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**National Council of Applied Economic Research**

Parisila Bhawan, 11 - Indraprastha Estate  
New Delhi - 110 002 (India)

Fax: (91-11) 332-7164      Tel.: (91-11) 331-7860 to 68

**Education, Openness and the Poor:  
Analysis of an All-India Sample of Households\***

**Basanta K. Pradhan  
and  
A. Subramanian**

**Abstract**

*This paper reports some new evidence from an all-India household survey on demand and supply issues in schooling. In India, most studies attribute poor educational performance to poverty. Though this factor is important, the recent survey evidence shows that lack of interest in schooling is the major factor explaining low enrolment and high dropout rates in India. This is because the present system does not guarantee the necessary expected future payoffs from education/learning. This paper argues that the solution to this problem lies in reorienting the educational sector to demand lead supply transformation by private financing or at the least dual financing of this sector.*

**JEL Classification Nos. : I20, I21, I28**

**Keywords:** Openness, Poverty, Unconstrained demand,  
Constrained demand

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# **Education, Openness and the Poor: Analysis of an All-India Sample of Households**

## **I. Introduction**

Education has its own intrinsic value in terms of social and cultural ethos. It also improves household health status by influencing nutritional and health care practices, reduces fertility, infant and child mortality and improves child's schooling performance. Besides, it determines the quality of the human capital, which translates itself into higher incomes. Better income, in turn, provides better opportunities for achievements in health and education. This is important, especially for the poor for their most important asset is labour. Education for the poor offers the greatest opportunity for employment and economic returns and so reduces poverty. Thus, the importance of education goes beyond expected horizons.

The ILO Report, 1999 says that investment in education and skill development is the prime element for a country to be competitive in a changing macro economic environment with liberalisation and "opening up" of the economies to international markets. This report also points out that, to be necessarily competitive in relation to exports, improved labour productivity due to education and training can also offset the need for other forms of adjustment that may otherwise be necessary. There is increasing evidence to show that investment

in and accumulation of human capital is the main engine of growth and is also the main difference in living standards, as indeed pointed out by the new growth theorists (Lucas, 1993).

In a globalised scenario, for India to be successful in attracting, absorbing and benefiting from foreign direct investment will depend to a large extent on the local supply of needed skills and technical knowledge. India should develop and enhance its pool of skilled labour and build up its own ability both to use and to improve upon technology. The necessary condition under such initiative is the reorientation and restructuring of educational system towards more skill enhancement. This will raise both the demand for education and also make the economy more competitive (ILO, 1999).

Countries lacking sufficient resource (natural) base, such as Japan, Korea, Taiwan, Singapore, etc., have managed to achieve high growth rates by means of orienting towards supply of market based skills. This links educational system with the labour market by developing more flexible paths between education/learning and employment (ILO, 1999). What is missing in the Indian economy is the open economy framework, which is more likely to bridge the demand-supply gap for skills by catering to the needs based on market signals. Primary education should be the domain of the state while higher education and technical education should be relegated to the market for efficient

allocation and to bridge the gap between demand and supply of skills.<sup>1</sup> The orientation will further enhance the demand for primary education in prospects of future earnings and increased employment opportunities.<sup>2</sup> This virtuous circle will sustain the accelerated growth in technical skills, education, productivity, employment and ultimately, the rate of growth. The reforms in the Indian economy neither addresses nor makes any mention of these issues.

The benefit of primary education extends beyond individuals who receive schooling directly. Other members of the society also gain through externalities (Basu, Foster and Subramanian, 2000). The resulting improvement in economic efficiency provides continuing justification for governments' involvement in "literacy for all" and universalisation of primary education.

Despite many initiatives through universalisation of primary education, the number of illiterate person's aged seven and above increased from 350 million in 1981 to 371 million in 1991. According to the Micro Impact of Macro and Adjustment Policies (MIMAP) survey (NCAER, 1998) for the year 1996, 48.1 per cent and 17.4 per cent of the total rural and urban population, respectively, are unable to read and write. One-third of the children aged 6-14 years was out of school.

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<sup>1</sup> Based on experiments from the India SAM, Wood (2000) suggest that with increased demand for higher levels of education, resulting from increased openness, increasing government expenditure on the same will be unsustainable and at the expense of raising the literacy rate. Hence, it will be prudent to increase private financing of higher education.

<sup>2</sup> PROBE report (1999) stated that eighty seven and forty per cent of the parents interviewed across five states of India sighted income and employment opportunities as the major reason for why parents want to educate their children - boys and girls, respectively.

Some obvious explanation for poor enrolment rate and high dropout rate in the literature is attributed to poverty, and child labour supplementing family income. Given the inadequate gains made in lieu of the government efforts on the supply side via schools, teachers, curriculum, text book and the like, the demand side explanation have been taken for granted, specifically, among the Indian policy-makers and researchers alike. However, such supply side evidence is misleading without demand factors being considered. In this sense, the literature often fails to examine the demand side in detail; the questions such as: do everyone, specially the poor, demand to become literate or educated? Hence, only supply side considerations fail to enumerate the dominant causes (solutions) for poor enrolment rates and high dropout rates in schools.

There are also evidences such as the 50th round of the National Sample Survey Organisation (NSSO), 1993-94 which suggest that a very large fraction of the non-enrolled children aged between 5 and 14 are not economically active.<sup>3</sup> So economic compulsion keeping the child away from school cannot be the only reason for non-attendance and high dropout rates. This is also reiterated by Srinivasan (1998) while pointing out the differences in enrolment and dropout rates across states and income groups - both Tamil Nadu and Himachal Pradesh have high poverty rates than Andhra Pradesh but the latter fares much worse than the other two in educational attainment. Hence, state

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<sup>3</sup> Based on a national sample of households; the survey for the year 1993-94 indicates that of the 185 million children, almost 58 million are not in school.

poverty alone does not explain low enrolment and high dropout rates. This provides sufficient reason to look for further explanations as to why children stay away from school.

Despite massive government efforts, the state of elementary education in India is improving slowly. Though literacy rates are increasing, the absolute number of illiterate persons are also steadily rising year after year (PROBE team, 1999). In this paper, we report some new evidence from an all-India sample survey, which sheds light on both demand, and supply factors in schooling. The focus of this paper is to examine if poverty is the only cause for low educational achievement. Hence, the analysis is confined to only poverty groups in both rural and urban India.

The first requirement for any comprehensive evaluation of the impact of some of the social policies on poor is a detailed educational profile of these vulnerable groups. Hence, the objective of this paper is to first provide a baseline profile of the educational achievements of rural and urban poor. The other major objective of this paper, which follows from the previous discussion, is to enumerate the crucial factors responsible for low educational achievements among poor households.

The plan of the rest of the paper is as follows. In the second section, we present the definitions and the data sources. In the third section, we describe the nature and incidence of poverty in rural and urban India. The fourth section

presents a profile of educational attainments of the poor in both rural and urban India in terms of various indicators. In the fifth section, we discuss some of the supply-related issues. The household responses on the preference for schooling in rural and urban India are recorded in the sixth section. In the seventh section, we illustrate the policy reforms required in the education sector to enhance the educational and skill levels of the people. The last section concludes the paper.

## **II. Definition and Data Sources**

The main source of data for this paper is from the recently completed all-India sample survey. This paper draws, from the survey data, a variety of educational indicators, which characterise the poor and assess the implications for the design and targeting of future social programs in India. The details of the design and implementation of the survey are provided in MIMAP Survey Report (NCAER, 1998). The survey was undertaken for 3364 rural and 1492 urban households. It was a stratified random sample designed to be nationally representative.

