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National Council of Applied Economic Research

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

Fax: (91-11) 332-70164

Tel.: (91-11) 3379861 to 63

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**Adjustment and the Poor Households:
Analysis of an all-India Survey of Sample Households***

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

Abstract

Based on the recently completed MIMAP all-India household survey, this paper presents a unique and detailed poverty profile for both rural and urban India. It draws from the survey data, a variety of indicators which characterise the poor and assess the implication for the design and targeting of future social sector programmes in India. This paper also identifies and maps out various sets of transmission mechanisms linking adjustment and the welfare levels of poor households.

JEL Classification No.: E0, E6, I3, O1

Keywords: Welfare, Poverty, Economic Development

*This Paper is an outcome of MIMAP-INDIA project supported by the International Development Research Center (IDRC), Ottawa, Canada. We thank Shashanka Bhide, Jean Dreze and Rohinton Medhora for their comments on an earlier version of this paper and Geeta Bhowmik for the computer programming support.

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Published by
Narinder Sapra, Registrar & Secretary
National Council of Applied Economic Research
Parisila Bhawan, 11 - Indraprastha Estate
New Delhi - 110 002
www.ncaer.org

Printed at
Vandana Print & Co.
1885, Sui Walan, Darya Ganj, New Delhi - 110 002.
Tel.: 3262747

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Adjustment and the Poor Households: Analysis of an all-India Survey of Sample Households

I. INTRODUCTION

The transition of the Indian economy started in the mid 1980s, when some partial reforms were introduced to overcome the transient problems in the economy. More radical steps under the rubric of *Stabilisation and Structural Adjustment Programme* were undertaken in 1991 when the economy was under severe balance of payment and fiscal crisis with high inflation. These measures became obligatory due to the unsustainability of the persistent gap between aggregate demand and supply. The steady accumulation of foreign debt made this inevitable and hence, adjustment was enforced along with rapid reforms to bridge this gap.

World Bank stabilisation and adjustment programmes have recently been the topic of much evaluation and discussion in terms of their social and distributional consequences.¹ Many of these observers claim that these programmes, nevertheless, are not completely costless in the short run as adjustments are distribution sensitive where some gain and some lose in the process. The policies relating to structural adjustment should be formulated in such a way that there are minimum adverse distributional consequences or transition costs.

Experiences of countries undergoing structural adjustment, reveal that in some regions (sub-saharan Africa and Latin America) poverty rose significantly, while in some other regions (East and South East Asia) growth and poverty reduction got a boost. This, of course, is no surprise, as experience from these countries suggest that the policy choices by the respective governments matter a great deal in offsetting or accentuating any ill effects of adjustment on poor (Stewart, 1995)².

The center piece of the conceptual framework is the need to link macro level policy changes to their micro level distributional consequences through a policy relevant poverty profile of the country in question (Kanbur, 1990). There is now a whole range of country studies available on poverty profiling in Africa, most of which analyse the short-term and long-

¹ See for example Glewwe and Hall (1994), Stewart (1995) and Kanbur (1987).
² Srinivasan (1988) distinguishes between the possibility that the poor may be hurt relatively more in a period of adjustment (because adjustment policies are inherently skewed against them) compared with another feasible adjustment policy with similar total cost which could have hurt the poor less. He argues forcefully that if an option that hurts the poor is chosen, it may have little to do with the adjustment per se and more to do with the politics of policy choice.

term impact of structural adjustment on the poor. See, for instance, Boateng, Ewusi, Kanbur and McKay (1990) and Coulombe and McKay (1996).

In India, the adjustment programmes are still in their early stages which makes it difficult to evaluate the impact of these programmes on the poor.³ Hence, the objective of this paper is two fold: firstly, a detailed poverty profile for India is presented using the recently completed MIMAP (Micro Impact of Macro and Adjustment Policy) all-India household survey. Secondly, the likely impact of stabilisation and structural adjustment on poor is analysed based on which future policy choices can be made. This, perhaps, is done by identifying and mapping out various sets of transmission mechanisms linking adjustment and the welfare levels of poor households.

This paper is further divided into following sections. In Section 2, the definitions and the data sources are discussed. In Section 3, an overview of the incidence of poverty in rural and urban India is presented. In Section 4, the pattern of household consumption expenditure among rural and urban poor is examined. The sources of income of the poor households are presented in Section 5. Section 6 maps the net changes in physical asset ownership of the poor. The impact of reduced public spending on poor is evaluated in Section 7. Section 8 concludes the paper.

II. DEFINITION AND DATA SOURCES

For capturing the multidimensional aspects of changes in socio-economic well-being of a country, identification of poor and the nature of vulnerability is required. Vulnerability captures the dynamic process of people moving in and out of poverty according to the changing levels of income, consumption and assets.

The identification of poor in this paper is based on the empirical results from the recently completed all-India sample survey (MIMAP-Survey) conducted in 1996 for the year 1994-95. However, the statistics relating to health and education pertain to the last 30 days of the actual date of survey and beginning of 1996, respectively. This paper draws from the survey data, a variety of indicators which characterise the poor and assess the implication for designing and targeting of future social programmes in India. The details of the design and implementation of the survey are provided in MIMAP Survey Report (NCAER, 1998).

³ Fitzgerald (1996) pointed out that various dynamic problems exist in evaluating the implication of reforms and a decade of sustained implementation is required before they can be evaluated properly.

The survey was undertaken for 3364 rural and 1492 urban households, spread over 392 villages and 53 towns by adopting a three-stage stratified random sample, designed to be nationally representative.

The incidence of poverty varies considerably across regions in India. To isolate these variations, the analysis is disaggregated into rural and urban.⁴ Hence, all the sample households in rural and urban India are classified accordingly.

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. The households were classified by their major source of income from different activities, viz. Self-employed (farming), Self-employed (non-farming), Salary, Wages (agriculture), Wages (non-agriculture) and Others (income from rent, interest, dividend, pension, etc.). The reason for such a classification is that a number of factors influencing the living standards may be specific to a sub-group of households defined according to their main economic activity.⁵ But a further disaggregation of this will produce cells with only a few observations and thus the information, will not be statistically reliable. Therefore, the analysis is not disaggregated further.

The MIMAP survey contains detailed information on income and consumption expenditure (food and non-food) based on purchases from markets and of home produced goods. Generally, consumption expenditure is often taken to be a better indicator of living standard than income.⁶ Hence, the definition of poverty is based on consumption expenditure as recommended by the expert committee report on poverty (Government of India, 1993).

Having chosen consumption expenditure as our basic indicator of welfare, it is now necessary to decide on the poverty line. The conceptual difficulty in drawing such a line has been discussed extensively.⁷ At the operational level this defines a line which is reasonable and not too difficult to implement. Therefore, 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 areas and Rs 152.1 per capita per month for urban areas at 1987–88 prices is followed. These figures were updated with 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 areas, an average of the CPI for industrial

⁴ The number of surveyed households are not enough to permit a state-wise poverty profiling, hence the all-India analysis is bifurcated into rural and urban only.

⁵ One such example is the size and quality of landholdings which may be an important factor in the living standard of an agricultural household but is less likely to be relevant for a household predominantly self-employed in non-farm activities.

⁶ See Lipton and Revallion (1995) for reasons why consumption expenditure is often preferred over income.

⁷ See Government of India (1993).

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

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 few observations. These two occupational categories constitute only 3 per cent 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. These figures are reported here 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	1993–94			
Official Norm		40.99	31.84	38.72
Expert Group		33.26	33.75	33.38

Sources: (a) Authors' own calculations.
(b) Dubey and Gangopadhyay (1998).

The percentage of poor based on consumption expenditure groupings⁸ in rural and urban areas are presented in Table 3. This table reveals the severity of poverty in rural and urban areas. The population below the poverty line in rural and urban areas are grouped into three classes. Among rural poor, a larger percentage of poor are concentrated in the lowest two categories. The severity of poverty is higher in rural areas for self-employed (farm), agricultural and non-agricultural wage categories, where the concentration of poor is on the lower side of the consumption groups. However, for categories such as self-employed (non-farm), salary and others, the concentration of poor is on the higher side of the consumption groupings. Rural non-agricultural wage category has the worst distribution in the sense that the lowest consumption groups have the largest concentration of poor. Though the agricultural wage category has a larger percentage of poor, the concentration of poor is nearly equal across all consumption groups. In urban areas, most poor are concentrated on the higher side of the consumption groups except the non-agricultural wage group, which has nearly equal distribution.

