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Basic Income's Emancipatory Value

Introduction

Let us imagine what happens to villagers when they start to receive their modest basic income. The money might go straight into consumption expenditure, or part might go into savings and investment in some form, or part might go to pay off debt or at least reduce its extent. In other countries, experience with cash transfers has suggested that recipients often give high priority to paying off debt, if they can (Kabede, 2005). This makes good sense, in that it represents a modest assertion of control over life.

So, on debt, our primary hypotheses are that the basic income enables some households to reduce their debt, that it enables some to avoid going into debt (notably by improving health and thus reducing the need to borrow), and that for some households the money enables them to borrow more in order to invest or improve living conditions or production.

Above all, because debt is a mode of exploitation in the village economy, the basic income has an *emancipatory value* that is greater than the *monetary value*, a thesis elaborated in this chapter. This is an argument that has not been made in the protracted debates on cash transfers.

On savings, the key hypotheses are, first, that the basic income boosts savings modestly, and second, that part of the money is used to provide a modicum of financial liquidity, thereby lessening the probability that a financial shock or hazard will precipitate a financial crisis, leading to more indebtedness. We suggest that, while the basic income cannot prevent a shock or hazard from occurring, it can reduce the detrimental impact, a point to which we will return. But first we need to clarify the normal situation of indebtedness.

The Lauderdale Paradox and the 'scarcity mindset'

There is a famous image popularized by the monetarist economist Milton Friedman. He presented a model in which a helicopter scattered bank notes over an economy. Suppose that doubled the amount of money. In a fully monetized market economy in which all resources are fully employed, all prices would double, leaving relative prices unchanged.

In the real world, none of Friedman's assumptions apply. In fact, in most Indian villages money itself is a scarce commodity. Worse, its scarcity is contrived, with implications for relative prices of other commodities and for the reproduction of power relations.

This relates to what is known as the Lauderdale Paradox, first formulated by the Earl of Lauderdale in 1804. The paradox states, essentially, that the value of a commodity is increased by making it scarce. In Indian villages, power relations over many generations have solidified conditions of contrived scarcity, generating a rent-based distribution system in which the weaker sections cannot escape. Being a comparatively efficient medium of exchange, money is the most important scarce commodity. It thus has a high price, and those who possess it can exploit those who do not. We will see the significance of this shortly. But essentially our claim is that the emancipatory value of a basic income is much greater than the monetary value simply because money is a scarce commodity. The scarcity has driven up the cost of loans, debt and the prospective costs of shocks and hazards.

The emancipatory value arises not just because a recipient of basic income has the freedom to spend how he or she chooses. The money also reduces the scarcity of the commodity and thus lowers the price of monetary transactions.

Given the growing significance of money in the Indian economy, its scarcity value must rise. But we need to reflect on a separate set of effects linked to scarcity, which psychologists have recently explored. Those who lack a key commodity apparently react differently from those who do not experience a sense of scarcity. Anybody who experiences a scarcity of money – or even time or food – is prone to suffer from a 'scarcity mindset' (Mullainathan and Shafir, 2013).

This has a host of effects that determine behaviour and attitudes, mostly in a debilitating way. It shortens a person's planning horizons and narrows their perspective, effectively blocking out consideration of options. The scarcity produces a deep anxiety that becomes so ingrained that it is hardly noticed or recognized. The term that has been used is 'mental bandwidth'. Thus, it has

been found that Indian farmers score worse on intelligence tests before a harvest when money is scarce (Mullainathan and Shafir, 2013).

The effects do not stop there. Scarcity colonizes the mind. While it lasts, it generates a mindset that helps to perpetuate the scarcity, for people cannot psychologically prepare themselves for launching initiatives or taking entrepreneurial risks. This may help to explain why so many well-intentioned schemes to assist the income poor fail, because the intended recipients cannot sustain the effort to take advantage of them.

Conversely, we may suggest that if insecurity and lack of a key commodity make people more anxious and less ready to take risks and undertake new initiatives, then having income security and monetary liquidity should have the opposite effect. This has profound implications. If money is a vital scarce commodity, its absence will induce many of those without it to make inappropriate choices. If it becomes less scarce, better or more entrepreneurial decision-making should follow.

The scourge of debt

Most families in rural India struggle along from one debt to many debts, and few are out of debt for any length of time. Indebtedness is simply a structural feature of village life, and is a complex mechanism for intensifying class-based and caste-based inequalities while preserving a very hierarchical social structure. But, as we shall see, the basic income transfers had some effect on the extent of debt and on the related use of credit and loans.

Before considering these issues, let us reflect on the sheer scale of debt and the mechanisms by which villagers are mired in chronic debt, that is, a level that could be expected to last for as long as could be anticipated, even for generations. This differs from entrepreneurial debt that arises from rich farmers borrowing to expand production. We are talking about the debt that threatens family survival. Such exploitative debt in Madhya Pradesh villages seems to arise in five ways:

- Landlords and moneylenders provide loans to earn themselves a high rental income, usually lending at 3 per cent, 5 per cent, and up to 10 per cent per month, rarely less. They can do so because most families do not have liquidity or other sources of credit.
- Large-scale farmers and business operators advance loans or provide low-income families with food or agricultural inputs at a time of acute

need, in order to put an individual or family in debt bondage, with the obligation to provide part or even all of their crop at the end of the harvest.

- They lend in order to oblige the family to provide labour when and as required, for a wage that is less than a market wage.
- Landowners or moneylenders lend for medical emergencies or for hazards such as marriages, with land or jewellery as security, leading families to lose their only assets when they cannot repay the loan, which then forces them to have to borrow at even higher interest rates at the time of the next crisis.
- Shopkeepers sell food or other goods on credit, charging high interest after a month or so of non-payment. Some credit providers demand that the purchasers provide labour or crops in return.