The questionnaire administered to the selected households consists of two parts, (a) socio-economic, education and health status, and (b) household economic survey. The reference period for part (a) is 1996 and for part (b) is 1994-95. The first part is on the human resource aspect of the surveyed households and the second part on income, expenditure and savings.

... part of the questionnaire provides information on educational attainment of the rural and urban households in terms of literacy, enrolment and dropout rates. This part also includes questions on the nature of educational institutions in which currently studying? If studying in private, what are the advantages over the government institution? If dropped out, what are the reasons? If never enrolled, what are the reasons? Why the households show lacklustre preference (demand) for educational facility reflected by high non-enrolment and dropout rates.

The information on both demand and supply aspects of the provision of educational facility is collected from the sample households. The demand factors are bifurcated into constrained and unconstrained demand factors. This bifurcation is to facilitate the identification of factors, which are constrained by poverty conditions, participation in household economic activity, etc., and factors having no constraint but simply lack of willingness. Information on the constraints faced by households such as financial constraints, attention to domestic chores and participation in household economic activities are grouped under constrained demand.

Constrained demand explains that households do not demand these services for reasons previously mentioned. Unconstrained demand includes factors where households do not demand these services for reasons of pure lack of interest. The supply factors are categorised as quality and quantity of educational facility available to a household.

The identification of poor in this paper is based on consumption expenditure, which is collected under the second part of the questionnaire. The incidence of poverty varies considerably across rural and urban regions in India.<sup>4</sup> To isolate these variations, we will disaggregate the analysis into rural and urban.

The analysis here is conducted for poor households at the level of six socio-economic, mutually exclusive and exhaustive groups based on the principal source of income. They are (a) self-employed poor in farm, (b) self-employed poor in non-farm, (c) poor salary earners, and (d) poor wage earners in agriculture, and (e) poor wage earners in non-agriculture. Rest of the poor are included in (f) 'others'.

The MIMAP survey contains detailed information on income and consumption expenditure (food and non-food) based on purchases from markets and home produced. Generally, consumption expenditure is taken to be a better indicator of living standard than income.<sup>5</sup> Hence, we use the definition of poverty based on consumption expenditure as recommended by the expert committee report on poverty (Govt. of India, 1993).

Having chosen consumption expenditure as our basic indicator of welfare, we now have to decide on the poverty line. The conceptual difficulty in drawing

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<sup>4</sup> The number of surveyed households is not enough to permit a state-wise poverty profiling. We, therefore, bifurcate the all-India analysis only into rural and urban.

<sup>5</sup> See Lipton and Ravallion (1995) for reasons why consumption expenditure is often preferred to income.

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such a line has been discussed extensively.<sup>6</sup> At the operational level, we need a line, which is reasonable and not too difficult to implement. Therefore, we follow the report of the expert committee on the estimation of proportion and number of poor which defines the poverty line as Rs. 131.8 per capita per month for rural and Rs. 152.1 per capita per month for urban at 1987-88 prices. These figures were updated with the respective consumer price indices (CPI) for the year 1994-95. The CPI for agricultural labourers is used to update the poverty line in rural areas and, for urban, an average of the CPI for industrial workers and for urban non-manual employees are taken to adjust the line. Thus updated, the poverty lines per capita per month for rural and urban areas are Rs. 228 and Rs. 305, respectively for the year 1994-95.

### **III. Poverty Incidence in India: An Overview**

The incidence of poverty across occupational and regional (rural-urban) categories is reported in Table 1. This table shows that 37 per cent of the households at the All-India level are poor - 39 per cent in rural and 28 per cent in urban areas. The estimated poverty incidence from the National Sample Survey Organisation (NSSO) is also presented (Table 2). The poorest occupational categories in rural areas are households whose main source of income is from wages and, in urban, it includes self-employed non-farm as well. Self-employed non-farm and non-agricultural wage categories in urban areas have higher incidence than the rural areas.

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<sup>6</sup> See Govt. of India (1993).

**Table 1: Incidence of Poverty in Rural and Urban areas by Occupational Categories**

Occupational Categories	Rural	Urban	Total
Self-employed Farm	36.79	64.75*	37.26
Self-employed Non-Farm	15.11	38.60	26.57
Salary	18.47	14.24	16.07
Agricultural Wage	54.97	80.00*	55.66
Non-agricultural Wage	53.58	61.03	55.70
Others	29.45	21.35	26.37
All	39.43	28.37	36.62

**Note:** \* These figures are based on a few observations. These two occupational categories constitute only 3% of the total households in urban areas and do not have much relevance statistically. Hence rest of this paper excludes these occupational categories from any serious analysis. However they are reported for the sake of completeness.

**Table 2: Incidence of Poverty in Rural and Urban India: Some Comparative Estimates**

Data Source	Year	Rural	Urban	Total
(a) MIMAP	1994-95	39.43	28.37	36.62
(b) NSSO				
Official Norm	1993-94	40.99	31.84	38.72
Expert Group		33.26	33.75	33.38

**Source:** (a) Authors own calculation based on expert group norm.

(b) Dubey & Gangopadhyay (1998).

The distribution of poor population across occupations and regions are presented in Table 3. This table reflects a very clear confirmation of pattern that are known to exist and to have existed in the past - poverty is primarily a rural phenomenon. Over 80 per cent of the total poor live in rural areas while the rest in the urban areas. In rural areas, agricultural wage category has the largest number of poor. Another category, which has substantial number of poor, is the self-employed farm in rural areas. Among urban poor, the self-employed nonfarm category has the highest number of poor (32 per cent).

**Table 3: Percentage Distribution of Poor Population by Occupational Categories in Rural and Urban India**

<b>Occupational Categories</b>	<b>Rural</b>	<b>Urban</b>	<b>Total</b>
Self-employed Farm	30.77 (97.04)	3.84 (2.96)	25.46 (100.00)
Self-employed Non-Farm	3.25 (29.87)	32.24 (70.13)	8.97 (100.00)
Salary	6.71 (49.82)	27.56 (50.18)	10.82 (100.00)
Agricultural Wage	43.46 (95.91)	7.30 (4.09)	36.33 (100.00)
Non-agricultural Wage	13.50 (68.87)	24.88 (31.13)	15.74 (100.00)
Others	2.30 (69.24)	4.16 (30.76)	2.66 (100.00)
All	100.00 (80.33)	100.00 (19.66)	100.00 (100.00)

**Note:** Figures in parentheses are percentage distribution of poor across rural and urban India.

In brief, these tables support the conclusion that a larger percentage of poor, well over 80 per cent, in rural areas live in households whose principal source of income is from wages and self-employed farm. In urban areas, it is from self-employed non-farm and non-agricultural wages.

#### **IV. An Educational Profile of the Poor**

This section briefly sketches the educational profile of the poor at the beginning of 1996 and also provides a comprehensive evaluation of the impact of some of the social policies on the poverty groups at the micro level.

Structural adjustment programs often advocate transfer of public resources from higher levels of education to primary education. Institutional user fees in public educational facility and opening up of education to private sector are also common adjustment policies. The effects of these proposals on the poor will depend on the extent of gains made and the targets yet to be achieved. This section reports from the survey the extent and nature of achievements made in the arena of education.

Education is an important aspect of the basic needs fulfilment which empowers the poor for a higher share of income in the labour market. Education contributes to production, growth and poverty reduction through several channels. A number of cross-country studies have highlighted the significant impact of education, more so in the case of primary education, on economic growth (Barro, 1991 and Lau et al., 1993).