Table 3
Percentage of Poor Based on Consumption Groupings
in Rural and Urban India by Occupational Categories

Grouping Rs Per capita	Self-employed (Farm)	Self-employed (Non-farm)	Salary Wage	Agricultural Wage	Non-agricultural Per month	Others	Total
Rural							
<150	13.41	2.87	1.16	15.70	21.65	6.59	12.05
151–200	13.77	4.07	8.37	22.63	22.85	12.64	15.80
201–228	9.71	8.16	8.94	16.63	9.07	10.22	11.58
Total	36.79	15.11	18.47	54.97	53.58	29.46	39.43
Urban							
<200	29.50	5.72	2.06	25.77	16.46	4.65	5.81
201–267	35.25	12.37	2.95	23.30	19.81	2.69	8.19
267–305	0.00	20.50	9.23	30.94	24.76	14.00	14.37
Total	64.75	38.60	14.24	80.00	61.03	21.35	28.37

Table 4 presents a slightly different look at the incidence of poverty — it estimates the extreme poverty groups in both rural and urban regions. Here, the identification is based on occupational distribution of households with consumption expenditure less than Rs 152 and Rs 203 per capita per month⁹ in rural and urban areas, respectively. One fact which is worth noting is that 10.85 per cent of the total poor at the all-India level are

⁸ For the sake of comparison, three equivalent consumption expenditure groupings have been made in rural and urban areas after considering the rural–urban price differentials.

⁹ Which is two-thirds of the respective poverty lines for rural and urban areas.

identified as the most vulnerable segment requiring immediate attention. A larger per cent of these is in rural (12.4 per cent) areas and 6.2 per cent in the urban areas.

The most vulnerable segment is either in self-employed (farm) category or wage earners at the all-India level. In rural areas, they are wage earners in agriculture and non-agriculture with 16.5 per cent and 22.2 per cent, respectively. Self-employed farm category also has higher incidence than the all-rural average of 12.4 per cent. In urban areas, the highest incidence is among non-agricultural wage category.

Table 4
Incidence of Extreme Poverty in Rural and Urban India
by Occupational Categories

Occupational Categories	Rural	Urban	Total
Self-employed Farm	13.46	29.47	13.74
Self-employed Non-farm	3.11	6.51	4.77
Salary	1.16	2.06	1.67
Agricultural Wage	16.46	25.75	16.72
Non-agricultural Wage	22.22	18.64	21.20
Others	6.59	4.65	5.85
All	12.41	6.25	10.85

Note: Extreme poverty is defined as the percentage of poor having expenditure less than Rs 152 per capita per month in rural areas and Rs 203 per capita per month in urban areas.

IV. PATTERN OF HOUSEHOLD CONSUMPTION EXPENDITURE OF POOR

Section 3 has outlined the broad contours of the extent of poverty among poor households in both rural and urban India. This section investigates the pattern of household consumption expenditure in both the areas. These are reported in Tables 5 and 6.

The expenditure pattern is categorised into food and non-food. Food is further disaggregated into cereals, pulses and other foods consisting of sugar, edible oils, spices, milk and milk products, egg, meat, fish, vegetables, etc. and non-food is disaggregated into clothing, fuel and other non-food items comprising toiletry and cosmetics and expenditure on health, medicines, education and ceremonies.

Tables 5 and 6 report that more than two-thirds of the total consumption expenditure of the rural poor is on food and in urban areas, it is around 59 per cent. The budgetary share of food consumption is higher in the rural areas. The expenditure on cereals in rural area is around 32 per cent and for pulses and other food, it is around 8 and 28 per cent, respectively.

The corresponding figures for urban India are 22 per cent, 6 per cent and 30 per cent respectively.

Table 5
Distribution of Consumption Expenditure of the Poor by Occupational Categories in Rural India

	Self - employed (Farm)	Self- employed (Non Farm)	Salary	Agricultural Wage	Non- agricultural Wage	Others	All Occupations	Total (NSSO)
Food	66.47	66.24	66.23	68.22	69.12	68.84	67.60	73.00
Cereals	31.46	30.11	29.77	31.59	33.18	36.29	31.67	36.88
Pulses	8.23	7.66	8.19	7.40	7.81	7.83	7.78	4.61
Other food	26.77	28.48	28.27	29.23	28.13	24.72	28.15	31.52
Non-food	33.53	33.76	33.77	31.78	30.88	31.16	32.40	27.00
Clothing	11.39	11.98	11.68	10.36	10.52	11.61	10.87	2.88
Fuel	3.95	3.59	4.11	3.65	3.72	4.03	3.79	9.10
Other Non- Food	9.04	12.39	9.73	9.84	10.40	8.69	9.73	11.39
Health	3.22	2.73	2.65	2.95	2.71	2.84	2.97	2.83
Education	3.71	1.47	3.97	2.31	2.47	3.13	2.87	0.80
Ceremonies	2.23	1.60	1.64	2.67	1.05	0.86	2.18	-
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.0

Notes: (a) The reference year for both MIMAP and NSSO is 1994-95.

(b) Both the sources, MIMAP and NSSO are not strictly comparable. For example, education under NSSO excludes boarding and lodging costs and also transport cost. For comprehensive understanding of the differences in the estimates and definitions see NCAER (1998).

Source: NSSO (1998).

Table 6
Distribution of Consumption Expenditure of the Poor by Occupational Categories in Urban India

	Self - employed (Farm)	Self- employed (Non Farm)	Salary	Agricultural Wage	Non- agricultural Wage	Others	All Occupations	Total (NSSO)
Food	67.26	54.26	56.69	64.62	63.01	62.34	58.51	69.49
Cereals	25.01	19.45	20.84	28.45	24.56	23.96	22.06	27.61
Pulses	5.35	6.06	5.31	6.71	6.52	7.10	6.02	4.64
Other food	36.89	28.75	30.54	29.45	31.93	31.28	30.43	37.23
Non-food	32.74	45.74	43.31	35.38	36.99	37.66	41.49	30.50
Other non- food	7.51	16.71	15.83	9.46	9.78	10.63	13.77	14.53
Clothing	7.12	10.53	10.52	12.11	12.03	10.28	10.87	2.08
Fuel	2.87	7.05	7.50	5.75	7.00	6.03	6.90	9.14
Health	6.69	4.66	2.56	3.58	3.61	2.44	3.69	3.05
Education	3.50	5.73	5.58	3.59	3.51	7.99	5.04	1.67
Ceremonies	5.05	1.07	1.32	0.90	1.06	0.29	1.22	-
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Notes: (a) The reference year for both MIMAP and NSSO is 1994-95.

(b) The differences in the estimates based on MIMAP and NSSO are also due to inclusion and exclusion of certain items. For example, education under NSSO excludes boarding and lodging costs and also transport costs. For a comprehensive understanding of the differences in the estimates and definitions see NCAER (1998).

Source: NSSO (1998).

The revealing difference between the two regions is the budgetary share of cereals and other food. In rural areas, the budgetary share of cereals is higher than the other food and in urban, the reverse is true. The non-food component is much larger in urban areas (41 per cent) as compared to the rural areas (32 per cent).¹⁰ Such patterns of consumption expenditure for the poor have far reaching implications in a changing environment of stabilisation and structural adjustment. These are briefly examined now. First the impact of agricultural trade reforms on the consumption pattern of the poor is examined and then, given the consumption pattern of rural and urban poor, brief conclusions about the impact of inflation on the poor are drawn.

IV.1 Impact of Agricultural Trade Reforms

Adjustment shifts the incentives from sectors producing non-tradeable goods to sectors producing tradeable goods. The impact of this reform process on the population depends on whether the major items consumed or produced — for example food — are tradeables or not (Delaine et al., 1992). Although, in India liberalisation of the agricultural sector is not prominent, its present situation is one in which these policies are due.

One general thrust of structural adjustment is to reduce distortions caused by prices that do not reflect market value. Since substantial quantity of crops are imported and exported¹¹, this implies bringing domestic prices in line with the international prices by reducing subsidies and taxes on imported and exported food items. This move would tend to reduce the income of producers and raise the prices paid by consumers. Since, the survey results do not present statistics on the crops grown by the poor, the focus will now be on the likely impact of rising consumer prices on the consumption pattern of the poor.

Tax subsidies and exchange rate policies affect consumer prices which have direct impact on the prices of commodities consumed by poor. The over valued exchange rate keeps the domestic prices of imported food stuff lower than it would be if the exchange rate was market determined. This general effect on prices is greatly modified by implicit tax and subsidy policy for each food item. The effect of such policy induced changes are reflected in the increased divergence of domestic prices from their corresponding international prices. The indicators of such a divergence are measured by ratios like nominal protection or effective protection coefficients (see Gulati and Sharma, 1997).¹²

¹⁰ See Pradhan (1993) for the questions on changing pattern of consumption in rural and urban India.

¹¹ In 1996–97, the share of agricultural and allied products in the total exports was 21 per cent; of which rice accounted for 12.7 per cent of the total agricultural exports. The imported share of agricultural and allied products was 3.8 per cent of the total imports with 0.8 per cent for cereals and pulses (GOI, 1998).

¹² See Sharma et al (1998) for a comprehensive understanding of the calculation of these coefficients.

The corresponding figures for urban India are 22 per cent, 6 per cent and 30 per cent respectively.