These mechanisms have different implications in village life. The practice of tying labour through debt bondage reflects the fact that the labour process in Madhya Pradesh villages is essentially semi-feudal; landlords or powerful interests lock many peasants into labour relations well in advance of their need for the labour. By doing so, they underpay the villagers, by paying them less than the labour market price, the money wage, that would otherwise apply at the time of the need for the labour. Some economists would call this super-exploitation. We consider the implications of the payment of basic income later.

However it arises, debt is a life-defining burden in Indian villages. Consider a few more examples from the case studies. Most illustrate the critical point, that money itself is a scarce commodity. This gives possession of it a considerable value, its absence a considerable cost.

The case studies conducted during the pilots give a perspective on this. Take the example of Kalabai, aged 52, and her husband, from a scheduled caste, with a modest 1.5 bighas of land:

My husband met with an accident ten years ago, and his right leg was seriously damaged. We spent 80,000 Rupees for his treatment. I borrowed from a money-lender at 3 per cent a month. I finally repaid it two years ago.

This debt stemmed from what we may call an economic *shock*. Over those eight years, that loan almost certainly cost more than 100 per cent to repay. In those circumstances, incidentally, it is surely remarkable that the family only had an APL card. But their life of indebtedness went on. As she told the enumeration team:

I have an outstanding loan of 50,000 Rupees, which I had to borrow from a moneylender for my son's marriage one year ago, at 3 per cent a month. In

addition, I often borrow for groceries or other necessities. I don't have to pay interest for that because I repay as soon as possible. In this manner, I borrow about 700 Rupees a month. We repay debt by working for the moneylender or saving from our wage. Our labour is mostly for the repayment of loans, for which we work in the households of landlords because I have nothing to mortgage.

This situation stemmed from what we may call an economic *hazard*. In a cash-scarce economy, paying just the 3 per cent a month would be financially crippling. It is scarcely surprising that once in serious debt such households remain in those circumstances for many years, if not permanently.

Now consider the situation of Rajaram Sain, a 60-year-old man who combined being a barber with animal husbandry. He told the team:

Each year the income is going down. It is mainly when there are deaths or other ceremonies in the village that my services are sought, for shaving heads. And for these services, the villagers pay me in kind, in wheat. The grain I get through this is hardly sufficient for the whole year.

I have an APL [Above Poverty Line] ration card, which was given to me six years ago after a survey. It is torn completely now. I have applied for a new one. But nobody listens to us in this village. Because of this I am able to get only a small quantity of wheat from the village and this makes it difficult for me to run my yearly household expenses.

In the morning, after completing my barbering tasks, if any, I go to the field to get fodder and water for my buffaloes. I bought these buffaloes two years ago with a loan from the milk contractor from Indore. When I bought them, they were not giving milk. After they gave birth to calves four months ago, they started giving milk. Since then, I have been repaying the debt through milk. Every day, the contractor sends cans for collection of milk.

I owe the milk contractor money that I borrowed from him to purchase the buffaloes. I have another outstanding loan of 35,000 Rupees which I took for my daughter's wedding from my neighbour at 3 per cent interest rate, monthly. In addition to that we buy food items from the grocery shop on credit at 2.5 per cent interest rate, monthly, and repay it by working on his farm. Brother, I have too many debts, and I can only repay them gradually, by selling milk and doing wage labour.

This could be described, generously, as *entrepreneurial risk-taking*. But his main transactions were non-monetary, which was likely to mean they were inefficient and to his disadvantage, making the value of the actions less remunerative. The barber's customers were hardly likely to give him their good-quality wheat, and were less likely to take care of all their wheat, since they were using it for such

informal purposes, rather than for their family needs or for sale in an open market where the quality would be examined. The person paid in wheat was not in a position to stipulate quality. He was in a lender's market.

Moreover, given the barber's weak bargaining position over his milk contract, the contractor was, for many reasons, likely to demand more milk from him than was justified by the original loan. Now consider the barber's indebtedness and the exorbitant rental interest he would have to pay, stretching into the distant future, in a system of income extraction. A monthly interest of 3 per cent amounts to well over 40 per cent a year.

Another example is illustrative of another widespread means by which moneylenders gain rental income from possession of the scarce commodity of money. A respondent, Manju Behen, told the case study team:

We take money from the milk contractor from Mhow in order to buy buffaloes and then we sell the milk to him only. We don't get any money from selling the milk because we first have to pay off the money that we took for buying the buffalo. If for some reason the buffalo does not give enough milk, then the *seth* deducts the entire month's money. How much milk the buffalo will give is never certain. A buffalo costs 40,000 Rupees. After that the fodder costs 35,000 Rupees.

If we consume the milk at our homes or if we add too much water in the milk, then there is the risk of mounting debt. The basic income that we were getting helped us in our household expenses and because of that we didn't have to take loans from the milk contractor. If we don't give the milk to the same *seth* from whom we take money to buy the buffalo, then he takes the buffalo.

This is what could be called *dependency*, or *downside, risk*, since the acquisition of buffaloes was probably a survival strategy, not an entrepreneurial one. Such actions lead to a structural characteristic of these communities, which should be called monopsony debt, in that the moneylender retains sole right to the milk and thus can pay the supplier below the market price, while imposing all the risks or costs on the debtor family, so gaining extra income.

In economics, a monopolist is a sole seller of a commodity; a monopsonist is a sole buyer. In policy circles, attention is given to the social and economic costs of monopoly. More should be given to the evils of monopsony.

