Widening the Net: Social Protection in China, Brazil and India

A Targeted Approach: India’s Expanding Social Safety Net
By Devesh Kapur and Prakirti Nangia

Narrowing the Gap: Rural-Urban Inequality in China
By Mark W. Frazier

A New Contract: Brazil’s Dual Social Protection System
By Armando Barrientos
India’s sheer size and poverty have meant that addressing the needs of its hundreds of millions of poor and vulnerable citizens has preoccupied Indian policymakers since independence. Unsurprisingly, the mix of strategies, the resulting policy instruments to undergird them and their relative effectiveness have been a matter of contentious debate.

As with other poor developing countries, India’s efforts to improve the welfare of its vulnerable populations have, at least in principle, involved three major components. The first, given the abysmally low income of the average Indian household, has been to try to raise incomes through growth with the assumption that higher incomes reduce vulnerability to shocks and provide the ability to self-insure. The second component has been to provide public goods and thereby lay the foundations for equal opportunity. The third has involved efforts to weave safety nets for communities and individuals that are especially vulnerable.

India has done modestly well on the first component, especially in recent years, although the country’s growth has been less inclusive than that in comparable high-growth countries, in particular because of its inability to develop labor-intensive manufacturing. By contrast, India’s record on universal public goods, ranging from the quality of public health and primary education to water and sanitation, has been woeful. India has partially sought to compensate for the weaknesses of its provision of basic public goods with attempts to build a welfare state. Social safety nets, defined here as mechanisms that assist individuals in maintaining what the community views as a basic standard of living, have become a key part of these efforts.

**STITCHING SOCIAL SAFETY NETS: WHAT ARE THE DRIVERS?**

The core normative rationale for establishing social safety nets lies in the structure of the Indian labor force. According to the most recent official data—the 68th round of the National Sample Survey on Employment and Unemployment in India—the Indian workforce totaled 473 million on Jan. 1, 2012, of which 70 percent was rural. Forty-nine percent of this workforce was employed in the primary sector, mainly agriculture; 24 percent in the secondary sector, especially construction; and the rest, 27 percent, in the tertiary sector. Fifty-two percent of the labor force was self-employed; 30 percent was casual labor; and just 18 percent had regular wages or were salaried employees. With the majority of India’s labor force in occupations with low incomes, high variance and no social protection, the normative case for social safety nets is self-evident.

An additional normative rationale lies in the concentration of vulnerability in specific social and demographic groups. These include India’s historically socially marginalized groups, tribal populations and Dalits—the erstwhile “untouchables”—that constitute nearly a quarter of the country’s population; women, whose marginalization results from the strong gender bias in the country; other demographic groups such as children, especially girls, and the aged, especially widows; and geographically concentrated pockets of vulnerability in remote areas.

A third normative reason stems from the erosion of traditional social safety nets, in particular the shift from joint families to more nuclear families, especially in urban India. Traditionally,
parents no longer able to work relied on sons to provide sustenance in old age. Although this system worked imperfectly—for example it gave rise to phenomena such as son preference, which is associated with female infanticide and discrimination against girls—it did provide some security in old age. More recently, however, the social dislocations caused by modernization and related trends—including expansion of the market economy, urbanization, migration, rising consumption and a population bulge caused by falling mortality rates—have strained the family-based system of social welfare.

But perhaps political economy factors are even more compelling. It has been suggested that the increasing use of targeted social safety nets represents an incremental reduction in the scope of the state in social and economic affairs in India. Accordingly, the trajectory of social policy development is linked to the shift to pro-market ideas. However, this explanation is insufficient given the relatively modest levels of public good provision even prior to the period of economic liberalization.

In fact, efforts to create a social safety net since the 1990s can be traced to other macro-transformations in the Indian polity. First, the greater intensity of electoral competition has led political parties to pay more attention to policies that serve to activate well-defined constituencies and gain their electoral support. As one observer recently argued, the expansion of the social welfare system under the Congress Party’s watch has given the party “something of a narrative around the welfare state,” allowing it to make the claim that it is trying to fulfill its part of the social contract. Where electoral competition is intense, such a claim can garner crucial support.

Second, the increasing fiscal capacity of the state has given it greater spending capacity, which in turn has facilitated the proliferation of transfer schemes. The central government’s tax revenue, for example, increased from about 3.5 percent of GDP in 1950-1951 to 7.2 percent of GDP in 2011-2012, while total taxes—combined for central and state governments—rose from 6.2 percent to 16.4 percent of GDP in the same period. Meanwhile, the economy expanded 18-fold in real terms. With greater revenue came greater ability to fund transfer schemes.

Third, even while the state’s fiscal capacity expanded considerably, its administrative capacity, especially at the local level, did not—and indeed may have even weakened. This meant that public schools and hospitals repeatedly failed to provide quality services, which gave elected officials further incentive to bypass some of the state apparatus through transfer schemes.

