

C. H. Hanumantha Rao and Hans Linnemann (eds). *Economic Reforms and Poverty Alleviation in India*. New Delhi: Sage Publications, 1996. 271 pages. Hardbound, Indian Rs 350.00; paperback, Indian Rs 195.00.

The book under review is an edited collection of eight papers presented at a seminar on “Structural Adjustment and Poverty in India: Policy and Research Issues”, and is Volume 17 in the Indo-Dutch studies on Development Alternatives. The book evaluates the impact of economic reforms on poverty alleviation in India. In the “Introduction”, the editors describe the main theme of the book and propose some policy measures for poverty alleviation in the light of the findings of the papers included in the book.

The paper, “Structural Adjustment in India—What about Poverty Alleviation?”, by Pieter A. van Stuijvenberg, evaluates the impact of India’s Structural Adjustment Programme (SAP) on the poor and suggests some policy corrections to mitigate the adverse effects of this adjustment on the poor. He observes an improvement in the balance-of-payments position and foreign exchange reserves without a simultaneous fall in gross domestic product under the SAP. His major concerns are the large size and composition of fiscal deficits (dominated by revenue deficits). The large size of fiscal deficits, according to van Stuijvenberg, drive up real interest rates and endanger investment-led growth. He observes that social indicators of the social safety net, employment, and rural development programmes have not improved much due to expenditure cuts on rural infrastructural investments. He suggests a reduction in the size and composition of the public sector, elimination of all explicit and implicit subsidies, and discouraging rent-seeking behaviour for a successful implementation of economic reforms.

In the second paper, “Structural Adjustment and Poverty: Review of Experiences in the 1980s”, Rolph van der Hoeven explores in detail the relationship between adjustment policies and poverty from the experience of countries in Latin America, Sub-Saharan Africa, and Asia. In Latin America, he observes a decline in all wage indicators faster than GDP per capita. Average Urban unemployment rose to unprecedented levels of over 10 percent by the mid-1980s due partly to the deflationary policies of the governments. Comparing trends in poverty with the trends in wages, employment, and GDP per capita, he found a strong relation between minimum wages and income equality. The author argues that poverty in Latin America has increased due to persistent income inequality and low or stagnant levels of production.

In Sub-Saharan Africa, a reduction in the foreign account deficit was achieved despite sharp losses in GDP growth, investment, and human development. Out of the 18 countries that managed to stabilise their economies in the 1980s, only 5 recorded positive growth in GDP per capita. The imposition of rapid import liberalisation, in the author’s opinion, undermined the potentially viable local

industries. Employment opportunities in both public and private sectors dropped substantially despite a cut in the real wages. The author concludes that the increase in poverty was due to negative economic growth.

The experience of adjustment policies in Asia achieved mostly positive and better results as compared to other countries. The author suggests that the success of the reforms in East Asia was due to the adjustment package tailored to the level of development and specific circumstances of the respective countries. Van der Hoeven concludes that adjustment policies worked better in those countries that have an egalitarian system combined with efficient economic management. He points out the neglect of institutional development and human capital building in the adjustment programmes, both factors which are crucial for improved development.

In Chapter Three, "India's Transition: Progress, Problems and Prospects", Vijay Joshi analyses the impact of stabilisation and structural adjustment policies looking at fiscal adjustment, inflation control, and balance-of-payments adjustment. He observes that all fiscal adjustment has taken place in the form of a reduction in public investment and cuts in social sectors expenditure. To tackle the fiscal adjustment, an extension of the coverage of the direct tax system is suggested by the author. High inflation, in his view, has been there because of a decline in output growth and the growth of money supply. In terms of the balance-of-payments adjustment, the large capital inflows have confronted the government with a macroeconomic dilemma of whether to let the exchange rate appreciate and hurt exports or to intervene to keep the exchange rate fixed and add to inflation due to monetary expansion. Joshi suggests several areas for improvement for the adjustment programmes. So far as trade reforms are concerned, he suggests that government should proceed slowly but announce some target date for tariff reduction to 10 percent. To liberalise agricultural trade, he suggests that government should take some complementary steps, such as increasing employment in agriculture, improving agricultural infrastructure, and encouraging agricultural research to minimise the adverse effects of agricultural trade liberalisation.