Anyhow, such rental income is a pervasive form of exploitation. Then consider Premabai, a 60-year-old scheduled tribe woman who mixed farming with agricultural wage labour over the course of the year:

I have about 1 lakh Rupees as an outstanding loan to be repaid at 3 per cent interest per month. I borrowed this amount for the treatment of my husband and

grand-daughter from neighbours. I also often borrow from our village grocery shop because he doesn't take interest. Sometimes I buy ration on credit. I work at the moneylender's houses or fields to repay the loan. All members of my family work to repay the loan. I have nothing mortgaged, but I have not been able to save anything.

Here was someone just living in debt. Another example was the situation described by Devkanyabai, a 45-year-old woman from the Chamar scheduled sub-caste, who described herself as a labourer:

If we have money, then we buy our groceries in cash; otherwise we buy on credit. There are two shops in the village ... from where we buy things on credit. We pay them back whenever we have money. They sell stuff at a hiked price – 9 Rupees if we pay cash, 13 if we buy on credit – because we have no other option but to buy from them.

When we are in need of money, we have to take a loan from the big farmers in the village. They charge an interest rate of 3 per cent. We remove these debts by doing labour work for them every crop season.

This is *monopsony credit*, taking advantage of villagers' dire need to live by credit. As well as indicating the scale of debt through high interest rates, it shows how costly it is to operate via credit rather than be able to pay in cash. Often the families cannot begin to repay the credit until the next harvest, meaning that the cost accumulates month after month.

We have given these examples – and numerous others could be added – to highlight the potential impact of an influx of money to such families and to their neighbours and kin in the vicinity. Other case studies indicate an advantage of formal financial inclusion as well, in that the nationalized banks and the SEWA Cooperative usually charge a lower interest rate than moneylenders.

This means the pressure to open bank or cooperative accounts would have helped reduce debt, although it could not prevent it. The crucial point is that the chronic indebtedness defines the ingrained structural problems of rural India and is a reason why an injection of cash in the form of monthly basic incomes could be transformative.

How basic income affects debt

The pervasiveness of indebtedness was brought out in all the evaluation surveys. Well over 70 per cent of all households reported being in financial debt. But the inflow of basic income payments seems to have made a difference, quite quickly.

In all the 20 non-tribal villages, by the time of the Interim Evaluation Survey, whereas over half of all households reported that debt had increased over the past 12 months and only 8 per cent had reduced it, the basic income households were significantly less likely to have increased their debt and were significantly more likely to have reduced it.

Whereas two-thirds of the control village households had increased debt, only 46 per cent of the basic income households had done so. And about 14 per cent of basic income households had reduced debt compared with just 3 per cent of the control village households.

These results were sustained by the FES. While over three-quarters of all households said they owed a substantial amount to outsiders, this was significantly less common in basic income households (just over 71 per cent compared to 79 per cent in control villages). And as one might expect, the probability of having reduced debt in the period covered by the pilot was considerably greater in the basic income villages.

Whereas 12.5 per cent of basic income village households had reduced their debt, only 5 per cent of control village households had done so. And whereas 5 per cent of the former had increased debt, over 58 per cent of control households had done so. The end result was that the average amount owed was also lower in basic income households. And nearly two-thirds of those reducing debt attributed that to the basic income.

Households containing somebody with a disability were more likely to be indebted. And among both the low-educated and higher-educated households, the basic income was associated with a lower probability of being in debt. To make better sense of these correlations, we estimated a logit function, in which the dependent variable was the probability of having reduced debt (expressed as a binary, 1 for reducing debt, 0 otherwise). The function included control variables (described in the Appendix) for caste, household size, land ownership, SEWA presence, female headship, education of household head, disability and child-to-adult ratio.

The results showed that basic income households were significantly more likely to have reduced debt, the only other significant factor being the child ratio. Although a more refined model might bring out the significance of other influences, this gives strong support for a direct positive link between basic income and debt reduction.

To recap, the basic income reduced indebtedness in at least five ways:

- By being used to reduce previously incurred debt;

- By enabling households to avoid incurring new debt or to reduce the amount of new debt;
- By enabling households to avoid taking food or other items on credit;
- By inducing moneylenders or shops to advance credit or loans at a lower interest rate or even without charging interest;
- By enabling the poorest households to borrow softer loans from relatives or friends, rather than resorting to exploitative forms of distress borrowing.

Those last two ways are easily overlooked. In a local economy characterized by scarce money, one way by which a universal basic income could reduce the cost of living is by increasing the confidence of those making loans that they will be repaid. That could make them more inclined to charge a lower rate of interest, since the risk of non-reimbursement would be reduced. This was brought out by one case study respondent, interviewed after the pilot had ended:

When the transfers were coming, the moneylending farmers were also sure that their money would be paid on time. They would lend us money without too much interest. Now that the money has stopped, the farmers are charging 5 per cent or 10 per cent. If you start giving the money again, then give it like before. Don't give it via the village *sarpanch* (headman) or ministers.

This is another aspect of the emancipatory value of the basic income, indicating why it exceeds the direct money value.

Other respondents described how they used the basic income to reduce their debt. Thus Sunita, a 28-year-old woman who combined housework as her main activity with casual wage labour, said:

We have no debts of any kind on us anymore. We had a little bit of debt to pay; I don't know how much it was; my brother-in-law knows. Whatever it was, we have paid it back this year; and this has happened with the help of the cash transfers.

