Conditional Cash Transfers as a Tool of Social Policy

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The design of public cash transfers involves a careful balancing of policy priorities and objectives. Variations in the rationale for a conditional cash transfer shape benefit amounts, coverage, duration of programme participation, targeting practices and the definition of conditionality. Drawing on the experience of low- and middle-income countries in Latin America, this article highlights differences in the design of CCTs and the central issues and trade-offs associated with income transfers, targeting and conditionality. It also reviews the evidence on the impact of CCTs on income poverty, service utilisation and outcomes in education and health.

1 Introduction

Recent debates on poverty reduction in India have centred around the possibility of introducing conditional cash transfers (CCTs) targeted at individuals with low incomes or at specific vulnerable groups. In some policy circles, the opportunity of introducing a CCT is being debated in the context of replacing existing schemes, relying on claims of the advantages of CCTs over alternative policies and vice versa.

These discussions at times appear to obfuscate the fact that the central challenges faced in implementing anti-poverty policies may be common to different instruments. They also frequently consider CCTs as a universal policy category, with limited reference to variations in CCT design and implementation and the ways in which these differences influence outcomes.

Against this background, this article identifies the main issues associated with income transfers, targeting and conditionality, and discusses these with respect to theory and practice. It focuses on cash transfers that pursue poverty reduction as their primary objective and draws on the experience of low- and middle-income countries in Latin America that have introduced CCTs as central elements of their poverty reduction strategies since the late 1990s. Although the article does not address the question of how CCTs perform vis-à-vis other poverty reduction policies, it intends to contribute to the Indian debate by drawing attention to the main trade-offs concerning CCTs and the design and implementation factors that have facilitated progress towards intended outcomes.

Before examining the CCT experience, it is useful to make three clarifications. First, government policies pursue a variety of objectives. Poverty reduction, the policy priority on which this article concentrates, is only one of them. Others, which may be overlapping but are treated distinctly, include income and wealth redistribution, income-smoothing over the life cycle and insurance against specific risks. Second, cash transfers are only one policy instrument available to governments in the pursuit of poverty reduction. They exist alongside tools such as in-kind transfers, public works programmes and fiscal policies that may pursue the same objective. Finally, CCTs are a subgroup of public cash transfers that share three common components – an income benefit, a targeting mechanism, and conditionality. CCTs are made provided that the poor or vulnerable population groups follow a pre-specified course of action. Although they may be grouped into a single policy category, the design and implementation details of separate CCT components vary considerably.

2 CCTs: Objectives and Design

All CCTs share the objective of reducing poverty. There are differences, however, in the emphasis placed on how this objective is to be achieved. In some countries, the introduction of a targeted cash transfer was originally motivated by a principle of universalism (e.g., Brazil/Bolsa Familia), aimed at guaranteeing a minimum income and common standardised public services nationally. In others, the prevailing objective is that of promoting human capital accumulation among low-income families by improving education and health service utilisation, especially among children (e.g., in Mexico/Progresa-Oportunidades). In others still, the rationale for the introduction of a cash transfer is to reach out to the extreme poor excluded from existing safety nets (e.g., in Chile/Chile Solidario) or to reach narrowly-defined vulnerable groups affected by specific adverse events (e.g., initially in Colombia/Familias en Accion). In such cases, cash transfers were originally envisaged as temporary, compensatory or emergency-based measures.

Variations in the rationale for a CCT shape benefit amounts, the coverage and the duration of programme participation, targeting practices, the definition of conditionality and the response to non-compliance with the behavioural requirements.

The amounts under CCTs, as a share of beneficiary income or expenditures, vary from about 20% of beneficiary household expenditures in Mexico to 10% of beneficiaries’ monthly income in Brazil, to
6%-7% of the beneficiary income in Chile and 4% of beneficiary consumption in Honduras (Bastagi 2009). In terms of coverage, CCTs are paid to broad segments of the total population in Brazil (26%) and Mexico (15%). Conversely, CCTs are narrowly targeted to population subgroups in Chile (6% of the total population), Colombia (5%) and Nicaragua (3%) (ibid).

Targeting practices also vary. Depending on the criteria used to determine eligibility, on the procedures to verify information quality and on the frequency of beneficiary recertification, targeting mechanisms include more or less demanding and costly processes of information collection and analysis.