And fourth, civil society activism has been particularly important in fomenting a turn to welfare guarantees in the form of justiciable rights to education and employment, among other services. The rights-based approach to welfare empowers prospective recipients to make legal claims on promised benefits, and has emerged as a mechanism to make the state more accountable.

Combined, these causes have worked to induce a shift toward targeted safety-net programs.

A STRONGER WEAVE

In the early years after independence, the Indian government, inspired by ideas of Fabian socialism, passed laws requiring employers to provide workers with a social safety net that included work injury compensation, sickness benefits, maternity leave and other basic benefits. The Employees’ State Insurance Act of 1948 (ESIC), which covered workers employed in factories and manufacturing units of specified size who earned wages lower than a specified ceiling, is an example of such legislation. Under this act, benefits were to be financed by employer and employee contributions, which were collected as a fixed percentage of employees’ wages. This program had a major shortcoming, however: Its coverage was limited to a sub-set of formal-sector workers, who constitute just six percent of the Indian workforce. In 2011, for example, only about 3.4 percent of the entire Indian workforce was covered by the ESIC, with an expenditure of about a half-billion dollars.
It was only later that India began developing social safety net programs for the bulk of its population in the informal sector, adopting several approaches. First, a distinction exists between programs that facilitate in-kind transfers, those that facilitate direct cash transfers and those that pool risk to provide insurance against shocks. Within the second category, cash-transfer programs, a further distinction can be drawn between programs incentivizing desired behavior that might otherwise not occur, such as institutional delivery by poor women; those providing relief in case of long-term need, such as that arising from old age and widowhood; and those protecting against short-term vulnerability, such as unemployment.

**IN-KIND TRANSFER PROGRAMS**

One of the major in-kind transfer programs provides subsidized food to poor families, with the additional goal of increasing agricultural output. The Public Distribution Scheme (PDS), which was a universal scheme that began soon after the Bengal famine of 1943 but was converted into a targeted scheme in the 1990s, has been the primary instrument for achieving food security. Under the PDS, the Indian government guarantees a minimum support price for particular agricultural products, purchasing them and then releasing some at subsidized rates to families below the poverty line. The food subsidy, along with fuel and fertilizer subsidies, constitutes the bulk of public subsidies, costing the government about $15 billion in 2012. In 2013 India passed a landmark food security bill under which 75 percent of the rural population and 50 percent of the urban population—an estimated 800 million people—will receive 5 kilograms of wheat, rice and coarse cereals each month for the equivalent of about 5 cents, 3 cents and 2 cents per kilogram, respectively. This is estimated to increase the food subsidy by an additional $6 billion. Critically, however, the PDS has been given a legal umbrella, making it a justiciable right.

**DIRECT CASH TRANSFER PROGRAMS**

Despite considerable opposition from activist groups for a variety of reasons—the possible misuse of cash by recipients; the erosion of real value of cash benefits under high inflation; the poor state of the banking system, especially in rural areas; and the fear that this could be the leading edge of a “neoliberal” agenda to weaken the state’s obligations to the poor—there has been significant growth in different types of cash transfer programs in India. One type has sought to incentivize desired behavior through direct financial assistance. For instance, the Janani Suraksha Yojana (JSY), known as the National Maternity Benefit Scheme in an earlier incarnation, is a safe motherhood scheme that promotes institutional delivery among poor pregnant women by providing them with cash benefits for such deliveries. In addition, community-level accredited social health activists (ASHAs) are tasked with identifying eligible women and helping them arrange prenatal health checkups, postnatal tests, immunization for the newborns and so forth. Although not universal, the scheme has wide coverage: Recent data from the Indian government indicate that more than 57 million women have received benefits under the JSY since its inception in 2005. The program cost the government more than $250 million at the current exchange rate in 2011-2012.

A second set of policies provides relief to the poor in times of long-term need. Begun in 1995, the National Social Assistance Program (NSAP)—which includes an old-age pension scheme, a widow pension scheme, a disability pension scheme and a scheme for assistance to families in case of the death of the primary breadwinner—is a means-tested financial assistance program. The old-age pension is available to destitute individuals older than 60 years of age. While the size of the pension is small—about $3.21 to $8.03 monthly depending on the scheme—NSAP is among the largest programs in terms of the number of beneficiaries. Benefits from the four NSAP schemes mentioned above, for instance, reached more than 27 million people in 2012. A recent study found that the allocation for the program has increased threefold in the past six years, reaching $1.4 billion in 2013-2014. The incidence of benefits varies widely across states, however, accruing to nearly all eligible beneficiaries in some states and to a small percentage, as low as 13 percent, in others. The reasons for these differences range from varying political incentives to different degrees of bureaucratic capacity at the state and local level.
Another program that seeks to address long-term need is the Indira Awaas Yojana (IAY), or Indira Housing Scheme, that commenced on a small scale in 1985 and expanded considerably after 1996. The housing scheme provides cash grants to the rural poor to construct dwelling units or improve “kutcha” or temporary units. The IAY is among the most expensive schemes run by the central government. In 2012-2013, for example, $2.2 billion was allocated to this program. A recent World Bank study estimated that about 1.6 million houses are built every year under the scheme.