Another, Pratap, a 35-year-old *chowkidaar* (village headman), told the enumeration team:

The cash transfers have helped us immensely. We have put more and good quality seed, fertilizer and pesticide in the fields due to this money. This will yield us a better crop. Apart from that, we bought two goats to add to our income. The most important benefit from this money was that we didn't have to borrow money from anyone, and neither did we have to buy things on credit. Earlier we had to do both.

We have paid back whatever petty debts were there; 500 to someone and 1,000 to someone else. And due to this money, our monthly grocery and foodstuffs were bought in an organized manner; otherwise we had to buy lesser stuff.

Another respondent told the team:

This money has been of great help ever since the time we started getting it. Because of this money we don't have to take any debt for either rations or medicines. Even if someone gets sick or distressed, we don't have to go around begging people for money. Earlier we would take things on credit from the Kirana store for which the shopkeeper would charge us interest as well. Since we have been receiving this money, this is not the case.

Another was almost poetic in his assessment:

Some time ago, I took 2,000 Rupees on credit from the Kirana shop and bought things for the household from there, little by little. Within a year, the shop-owner brought my credit amount to 24,700 Rupees after adding the interest. In order to pay this debt I had to mortgage the one bigha given to me by the government. Now I am left with no land. Our monthly expenses are being covered by this cash transfer we are getting. This money is to us like a stick is to a blind man.

Turning to the tribal villages, debt was also just a regrettable way of life for most families, with over two-thirds being in serious debt at the outset of the pilot. Since labour opportunities are meagre and incomes low, almost every aspect of their lives is governed by debt. They borrow for seeds and farming inputs, and usually must repay those debts at 100 per cent interest after the following harvest. They also often have to borrow to pay for their daily or weekly food purchases.

But the basic incomes certainly made a difference, and were the means of liberating some of them from the debt burden. In the basic income village, by comparison with the control village, within six months many had reduced debt and many fewer had gone into more debt. By the end of the pilot, as recorded in the FES, an extraordinary 73 per cent of households in the basic income village had reduced their debt and none had increased it. By contrast, 18 per cent of the control village households had reduced debt, 50 per cent had increased it.

In sum, in both the general villages and in the tribal village the basic income led to a reduction in indebtedness. In doing so, it must have lessened the pressure on daily living, and enabled some households to gain more freedom to pursue their own economic activities.

Combating debt bondage

In Madhya Pradesh villages, indebtedness plays a central role in the social relations of production and distribution through a form of debt bondage known as the *naukar* (servant), by which men ‘voluntarily’ enter an annual contract with a landlord to supply labour as and when required in return for an initial loan. If a boy enters such a contract, it is known as a *gwala* (cowherd) relationship, because the main labour of boys is grazing and caring for cattle.

In many cases, as probably intended by the landlord, the *naukar* or *gwala* cannot pay off the debt and this is rolled over and built up over years and even generations. A *naukar* can change landlord only after the debt has been repaid, but otherwise must do all labour assigned to him by the landlord; the type, extent and timing of labour is at the landlord’s discretion.

These two phenomena are so systemic in Madhya Pradesh villages that any policy that could break the social system that embodies them should be welcomed as transformative. They may be disrupted by the basic income, which would mean that this policy would have an unheralded advantage over subsidy or direct labour schemes of the sort reviewed in Chapter 1.

Reflect on several of the case studies and what they tell us about the debt bondage that the *naukar* system represents. Gumaan Singh, a 55-year-old landless member of a scheduled tribe, told the enumerators:

We require about 7 quintals of wheat each year for home consumption. We collect this wheat by doing labour during the wheat harvest. All adult members in the family do labour. I used to work as a bonded labourer until last year, for which I received 18,000 Rupees annually. I have been a *naukar* with the landlords in our village for nearly 35 years. I have stopped doing that now. I had to work as a bonded labourer because there wasn’t any work available in the village. But now we are getting the basic income money, with which we try to meet our monthly household expenses. Now I’m working only on the season’s crop, irrigating the fields, harvesting, etc. For irrigating and harvesting a one bigha field, we get 60 kilograms [12 dhari] of wheat.

Only last November, after my daughter married, I discontinued my *naukar* work. From morning till night, I used to work on the landlord’s farm and also looked after his buffaloes. Except cooking, I did everything for him. He did not provide food. I had to come home to have my *roti*, and go back to work. From time to time, I would borrow money from him for my daily needs, or when I would go to the weekly market, which he used to deduct from the wage. Last year, at the time of my daughter’s marriage, I asked him for money, but he gave

me only 10,000 Rupees. I was very disappointed, and when I completed half a year in November, I quit. After that I started doing daily wage work wherever and whenever I could. At least I don't have to be at his beck and call. There is of course this big support from the cash transfer. A small part of income comes from rearing goats and hens. Now, I have only four hens and one rooster. I had two goats which I gave to Harli [his daughter] at the time of her marriage ...

... We were greatly helped by the basic income money. If we didn't get any labour, then we didn't have to think about where to get food from. We could go to the doctor for treatment whenever required. Earlier it wasn't like this. If it weren't for this money, then perhaps I'd still be working as a bonded labourer. After all one needs money to run a household and there is almost no labour available in our village. Until now, it was fine as we were getting the money. Now that it has stopped, let us see what happens.

Remarkably, Gumaan Singh and his family only had an APL card. They were deeply impoverished and should have qualified for a BPL card. But the emancipation from the bonded labour was a major development in the family's life.

Now consider Paramanand, a 19-year-old Bhil, who was also a *naukar*. He said he was supposed to be paid an annual wage, from which he received an advance as a loan. The trouble was that over the year he had been obliged to take a series of small loans from the landlord, enmeshing him in a web, so that he had to be at the beck and call of the landlord. He had ended up constantly having to labour to pay back a stream of loans, meaning that he never saw any cash.