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Pulses	8.23	7.66	8.19	7.40	7.81	7.83	7.78	4.61
Other food	26.77	28.48	28.27	29.23	28.13	24.72	28.15	31.52
Non-food	33.53	33.76	33.77	31.78	30.88	31.16	32.40	27.00
Clothing	11.39	11.98	11.68	10.36	10.52	11.61	10.87	2.88
Fuel	3.95	3.59	4.11	3.65	3.72	4.03	3.79	9.10
Other Non- Food	9.04	12.39	9.73	9.84	10.40	8.69	9.73	11.39
Health	3.22	2.73	2.65	2.95	2.71	2.84	2.97	2.83
Education	3.71	1.47	3.97	2.31	2.47	3.13	2.87	0.80
Ceremonies	2.23	1.60	1.64	2.67	1.05	0.86	2.18	-
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.0

Notes: (a) The reference year for both MIMAP and NSSO is 1994-95.

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Pulses	5.35	6.06	5.31	6.71	6.52	7.10	6.02	4.64
Other food	36.89	28.75	30.54	29.45	31.93	31.28	30.43	37.23
Non-food	32.74	45.74	43.31	35.38	36.99	37.66	41.49	30.50
Other non- food	7.51	16.71	15.83	9.46	9.78	10.63	13.77	14.53
Clothing	7.12	10.53	10.52	12.11	12.03	10.28	10.87	2.08
Fuel	2.87	7.05	7.50	5.75	7.00	6.03	6.90	9.14
Health	6.69	4.66	2.56	3.58	3.61	2.44	3.69	3.05
Education	3.50	5.73	5.58	3.59	3.51	7.99	5.04	1.67
Ceremonies	5.05	1.07	1.32	0.90	1.06	0.29	1.22	-
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

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Source: NSSO (1998).

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One general thrust of structural adjustment is to reduce distortions caused by prices that do not reflect market value. Since substantial quantity of crops are imported and exported¹¹, this implies bringing domestic prices in line with the international prices by reducing subsidies and taxes on imported and exported food items. This move would tend to reduce the income of producers and raise the prices paid by consumers. Since, the survey results do not present statistics on the crops grown by the poor, the focus will now be on the likely impact of rising consumer prices on the consumption pattern of the poor.

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¹¹ In 1996–97, the share of agricultural and allied products in the total exports was 21 per cent: of which rice accounted for 12.7 per cent of the total agricultural exports. The imported share of agricultural and allied products was 3.8 per cent of the total imports with 0.8 per cent for cereals and pulses (GOI, 1998).

¹² See Sharma et al. (1998) for a comprehensive understanding of the calculation of these coefficients.

The reported results of nominal protection coefficients show that rice and wheat are highly unprotected and maize, jowar and gram are little less than unity while protection coefficient for arhar is high. Under condition of trade liberalisation in agricultural sector, the prices of those commodities which are highly disprotected will rise — coarse cereals, pulses and edible oil and those which are highly protected will decline — arhar.¹³

The distributional impact of agricultural trade liberalisation on the poor depends on the share of individual items in the consumption basket of the rural and urban poor. The crops which are highly disprotected have a higher share in the consumption basket of the poor. Therefore, changes in the prices of these commodities induced under conditions of trade liberalisation affects the poorer sections largely. Since the demand for these commodities are inelastic — any increase in the price of these commodities will reduce their disposable income for the consumption of other commodities (non-food).

The prices of food, cereals and pulses, in particular, are likely to increase under conditions of trade liberalisation in agriculture. Since cereals are the major constituents of the consumption basket of the poor and demand for these commodities being inelastic, there will be a major shift in the consumption portfolio of the poor. The consumption of non-food commodities will be cut and major brunt of this would be taken by education and health.¹⁴ If the price increase in food crops is very high then the expenditure on these basic consumption commodities (with inelastic demand) will offset the expenditure on other non-foods including education and health. However, this depends on the level of increase in the prices of crops which are highly disprotected. Hence, in general, liberalisation of trade in agriculture imposes constraints in increasing the level of private expenditure on education and health for (poor) households with limited budget and inelastic demand for food. This decline in the private expenditure will tend to increase morbidity and mortality, under conditions of inefficient public provision.¹⁵

Among urban poor, the pattern of consumption is slightly different. The larger share of consumption expenditure is on food other than cereals and pulses. Since the impact of trade liberalisation depends on the increased prices of those commodities which are consumed by the urban poor, the increase in the price of cereals and pulses in the post trade liberalisation will hit the poor hard though the effect will be much more on the rural poor.

¹³ See Gulati and Sharma (1997).

¹⁴ Expenditure on education and health constitute only around 3 per cent of the total household budget and is given the least priority in the preference ordering of the items in the household budget.

¹⁵ Elsewhere in this paper, it is shown that most of the welfare programmes seldom comply in targeting the poor.

The household budget of the urban poor reveals that approximately 30 per cent of the consumption expenditure is on the other food. The prices of some of the commodities included in this budget will increase if they were subjected to trade reforms. For example, prices of sugarcane and edible oils will decline in the post liberalisation scenario as the prices of these commodities are higher in relation to the international prices. Across occupational categories among urban poor, the pattern of consumption reveals the same trend. The budgetary share of consumption of these commodities are high, therefore, trade liberalisation of these commodities will benefit the urban poor more than the rural poor and the trade liberalisation on cereals will affect the rural poor more than the urban poor.

This takes us to the role of Public Distribution System (PDS) in mitigating and targeting the poor in case of trade liberalisation. The percentages of the poor households purchasing some commodities from fair price shops are presented in Table 7. This table reports that on an average 42 per cent of the rural poor depend on PDS for foodgrains.

Table 7
Percentage of Poor Households Purchasing Commodities from Fair Price Shops in Rural and Urban India

Occupational Categories	Foodgrain		Edible Oil		Sugar		Kerosene	
	Rural	Urban	Rural	Urban	Rural	Urban	Rural	Urban
Self-employed Farm	29.00	0.00	9.40	0.00	100.00	100.00	91.50	100.00
Self-employed Non-farm	37.70	65.50	14.00	33.20	100.00	100.00	97.70	83.60
Salary	56.00	62.80	11.20	36.70	100.00	100.00	89.50	93.00
Agricultural Wage	47.80	34.60	13.20	0.00	99.40	100.00	88.10	80.30
Non-agricultural Wage	42.00	50.80	16.00	13.10	96.00	100.00	89.70	84.80
Others	50.30	35.50	4.40	20.70	100.00	100.00	82.50	100.00
All	41.70	58.50	12.20	27.80	99.20	100.00	89.60	87.41

Table 8
Percentage of Foodgrain Requirements of Poor Households not met by Fair Price shops

Occupational Categories	Proportion of Foodgrain Requirement not Met	
	Rural	Urban
Self-employed Farm	49.30	-
Self-employed non-farm	62.60	47.00
Salary	76.00	26.00
Agricultural Wage	63.40	-
Non-agricultural Wage	49.50	43.90
Others	50.70	58.30
All Occupations	59.20	41.20

In urban areas, a larger percentage, close to 60 per cent depend on PDS for foodgrains. Therefore, in case of trade liberalisation, the worst affected will be the rural poor whose dependence on market for purchase of foodgrains is higher. The impact of sugar price increase will not be much on the poor as almost all the poor depend on PDS for purchasing sugar. Therefore, PDS should be endorsed to absorb these shocks and share the increased prices due from trade liberalisation. Special attention should be paid in subsidising food items in the rural areas where close to 60 per cent of the foodgrain requirements of the poor households who purchase from the fair price shops are not met (see Table 8).

One expenditure category that is at the heart of much policy debate is fuel. A substantial percentage of the total expenditure is spent on fuel. This accounts for approximately 4 and 7 per cent of the budgets for rural and urban poor respectively.¹⁶ The share of expenditure on fuel is higher than the expenditure on health and education across all occupational categories among urban poor. Hence, the rising fuel prices will have direct consequences on urban poor. The urban poor would be pressurised to reduce the expenditure for health and education to maintain the previous levels of consumption. This will have adverse consequences on the human capital formation. This conclusion at the outset would seem convincing. However, the percentage of poor households purchasing fuel — kerosene, the most important of the fuel — from fair price shops are close to 90 per cent. In case of increase in fuel prices, the PDS should accordingly subsidise and accommodate the remaining 10 per cent of the non-purchasers, that is they also purchase from PDS.

IV.2 Impact of Inflation

Another transmission mechanism identified in the literature is inflation, which probably has the most common and disruptive immediate effect of reforms on poor (Glewwe and Try, 1989). Inflation, in general and in primary commodities (mainly consumed by poor) in particular, emerges as an unambiguously regressive tax, which reduces the income share of the lowest quintile and raises the share of the highest quintile (Guitian, 1998).