World Development Report (1998) emphasises that increasing enrolment in primary education and later in secondary education has been significant in

explaining sustained high levels of growth in eight East Asian countries. Growth in these countries was accompanied by equitable distribution of its benefits, and thus poverty declined drastically. Levels of educational development influence poverty reduction as well as economic growth. A recent study by Dutta and Ravallion (1995) on the Indian economy pointed out that better endowed states in terms of infrastructure and literacy levels had significantly higher long-term rates of both consumption growth and poverty reduction.<sup>7</sup>

The literacy rates across occupational categories by different age groups are reported in Table 4. The literacy rate among rural poor is lower (42 per cent) than the urban poor (67 per cent). As to be expected education has been somewhat more successful in the urban areas.

Among occupational categories in rural areas, the lowest is for agricultural wage (37 per cent) and non-agricultural wage (39 per cent) and self-employed farm (44 per cent). However, the number of poor in these categories is the highest (Table I). In urban areas, the literacy rate is the lowest for non-agricultural wage (51 per cent) category. Between regions, salary earners have the largest literate population with 85 per cent in urban and 60 per cent in the rural. Self-employed non-farm category is much better in urban areas (73 %) than the same category in rural areas with only 50 per cent.

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<sup>7</sup> Also see Pradhan and Sahoo (1999). They show that growth in agriculture, education and health sectors have a larger poverty reducing effect than any other sector in the Indian economy.

**Table 4 : Literacy Rates by Age Among Rural and Urban Poor**

	>60		18-60		6-17		Total (>5)		Total
	Male	Female	Male	Female	Male	Female	Male	Female	>5
Self-employed Farm	9.73 (-)	NA (-)	53.82 (64.01)	22.02 (18.21)	59.04 (100.00)	54.81 (34.27)	52.79 (77.49)	33.31 (27.22)	43.66 (42.27)
Self-employed Non-Farm	34.48 (5.67)	25.12 NA	57.07 (92.99)	13.59 (59.84)	91.20 (77.68)	66.40 (70.97)	65.91 (81.11)	32.33 (62.05)	49.79 (72.53)
Salary	35.29 (45.58)	7.89 NA	80.16 (94.17)	45.10 (73.42)	70.88 (90.09)	63.61 (88.30)	72.28 (91.10)	46.47 (77.79)	60.36 (85.19)
Agricultural Wage	17.18 NA	2.18 NA	42.31 (27.87)	12.99 (29.27)	63.65 (69.86)	46.35 (27.18)	49.06 (44.00)	25.21 (27.77)	37.47 (35.57)
Non-agricultural Wage	6.50 NA	NA NA	44.33 (63.68)	12.34 (27.38)	68.64 (59.68)	38.23 (55.03)	53.27 (61.57)	21.40 (38.09)	38.65 (50.83)
Others	23.31 (100.00)	2.40 NA	68.90 (71.17)	33.38 (60.81)	90.86 (66.67)	84.92 (94.65)	61.88 (77.94)	53.60 (62.15)	56.72 (68.03)
All Occupational	16.90 (33.47)	4.07 NA	49.90 (80.18)	18.46 (52.24)	64.52 (76.14)	50.67 (64.95)	53.17 (76.41)	29.62 (55.71)	41.91 (66.63)

**Notes:** (a) Literacy rate refers to the number of literates per 100 persons aged 5 years and above.

(b) Figures in parentheses are for urban areas.

(c) NA - Not Applicable.

The evidence from previous studies show that education plays a major part in fostering economic development and reducing poverty in India (Pradhan and Sahoo, 1999). Increasing levels of female literacy rate further enhances this impact.

Substantial efforts have been made by the Indian government to achieve 100 per cent literacy. Despite these efforts, India has a long way to go for achieving full benefits of education on poverty and growth. One aspect of basic need fulfillment is that individual should atleast be literate. The extent to which this need is fulfilled is analysed here for poor at different age categories.

Focusing on the age groups, Table 4 demonstrates that the literacy rates are the highest in 6-17 age group followed by 18-60. On an average, 65 per cent of the males in the age group 6-17 are literate and the corresponding figure for females is 51 per cent. This is also revealed across occupational categories

except among rural salary earners, with a larger per cent of males (80%) in the age group 18-60. In urban, the picture is different with a larger percentage of literates in the age group 18-60, except for self-employed farm and agricultural wage.

We next report in Table 5 to 7, the results from the survey on whether adequate gains have been made in the realm of basic education in terms of enrolment rates and dropout rates. The distribution of students by type of institution is also reported (Table 8).

Enrolment rates among rural and urban poor in the age group 6-14 are presented in Table 5. These rates are higher in urban areas for both males and females, while gender disparity is high in rural areas. Across occupational categories, urban areas seem to be better than the rural in both enrolment rates as well as gender disparity. For the occupational categories, which accommodates a larger number of poor, the enrolment rates are lower than the average in both regions. In terms of gender disparity, households dependent on self-employed farm perform better.

**Table 5: Enrolment Rates in 6-14 Age Group Among Rural and Urban Poor**

<b>Occupational Categories</b>	<b>Males</b>	<b>Females</b>	<b>Total</b>	<b>F/M Ratio</b>
Self-employed Farm	65.20 (100.00)	60.30 (41.30)	62.80 (49.90)	0.92 (0.41)
Self-employed Non-farm	70.50 (75.50)	62.70 (76.00)	67.00 (75.70)	0.89 (1.01)
Salary	89.10 (94.70)	62.20 (90.20)	77.40 (92.50)	0.70 (0.95)
Agricultural Wage	70.10 (93.80)	53.70 (26.60)	62.30 (56.00)	0.77 (0.28)
Non-agricultural Wage	70.40 (59.50)	48.80 (44.20)	61.20 (53.10)	0.69 (0.74)
Others	97.20 (100.00)	84.50 (100.00)	87.30 (100.00)	0.87 (1.00)
All Occupation	70.10 (78.10)	56.90 (66.20)	63.80 (72.40)	0.81 (0.85)

**Notes:** (a) Enrolment Rate refers to the number of children per 100 in The age group 6-14 years enrolled in a formal school at any point of time.  
(b) Figures in parenthesis are for urban areas.

The dropout rates for population between 6-14 age group among rural poor are presented in Table 6. This shows that across all categories (occupational) these rates are the highest for females. The highest dropout rate for both males and females is among self-employed farm. The males among salary earners and self-employed non-farm have higher dropout rates compared to the non-agricultural wage. For females both "others" and self-employed farm have the highest dropout rate. Moreover, it is surprising to see in Col.3 that both self-employed farm and salary have higher dropout rates compared to non-agricultural wage earners.

**Table 6: Dropout Rates for Males and Females  
Among Rural Poor**

	Males	Females	Total	F/M
Self-employed Farm	4.30	5.80	5.00	1.35
Self-employed Non-farm	3.20	-	1.90	-
Salary	3.70	4.10	3.80	1.11
Agricultural Wage	3.70	5.60	4.50	1.51
Non-agricultural Wage	2.90	5.50	3.70	1.90
Others	-	5.80	4.40	-
All Occupation	3.70	5.40	4.40	1.46

*Notes:* Dropout rates include children between the age 6-14 and had withdrawn from school before completing V standard.

**Table 7: Literacy Rates, Enrolment Rates and Discontinuation rates  
Among Rural Poor: An Alternative Source, for 1994**

Poverty Groups	Literacy Rates (aged 7 & above)			Ever Enrolment Rates (aged 7 & above)			Discontinuation Rates (aged 6-14)		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
Lower Segment	55.5	31.1	43.5	69.1	52.6	61.1	5.5	6.9	6.1
Upper Segment	57.8	33.1	45.9	70.5	57.2	64.3	5.8	9.0	7.2

*Notes:* (a) The population below the poverty line is divided into Lower and Upper segment based on the mean income of this group. Here, poverty incidence is also calculated by imposing consumption based definition of poverty on Income distribution.