Another case was described by the mother, whose two elder sons were in debt bondage:

My husband and both of my sons go out to earn a living, and I take care of the household work. My elder son [Vinod, aged 17] is a *naukar* at 15,000 Rupees per year and the younger son [Lakshman] at 10,000 Rupees a year. My husband does casual labour. The children go to their *malik* [master] early in the morning and return in the evening. Vinod takes care of the cattle along with doing farming work; Lakshman only does the job of herding cattle at their *malik's* residence. They don't let these children come home for lunch and feed them there so that they can save time to extract more work from them.

Typically, the landlord benefits doubly from having a *naukar*, because not only can he pay little or nothing, rather than a market wage, but he can also demand labour as and when he requires it. In return, the *naukar* receives from the landlord or *malik* (master) some sort of 'food security', but at best receives only a minimal amount of money, probably as a loan. Some villagers reported that such loans spanned more than 12 years.

In assessing the impact of the basic income on the *naukar* phenomenon, the data from the evaluation surveys do not reveal the full extent of debt bondage. The reason is that questions on main and second main economic activity focused on the activity itself rather than on the motivation for doing it.

However, the FES questionnaire asked whether any person in the household did labour to pay off debt. By the end of the pilot, a significantly smaller percentage of basic income households had someone doing that than control village households. And among families that had been in a *naukar* relationship significantly more basic income households had managed to end it.

An unappreciated aspect of the *naukar* system is that it also indirectly lowers the income of the person placed in that position. The obligation to labour during the harvest season, for instance, limits the time and effort that could otherwise be devoted to their own production.

The loss of freedom has two negative effects on income, one in that way, the other because someone locked into a labour relation in advance will almost invariably gain a lower wage than if they could bargain with a landlord employer when they are required. These are further reasons for saying the basic income's emancipatory value exceeds the monetary value.

Borrowing and basic income

Obviously, borrowing and 'being in debt' are not the same. Many people have to borrow, or try to do so, to deal with emergencies. This is when the 'sharks' lie in wait to take advantage of their vulnerability, charging high interest rates and imposing arduous conditions, often demanding the mortgage of something they can ill afford to lose. They may then fall into chronic debt that weighs down their capacity to survive or escape income poverty.

However, some households also borrow to try to increase their income or production, doing so more strategically than in distress situations. Borrowing by the rich is primarily to expand; borrowing by the poor is to survive. The first stems from a desire to risk rationally; the second stems from dire necessity.

Sadly, the money poor are likely to have to pay a much higher interest rate on any credit or loan. Then any money they borrow is likely to have a lower rate of return, if any, than is gained by the wealthy who borrow strategically. As such, the institution of borrowing is a mechanism for increasing inequality. By deduction, anything that reduces the need for the poor to borrow should have a multiple beneficial effect in terms of equity.

Consider what seems to have happened in this respect. The FES data suggest that overall there were no major differences in borrowing habits between basic income and control households. However, the former were significantly less likely to have borrowed for food, which corresponded to evidence from case studies. Borrowing for housing was more common among basic income households, which also corresponded to case studies showing families using their basic income to make house improvements.

Scheduled tribe households were the least likely to borrow for whatever purpose. For them, debt was very likely to arise from simply trying to meet their daily needs. And they were the least likely to be able to borrow from institutional sources.

In the tribal villages, the evaluation surveys asked for the main reason for borrowing in order to detect any shifts linked to the basic income. Comparing the borrowing by the difference-in-difference method, there was a significant reduction in borrowing for both normal living expenses and medical expenses among basic income recipients. In the control village, the proportion borrowing for regular living expenses increased from 20 per cent to 36 per cent, whereas in the basic income village it remained at 23 per cent. What declined for basic income recipients was classic distress borrowing. In the basic income village, borrowing was less likely for most reasons.

In the tribal villages, the most common reason for borrowing was to cover medical expenses. For small items, families generally borrowed from relatives or neighbours; for larger sums they resorted to moneylenders. But during the pilot, basic income households shifted from borrowing to relying on savings. Thus, whereas 44 per cent reported that borrowing was the main means of financing medical treatment at the outset, by the end only 19 per cent reported that. At the outset, 33 per cent said they relied mainly on savings; at the end 74 per cent did so. Meanwhile, in the control village, the share relying on savings rose modestly from 47 per cent to 54 per cent; the share relying on borrowing remained roughly the same, as did reliance on assistance from relatives.

However one interprets the shifts, the key point is that the basic income allowed families to reduce their need to borrow, in circumstances where borrowing is a route into chronic debt.

The impact on saving

As India has no comprehensive social security system, savings in some form are the main means by which families try to protect themselves against the vagaries of life, in the form of cash saved at home, gold or silver, money kept in a post office, bank or other financial institution, or investment in land or other property.

In villages covered by the pilots, even though debt was pervasive, some households did manage to save money, and the basic income increased that significantly. Even by the time of the IES, those who had received it were much more likely to be saving.

And there appeared to have been a positive influence of both the basic income and SEWA. Over 51 per cent of households in the SEWA basic income villages had savings by then, compared with 38 per cent of non-SEWA basic income households. By contrast, just 16 per cent of SEWA and 11 per cent of non-SEWA control villages had any savings. Both the SEWA and basic income differences were statistically highly significant.

Although the latter remained significant at the time of the FES, the SEWA correlation only persisted within the basic income villages (23 per cent vs. 18 per cent saving). By the time of the FES, the difference between the basic income and control villages was even greater. In the former, 20.5 per cent were making savings compared with just 9 per cent in the control villages.