The inflation spree in the Indian economy began in 1990 and continued through 1991, with the rate of inflation peaking at 16.7 per cent in 1991. Primary goods led the inflation surge with an inflation rate of 21.6 per cent in the middle of 1991, the pressure on foodgrain prices were even higher. During this period Indian Government took several measures

¹⁶ From the point of view of price effects on welfare, it is market purchases which are important. The figure (4 per cent) for rural poor also includes the imputed value of firewood collected. The rising prices will have lower consequences on the rural poor.

such as fiscal correction, checking the growth of broad money (M3), etc. to curtail the increasing prices. Fiscal retrenchment and credit squeeze were combined with a 19 per cent devaluation of the rupee, supplemented by a standby credit from the International Monetary Fund (IMF). While devaluation and monetary and fiscal restrictions would hit the poor, had inflation continued at the old level without any adjustments, higher prices of food and other necessities would have harmed the poor even more.

Structural adjustment and liberalisation not only involves a single price jump but also continuing inflation, if deficits are not curtailed. Inflation in the subsequent period came down because of government efforts, but the price jump was to the level of 13.6 per cent for essential commodities (CPI) and 15.6 per cent in food prices during the year 1991–92 based on CPI for industrial workers.

Table 9
Annual Rate of Inflation (CPI – IW) in Essential Commodities

	1991–92	1992–93	1993–94	1994–95	1995–96	1996–97	Annual Average Increase
General Index	13.60	8.40	8.60	9.80	10.30	10.80	10.25
Rice	16.30	15.30	5.40	16.80	6.70	10.70	11.87
Wheat	17.30	16.80	7.80	13.90	38.70	38.70	22.20
Jowar	81.00	6.20	-21.70	14.30	49.20	7.80	22.80
Bajra	50.00	-20.80	7.10	37.20	13.90	-0.60	14.48
Arhar	13.90	-8.70	10.50	5.70	52.10	-4.10	11.57

Note: CPI–(IW) refers to Consumer Price Index for Industrial Workers. Annual average increase is the average of CPI (IW) for each of the commodities over the six years from 1991–92 to 1996–97.

Source: *Economic Survey*, (various issues).

The effect of inflation on the poor would, however, depend on whether the prices of goods consumed by the poor increased much more than the other categories of goods not consumed by the poor. The highest price increase in 1991 was for food articles.¹⁷ The annual rate of inflation for 1991–92 was highest for jowar (81 per cent), bajra (50 per cent), rice (16.3 per cent), wheat (17.3 per cent) (Table 9). These commodities account for 67 per cent and 59 per cent of the consumption basket of the poor (Table 5 and 6) in rural and urban areas, respectively. Even though inflation in these commodities came down in 1993–94 (due to good agricultural performance), the increasing spree of prices in the subsequent years continued in food articles. The price of wheat increased by 38.7 per cent in 1995–96 and continued to rise in the next year. Price of rice increased by 16.8 per

¹⁷ While food prices (Wholesale Price Index) increased by 19.9 per cent, prices of non-food increased by 18 per cent (GOI, 1992).

cent in 1994–95 and in 1996–97, it further increased by 10.7 per cent. The annual average increase in prices of essential commodities is the highest for jowar and bajra (18 per cent). The continuing addition to prices of the essential commodities to the 1991 level is an unfavourable trend for the poor in general and even more pronounced for the rural poor.¹⁸ In the later years, the continuing addition is not at the 1991 level, because of the government efforts towards controlling monetary growth, importing wheat to augment the public stocks and various other measures (GOI, 1997).

Generally, lower income groups tend to have the least access to assets¹⁹ which act as hedge against inflation and are often the weakest in their ability to secure effective indexation of their wages. There are theoretical reasons²⁰ to suggest that rapid price inflation will generate faster increase in food prices than in the general price level; and this will have disproportionate impact upon major poverty groups — wage earners, self-employed (farm and non-farm) in rural and urban areas.

V. SOURCES OF INCOME

The sources of income for rural and urban poor by occupational categories are analysed in this section. Besides having lower incomes and few assets than the non-poor, the poor often have distinct sources of livelihood. It is common that households diversify their sources of income to reduce the risk of adverse circumstances, which may cause a sharp drop in income. It is, therefore, necessary to identify and profile the sources of income for the poor. Tables 10 and 11 present an initial decomposition of sources of income and its distribution by occupational categories. Clearly, agricultural wage is the most important source of income for the rural poor, accounting for 37 per cent of the total income. The next most important category is farm income, which accounts for 31 per cent of the total income. The disaggregation of farm income shows that agricultural income is 26 per cent of the total income which is quite substantial. Income from livestock in rural areas is about 3 per cent of the total income. Predictably, the dependence on livestock operations in rural area is higher, where livestock operations account for 3.37 per cent of the total income. Clearly, any strategy for growth or poverty alleviation must pay particular attention to agricultural sectors.

¹⁸ These commodities account for a larger percentage (68 per cent) of the total household budget of the rural poor.

¹⁹ See Table 15 for the average holding of basic productive asset, namely land owned by the poor in rural areas.

²⁰ See Killick (1984).

Table 10
Source of Income among Rural Poor: Percentage Share of Items and Distribution
across Occupational Categories

Variables	Self-employed (Farm)	Self-employed (Non-Farm)	Salary	Agricultural Wage	Non-Agricultural Wage	Others	All Occupations
Farm	76.67 (77.15)	3.93 (0.52)	9.37 (2.99)	9.95 (13.37)	9.38 (3.56)	25.19 (2.42)	30.52 (100.00)
Live Stock	7.12 (64.86)	0.22 (0.27)	1.35 (3.89)	2.14 (26.04)	0.95 (3.25)	1.95 (1.69)	3.37 (100.00)
Agriculture	66.62 (78.45)	2.77 (0.43)	7.71 (2.88)	7.64 (12.01)	8.20 (3.64)	23.10 (2.60)	26.08 (100.00)
Plantation	0.54 (88.21)	0.00 (0.00)	0.00 (0.00)	0.02 (3.40)	0.13 (7.86)	0.03 (0.53)	0.19 (100.00)
Allied Activity	1.70 (93.24)	0.89 (6.44)	0.00 (0.00)	0.00 (0.00)	0.02 (0.32)	0.00 (0.00)	0.56 (100.00)
Family Labour	0.70 (66.60)	0.05 (0.65)	0.31 (9.27)	0.15 (19.33)	0.09 (3.17)	0.11 (0.98)	0.32 (100.00)
Non-Farm	0.69 (4.87)	32.25 (76.37)	6.38 (14.26)	0.39 (3.64)	0.33 (0.87)	0.00 (0.00)	4.35 (100.00)
Others	5.51 (22.47)	9.62 (5.16)	5.14 (6.64)	5.28 (28.72)	6.83 (10.49)	68.17 (26.52)	7.54 (100.00)
House Property	4.64 (26.95)	8.43 (6.44)	4.63 (8.50)	4.14 (32.09)	6.04 (13.21)	23.15 (12.82)	5.29 (100.00)
Interest	0.87 (11.89)	1.19 (2.15)	0.52 (2.24)	1.14 (20.78)	0.79 (4.06)	45.03 (58.89)	2.24 (100.00)
Gross Salary	1.34 (5.42)	0.00 (0.00)	73.41 (94.06)	0.08 (0.44)	0.05 (0.08)	0.00 (0.00)	7.59 (100.00)
Total Wage (Agri)	9.29 (7.74)	3.58 (0.39)	3.95 (1.04)	79.91 (88.95)	4.75 (1.49)	4.68 (0.37)	36.84 (100.00)
Total Wage (non-agri)	6.50 (15.18)	0.62 (0.19)	4.40 (1.29)	78.66 (13.71)	1.96 (69.19)	13.16 (0.44)	100.00 (100.00)
Total income	100.00 (30.72)	100.00 (4.04)	100.00 (9.73)	100.00 (41.01)	100.00 (11.58)	100.00 (2.93)	100.00 (100.00)

Notes: (a) Non-farm comprises mainly business/trade, crafts like blacksmiths, goldsmiths, weaving and professionals such as doctors, lawyers, etc.
(b) House property includes imputed value of rent.
(c) Figures in parenthesis are percentage distribution across occupational categories.

Turning now to the occupation based categories, the pattern of income is different so far as the rural poor are concerned. Apart from the main source of income on which occupational categories are based, the other sources of income are important. For agricultural wage category which constitutes 44 per cent of the total poor, farm income accounts for 10 per cent of their total income, which is further 13 per cent of the total farm income.