(b) Ever Enrolment Rate is defined as the proportion of children aged 6-14 years ever Enrolled in school, at any level at the time of the survey.

(c) Discontinuation Rate estimated as the percentage of ever enrolled children discontinued studies before completing V standard at any time in age-group 6-14.

*Source:* NCAER/HDI survey, 1997.

The cut in public spending on education affecting the poor depends on the extent of use of these public services by the poor. The distribution of students by type of institution is presented in Table 8 for both rural and urban areas. Apart from government-run and private schools, there are also schools run by non-governmental organisations, private voluntary organisations, local associations, and religious trusts that receive grants from the government. These have been classified as government-aided schools.

This table shows that 85 per cent of the poor students in rural areas depend on government schools for education and only 8 per cent prefer private schools. In urban India, 56 per cent of the poor are dependent on government schools and a substantial number of them are dependent on the private schools. Generally speaking, when poor people prefer to go to school they choose public schools. The choice of school depends on the relative (poverty) status of the households.

One important conclusion, which follows from this observation, is that the cut in public expenditure on school education will hit the poor hard though the effect is much more on the rural poor. However, there are large numbers of welfare programmes in the realm of education. Some of the specific welfare programmes could be studied to identify the percentage of households benefited from these programmes. The questionnaire, however, includes only six important welfare programmes<sup>8</sup> from which the households benefited. In case of almost all the programmes, less than 20% of the households benefited.

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<sup>8</sup> For details see Table 9.

**Table 8: Distribution of Students in 5-34 Age Group By Type of Institution Among Rural and Urban Poor**

	<b>Government Schools</b>	<b>Government Aided</b>	<b>Private School</b>	<b>Total</b>
Self-employed Farm	81.30 (0.00)	4.20 (0.00)	14.30 (100.00)	100.00 (100.00)
Self-employed Non-farm	75.60 (65.70)	17.70 (8.50)	6.70 (25.70)	100.00 (100.00)
Salary	88.50 (51.20)	8.70 (25.90)	2.80 (22.90)	100.00 (100.00)
Agricultural Wage	90.00 (75.40)	5.50 (0.00)	3.80 (24.60)	100.00 (100.00)
Non-agricultural Wage	78.80 (54.50)	10.20 (7.80)	9.30 (37.40)	100.00 (100.00)
Others	95.40 (27.60)	0.80 (12.30)	3.80 (60.20)	100.00 (100.00)
All Occupation	85.30 (55.90)	6.40 (14.10)	7.80 (29.90)	100.00 (100.00)

**Notes:** Figures in parentheses are for urban areas.

In short, the extent of education - primary, secondary and tertiary, affected by adjustment policy can be from both demand and supply side factors. The supply factors of education include changing expenditure on public schools and training and increase in user charges at secondary and higher levels. The policy that is likely to affect the demand side includes changes in the prices that household's face and its impact on household incomes. The survey results show that a large percentage of poor households go to government schools. Hence, these policy changes will have profound effects on the educational achievements of the poor households. The role of the state under such context is to provide complete support at the primary level and adequate scholarships

and assistance only to the poor and vulnerable at the higher education by introducing private financing in this sector.

Elsewhere, we mentioned that approximately 3 per cent of the total expenditure in the household's budget of the poor are spent on education in rural and 5 per cent in urban areas. The increase in the prices of food and non-food (in the post-trade liberalisation in agriculture) is more likely to lower the household allocation of expenditure on education.<sup>9</sup> This income effect (adjustment policy in the short run reduce demand for education through reducing income) though indirect, may have profound long run effects on growth and distribution.

#### **V. Welfare Programmes: Some Demand Inducing Issues**

One of the most straight forward implication of the stabilisation and structural adjustment programme on poverty is by redefining the role of the state and the efforts to stabilise the economy that lead to changes in the level and composition of government expenditure. If a fiscal contraction is translated with expenditure reduction on services such as health and education, poverty will tend to rise if poor are the main beneficiary. And quite a large number of poor households are supposedly dependent on these welfare programmes. The reasons of non-beneficiaries of these programmes could be inclusion of non-poor or exclusion of poor.

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<sup>9</sup> See Section III in Pradhan, Roy and Subramanian (1999).

Another element in the social policies of adjustment packages is the elimination of universal subsidies, sometimes replacing them by targeted subsidies. The overriding objectives of these welfare programmes are to transfer incomes only to the poor households through subsidies.

The MIMAP survey results on some specific (public) welfare programmes are presented in Table 9. The MIMAP questionnaire asks whether or not the household or any member of the household benefited from these programmes in the preceding one year of the survey. The welfare programmes on education includes scholarship at primary level, free books & stationery, free school uniforms, mid-day meal in schools, adult literacy schools, medical check-ups in schools and also accounts for other educational programmes.

The percentage of poor households benefited from these welfare programmes across different occupational categories is reported in Table 9. The first column in this table reports the overall picture of the education based welfare programmes - combined. This includes households benefited from at least one of the programmes. This table also reports the percentage of households benefited based on each of the education based welfare programmes.

**Table 9: Percentage of Poor Households Benefitted from Education Based Welfare Programmes in Rural and Urban India**

	Overall	Scholarship at Primary Level	Free Books & Stationary	Free School Uniform	Mid-day Meal In School	Adult Literacy/ Night School	Medical Check-ups In schools
Self-employed Farm	15.3 (44.0)	2.2 (0.0)	8.6 (44.0)	1.5 (0.0)	5.9 (44.0)	1.6 (0.0)	3.9 (0.0)
Self-employed Non-Farm	14.6 (5.5)	1.9 (0.0)	7.0 (3.1)	0.0 (0.0)	2.5 (0.6)	1.9 (0.0)	3.2 (1.8)
Salary	11.5 (2.7)	3.2 (1.3)	9.4 (0.9)	2.7 (0.0)	6.1 (0.0)	1.0 (0.0)	2.3 (1.3)
Agricultural Wage	20.2 (0.0)	5.6 (0.0)	12.4 (0.0)	4.1 (0.0)	7.8 (0.0)	1.7 (0.0)	6.6 (0.0)
Non-agricultural Wage	12.7 (10.0)	7.0 (0.0)	6.6 (6.6)	2.9 (5.2)	3.6 (8.6)	1.7 (0.0)	1.5 (0.0)
Others	16.0 (21.2)	1.2 (0.0)	3.8 (17.1)	2.6 (0.0)	12.7 (21.2)	2.1 (0.0)	1.5 (21.2)
<b>All Occupation</b>	16.9 (7.2)	4.4 (0.4)	9.9 (4.9)	2.9 (1.3)	6.5 (4.5)	1.6 (0.0)	4.6 (2.0)

**Notes:** Figures in parentheses are for urban areas.

In rural areas, only 16.9 per cent of the poor households benefited from the education based welfare programmes. The beneficiaries from the welfare programmes in urban areas are also low, around 7.2 per cent. Among occupational categories, such as "others" have larger percentage of beneficiaries compared to non-agricultural wage and self-employed farm. This is also true in urban areas where "others" have a larger number of beneficiaries from these public programmes. The welfare programmes meant to transfer incomes to poor households by providing subsidised educational facility have not achieved the pre-supposed objective. There could be two reasons, one due to the inefficient mechanism of providing welfare programmes which invariably covers the non-poor as well or exclusion of poor from these welfare programmes. The non-poor beneficiaries of these welfare programs are

substantial, around 12 per cent in rural areas and 6.1 per cent in urban areas.<sup>10</sup>

The focus of these welfare programmes is either not targeted or targeted with high leakages.