Of course, many factors influence savings behaviour. Accordingly, a set of logit functions was estimated in which the dependent variable was the probability of saving, expressed as a binary (1 if saved; 0 if not), with the same control variables as for the functions for debt reduction.

The function estimated for all households for which all data were available, which came to 2,000 cases, showed that the basic income had a strong positive effect. Also statistically significant as influencing the propensity to save were the schooling of the head, landholding, caste and household size.

Separate functions were tested for, first, scheduled caste and tribe households and, second, for general and other households. The strong positive effect of basic income showed up for both social groups, as did schooling of head and landholding.

In terms of the amount of saving specifically from the basic income, the FES indicated that the amount was higher in non-SEWA (Rs.694) than in SEWA households (Rs.586). This may have been because it was easier for women to withdraw money from the SEWA Cooperative than from a bank outside the

village, so that SEWA women were more inclined to use the basic income money for daily needs.

The pattern emerging from the tribal villages was similar, although there were slight differences. Tribal families tend to have lower incomes and living standards, most living a hand-to-mouth existence, having to borrow even for their everyday needs.

Nevertheless, the basic income induced more to save. The share of households that saved money in the control village actually declined from 9 per cent at the time of the baseline survey to 3 per cent in the FES. In contrast, in the basic income village, the share rose from 7 per cent initially to 25 per cent a year later. Clearly, the saving propensity was much higher in the basic income village.

In sum, the basic income enabled families to save, obtaining vital financial liquidity needed to gain a modicum of control over their lives.

Forms of saving

As is well known, the most common forms of savings in India are maintaining a stock of cash in 'the home' and purchasing gold or jewellery. One might anticipate that the basic income would induce households to shift from the former to saving in a bank or cooperative, particularly as it was linked to banking.

After a few months, according to the IES, not surprisingly – given the requirement to open bank or cooperative accounts – basic income recipients were more likely to be saving in a bank than at home, only about 9 per cent doing the latter compared with over 41 per cent of those not receiving the basic income.

In effect, it contributed to a securitization of saving, a significant benefit if one accepts that savings in banks are more secure and so more valuable. So, basic income boosted savings directly, through providing more money, and indirectly, through inducing more financial inclusion.

The FES also asked about the form of saving from the basic income and what institutions were used for saving from any source. Just over half (52 per cent) of those who saved from the basic income did so mainly in bank accounts, while 40 per cent did so mainly in their homes. According to the broader question, among basic income households who saved, 53 per cent saved mainly in a bank, compared to just 30 per cent of control village households.

These results are not contradictory. The second question asked if households

saved in any of the possible institutions, whereas the question on saving from the basic income asked for the main place of saving. So, for instance, 15 per cent of basic income recipients said they saved some money in their homes, compared with 39 per cent of those who saved among control households. This also shows how the basic income encouraged financial securitization.

Now consider what happened in the tribal villages. An objective of the drive for financial inclusion is to bring individuals into the financial system in which they can save and borrow more effectively. As the tribal villagers were not required to open bank accounts in order to receive the basic income very few saved in a bank. However, as the SEWA Cooperative was active in the village, most institutional saving was in it, with 75 per cent of households saving in the Cooperative and 22 per cent at home.

During the course of the pilot, the savings behaviour changed in the basic income village. In the baseline survey, 38 per cent of households that were saving were doing so mainly in a bank, the remainder at home. By the FES, 30 per cent were saving in the bank, 20 per cent were saving in the Cooperative and only 50 per cent at home. This shift towards institutional saving was probably due in part to the active role taken by the SEWA Cooperative.

As there are good reasons for believing that financial securitization is a desirable development in the struggle against poverty and economic insecurity, these results for the combination of basic income and SEWA could be said to add evidence of the emancipatory value of the basic income.

Intended uses of savings

In the FES, households that were saving were asked about their reasons for doing so. The main response was 'keep for security' (60 per cent), followed by 'nothing in particular' (30 per cent). With 5 per cent saying 'don't know', we can see that overwhelmingly the primary rationale was to give themselves liquidity in case of need. The most common reason given for saving was for illnesses and medical treatment. A typical situation was that of Radhabai, a Bhil caste member, aged 30, who was mainly a wage labourer. She put it as follows:

Having spent the first few cash transfers on clothes and an ox, the family started to save from them in order to cover for possible illnesses, after several bouts of sickness.

Having financial liquidity is essential in circumstances characterized by uncertainty, where at any time unforeseen needs could arise. Without ready money,

households easily fall into the hands of unscrupulous moneylenders, which is perhaps why several were reported to have been unhappy about the basic income. That should be regarded as good news.

It is possible that rural households see different sources of income in different ways. Some forms may be regarded as for daily, weekly and monthly needs, whereas something like a basic income may be regarded more as a potential source of security. This could apply even though all money is fungible. But again the key point is that any enhancement of financial liquidity represents enhancement of security.

Households in the tribal villages were also asked about the reasons for saving. Most saved for security and for investing in income-generating activities. Some said they had no specific reason, which can also be interpreted as for security. Medical emergencies are what people usually fear and part of what they called 'security' probably meant this.

However, in the course of the pilot, there was a subtle shift in thinking about the purpose of saving, as more were planning to use it for investment in livestock, fertilizers and other agricultural inputs. In the IES, 62 per cent reported they were saving for security, 3 per cent for purchasing animals, and 28 per cent for 'no specific reason'. By the FES, 47 per cent reported they kept savings mainly for security. Those who were saving to buy animals or fertilizers rose to 13 per cent. This may reflect the upward swing in the economy due to the basic income itself. Confidence breeds entrepreneurial instincts of the better kind.

