited in practice concerns incentives. As already noted, the generalizations often heard about the adverse incentive effects of transfers have received rather little support from research, although there is still a strong *a priori* case for believing that very high MTRs on poor people are a bad idea. Yet, if implemented exactly and continuously, perfect targeting implies a 100% MTR; if a poor family’s income increases by \$1, and they remain poor, then the family’s benefit falls by \$1. Once everyone realized how it works, the cost would undoubtedly rise

⁴² Relevant studies for developing countries include Ardington, Case, and Hosegood (2009), Chen, Mu and Ravallion (2009), Blattman, Fiala, and Martinez (2014, 2018), Haushofer and Shapiro (2018), and Baird, McIntosh, and Ozler (2018). Also see the surveys U.S. studies on incentive effects in Moffitt (1992) and Marinescu (2018).

⁴³ There is a large literature on targeting; contributions include Besley and Kanbur (1993), Grosh (1994) and van de Walle (1998). For a recent overview, focusing on the policies, see Ravallion (2017a).

⁴⁴ Indeed, it can be readily shown that the poverty gap index is the ratio of the minimum cost (with perfect targeting and no incentive effects) to the maximum cost, using a UBI (Ravallion, 1994).

⁴⁵ The \$70 billion is evaluated at market exchange rates rather than purchasing-power parity (PPP). This was done because the authors are imagining that the gap would be covered by foreign aid, or taxes on the global rich. When calculated at PPP the aggregate poverty gap for the same year is roughly double the \$70 billion figure.

⁴⁶ The exposition of the poverty gap in Ravallion (1994) explicitly warns against this (popular) policy interpretation of that index. Comments on the Chandy et al. (2016) post include Ozler (2017), Sandefur (2017) and Ravallion (2017c).

⁴⁷ Here “optimally calibrated” means that the weights in the PMT score are chosen to minimize a poverty index subject to a budget constraint rather than using a regression (Brown et al., 2018a). Other evidence on the performance of PMT can be found in Kidd and Wylde (2011), Alatas, Banerjee, Hanna, Olken, and Tobias (2012) and Del Ninno and Mills (2015).

⁴⁸ Alatas et al. (2012) compare community-based targeting with PMT for an Indonesian cash transfer scheme. They find that PMT does somewhat better at reaching the poor but community-based targeting better accords with local perceptions of poverty and is better accepted by local residents.

until it is higher—possibly far higher—than the initial aggregate poverty gap.

Finally, analogously to the welfare losses from the type of work often available in workfare schemes (Section 2), targeted transfers can create a social stigma for recipients.⁴⁹ This is also a welfare loss, though typically missing from the calculations of the potential cost savings from targeting.

The intermediate cases between “perfect targeting” and a UBI include *state-contingent transfers*, meaning that the transfer is uniform within some category of people. The states that trigger the transfers may be fixed or predictable (such as gender or age) or adverse events (such as widowhood or unemployment). This type of state-contingent transfer scheme has been widely used in today’s rich countries, including when they were poor countries.⁵⁰ There is ample scope for such policies in today’s developing countries. In the Indian context, Drèze (2017) points to the desirability of universal maternity entitlements and social security pensions. Mundle (2018) suggests that India should consider a “UBI for women” (and only women), but exempting those who pay income taxes and live in “pucca” houses.⁵¹

Uniform state-contingent transfers do not achieve the vision of a full citizenship income that many UBI advocates have wanted, and there will be targeting errors, but they do address some of the aforementioned concerns about both a full UBI and fine targeting. And some UBI proposals have allowed explicitly for a sensible degree of differentiation, such as by age and location.⁵² Indeed, strict universality could be judged to be unfair; why should children receive as much as adults? Some intrusion of a “needs” perspective into rights-based policies may well be inescapable. Yet a state-contingent basic income is nothing more than a targeted policy based on categorical poverty indicators. Then the lines between UBI and targeted assistance are more blurred than suggested by the debates among advocates.

In the not-too-distant future, new information technologies will help make direct transfers more viable by supporting validation of applicant information and lowering transaction costs, and also relieving poor people of the need to rely on exploitative brokers. India’s new biometric identity card (*aadhaar*) is an example of this type of technology, which can reduce the scope for corruption such as through multiple payments to the same person or fictitious “ghost applicants.” As the banking system becomes more developed, automated teller machines and short-messaging services through mobile phones will no doubt also reduce the costs of making direct transfers.⁵³