Even across occupations, the categories which has a smaller number of poor, such as 'others' have benefited much more from these welfare programmes compared to a much lower percentage of beneficiaries in the non-agricultural wage category. This is also true in urban areas where this category has the largest percentage of beneficiaries for education based welfare programmes.

We now focus on each of the welfare programmes separately. Increasing the level of literacy in both rural and urban areas is the major objective of the welfare programmes in education. Literacy has been a priority in the national agenda as a tool of information and knowledge and as an instrument of social change. It is now well established in the literature that literacy increases productivity as well. The initial target of National Literacy Mission (NLM) was to make 80 million persons in the age group of 15-35 years functionally literate and to cover 345 districts of the country by the end of 1995 (Govt. of India, 1997).

Universalisation of elementary education has been accepted as a national goal since 1950. In order to achieve this goal, concerted efforts have been made and as a result the elementary education system in the country has become one of the largest in the world (World Bank, 1997). The major initiatives are in the form of programmes like Operation Black Board, National Programmes for

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<sup>10</sup> See NCAER(1998).

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Self-employed Non-Farm	14.6 (5.5)	1.9 (0.0)	7.0 (3.1)	0.0 (0.0)	2.5 (0.6)	1.9 (0.0)	3.2 (1.8)
Salary	11.5 (2.7)	3.2 (1.3)	9.4 (0.9)	2.7 (0.0)	6.1 (0.0)	1.0 (0.0)	2.3 (1.3)
Agricultural Wage	20.2 (0.0)	5.6 (0.0)	12.4 (0.0)	4.1 (0.0)	7.8 (0.0)	1.7 (0.0)	6.6 (0.0)
Non-agricultural Wage	12.7 (10.0)	7.0 (0.0)	6.6 (6.6)	2.9 (5.2)	3.6 (8.6)	1.7 (0.0)	1.5 (0.0)
Others	16.0 (21.2)	1.2 (0.0)	3.8 (17.1)	2.6 (0.0)	12.7 (21.2)	2.1 (0.0)	1.5 (21.2)
<b>All Occupation</b>	16.9 (7.2)	4.4 (0.4)	9.9 (4.9)	2.9 (1.3)	6.5 (4.5)	1.6 (0.0)	4.6 (2.0)

**Notes:** Figures in parentheses are for urban areas.

In rural areas, only 16.9 per cent of the poor households benefited from the education based welfare programmes. The beneficiaries from the welfare programmes in urban areas are also low, around 7.2 per cent. Among occupational categories, such as "others" have larger percentage of beneficiaries compared to non-agricultural wage and self-employed farm. This is also true in urban areas where "others" have a larger number of beneficiaries from these public programmes. The welfare programmes meant to transfer incomes to poor households by providing subsidised educational facility have not achieved the pre-supposed objective. There could be two reasons, one due to the inefficient mechanism of providing welfare programmes which invariably covers the non-poor as well or exclusion of poor from these welfare programmes. The non-poor beneficiaries of these welfare programs are

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<sup>10</sup> See NCAER(1998).

Nutritional Support to Primary Education (mid-day meal scheme), Teachers education and adaptation of minimum levels of learning have continued to be accorded priority. With a view to cushion the impact of rising cost of textbooks and exercise books, the government has exempted writing and printing papers from excise duties. Apart from these specific programmes listed in the questionnaire, we also included "other educational programmes" as well. The response recorded on this item was very few, therefore, we excluded this item from reporting.

The educational programmes reported in Table 9 are clustered in six specific programmes. The least achieved educational programme in terms of households benefited is the adult literacy/night schools programme. Only 1.6 per cent of the poor households in rural and none among the surveyed urban households seem to have benefited. This is followed by programmes on the free school uniforms in rural areas and scholarships at primary levels in urban areas. The most acclaimed mid-day meals scheme with large demand inducing effect is expected to increase the enrolment rate and reduce dropout rates. These programmes benefited only 6.5 per cent of the total poor households in rural areas and 4.5 per cent of poor households in urban areas. However, for the first time this programme was expanded from 1995-96 in a phased manner, to cover in 1997-98, all students of primary classes (I to V) in all-Government, local body and Government aided schools in the country. During 1997-98, this programme has benefited 896 lakh children (Govt. of India, 1998).

This demand-inducing incentive scheme is likely to have short run payoffs in breaking the vicious circle of poverty - low income - low educational achievements - poverty. This programme should be strengthened for effective implementation to provide the much-needed initial boost/springboard to bail out the poor households from this vicious circle.

The district primary education programme is the most intensive effort by the Central Government to increase enrolment, retention and quality in primary education. It emphasises investment in the quality of primary instruction, particularly inservice teacher's training, improved teaching and learning materials and improved school facilities. This programme has also enhanced the state's educational support programmes, including textbook development and publication, planning and management and research evaluation. The government of India made commitments to enhance the quality of education and committed itself in ensuring that the necessary resources are available indicating an increase in the allocation to education from less than 4 per cent of Gross National Product to 6 per cent. Though allocations have increased to some extent but what remains to be drastically restructured is the efficiency in the use of these resources. The beneficiaries from almost all the programmes are scanty.

These discussions suggest that the welfare programmes have committed both the errors - omission of poor and inclusion of non-poor. Therefore, an efficient programme directed towards the poorest of the poor need nullification of these two types of errors in targeting the vulnerable.

The problem that arises here is the identification and targeting of the poor and the vulnerable. Targeting by income or expenditure levels is difficult since income is hard to observe and expenditure may not be as efficient as the parental education in identifying the poor.<sup>11</sup> Empirical evidence shows that parental education is an important determinant and is less likely to create perverse incentives because levels of schooling of the parent is already documented and cannot be changed unlike in income and expenditure (Glewwe and Patrinos, 1999).

## **VI. Why are Children out of School? Household Response**

Despite implementation of several innovative schemes for educational development, the results have never been significant and quick to follow. The lower percentage of beneficiaries from these programmes can be for various reasons: (a) insufficient supply so as to include each poor in the provision of these facility, school dysfunctional, etc. (b) poor themselves lack demand for reasons of high opportunity cost of educating the children, etc.

The share of household expenditure on education presented in Table 10 reflects to a large extent the demand for education among various occupational categories. Though the demand for education exists among households, they spent as low as 2.87 per cent and 5.04 per cent of their total household expenditure in rural and urban areas, respectively. This difference in expenditure also shows up in the literacy rates with urban areas showing higher

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<sup>11</sup> People with low level of schooling are quite likely to have low incomes and low taste for schooling.

figures. The occupational category which has larger number of poor, such as the wage earners, seems to have, on an average, a lower share of their expenditure on education and hence reflects lower demand for education in rural areas. In urban areas, non-agricultural wage category has the lowest share of expenditure on education.

**Table 10: Percentage Share of Household Expenditure on Education in Total Household Expenditure**

Occupational Categories	Rural	Urban
<b>MIMAP- only Poor</b>	3.71	3.50
Self-employed Farm	1.47	5.73
Self-employed non-Farm	3.97	5.58
Salary Agricultural Wage	2.31	3.59
Non-agricultural Wage	2.47	3.51
Others	3.13	7.99
All	2.87	5.04
<b>NSSO Poor Total</b>	0.79	1.66
(poor & non-poor)	1.60	4.00

**Notes:** (a) Excludes boarding and lodging costs for education and also transport cost.

(b) The reference year for both MIMAP and NSSO is 1994-95.