Table 11
Source of Income among Urban Poor: Percentage Share
of Items and Distribution across Occupational Categories

Variables	Self-employed (Farm)	Self-employed (Non-Farm)	Salary	Agricultural Wage	Non-Agricultural Wage	Others	All Occupations
Farm	73.85 (86.29)	0.48 (7.42)	0.47 (6.16)	0.00 (0.00)	0.01 (0.13)	0.00 (0.00)	2.31 (100.00)
Live Stock	14.76 (100.05)	0.00 (0.00)	0.01 (0.78)	0.00 (0.00)	0.01 (0.73)	0.00 (0.00)	0.40 100.00
Agriculture	59.09 (83.42)	0.48 (8.97)	0.48 (7.61)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	1.91 (100.00)
Non-Farm	0.00 (0.00)	89.88 (97.80)	2.06 (1.88)	0.00 (0.00)	0.49 (0.32)	0.00 (0.00)	33.01 (100.00)
Others	4.99 (1.15)	8.90 (27.23)	9.27 (23.82)	6.00 (2.64)	7.13 (13.05)	82.13 (32.13)	11.74 (100.00)
House Property	4.99 (1.68)	7.13 (31.88)	8.24 (30.90)	4.43 (2.84)	7.00 (18.71)	24.48 (13.98)	8.04 (100.00)
Interest	0.00 (0.00)	1.76 (17.12)	1.03 (8.43)	1.57 (2.19)	0.13 (0.74)	57.65 (71.52)	3.70 (100.00)
Gross Salary	0.00 (0.00)	0.00 (0.00)	85.03 (98.81)	0.00 (0.00)	0.00 (0.00)	6.74 (1.19)	25.95 (100.00)
Total Wage (Agri)	9.79 (5.98)	0.27 (2.16)	0.14 (0.92)	69.14 (80.64)	2.12 (10.30)	0.00 (0.00)	4.42 (100.00)
Total Wage (non-agri)	11.38 (1.36)	0.48 (0.77)	3.04 (4.06)	24.86 (5.68)	90.25 (85.87)	11.13 (2.26)	22.58 (100.00)
Total Income	100.00 (2.70)	100.00 (35.93)	100.00 (30.15)	100.00 (5.15)	100.00 (21.48)	100.00 (4.59)	100.00 (100.00)

Notes: (a) Non-farm comprises mainly business/trade, crafts like blacksmiths, goldsmiths, weaving and professionals such as doctors, lawyers, etc.
(b) House property includes imputed value of rent.
(c) Figures in parentheses are percentage distribution across occupational categories.

For the self-employed farm category, agriculture and livestock constitute 67 per cent and 7 per cent, respectively of their total income. Apart from these incomes, agricultural wage accounts for 9 per cent of the total income which is more than the income from livestock. The dependence on livestock operations for income among self-employed farm category is higher compared to other occupational categories. This source of income for the self-employed farm category is 65 per cent of the total livestock income in rural areas.

The pattern of income among poor in the urban areas seems to be different. Clearly, non-farm self-employed activities are the most important source of income, constituting 33 per cent of the total income. The next most important source of income is salary having 26 per cent share of the total income. Non-agricultural wage income accounts for 23 per cent and

income from house property and interest accounts for 12 per cent of the total income. Among occupational groups having the largest number of poor in urban areas, (self-employed non-farm and non-agricultural wage) the most important secondary source of income is from house property and interest. The dependence on livestock operations in urban India seems to be marginal which constitutes only 0.4 per cent of the total income for the urban poor. For the self-employed farm category, the dependence on live stock operations is higher in urban areas compared to the same occupational category in rural areas. This constitutes around 15 per cent of the total income for urban and 7 per cent for the rural based self-employed farm category.²¹ Income from other sources — house property and interest is substantial, around 7 per cent, for occupational categories like self-employed non-farm and non-agricultural wage earners.

To analyse how the poor will be affected by structural adjustment programme, it is equally necessary to examine the sources of income for the poor. The transmission mechanism from structural adjustment programmes to income of the poor depends on the changing conditions of employment in the formal sector (salary earning group) and also on the changes in the prices of agricultural outputs and inputs. Though there exists a range of indirect effects from structural adjustment, the emphasis is on the direct effects only.

During structural adjustment, the government attempts to downsize the payroll in the public sector in order to reduce deficits. Such effects are also felt in other formal sector employment. The distribution of income by source and occupational categories, reported in Table 10 and 11, supports the conclusion that dependence on salary as a source of income is higher in urban areas, where salary income accounts for 26 per cent of the total income as compared to just 8 per cent in the rural areas.²² Therefore, the downsizing of public sector employment or retrenchment, as part of adjustment policy, will affect the urban poor more than the rural poor and specially, those employed in the formal sector. Formal sector employment is usually most immediately affected by reduction in employment, but this has knock-on effects for the rest of the economy as the number of people seeking a living in the informal sector increases. Initially, opportunities in the informal sector may expand as lower incomes lead to a shift towards cheaper goods produced in this sector. But linkage effect with the formal sector will depress markets in this sector and earnings per person are further reduced as a result of the expansion in number seeking a living in this sector.

²¹ This result is based on a few sample households and therefore cannot be generalised.

Another aspect of the structural adjustment is the liberalisation of trade in the agricultural sector. Table 10 and 11 reveal the dependence of the households on the agricultural and plantation sector for income. The major source of income for the self-employed farm households is from agricultural activity (67 per cent). This accounts for 78 per cent of the total agricultural income. Other occupational categories are net purchasers from the market. This shows that the gains from trade liberalisation in the agricultural crops on account of increase in the prices of pulses and coarse cereals benefits only 31 per cent of the total rural poor, who are self-employed in farm and are assumed to be the net producers having 78 per cent of the total agricultural income (Table 10). Also the rest are net losers since they do not benefit from this increase in the price and further lose by depending on the market for purchases at higher prices. The gains depend on the crops they produce — wheat and rice producers gain from increasing prices and producers of coarse cereals and pulses may lose under the changing ambience towards liberalisation of trade.

The net gains made in the agricultural sector due to trade liberalisation (Sharma et al., 1997) may increase wages with a time lag. However, the immediate impact is negative for the wage earners as the prices of cereals, which account for more than 60 per cent of their total expenditure increase, while wages remain constant. Therefore, the net gainers under such policy changes are the households dependent on the self-employed farm income though this hinges on the type of crops they produce.

VI. ASSET OWNERSHIP AND VULNERABILITY OF POOR

The basic entitlement or assets owned reflects a person's ability to reduce his vulnerability from worsening further and a change (sale/mortgage of assets) otherwise, reflects movement towards vulnerability. Tables 12 and 13 map the ownership entitlement of the poor, based on the net change in physical assets. The tables, essentially, identify the occupational categories which are potentially vulnerable to unfavourable entitlement changes and the nature of net change in physical investment.²³ A negative change in assets reflects increasing vulnerability, such as livestock operations in rural areas. Livestock asset, in general, is held for its returns and the returns from this asset are also low like the investment in this asset.²⁴ Though stock holdings or total assets owned are important but given the low asset holdings of the poor, a negative change reflects increased vulnerability. In both regions, wage earners and self-employed (farm) have the lowest net investment in assets.

²³ Investment in physical assets is defined as purchases - sales + additions/improvements + net inflow of capital transfers.

²⁴ Income from livestock operations account for just 3 per cent for the poor in rural areas (see Table 11).

Table 12
Per capita Net Change in Physical Assets Owned by Poor
and their Distribution in Rural India by Occupational Categories

(in Rs)

Variables	Self-employed (Farm)	Self-employed (Non-Farm)	Salary	Agricultural Wage	Non-Agricultural Wage	Others	All Occupations
Agriculture & Live Stock	139.17 (57.42)	87.31 (33.92)	68.58 (9.36)	-14.95 (-18.81)	15.99 (24.08)	81.31 (41.42)	47.79 (26.55)
Business Assets	0.00 (0.00)	22.81 (8.86)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	0.77 (0.43)
House Property	30.61 (12.63)	33.52 (13.02)	15.57 (2.13)	15.77 (19.84)	7.48 (11.27)	22.48 (11.45)	19.95 (11.08)
Gold & Jewellery	47.26 (19.50)	63.07 (24.50)	418.42 (57.12)	30.20 (38.00)	21.63 (32.58)	89.09 (45.38)	62.65 (34.80)
Consumer Durables	25.35 (10.46)	50.72 (19.70)	230.00 (31.40)	48.46 (60.97)	21.29 (32.07)	3.42 (1.74)	48.87 (27.15)
Total Asset	242.39 (100.00)	257.43 (100.00)	732.57 (100.00)	79.48 (100.00)	66.39 (100.00)	196.30 (100.00)	180.03 (100.00)

Notes: (a) Agriculture and Livestock includes investment and improvement in land, farm assets and livestock.
(b) Gold and jewellery includes silver and other metals used for jewellery.
(c) Figures in parenthesis are percentage distribution.

The asset status of rural community does not remain static and the way it evolves over time is the primary determinant of changing vulnerability (Swift, 1989). The holding of these assets also act as hedge against inflation and other calamities.