A third set of policies has focused on providing relief in case of short-term fluctuations in living standards. One aim is to augment incomes of the rural poor through a variety of job creation programs. The largest and most vulnerable group in India is rural landless labor. Lacking assets, it has little bargaining power and is particularly vulnerable to the vagaries of agricultural output. Over the years, a large amount of resources—administrative, financial and intellectual—has been deployed on employment programs through public works. While these vary in the nature of payment, type of work, number of days of work and other factors, it must be emphasized that for the extremely poor in India, remaining unemployed is not an option: A poor person has to do some work for someone, just for basic physical survival. Therefore these public works schemes can benefit people only to the extent that the wages paid to these workers on the public works projects are higher than market wages—what economists call their “opportunity costs.”

The National Rural Employment Guarantee Act (NREGA) of 2005 created one such public works program designed to provide relief in case of short-term unemployment. Building on a model first implemented experimentally in some areas of the state of Maharashtra in 1965 and expanded to the rest of the state in 1979, NREGA guarantees at least 100 days yearly of paid employment to rural households with adult members willing to perform unskilled labor on public works projects. The idea is to ensure a basic standard of living during lean periods of little agricultural activity. NREGA is in essence a conditional cash transfer program. It is the largest safety net scheme currently in place, costing the government 38 percent of all safety net expenditure in 2009. In 2012-2013, nearly 50 million households found some employment through this program, and it generated nearly 2.3 billion person-days of employment.

A special feature of NREGA is that it provides a guarantee or justiciable right to employment. This rights-based approach to social policy can also be seen in the right to education act, passed in 2009, and the right to food legislation of 2013. The turn to a rights-based approach in the past decade has been driven by an increasingly activist civil society, which has had a seat at the political table through the National Advisory Council, an advisory group representing civil society interests.

INSURANCE SCHEMES

Another set of programs pools risk to avert deprivation in advance. The Rashtriya Swasthya Bima Yojana (RSBY) or the National Health Insurance Program, seeks to protect poor families from negative income shocks caused by health needs. Although considered an insurance scheme, the RSBY is not contributory in nature—it does not require prospective beneficiaries to pay premiums in advance. Instead, central and state governments directly pay the insurer on behalf of beneficiaries, who are entitled to hospital services worth up to approximately $460 every year. The beneficiaries are responsible for paying only a small registration fee of about 45 cents out of pocket. A recent study (.pdf) by the Center for Global Development notes that more than 110 million people have received benefits from this scheme, and that the scheme has been found to increase utilization of hospital care by the poor and reduce out-of-pocket payments for healthcare.

CONCLUSION

Although social safety nets in India had a late start, they have expanded considerably in recent years. However, their effectiveness in protecting vulnerable populations will depend on four factors.
First, the Indian state needs to drastically improve the provision of public goods. The construction of a superstructure of a welfare state built in the absence of the foundation of a state that can provide basic public goods will be inherently unstable.

Second, India needs to improve the quality of benefit delivery to reduce corruption and inefficiency and improve targeting. There is considerable evidence that the nonpoor benefit more from social protection policies than the poor. Similarly, men benefit more than women. In both cases, the more disadvantaged group receives fewer benefits. Increasing integration of the safety net schemes with the Aadhaar program, a project that aims to assign a unique identification number to all Indians, should help improve targeting and reduce leakage.

Third, India needs to expand the coverage of some programs while increasing the depth—size of benefits—of other programs. Programs like NSAP need automatic adjustments against inflation and periodic re-evaluations on the size of benefits depending on how the economy is performing. And gradually expanding the RSBY to wider sections of the population would lay the foundations of universal health coverage in the country.

Finally, if social safety nets are a way station on the route to a welfare state, India needs to maintain the momentum of its economic growth, both to reduce economic vulnerability and to expand the state’s fiscal capacity. Economic growth by itself is not a sufficient condition for stitching strong safety-nets. But at India’s current level of development, it certainly is a necessary condition.

While stronger safety nets would ensure a fairer distribution of the fruits of growth, this will only occur if they are universal. Otherwise they will breed clientelism, the practice of distributing benefits to particular individuals in exchange for their votes. One important political consequence of success is that it could allow India to make much-needed labor market reforms that are a major impediment to the expansion of labor-intensive manufacturing: Flexible labor markets impose short-term pain on labor; stronger safety nets would provide assurances that economic adjustment will not come mainly at laborers’ cost, making it politically easier to pass labor reform legislation. Finally, if safety nets are astutely financed, with even nominal taxes paid by the poor, it would give the poor a stronger stake in governance and incentivize them to hold public officials more accountable.

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Photo: Two boys in Dharavi, India, Asia’s largest slum (photo by flickr user medapt, licensed under the Creative Commons 2.0 Generic Agreement).