The odd couple: Debt and saving

One puzzle remains. It might be presumed that if a household had substantial debt it would use any cash to reduce it. But having financial liquidity is actually a basic need. Families want liquidity, especially for unanticipated demands, such as an illness when they need to pay for a visit to the doctor or to buy medicine. Liquidity is vital. However, there are strong incentives to reduce debt as well, since most pay high rates of interest.

The result is that families try to do both. Thus, in the general villages, according to the FES, 69 per cent of households that had made savings in the past 12 months also had substantial unpaid debt. And of those with debt, 13 per cent reported making savings, compared with 18 per cent of those households with no debt. That difference was statistically significant, indicating how debts and savings coincided.

Among households that had debt, those with the basic income had a significantly higher propensity to save (19 per cent compared with 11 per cent of control households). The result was similar in the IES and FES, which further testifies to the positive effect of basic income on savings.

Hazards and shocks: Does basic income help?

A feature of the globalization era is that more people are exposed to shocks and hazards that are more damaging and cause greater difficulties in coping and recovering from them. Everywhere, this is posing a challenge to *resilience*, the ability to withstand, cope with and recover from such shocks and hazards. It seems that more people are fragile and less resilient (Taleb, 2012). As fragility is associated with income insecurity, a basic income can surely help strengthen personal, family and community resilience.

Most households in rural India experience socio-economic shocks – sudden events that threaten them financially and materially – and hazards – events, perhaps desirable in themselves, such as weddings and births, which arise from time to time and cause financial stress. As a general point, more should be done to reduce the obligatory costs imposed on low-income households by hazards. Finding ways of limiting the cost of such life-cycle events has preoccupied the Madhya Pradesh government, which has given financial support for group weddings under the *Mukhyamantri Kanyadan Yojana*. There is no reason for doubting that hazards impoverish too many people.

As a benchmark, we have done a rough division of shocks and life-cycle hazards in Table 3.1. A key point is that often a hazard is something that is welcomed, whereas a shock is an event that is not, however much it might be anticipated.

The FES contained a module of questions on shocks, hazards and financial crises experienced by households. Shocks and hazards may have been random, or be due to events that had nothing to do with the basic income. But the hypothesis is that the probability of such events leading to a financial crisis would have been lessened by the basic income, giving households the assurance of funds to deal with them.

A first question was whether there had been a financial crisis in the past 12 months. In the general villages, 48 per cent of all households reported having experienced at least one financial crisis. There was no apparent difference by whether or not they had received the basic income, as shown in a multivariate

Table 3.1 Causes of financial crises: Shocks and life-cycle hazards

Shocks	Life-cycle hazard
Death of child	Birth of child
Medical costs	Marriage costs
Crop failure	Cost of weddings, funerals, other ceremonies and feasts
Rising price of goods needed for trade, business or farming	Repayment of loans/debt
Loss of job	Children's schooling
Death of income earner	
Lost income due to insufficient demand for products	
Loss of work due to illness or injury	
Natural disaster (flood, drought, etc.)	
Eviction or threatened eviction from house	
Child stopping work for family	

logit function in which household characteristics and assets were taken into account. Although a crisis was more likely in households containing someone with a disability and if there were more children, in most respects the probability of a crisis was random. It is how people coped with crises and recovered from them that matters.

Before considering this, it is worth noting that case studies revealed how most families experienced financial crises. Take the situation of Ramkanya, a 40-year-old woman from a scheduled caste, with a small plot of land, having to support a mentally disabled husband and their three adolescent children:

From my cash transfer account, I took out 1,000 Rupees in bulk when in one week there were two weddings in my husband's family... Also, when the ration shop suddenly provided rations for six months, I had to purchase 1 quintal and 16 kilos of wheat, 5 litres of kerosene and 7 kilos of rice at one go. I had to pay 560 Rupees. I used the cash transfer money for that.

These are instances where, without the basic income money, the options would have been to incur a debt or to do without. Now consider Ramesh, a 45-year-old who described his main activities as farm labour and own-account farming. He experienced a classic shock, induced by a government subsidy scheme and the uncertainties of agricultural prices:

I had sowed a garden of papaya in one bigha of my land during the Holi season [March]. The government had provided these plants, fertilizers and pesticides for the cultivation. Other than that, we were given 2,000–3,000 Rupees for the

labour on the papaya field through 'job card'. We suffered a loss of two crops by sowing papaya, wheat and soya. We get two sacks of soybean from this land, which sell for 6,000 Rupees, and five sacks of wheat, which means we lost 11,000–12,000 Rupees. Other than this, I had planted chilli among the papaya plants. But it didn't grow because of shade from the papaya plants. So, 2,000 Rupees were spent in its removal, which came from my own pocket. The chilli had completely spoilt ...

... One *seth* came from outside to buy our papaya, paying a price of 3–4 Rupees per kilogram. He has not returned, because the market price for papaya is low this year. We did a lot of hard work for this crop, but have suffered a huge loss due to the low market price. I will never grow papaya again ... The bank people came some time back and were asking for the money. They told us that if we didn't pay back the money, they would have our land auctioned.

Here we have somebody struggling to overcome setbacks caused by a well-intentioned subsidy scheme that had produced a negative shock. The designers of the scheme were inadvertently responsible for the financial crisis. To compound the crisis, Ramesh had to deal with a typical hazard:

This year, as well as suffering a lot of damage due to the papaya crop, I also have had to marry off my three children, one daughter and two sons. For the sons we shall have to give 30,000 Rupees to the bride's side and we'll have to put aside some money for our daughter. There will be other expenses which may go up to 1 lakh Rupees. I will have to borrow money on interest from some moneylender. This year the crop is also not flourishing because of the pond water being cold. There is also a tradition in our community of giving seven kitchen utensils for the daughter's wedding.