Poor households hold tangible assets and have different strategies and exploit or cash their assets in different combinations and sequences. Low assets can be a good indicator of vulnerability. The criteria of poor people holding assets as a hedge against crises depends to a large extent on the characteristics of these assets such as divisibility, ease of sale or mortgage, maintaining value in bad times, etc.²⁵

Table 13
Per capita Net Change in Physical Assets Owned by Poor
and their Distribution in Urban India by Occupation Categories

(in Rs)

Variables	Self-employed (Farm)	Self-employed (Non-Farm)	Salary	Agricultural Wage	Non-Agricultural Wage	Others	All Occupations
House Property	0.00 (0.00)	139.12 (17.98)	425.48 (84.47)	10.86 (111.04)	130.03 (61.60)	127.63 (16.21)	199.97 (42.26)
Gold & Jewellery	0.00 (0.00)	389.47 (50.32)	- 1.92 (-0.38)	- 92.31 (-943.87)	29.81 (14.12)	43.32 (5.50)	127.06 (26.85)
Consumer Durables	0.00 (0.00)	245.36 (31.70)	80.14 (15.91)	91.23 (932.82)	51.24 (24.28)	616.54 (78.29)	146.17 (30.89)
Total Asset	0.00 (0.00)	773.95 (100.00)	503.70 (100.00)	9.78 (100.00)	211.08 (100.00)	787.49 (100.00)	473.20 (100.00)

Notes: (a) Agriculture and Livestock includes investment and improvement in land, farm assets and livestock.
(b) Gold and jewellery includes Silver and other metals used for Jewellery.
(c) Figures in parenthesis are percentage distribution.

²⁵ See Swift (1989).

In the rural regions of India, the largest net additions to the existing asset base is in the form of gold and jewellery. Investment in this asset has dual purpose in rural areas. First, it can be easily mortgaged and can be divided.²⁶ Second, it has ornamental value and is used for exhibiting gold, silver and other metals in the form of jewellery worn mainly by females, generally during social gatherings. This, in some way is a reflection of the demonstration effect. Gold and jewellery also occupy a major share in the dowry given in marriages, typical to the Indian culture. This is generally prevalent in most parts of rural India though less so in some parts of urban areas.

Adjustment programme with major structural reforms can have a large impact on the value of these assets and hence, on the distribution of these assets in the post reforms period. For example, an open economy with free flow of gold will reduce the value of these assets and hence, reduce the real value of the existing holdings. This will immediately affect the poor in both the areas and more prominently in the rural areas where the investment in this asset is relatively high. The per capita net change in this asset for the salary earners is the highest in rural areas. They invest more than 50 per cent of their total investments in this asset. This is also true for the self-employed non-farm in urban areas. In urban areas, the largest investment is in real assets. The value of this tangible asset has appreciated and has a steady increasing value unlike in rural areas. The importance attached to gold and jewellery in urban areas is the least with consumer durables in between. The removal of regulation in the housing market, such as rent control, etc. (as a result of liberalisation) and with rising real incomes, the value of housing stock is likely to benefit those poor households who own and invest in these assets. In urban areas, all the occupational categories are likely to gain except self-employed farm category.²⁷

Table 14
Average Landholdings per Household across Different
Occupational Groups among Rural Poor

Occupational Categories	(in acres)	
	Irrigated land owned	Unirrigated land owned
Self-employed*Farm	0.200	0.251
Self-employed Non- Farm	0.010	0.090
Salary	0.052	0.092
Agricultural Wage	0.023	0.076
Non-Agricultural Wage	0.027	0.068
Others	0.104	0.150
All Occupations	0.082	0.132

²⁶ Almost all big villages in India have pawn shops and are accessible from almost all small villages where ornaments made of gold can be easily cashed or mortgaged.

²⁷ This category has few households and none of these households report owning any assets except land and farm assets.

Investment in consumer durables is high for rural agricultural wage earners and in urban, "others" category. In a more open economy that allows for free import of new consumer durable goods, the value of the stocks of existing consumer durable goods will reduce, thus leading to some loss for their owners. Rural agricultural wage earners are likely to lose more, given the pattern of their investment in this asset. The inequality in the investment pattern among occupational categories is likely to further increase the concentration of assets.

The average rural landholdings for both irrigated and unirrigated farm land are presented in Table 14. Although poor hold relatively very little land in comparison to the non-poor, among the former, the highest holding of the irrigated land is held by self-employed farm category (0.2 acres) and the lowest is held by agricultural wage earners (.02 acres). The removal of disincentives against the agricultural sector such as overvalued exchange rate, export taxes, low domestic prices for their crops, etc. is likely to raise the value of farm land, especially the farm land that produces export crops. However, the impact of increase in the value of land on wealth distribution will depend on the initial concentration of landholdings. This increase in the value of land will provide an economic bonanza to its owners, who are generally non-poor and will further increase the concentration of landholdings. Among poor, self-employed farm category are the major gainers in rural areas.

Adjustment programmes with major structural reforms are likely to bring about major changes in the distribution of wealth. Those who own assets such as land, housing, etc. will gain while others will lose. The distribution of wealth in the post adjustment period will become less even and increase the concentration of wealth and hence, increase the vulnerability of the have nots. It is essentially due to these effects that economic policies in the post adjustment period become particularly important. When there is inequality in the distribution of assets and the social policy is indifferent to this existing poor distribution of asset and income, growth may not be associated with equality.

VII. IMPACT OF REDUCED PUBLIC SPENDING ON POOR

This section attempts a comprehensive evaluation of the impact of some of the social sector policies on the poverty (occupational) groups at the micro level. Structural adjustment programmes often advocate allocating resources from high cost curative care to low cost preventive care in the area of health. Institutional user fees in public health facility and

opening up of medical care to private sector is also a common adjustment policy. 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 health and social safety nets.

VII.1 Health

An important aspect of basic needs fulfillment is the level of well-being of poor households. The statistics reported in Table 15 provides some useful insights regarding the type of health facility used and the percentage of illness treated. Almost across all occupational categories, more than 80 per cent of the rural poor seek treatment from either public or private providers of health facilities. Generally speaking, when poor people are sick, most of them do visit some health facilities and they are most likely to see a private health provider — close to 60 per cent of the illness treated in rural area are by private providers. This is also reflected in urban areas with much more intensity where approximately 70 per cent of ill are treated by private providers. Even though the cost of treatment per illness is high in the private health facility area, the poor tend to go to the private providers. This seems to be counter intuitive since the higher prices in the private health facility (see Table 16) should attract low demand. And also surprising is the number of households (46 per cent) expressing full satisfaction from government health facility (see Table 17).

The survey provides some interesting results. It is evident from Table 18, that the most important factor influencing a larger number of people, is the advantage of the private facilities being close by. This reflects to a large extent, the fact that the poor are disproportionately found in rural areas, where government health facilities are less accessible. In other words, if government health facility is available and is close by then a larger number of poor households can be expected to visit a government health facility. Hence, lack of enough government health facility in the rural areas has made larger number of poor households to choose private health facility. Most of the poor would stand to benefit if structural adjustment leads to better access to health care in the rural areas.

Table 15
Illness Treated and Source of Treatment Sought among Rural and Urban Poor

(in percentage)

Occupational Categories	Illness Treated	Source of Treatment					
		Government Health Facility		Total	Private Providers	Others	All
		Hospital	Non-hospital				
Self-employed Farm	79.20	18.30	11.60	29.90	65.10	4.60	100.00
Self-employed Non-farm	85.90	25.80	23.60	49.40	35.50	14.80	100.00
	(94.70)	(38.80)	(5.30)	(44.10)	(52.10)	(3.80)	(100.00)
Salary	86.00	27.60	7.00	34.60	53.50	8.40	100.00
	(100.00)	(9.70)	(0.00)	(9.70)	(90.30)	(0.00)	(100.00)
Agricultural Wage	89.20	22.50	14.80	37.40	52.60	6.60	100.00
	(44.50)	(22.90)	(0.00)	(22.90)	(77.10)	(0.00)	(100.00)
Non-agricultural Wage	76.80	18.40	11.50	29.80	65.70	0.00	100.00
	(95.90)	(21.50)	(3.60)	(25.00)	(75.00)	(0.00)	(100.00)
Others	87.50	31.30	12.60	44.00	56.00	0.00	100.00
	(100.00)	(35.80)	(0.00)	(35.80)	(64.20)	(0.00)	(100.00)
All Occupations	84.00	21.30	13.30	34.70	57.60	5.50	100.00
	(89.80)	(26.50)	(3.10)	(29.50)	(68.70)	(1.70)	(100.00)

- Notes:** (a) Any person who has suffered illness during the last 30 days preceding the survey is defined as ill. It includes illness prevailed/prevaling at any time during the period irrespective of when it occurred.
 (b) The figures reported for each of the sources of treatment are mutually exclusive.
 (c) "Non-hospital" in the sources of treatment includes Primary Health Centre/Community Health Centre, Sub-Centre/ANM Anganwadi/VHW MPH/W/Mobile Dispensary and the category "Others" in the sources of treatment includes medicine shop/pharmacist, home remedies and faith healers/religious persons.
 (d) Figures in parenthesis are for urban areas.