In Chapter Four, "Recent Economic Reforms in India and their Impact on the Poor and Vulnerable Sections of Society", S. P. Gupta analyses the poverty estimates on the basis of the National Sample Survey (NSS) data. He observes a deterioration in the distribution of consumption, both in the rural and the urban sectors. The author has measured Lorenz ratios and found a continuous increase in consumption inequality. During the first three years of reforms, he observes a deterioration in quantity and quality of employment generation. Judged by the comparatively low growth of the economy, both in agriculture and industry, the reduced level of subsidies, higher procurement and administered prices, lower expenses on Poverty Alleviation Programmes (PAPs) and Human Resource Development (HRD) in real terms, and high inflation, Gupta concludes that in net terms the social costs of adjustment have exceeded the social benefits. He emphasises on redesigning the

poverty programme by reducing administration costs and the size of the public sector, eliminating all implicit or explicit subsidies often enjoyed by the non-poor, restoring flexibility in the labour markets, and eliminating prevalent corruption in politics and the bureaucracy.

In Chapter Five, "New Initiatives for Poverty Alleviation in Rural India", Rohini Nayyar, on the basis of the macroeconomic indicators, suggests that the impact of stabilisation policies has been limited at the macro level. A reduction in the central plan assistance to the states has resulted in a decline in states' expenditures on agriculture, irrigation, rural development, and other social sectors. The author suggests that investment policies have to be directed towards sectors having high employment content, such as agriculture and its allied sectors, rural non-farm sector, and services. According to Rohini, implementation of development projects can be made more effective by strengthening the *Panchayati Raj* institutions (units of local self-government) and other voluntary agencies, and by increasing the role of the NGOs. The author also recommends an increased involvement of women in poverty alleviation programmes.

In Chapter Six, "New Economic Policy and Urban Poverty in India", Amitabh Kundu discusses the impact of reforms on poverty, employment, and basic amenities in the urban areas. By examining changes in the structure and pattern of urban growth, Kundu concludes that an increase in the job opportunities, mostly of a temporary and casual nature, feminisation of the urban workforce, and increased child employment are signs of poverty-induced employment. A reduction in the funds for urban development has resulted in low investments for improving the infrastructure and basic amenities in the urban areas, leading to a deterioration in the average quality of and access to services in the urban areas. Kundu warns that low and deteriorating quality of basic services in small and medium towns would adversely affect their capacity to absorb future population growth.

In Chapter Seven, "The Impact of Structural Adjustment on Social Sector Expenditure: Evidence from Indian States", K. Seeta Prabhu discusses the varying experiences of Indian states and the impact of adjustment on these states' finances. A crucial factor in Prabhu's opinion that influences a state's performance with regard to the social sectors is the political commitment of the respective state government. A cut in the tax rates by the centres and a deceleration in the planned grants from the centre led to a rise in the rate of growth of revenue expenditure, thus imposing a heavy burden on state finances. States then have to borrow at high interest rates, even to meet current expenditures. This has resulted in a significant decline in the expenditures on the social sectors. Prabhu concludes that "it is necessary to mobilise public opinion in favour of increased attention to the social sectors and, within them, to areas of social priority". Active involvement of the NGOs to deal with specific microlevel situations is also emphasised by the author.

In Chapter Eight, “India’s Structural Adjustment and the Need for Institutional Reform”, Kaushik Basu argues that the basis of economic progress is a contract regarding the legal system. He suggests two basic principles: “the principle of contract” and “the principle of efficient pricing” as the basis for reforming institutions and the legal system. He concludes that to improve the welfare of the poor, their incomes should be increased directly (for example, through employment programmes) instead of doing this through indirect methods, which distort the markets.

Based on the findings of the papers included here, the editors conclude that economic reforms have not delivered much in terms of growth, unemployment, inflation, revenue deficits, etc., and there has been a significant increase in poverty in India in the immediate post-reform period. The editors conclude that the impact of economic reforms on poverty depends on the initial conditions, the socioeconomic structure, contents of the reform package, and the institutional and political settings in which the reforms have been implemented. The editors suggest that an egalitarian economic structure, an increase in human resources, and physical infrastructure are necessary for poverty alleviation through structural change. While most of the papers in the book have discussed the impact of reforms on the basis of macroeconomic indicators, the authors have not given due importance to the impact of reforms on education, which is the most crucial factor in human resource development. The consequences of financial sector reforms on poverty alleviation have also been ignored. However, the book covers a wide range of issues related to poverty and structural adjustment and is a valuable addition to the literature on poverty in India. It is relevant for other developing countries as well.

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