Since the distribution of this money [basic income], the villagers have started to give 100 Rupees from each house to the family in which there is a marriage. A total of 10,000 Rupees is collected from the whole village. This money is enough to pay at least the food expenses in the marriage. This is support from the villagers.

Here we hear of a collective response to individualized hazards, made possible by the basic income. It is about asserting a degree of control of sources of economic insecurity.

Now reflect on a classic shock that so often has devastating consequences for rural families. Chandaben from Jagmalpipliya, of the Balai caste, a 45-year-old woman whose main occupation was labouring, told our team:

My husband was sick for nearly two years. He passed away recently. He had acquired this disease where his whole body had swollen up. We got him

admitted to the private hospital in Indore. He was there for 15 days but we were not able to afford further treatment. Finally, we managed to borrow 40,000–50,000 Rupees from relatives. After spending that on treatment we had to admit him to the government hospital in Indore. He stayed there for a month but no improvement was shown. We had no money to get him admitted to a private hospital. His condition kept deteriorating and within a month he expired.

After that all responsibility of the household came to me. He used to earn about 24,000 Rupees a year by working as a domestic in some household. After his demise, I and my son Narendra increased our hours of labour but one of my sons is mentally challenged so is unable to do much labour. He is easily exploited by employers. Three of my boys are studying and we have to bear the expenditure for their education.

... We borrowed money for my husband's treatment. And my husband had also borrowed money for our daughter's wedding. After that we have also borrowed small amounts, and today I have a debt of 1 lakh Rupees. I do not know about the rate of interest. Right now our financial situation is very bad. I do not know how I am going to repay my debt.

... The basic income money is spent on food items only. The intake of food has increased a little ever since we started receiving it. We have been able to buy provisions on time. We get basic income money for five members in my family. Since my son is mentally challenged, his money is also credited to my account. This money has helped us a lot. If it were not for it, we would have had to send our children for labour work. But because of this money we were able to send them to school. We are happy with the money we receive. But it would be good if it increased a little as we are in a very difficult situation.

Clearly, the basic income did not enable the family to overcome their loss, but it did help them cope by providing the means of obtaining food during the crisis. Regardless of whether a crisis arises from a shock or a hazard, it is how people can cope with it and recover from it that is crucial.

Economists have shown that if a shock causes a crisis, people tend to become more cautious and less entrepreneurial, often to their longer-term disadvantage. If fewer people in a community have a crisis from which they cannot recover, the community benefits by becoming more adventurous, even among those who had experienced the crisis (Knupfer et al., 2013).

So, if a basic income increases the capacity to cope and to recover, that could have wider positive ramifications. In that regard, respondents who had experienced a crisis were asked what had been their main and second main source of financial support during their most serious crisis.

In almost all cases, they did borrow to some extent, whether or not they had been receiving the basic income. However, there was a shift in type of lender in basic income households. More were able to keep moneylenders at bay. Only 41 per cent of basic income households hit by a crisis resorted to them, whereas 54.5 per cent of control households hit by one did so. The universal nature of the basic income meant that in a crisis, families or individuals could turn to informal sources of support.

The standard multivariate logit function was run to see if the basic income lowered the probability of a household hit by a financial crisis going to a moneylender. It was associated with a significantly lower probability of resorting to one, further supporting the hypothesis that its full value exceeds the monetary value. Implicit in this finding is the claim that basic income lowers the cost of crises, presumably because families can draw on the support of kin and neighbours, whether formally pooling money or providing it as and when needed.

A related issue is whether households hit by a financial crisis had to sell or mortgage assets, which is potentially the most serious implication. Some 10.5 per cent of all those hit by a crisis resorted to this, again with no observable difference by whether or not they received the basic income. In a logit function, the coefficient on basic income was not significant, although it was negative as hypothesized.

Concluding reflections

The key point made in this chapter is that the basic income's emancipatory value exceeds the monetary value, and as such could be expected to have a bigger impact on other issues than might be imagined from just considering the modest amount that was paid out.

Crucially, the basic income deprives rent-seeking exploiters of opportunities. By contrast, a subsidized commodity has an emancipatory value that is less than the monetary value of the subsidy. There are at least three dimensions to this.

First, the amount spent on any subsidy vastly exceeds the actual monetary value received by the recipient, as has been widely documented. Second, even if the quality of the subsidized commodity is as good as the equivalent in the market, there is a value in having a choice of when, where and how much one buys. Third, the person may not want that commodity and may want something else.

By contrast, the basic income represents money pouring into the villages. Its effects include cheapening the cost of borrowing and credit. In its absence,

borrowing may cost as much as 50 per cent a year, or much more than that. With a basic income, the cost of money or its near substitute drops, raising the emancipatory value, through

- saving from reduced loans and debt,
- saving from reduced interest on outstanding loans,
- saving from a lower tendency to buy food or other goods on credit,
- saving from buying productive inputs such as seeds and fertilizers on credit,
- saving from gaining interest-free loans or transfers from family or neighbours to meet needs arising from shocks and hazards. Without the availability of pooled money, people would be at the mercy of market-oriented moneylenders who could raise interest rates because of the borrowers' urgency of need.

We do not know the full effects of these induced changes, but if, say, three-quarters of villagers customarily borrow each year, and if we knew how much on average they borrowed and how much the average rate of interest was before the start of the basic income and after some months, we could estimate the emancipatory value of the basic income.