**Source:** NSSO (1998).

In this section, we summarise some of the reasons for low enrolment and dropout rates<sup>12</sup> based on the survey. The informations on the reasons for high non-enrolment and dropout rates were classified into five factors.

The reasons attributed for such poor overall enrolment rates across both regions - rural and urban, are different. In rural areas, the major factors as revealed from the survey are unconstrained and constrained demand factors

<sup>12</sup> Each of the households with children never enrolled/discontinued in school under the age group 6-14 years were asked to sight two important reasons for non-enrolment/dropout.

(see Table 11). Around 66 per cent of the persons responded to this question attributing to unconstrained demand and over 49 per cent to constrained demand factors in rural areas. This is also true for all the occupational categories except self-employed non-farm and salary earners. A larger percentage of poor in these two categories attribute to constrained demand factors. But, in general, unconstrained demand factors stands out as the major reason for non-enrolment in rural areas.

**Table 11: Reasons for Non-enrolment in 6-14 Age Group  
Among Rural and Urban Poor**

	Supply Factors	Constrained Demand	Unconstrained Demand Factors	Customs & Social Taboos	Health Problems
Self-employed Farm	2.00 (6.20)	42.70 (6.20)	67.90 (93.80)	4.20 (58.60)	4.70 (0.00)
Self-employed Non-farm	0.00 (0.00)	62.30 (86.70)	49.90 (36.10)	0.00 (0.00)	1.70 (0.00)
Salary	0.00 (13.50)	80.00 (100.00)	71.30 (13.50)	0.00 (0.00)	0.00 (0.00)
Agricultural Wage	1.20 (3.10)	50.00 (93.90)	68.20 (13.90)	2.80 (3.10)	4.70 (0.00)
Non-agricultural Wage	2.90 (23.80)	51.70 (56.00)	57.70 (17.90)	4.20 (2.60)	5.10 (8.10)
Others	0.00 (-)	19.50 (-)	80.50 (-)	0.00 (-)	14.20 (-)
All Occupation	1.70 (11.80)	49.20 (69.40)	66.10 (28.30)	3.30 (6.30)	4.60 (3.40)

**Notes:**(a) *Constrained Demand* - financial constraint, attention to domestic chores, participation in household economic activities; *Supply factors* - school too far, school dysfunctional, teachers attitude discouraging. *Unconstrained Demand* - parents didn't feel it was important, child unwilling; *Customs and Social Taboos* - married off, parents not in favour, social discrimination; *Health problems related to child*.

(b) *Percentage of respondents who cited alternative reasons. These responses are not mutually exclusive.*

(c) *Figures in parentheses are for urban areas.*

This evidence negates the popular perception that poverty or financial constraint is the major factor for poor enrolment and high dropout rates, though, it is very important. Even for the occupational category, which has a larger number of poor, this reason does not seem to be appealing. Surprisingly, both categories - self-employed non-farm and salary earners attribute constrained demand as the major reason for poor enrolment rates. However, among constrained demand factors it is highly possible that the other two reasons - attention to domestic chores and participation in household economic activities may be quite important.

In urban areas, the picture is slightly different. A larger percentage of persons, around 69 per cent attribute to constrained demand factors and only 28 per cent to unconstrained demand factors. This is true irrespective of the occupational categories the households belong to except self-employed farm (we ignore this category because of small sample size).

**Table 12: Reasons for Dropout Before Completing Primary School in 6-14 Age Group Among Rural Poor**

	Supply Factors	Constrained Demand	Unconstrained Demand Factors	Customs & Social Taboos	Health Problems
Self-employed Farm	0.00	23.70	78.30	22.90	0.00
Self-employed Non-farm	0.00	0.00	100.00	0.00	0.00
Salary	0.00	24.10	75.90	0.00	0.00
Agricultural Wage	0.00	46.10	86.60	0.00	2.60
Non-agricultural Wage	9.70	20.60	69.70	36.30	25.80
Others	0.00	0.00	100.00	0.00	0.00
All Occupation	1.10	32.30	81.90	11.90	4.20

**Notes:** (a) Percentage of respondents who cited alternative reasons. These responses are not mutually exclusive.

(b) See notes in the previous table for definitions of various factors.

The reasons reported for dropout in rural areas are presented in Table 12. These table shows that the major reasons attributed to high dropout rates are unconstrained and constrained demand factors, irrespective of the occupational category to which the household belongs. Around 82 per cent and 32 per cent responded to the first and second reasons, respectively in this region. Here too, economic factors are secondary. In urban regions, the response recorded for dropout rates were too few, hence, no statistics are presented here.

A sample survey by the PROBE<sup>13</sup> team, which provides a blow by blow account of the entire episode, presents a useful starting point for the discussion underlying this issue. This study provides some useful insights, based on a sub-sample of the random sample of villages surveyed in 1994 by the NCAER. The general reasons attributed to universal primary education are high parental motivation and interest apart from state initiative. The instance of high parental motivation is exhibited when the PROBE team received the following reply, ".. if needed they would sell land to educate his children". High parental motivation for education does not necessarily lead to regular school attendance or even school enrolment. Parents may be convinced of the value of education but may not be convinced of the schooling system or the kind of education they are looking for. The PROBE report also mentions that even if parents are keen to send their children to school, they may be unable to do so for reasons such as inadequate facilities, irresponsible teachers, etc.

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<sup>13</sup> This study is about the basic education in villages from five Indian states based on various encounters with parents and students. This sample covers only 40 per cent of India's population and more than half of all out-of-school children and does not claim to be representative of the entire country. However, MIMAP-survey provides data which is representative of the entire country and the reasons whatsoever are systematically categorised into various factors.

Though these supply side reasons are important but the factor that stands out from the MIMAP data is parental and children interest in schooling in rural areas, which habitats eighty per cent of the total poor. Though parents might be highly motivated but may lack interest in schooling for reasons not emphasised by the PROBE report - not enough expected future payoffs<sup>14</sup> from investment in education.<sup>15</sup>

A case in point is the experience of Himachal Pradesh. During the last seven years Himachal Pradesh has achieved remarkable progress bringing the state very close to universal primary education. The evidence from Himachal Pradesh as a role model can be compared with the rest of the country. Himachal Pradesh does seem to have highly motivated children. One instance with the PROBE team is the response from a little girl when she said that she wants to become a doctor, a far-reaching statement about the position of rural woman in society. The PROBE team points out that education is not a mirage but a realistic hope of future earnings. It is the future earnings at the cost of present that seems to be the motivating factor. Another instance of this is the success story of the total literacy campaign in Pudukotti district in Tamil Nadu, reveals an impressive instance of woman empowerment where basic educational skills, special training on decision making and management are linked to livelihood.

In the MIMAP survey, interests of both parent and child are categorised under

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<sup>14</sup> Here expected future payoffs (EFP) is differentiated from returns to education (RE).  $EFP = RE * UER$ , where UER is unemployment rate.

<sup>15</sup> Srinivasa-Raghavan (2000) is also of the view that demand side in the education sector is the most important reason for non-enrollment and drops out and should not be taken for granted.

the nomenclature-unconstrained demand. This also seems to be the most important factor for non-enrolment and dropout rates among persons above the poverty line in both rural and urban areas.<sup>16</sup>

Besides, MIMAP survey points out that constrained demand factors such as financial constraint, attention to domestic chores and participation in household economic activities are also important in rural areas and are prime factors in urban areas.