5. Conclusions

A “right to work” policy implemented through public employment can seem an attractive option when poor people face risky environments, high unemployment rates, the reliable information for targeting is limited, and there is much useful work to do in poor areas. Realizing that potential is another matter. The self-targeting feature is plausible and consistent with the evidence. But it is far

from obvious that this will be the best way to reduce poverty—taking freedom from poverty to be the overarching right—once one considers all the costs involved. These include implementation costs, pecuniary costs to the participants in the form of forgone earnings (which can exist even for underemployed workers) and the welfare loss from the work requirement relative to unconditional transfers. The paper has pointed to evidence for India suggesting that the country’s Employment Guarantee Schemes have been less cost effective in reducing current poverty through the earnings gains to workers than one would expect from even untargeted transfers, as in a UBI. This calculation could switch in favor of workfare schemes if they can produce assets of value (directly or indirectly) to poor people, though the evidence is mixed on this aspect of the schemes so far in India. The Indian experience also suggests diverse performance across states of its Employment Guarantee Schemes. It is especially worrying that the schemes appear to work less well in poorer states, where they are clearly needed more. Arguably that is not too surprising, as the same factors that make a place poor impede efforts to change.

Local rationing of the work opportunities provided by these schemes in poor areas can readily arise from the existence of (often latent) local administrative costs in implementation and from the partial means used by the center to fight local corruption. The main concern with rationing is not that it undermines pro-poor targeting; indeed, that is not implied by the existence of local corruption, and nor is it consistent with the evidence for India. But rationing undermines the gains to poor people from the employment guarantee, including its insurance and empowerment benefits. Scaling up may well help; indeed, with local administrative costs, the marginal rationing rate will tend to be lower than the average rate.

Anti-corruption efforts and administrative reforms from the center can have ambiguous effects on the extent to which RTW can be achieved in practice. Raising the expected marginal cost of corruption facing local officials is likely to reduce the extent to which employment is available to those who need it. Cutting local administrative costs can help, but when this is achieved within a reform that also raises the marginal cost of corruption facing local officials (such as by making record-keeping and reporting more transparent as well as easier) there may be little net gain to workers in terms of assuring their RTW. Deeper reforms are needed to remove corruption and assure the RTW.

Direct cash transfers are now a viable policy option and their use is expanding rapidly. There is much interest, and debate, about this option. A key question is whether the transfers should be finely targeted to observationally-poor people. The ability of a government to do so effectively will also vary from one setting to another, but in many cases the information constraint alone can entail that many poor people are not reached. Even with good information, fine targeting has costs, such as the disincentives created by high (implicit) marginal tax rates on poor people. Finely targeted social policies that focus on avoiding leakage to the non-poor rarely employ the kind of information needed to be very effective against poverty, are often based on an incomplete accounting of the costs incurred (not least by poor people), and often end up excluding many who are in real need.

As an option to targeted transfers, a rights-based perspective points to some advantages of a UBI in poor places. While this is getting much attention these days as a social policy option in rich countries, it may well make sense—possibly more sense—in places with poor information, weak capabilities for targeting, and a high poverty rate. Financing is key of course. There are concerns that the money will come from other public spending benefiting poor people although there are clearly other options. Taxes on readily-identified rich citizens, or eligibility restrictions, may be used to implement a fiscally-viable UBI with low exclusion errors.

⁴⁹ For an overview of literature on this topic in the context of antipoverty policies see Walker (2014, Chapter 4).

⁵⁰ England’s Old Poor Laws dating back to the 16th century are an example (Solar, 1995). In modern times, non-contributory old-age pensions and family allowances are often uniform.

⁵¹ By common usage in India, a pucca house is designed to be permanent (surviving strong winds and heavy rain), as distinct from a “kutchra” house, usually made of mud, grass and wood. While it cannot be ruled out entirely, it seems unlikely that anyone would choose or create a kutchra house to attract a fairly modest transfer.

⁵² This is proposed by Van Parijs and Vandederborcht (2017, p. 9). Also see Alston (2017).

⁵³ For further discussion see Jack, Ray and Suri (2013) and Gibson, Boe-Gibson, Rohorua and McKenzie (2014).

As this review has hopefully made clear, when you think about this policy choice, and look at the available evidence, it is very hard to come out unconditionally on either side (which is partly why it is such an interesting policy issue). Both employment and income guarantees have been motivated by an appeal to rights. That perspective has value, and should be taken more seriously by economists (not least because of its legal and philosophical roots). However, it is unlikely that the policy choice can be satisfactorily resolved by an appeal to rights alone. The needs-perspective and various constraints (including budgets) will almost certainly come into play and these create heterogeneity in the conditions relevant to the success of either approach to policy. The best option will no doubt vary with the setting, including over time, defying the generalizations that one hears from advocates.

Nonetheless, policy makers should remain open to the possibility that, once all the costs and benefits to poor people are considered, the two most popular policies today—self-targeted workfare or the finely-targeted (conditional or unconditional) transfers—may well be dominated by more transparent forms of universality, including a “basic full income,” possibly with some sensible differentiation. Whether one thinks of this as a “differentiated UBI” or “categorical targeting” is not crucial. The key point is to remain open to the possibility that less effort at fine targeting may well prove to be more cost-effective in assuring economic freedom from material deprivation.

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