Table 16
Average Cost of Treatment per Illness by Source of Treatment among Rural and Urban Poor

(in Rs)

	Government Facility	Private Facility	All Facility
Self-employed Farm	41.00	164.00	127.00
	(0.00)	(624.00)	(606.00)
Self-employed Non-farm	73.00	190.00	120.00
	(96.00)	(361.00)	(234.00)
Salary	48.00	708.00	422.00
	(11.00)	(249.00)	(226.00)
Agricultural Wage	52.00	166.00	121.00
	(139.00)	(478.00)	(400.00)
Non-agricultural Wage	31.00	96.00	74.00
	(121.00)	(293.00)	(250.00)
Others	17.00	145.00	89.00
	(923.00)	(88.00)	(387.00)
All Occupations	47.00	181.00	131.00
	(152.00)	(328.00)	(273.00)

Note: Figures in parenthesis are for urban areas.

Table 17
Level of Satisfaction of Treatment Received from Government Health Facility among Rural and Urban Poor

(in percentage)

	Fully	Partly	Not Satisfied	Cannot Say	All
Self-employed Farm	58.20	23.90	0.30	19.10	100.00
	(-)	(-)	(-)	(-)	(-)
Self-employed Non-farm	32.50	38.90	2.80	25.80	100.00
	(25.60)	(47.00)	(1.40)	(25.90)	(100.00)
Salary	11.90	69.80	7.40	0.00	100.00
	(23.70)	(76.30)	(0.00)	(0.00)	(100.00)
Agricultural Wage	42.10	28.20	20.50	9.80	100.00
	(100.00)	(0.00)	(0.00)	(0.00)	(100.00)
Non-agricultural Wage	57.90	39.20	0.70	2.20	100.00
	(54.00)	(9.80)	(36.30)	(0.00)	(100.00)
Others	31.70	2.00	60.40	5.90	100.00
	(0.00)	(0.00)	(78.30)	(21.70)	(100.00)
All Occupations	45.60	29.80	12.90	11.90	100.00
	(33.30)	(35.70)	(13.40)	(17.60)	(100.00)

Note: Figures in parenthesis are for urban areas

Table 18
Factors Influencing Utilisation of Government Health Facility among Rural and Urban Poor

(in percentage)

	Cost free	Close by	Quality Service	No Alternative	Unaffordable	Faith	Others	All
Self-employed Farm	20.00	36.30	13.00	9.50	0.00	21.20	0.00	100.00
	(-)	(-)	(-)	(-)	(-)	(-)	(-)	(-)
Self-employed Non-farm	27.20	0.00	0.00	5.30	7.40	41.60	18.40	100.00
	(26.70)	(4.70)	(5.60)	(0.00)	(55.50)	(7.50)	(0.00)	(100.00)
Salary	20.50	0.00	18.30	0.00	0.00	61.20	0.00	100.00
	(23.70)	(0.00)	(0.00)	(0.00)	(0.00)	(76.30)	(0.00)	(100.00)
Agricultural Wage	33.90	28.90	10.40	3.60	3.30	19.90	0.00	100.00
	(0.00)	(100.00)	(0.00)	(0.00)	(0.00)	(0.00)	(0.00)	(100.00)
Non-agricultural Wage	18.60	39.10	12.10	0.00	6.50	23.70	0.00	100.00
	(28.50)	(3.20)	(68.40)	(0.00)	(0.00)	(0.00)	(0.00)	(100.00)
Others	66.30	30.80	0.00	2.90	0.00	0.00	0.00	100.00
	(21.70)	(0.00)	(0.00)	(0.00)	(0.00)	(78.30)	(0.00)	(100.00)
All Occupations	28.80	28.90	10.70	4.80	2.60	23.10	1.00	100.00
	(25.20)	(8.50)	(17.50)	(0.00)	(34.50)	(14.30)	(0.00)	(100.00)

Notes: (a) The figures reported here are the principal reasons and are mutually exclusive.

(b) Figures in parenthesis are for urban areas.

In urban areas, 34 per cent of the poor seeking treatment in government health facility prefer this source because other types of health facilities are unaffordable. On the other hand, a substantial number of poor (25 per cent) also prefer this facility because they are cost free.

The reasons attributed for seeking treatment from the private health facility is the better quality provision of these facilities by the private providers (see Table 20). Though a large percentage respond as completely satisfactory (see Table 19), the responses of various occupation groups are different.

Table 19
Level of Satisfaction of Treatment Received from Private Health Facility Among Rural and Urban Poor

(in percentage)

	Fully	Partly	Not Satisfied	Cannot Say	All
Self-employed Farm	45.20 (0.00)	39.60 (100.00)	9.30 (0.00)	5.30 (0.00)	100.00 (-)
Self-employed Non-farm	32.30 (35.90)	67.70 (38.50)	0.00 (6.10)	0.00 (19.40)	100.00 (100.00)
Salary	35.10 (66.90)	46.80 (30.50)	0.00 (0.00)	18.10 (2.60)	100.00 (100.00)
Agricultural Wage	53.80 (49.50)	38.00 (3.40)	4.20 (47.20)	3.20 (0.00)	100.00 (100.00)
Non-agricultural Wage	57.10 (41.30)	33.90 (55.10)	8.20 (0.00)	0.80 (3.60)	100.00 (100.00)
Others	17.10 (100.00)	75.30 (0.00)	0.00 (78.30)	7.60 (21.70)	100.00 (100.00)
All Occupations	48.80 (46.50)	40.10 (40.50)	6.10 (5.30)	4.40 (7.70)	100.00 (100.00)

Note: Figures in parenthesis are for urban areas.

Table 20
Factors Influencing Utilisation of Private Health Facility among Rural and Urban Poor

(in percentage)

	Cost free	Close by	Quality Service	No Alternative	Unaffordable	Faith	Others	All
Self-employed Farm	0.00 (0.00)	33.50 (52.90)	36.80 (47.10)	7.30 (0.00)	2.40 (0.00)	19.40 (0.00)	0.70 (0.00)	100.00 (100.00)
Self-employed Non-farm	0.00 (0.00)	16.60 (33.40)	26.10 (66.60)	6.60 (0.00)	0.00 (0.00)	50.70 (0.00)	0.00 (0.00)	100.00 (100.00)
Salary	0.00 (0.00)	11.40 (11.50)	43.50 (56.90)	0.00 (0.00)	0.00 (0.00)	41.00 (16.80)	4.10 (14.80)	100.00 (100.00)
Agricultural Wage	3.90 (0.00)	15.20 (47.20)	53.90 (49.50)	4.40 (0.00)	0.50 (3.40)	19.10 (0.00)	3.00 (0.00)	100.00 (100.00)
Non-agricultural Wage	0.00 (0.00)	48.90 (39.20)	26.90 (55.10)	1.30 (0.00)	0.00 (0.00)	21.90 (0.00)	1.00 (5.60)	100.00 (100.00)
Others	0.00 (33.10)	47.40 (66.90)	31.20 (0.00)	0.00 (0.00)	0.00 (0.00)	7.60 (78.30)	13.80 (0.00)	100.00 (100.00)
All Occupations	1.60 (1.70)	26.80 (33.70)	42.50 (55.50)	4.80 (0.00)	1.10 (0.20)	21.00 (4.00)	2.20 (5.00)	100.00 (100.00)

Note: Figures in parenthesis are for urban areas.

The introduction of user fees at public health facility will have only a small effect on the rural poor because 16 per cent of the rural poor do not visit any health facility and if at all

they visit, close to 60 per cent choose to visit private health facility. Among urban poor, close to 68.7 per cent are likely to use some health facility with only 29.5 per cent of them using public health facility (Table 15).

Structural adjustments influence the health status of the population by affecting expenditure (public) on health related services and market goods, changing the cost of these services and changing real incomes. The decline of government expenditure in providing public health services like government hospitals and non-hospitals is less likely to affect a substantial number of poor households since a larger percentage visit private providers to seek treatment for various illnesses. They seldom go to the public providers for seeking treatment.

The second aspect of the same issue, namely, the impact of reform policies through the income effect by the way of increasing the price of tradeables which form a substantial part of the household budget of the poor households. Inflation (CPI), in general, will bring down household expenditure on health and education. Apart from these use based information on health facilities, the questionnaire also collected information on the beneficiaries of health based welfare programmes.

V:1.2 Welfare Programmes

One of the most straightforward 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 which leads 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 the poor are the main beneficiaries of these services. The effect on poverty also depends on the number of poor households dependent on these welfare programmes. Another element in the social policies of adjustment packages is the elimination of universal subsidies and sometimes replacing them by targeted subsidies. The overriding objective of these welfare programmes is to transfer effective income to poor households through subsidies.