The empirical evidence suggest that private returns to education rises with the educational level (Kingdon, 1998). Hence the demand for higher education is ensured, which can be left to the market. On higher education, Wood (2000) with various experiments using India SAM speculate that with increased openness to international trade, the demand would be proportionally larger for the literate with higher levels of education. But for the primary education where the private returns are low and social returns are substantial, the role of the state is important.

The role of the state should be redefined to provide basic education at the primary level through supply, and demand inducing incentive schemes

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<sup>16</sup> See MIMAP Survey, 1994-95 (NCAER, 1998).

(Welfare programs)<sup>17</sup>, which also takes care of the secondary factor, namely, the constrained demand. While higher education should be left to market signals to allocate and promote skill enhancement, and also broadening the horizon of employment opportunities, establishing increased future prospects. Both openness of the economy and private financing of education at higher and tertiary level will accelerate the process by itself. This will possibly provide the incentives for learning at the primary level and will also enhance the skill development process to suit the changed needs of the industrial sector. In other words, openness (economy) combined with private financing of the educational sector creates demand for education and education and learning enhances the quality and quantity of human capital forming a virtuous circle (see chart II). These reforms in the educational system will play a vital role in raising productivity, employment and income and so reducing poverty.

## **VII. Policy: The Missing Dimension**

This section presents the schematics of the required reform process in the educational sector both to increase the educational level of the people as well as to meet the increased need for skills, entailed by the openness of the economy.

In retrospect, the structure of the educational system in India is caricatured in

Chart-I. The analysis leading to the present strategy remains heavily influenced

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<sup>17</sup> These schemes will not only induce demand but also calibrate the distribution of education. Unequal distribution of education showed a negative impact on per capita income for most countries (Lopez, Thomas and Wang, 1998).

by supply considerations and little allowance is given to demand for education. It has been recognised in this paper that demand (unconstrained demand, to be more specific) rather than supply per se is the primary bottleneck in raising educational levels of the individuals.

The transmission mechanisms illustrated in Chart-I exemplify that the educational levels of the people are an outcome of the demand and supply factors in the education sector. Presently, the government finances the supply of educational facility. Apart from this, government also has some education based welfare programs to induce demand. However, these measures are not effective in increasing the levels of demand for schooling. And not enough expected future earnings - reflected by the employment opportunities in the labour market, is the major reason for lack of demand for schooling in India. This chart shows that the educational sector is not linked with the employment opportunities in the labour market<sup>18</sup> and not enough expected future earnings is the major cause for lack of demand for education.

In the current frame, demand is assumed to be given and enough supply of educational facility will necessarily create demand for education (Say's law in the market for education/learning). However, the households survey response points out that lack of demand is the major reason for poor educational outcomes. Though supply considerations are necessary but not a sufficient condition for enhancing educational levels of the people.<sup>19</sup> Demand considerations do matter and in India, lack of this factor is the major reason for poor educational performance.

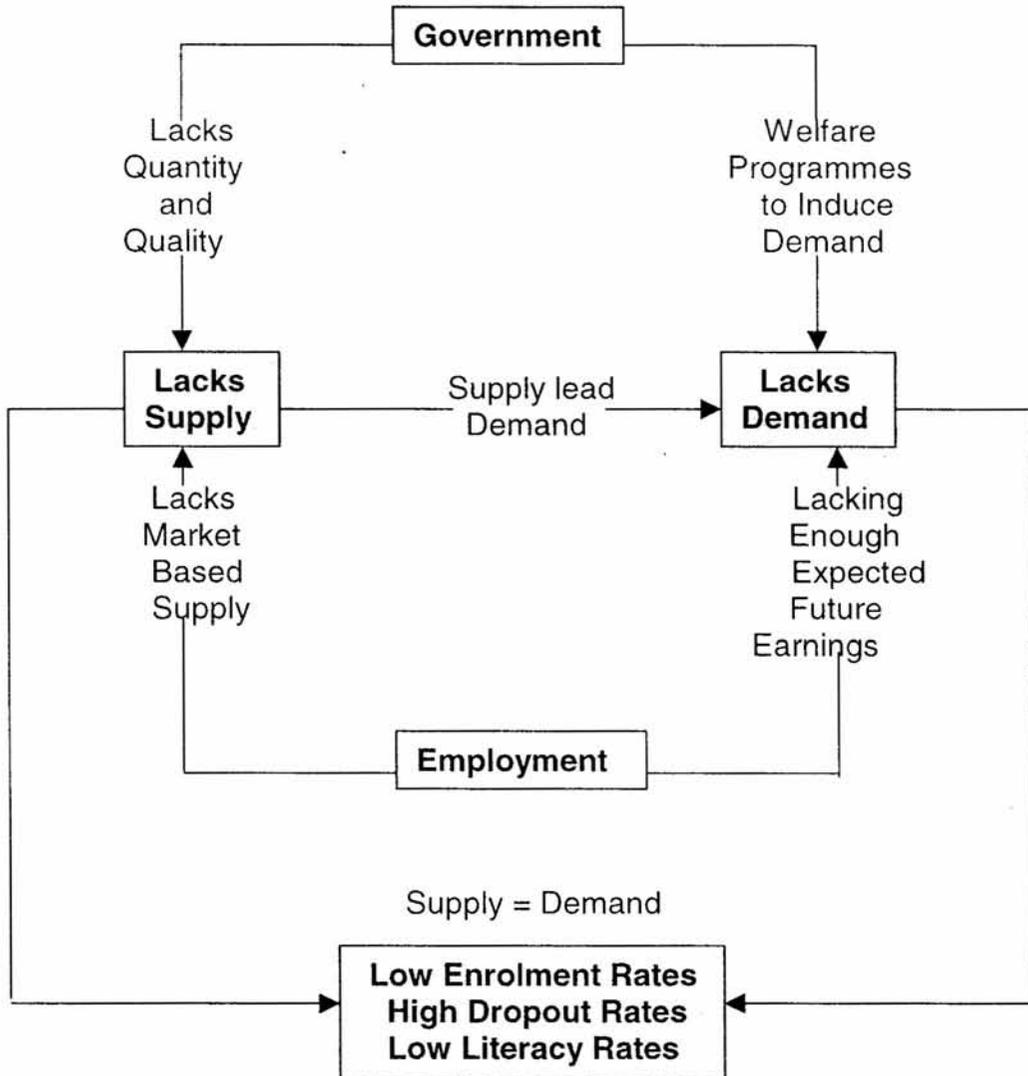
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<sup>18</sup> Since the supply of educational facility is not demand driven.

<sup>19</sup> Demand side cannot be taken for granted. An example of the failure of Say's law in the educational sector.

**Chart I**

**Education Sector: Current State**



In Chart-II, we describe the policies required to restructure the present educational system to achieve the twin objective of increasing educational levels and growth. Three key elements are suggested in the Chart as essential for meeting this objective - (a) private financing of the educational sector combined with openness of the economy, (b) supply of both quantity and quality education at primary levels and (c) demand inducing welfare programs to support the poor.

The policy dimension added to the current structure (Chart-I) is the private financing of higher education combined with openness of the economy. In the literature, it is empirically tested that the combination of openness and increased investment in education has the largest effect on economic growth (Lopez, Thomas and Wang, 1998).

The private financing of higher education entails that both demand and supply in the education sector are determined by the market and any mismatch between them is cleared by the market, unlike in the government determined supply. The causation between demand and supply of education is through the labour market - wage alterations (Wood, 2000). The employment opportunities in the labour market reflected by the expected future payoffs from present investment in education will determine the level of both demand and private investment in education.

On the other hand, privatisation of other sectors (other than education) and opening up the trade sector transmits increased demand for skills in the labour market. This demand for skills provide enough expectations among parents

and children in terms of higher future payoffs (employment opportunities) from the present investment in learning/education that creates demand for education. The private sector in education will provide enough educational infrastructure (supply) to clear the increased demand for education.<sup>20</sup> This equilibrium will result in increasing literacy rates, educational levels, and also provide enough incentives to increase and reduce, enrolment and dropout rates, respectively, at the primary level. This in turn has a backward linkage with the labour market by supplying the needed skills culminating to increased growth.

Another necessary condition for ensuring growth is the distribution of education. Since markets generally exclude the poor from drawing benefits, the government should continue to subsidise and provide quality education and also the demand inducing welfare programmes to the students from poor households.

The policymakers should do well to recognise that private financing in the educational sector should be combined with the openness of the economy to alter wage inequalities between literate and illiterates and hence, creating

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<sup>20</sup> This phenomenon is referred to as demand lead supply transformation in Chart-II.

demand for education.<sup>21</sup> On the other hand, the government should continue to maintain full subsidisation of primary education and the demand inducing education based welfare programmes to calibrate the distribution of education.

The orientation of the public expenditure on education in India should address, first, by enhancing both the quality and quantity of basic education facility in rural and urban India. Secondly, by orienting the educational system to respond to increased demand for skills as a fall out of the macro economic adjustment and trade liberalisation. These issues should be made part of the restructuring process in the adjustment policy and should not be postponed, let alone being abandoned.

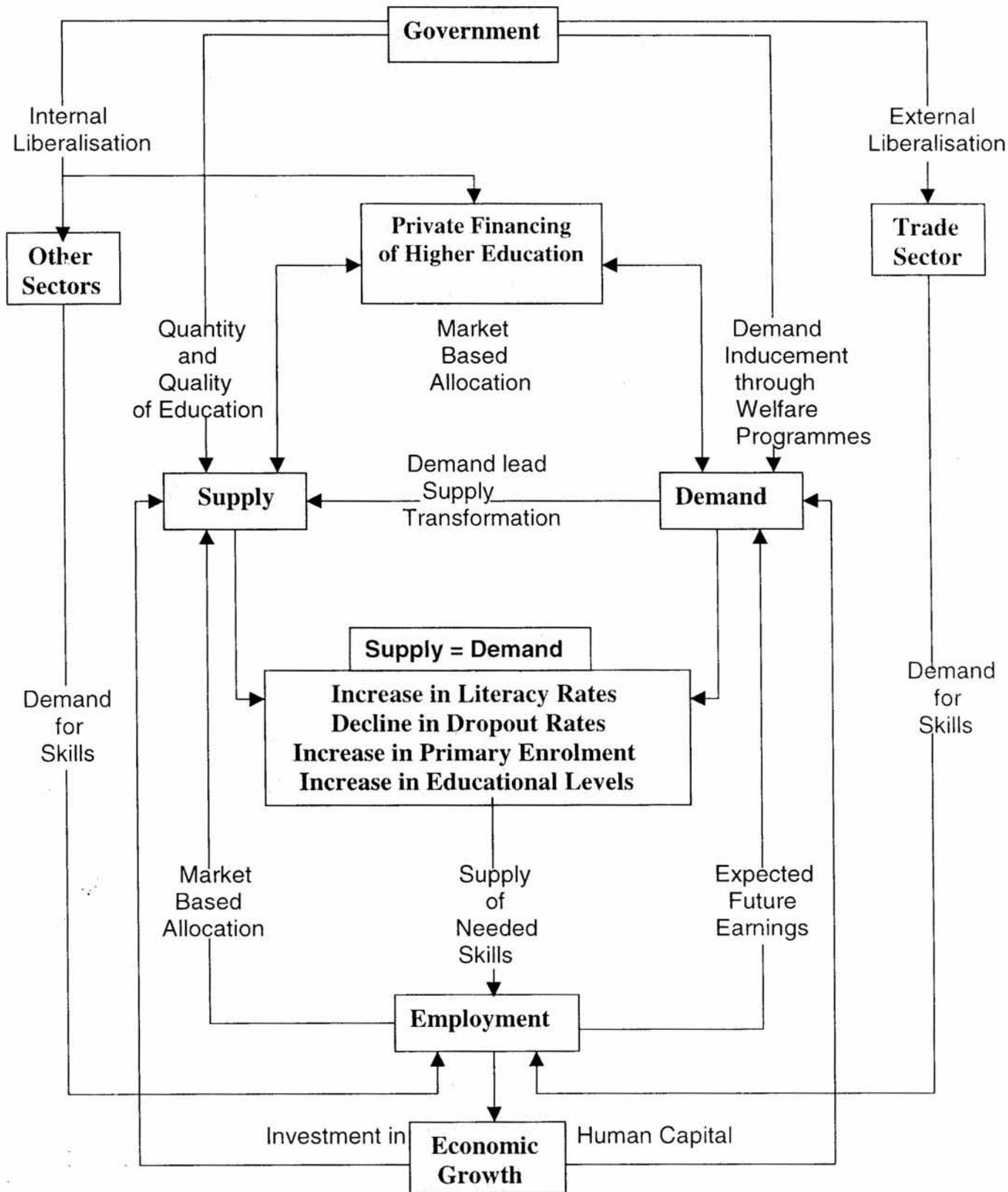
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<sup>21</sup> Wood (2000) shows that over the next decade, the demand for illiterate workers will fall by about a quarter and increase the demand for literate, and proportionately larger for the higher levels of education.

# Virtuous Circle

## Chart II

### Policy: The Missing Dimension



## **VIII. Concluding Remarks**

This paper addresses an issue of great concern - despite massive government efforts, the state of education in India is improving only slowly. The literacy rates among poor households are low and across occupational categories, the lowest is among agricultural and non-agricultural wage and self-employed farm in rural. The non-agricultural wage earners in the urban areas also have very low literacy rate. Both dropout and non-enrolment rates are also high in either regions. Many studies in the literature attribute such poor performance in the educational sector to poverty, and child labour supplementing family income is considered to be the main cause for such maladies.

However, this paper, where we analyse only the poor households, show that the major reasons for such poor performance of the educational sector are both unconstrained and constrained demand. Unconstrained demand refers to factors having no financial or physical constraints but simply lack of willingness and constrained demand factors are constrained by poverty conditions; participation in household economic activity, etc. In general, unconstrained demand factors stand out as the major reason in rural areas. In urban, a larger percentage of poor attribute to constrained demand factors.

The educational reforms in India should basically focus on the demand lead supply transformation towards skill enhancement. This seems to be missing in the government-owned and operated educational sector. In this context, the role of the state should be reduced to provide the basic education. The higher

education should be left to the market or at least dual financing (private and public financing). However, recently, the government has proposed to move in this direction but not much initiative yet.

The restructuring of the educational sector will have both short run and long run effects. In the short run, this will not only strip the undue burden which the state carries in terms of high budget deficits but also can provide adequate resources for the fulfilment of the basic objective line 'literacy for all' or mass education, etc. Apart from this, open economy framework in the educational sector is likely to allocate resources efficiently and bridge the gap between demand and supply of skills.

In the long run, the opportunities for employment and income will increase the demand for education not only for secondary and higher education but also for primary education.

However, the private financing of education most often exclude the poor from drawing benefits of education at higher levels. Here too, the role of the state is important apart from providing free primary education. The state should provide adequate scholarships and assistanceships for the vulnerable, which infact, requires much less government resources than the government owned institutions of higher learning.

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