The MIMAP survey results on some specific (public) welfare programmes are presented in Tables 21 and 22. The MIMAP questionnaire asked whether or not the household or any member of the household was benefitted from welfare programmes any time during the preceding one year (1995) of the survey. The welfare programmes are grouped into

education, health, employment and social service and subsidy. These programmes on education include scholarships at primary level, free books and stationery, free school uniforms, mid-day meals in schools, adult literacy schools, medical check-ups in schools and other educational programmes. Health programmes include “TT” and supplementary nutrition for pregnant mothers and children, toilet subsidy for household and other health related programmes.

Employment Programmes covered under the survey include Jawahar Rojgar Yojana, Employment Assurance Schemes, Integrated Rural Development Programme (credit linked self-employment) Loans, Development of Women and Children in Rural Areas, Training of Rural Youth for Self Employment and other employment programmes. Social Security and Subsidy includes pension, special savings schemes for women, participation in panchayat, credit facility from co-operatives societies, fertiliser subsidy and other schemes for a girl child.

The percentage of poor households benefitted from these welfare programmes between different occupational categories are presented in Table 21.²⁸ The first column in this table reports the overall picture of the welfare programmes — combined. This includes households benefitted from at least one of the programmes. This table also reports the percentage of households benefitted by each of the programmes — education, health, employment and social security and subsidy.

Table 21
Percentage of Poor Households Benefitted from Welfare
Programmes in Rural and Urban India

Occupational categories	Welfare Programmes				
	Overall	Educational	Health	Employment & Subsidy	Social Security
Self-employed Farm	35.9 (44.0)	15.3 (44.0)	23.3 (0.0)	3.1 (0.0)	4.9 (0.0)
Self-employed Non-Farm	24.0 (28.7)	14.6 (5.5)	13.4 (24.9)	1.9 (6.9)	1.5 (0.0)
Salary	31.2 (44.2)	11.5 (2.7)	20.2 (41.6)	3.1 (0.0)	1.8 (0.0)
Agricultural Wage	37.4 (27.3)	20.2 (0.0)	22.4 (27.3)	4.2 (0.0)	2.0 (0.0)
Non-agricultural Wage	28.7 (19.6)	12.7 (10.0)	15.8 (14.5)	1.1 (0.0)	2.0 (0.0)
Others	28.1 (38.4)	16.0 (21.2)	25.4 (34.3)	2.1 (0.0)	0.0 (4.1)
All Occupations	34.6 (31.4)	16.9 (7.2)	21.3 (26.8)	3.2 (2.3)	2.7 (0.2)

Note: Figures in parenthesis are for urban areas.

²⁸ The figures in Table 21 are the ratio of percentage beneficiaries to the total poor households. Ideally, the ratio should be program specific, such as the percentage of poor households benefitted from education based welfare programs should be calculated by considering only those households having at least one student (as the base) and for health based “TT” program for woman should consider households having only pregnant mothers as the base. However, to represent all the beneficiaries, irrespective, of the programs on a uniform base, we take total poor households as the common base.

In rural areas, only 34.6 per cent of the poor households benefitted at least from one of the welfare programmes. The urban beneficiaries from these welfare programmes are lower than the rural, that is around 31 per cent. The welfare programmes meant to transfer incomes to poor households by providing subsidised health and education facility has not achieved the pre-supposed objective. This is due to the inefficient mechanism of providing welfare programmes which invariably covers the non-poor as well. The non-poor beneficiaries of these welfare programmes are substantial, around 27 per cent in rural areas and 19 per cent in urban areas. The focus of these welfare programmes is either not targeted or targeted with high leakages.

This is prominent in the last category of the welfare programmes — social security and subsidy. Only 2.7 per cent of the sample population in rural areas and 0.2 per cent in urban areas have been benefitted from this programme. Next is the employment programme with 3.2 per cent and 2.3 per cent beneficiaries in rural and urban areas, respectively. The maximum beneficiaries are in the health-based programmes in both rural and urban areas and this is true even across occupations except non-agricultural wage and self-employed farm category.

Next, the focus is on each of the welfare programmes to identify the beneficiaries in each of them. The beneficiaries from the health-based welfare programmes are listed in Table 22. Queries on five specific welfare programmes were included in the questionnaire. The programme on immunisation of children has benefitted the maximum number of households in rural India (around 18 per cent of the households). The largest beneficiary of this programme is among the 'others' category where 25 per cent of the households under this occupational group has been benefitted. The least benefitted programme is the toilet subsidy — only 1.6 per cent of the households surveyed seem to have benefitted from this programme.

Such facts from the survey show that all the welfare programmes have to be pruned to target, that is only for those groups who are poor, except immunisation of children, which should target all the children.

Table 22
Percentage of Poor Households Benefitted from Health Based Welfare Programmes in Rural and Urban India

	"TT" for Pregnant Mothers	Immunisation of Children	Supplementary Nutrition for Pregnant Mothers	Preschool/ Nutrition supplement for Children	Toilet Subsidy for household
Self-employed Farm	14.7 (0.0)	21.3 (0.0)	3.3 (0.0)	3.0 (0.0)	2.8 (0.0)
Self-employed Non-Farm	9.2 (22.4)	13.4 (24.9)	0.0 (6.1)	1.9 (1.8)	0.0 (6.1)
Salary	14.0 (14.7)	10.9 (41.6)	1.2 (5.4)	8.8 (0.0)	0.0 (0.3)
Agricultural Wage	9.8 (20.7)	18.7 (27.3)	2.8 (0.0)	2.6 (0.0)	1.1 (0.0)
Non-agricultural Wage	7.9 (8.6)	12.0 (14.5)	1.3 (3.5)	1.8 (3.5)	2.0 (3.5)
Others	8.0 (17.1)	25.4 (34.3)	0.0 (0.0)	9.1 (0.0)	0.0 (0.0)
All Occupations	11.1 (15.9)	18.0 (26.8)	2.4 (4.4)	3.1 (1.5)	1.6 (3.0)

Note: Figures in parenthesis are for urban areas.

In urban India, the programme which has benefitted large number of households is the immunisation of children. In urban areas, toilet subsidy has benefitted a large number of poor households as compared to the programme on pre-school/nutritional supplement for children. The performance of these in rural areas is quite opposite. The maximum beneficiary under programmes like "TT" and supplementary nutrition for pregnant mothers and toilet subsidy are the worst across occupational categories. The health based welfare programmes, in general, seems to be better targeted in urban areas.

The beneficiaries from employment programmes across occupational categories as revealed by the survey are, however, few. Hence, the results are not reported here. In spite of the fact that a decline in the real wages during adjustment would accommodate and create more employment in the long run due to substitution of labor for capital in the tradeable sector, care must be taken to streamline the programmes in order to tackle the adverse distributional consequences of adjustment in the short run.

The questionnaire also included some specific programmes like pension, special savings scheme and participation/membership in panchayat, credit facility from co-operative societies, fertiliser subsidy and incentive schemes for girl child. The beneficiaries from these welfare programmes recorded in both the regions were very few and hence are not reported in this paper.

VIII. CONCLUDING REMARKS

This paper addresses an issue of great concern — impact of recent reforms on the rural and urban poor based on the recently completed all-India household survey conducted for the year 1994–95. This paper provides an empirical framework and a base line for assessing the poverty impact of various policy options and also to highlight several features that call for further investigation.

A larger percentage of poor in rural areas live in households whose principal source of income is agriculture. Among this occupational category, wage earners are the most vulnerable owing to the fact that they have a lower endowment of assets (land) and educational levels.

On the expenditure side, the implications of agricultural trade liberalisation on the poor is analysed on the basis of the share of individual items in the consumption basket of rural and urban poor. Trade liberalisation on cereals will affect the poor substantially though rural poor will suffer much more. Self-employed farm category in rural areas are the only gainers, however, this hinges on the type of crops they produce. Nevertheless, this does not mean that the gains they make as producers are significant enough to elevate them from poverty. They hold just 0.20 acres of irrigated land and the gains they make may not be significant enough.

Moreover, the poverty profile provides a comprehensive evaluation of the impact of some of the social policies on the poverty groups. The decline in government expenditure in providing public health services like government hospitals and non-hospitals is less likely to affect the poor households since a larger percentage of them seek treatment for various illnesses from the private providers. On the other hand, the survey results also show that a larger percentage of urban poor households use government facilities, so increase in user charges are likely to have profound effect on the poor households.

Finally, the poverty profiles highlight achievements on the basic needs front. The welfare programmes meant to transfer incomes to poor households by providing subsidised health facilities have not achieved the pre-supposed objectives. This is due to inefficient mechanism of providing welfare programmes which invariably covers a substantial number of non-poor as well.

Perhaps, the most important lesson to be drawn from these conclusions is that great care must be taken for initialising any further changes in macro economic policies and to strengthen the institutional structures, such as PDS, welfare programmes to cushion the possible adverse effect of certain policies on the poor.

The limitation of this paper, so to speak, is not to discuss any specific policy intervention which requires far greater details, though few important policy issues are addressed. More favourably, an ideal analysis of the evaluation study would require two data points with gap of at least five years.

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