In most Latin American countries, CCT beneficiaries are identified and selected through proxy means tests. This involves collection of information other than on income or consumption to compute a welfare score used to rank potential beneficiaries. Simpler targeting mechanisms rely on reported monetary income (as is the case in Brazil). The potential advantages of adopting proxy means tests over the exclusive reliance on declared income rest on the selection of indicators that are easily verifiable, thus helping to avoid the problems of income misreporting and potential work disincentives generated by straightforward income tests.

Targeting practices also vary depending on the regulation of beneficiary reassessment and the related question of programme duration and exit. In countries where programme participation is an entitlement as long as eligibility criteria persist, CCT administration requires the regular recertification of beneficiary records. Brazil and Mexico have set maximum time limits within which beneficiary records must be validated – every two years and every three years, respectively. In other countries, CCT participation has a maximum time limit, independent of the changes in socio-economic circumstances or demographic characteristics that determine eligibility. In Nicaragua, for example, families were entitled to CCT benefits for a maximum of three years.

Conditionality typically require beneficiary households to send their children to school and to undertake regular healthcare visits. While basic behavioural definitions are common to most CCTs, the rationale for including conditionality varies in terms of the emphasis placed on beneficiary behaviour as opposed to the behaviour and responsibilities of service providers. This, in turn, influences government decisions on conditionality monitoring and the regulation of beneficiary non-compliance.

Conditionality is central to CCT implementation when compliance is verified first and benefit payments are only made subsequently. In other cases, once eligibility is determined, transfer payments are made to beneficiaries and conditionality compliance is verified at later stages.

Response to non-compliance also varies. Conditionality is of a sanctuary nature when non-compliance leads directly to beneficiary suspension from the programme. In other cases, conditionality is used to monitor and reinforce the responsibilities of service providers. Under this scenario, when a beneficiary fails to comply with behavioural requirements, in the first instance, governments verify the reasons for non-compliance, paying particular attention to whether it arises from limited service access or quality. At the same time, beneficiaries are entitled to additional support and personalised services aimed at addressing individual and household-specific circumstances that may be an obstacle to compliance. In such cases, only if non-compliance persists over several consecutive monitoring cycles is benefit payment suspended and eventually terminated.

3 Impact of CCTs: Mixed Evidence

Targeted CCTs have been successful in reaching low-income groups previously excluded from formal social protection. In several Latin American countries, CCTs have partially offset the historical “truncation” of public transfers (Lindert et al 2006). Furthermore, compared with other targeted public transfers, CCTs are among the most progressive programmes (Coady et al 2004).

However, despite coverage and distributional patterns that favour the poor, low transfer amounts limit the poverty impact of CCTs. In some countries, the impact of CCTs on poverty is lower than that achieved by targeted social insurance transfers with relatively higher unit subsidies (Lindert et al 2006). In many cases, and as a result of both benefit levels and the definition of the target population, CCTs have proved to be quite successful at reducing the poverty gap or the severity of poverty, but have limited or negligible impact on the headcount ratio (Skoufias et al 2001).

The impact of CCTs on headcount poverty among programme beneficiaries ranges from reductions of 5-7 percentage points in Nicaragua, to reductions of 3 percentage points in Colombia and 1 percentage point in Mexico. The impact on the poverty gap and squared poverty gap among beneficiaries is higher. The poverty gap and squared poverty gap were reduced by 9-13 points and 9-12 points respectively in Nicaragua, while the poverty gap in Colombia experienced a reduction of almost 7 percentage points (World Bank 2009). Estimates of impact on national poverty rates – comparing income or consumption reported in the survey with pre-transfer income or consumption – show that CCT impact on the headcount ratio is 8% in Mexico and 2% in Brazil (where the income transfer as a share of beneficiary income is lower), while the squared poverty gap is reduced by 29% in Mexico and by 15% in Brazil (World Bank 2009).

Beyond income poverty, CCT impact evaluations indicate that such policies have led to improved service utilisation in education and health. In Mexico and in Nicaragua, CCTs led to increases in school enrolment among beneficiaries (Parker et al 2008 and Maluccio and Flores 2005). Mexico’s CCTs also led to reductions in repetition and dropout rates in primary and secondary school and to increases in years of schooling completed. In the area of healthcare service use, studies on CCTs in Nicaragua, Colombia and Honduras show increases in health check-ups and monitoring (Bastagi 2009).

Despite improvements in service use, evidence on the impact of CCTs on education and health outcomes remains limited and is mixed. In the field of education, there is no evidence of significant effects of CCTs on learning. For Mexico, Behrman et al (2005) show that CCTs have a positive impact on grades of schooling attained but no effects on achievement tests.

The impact on health outcomes is also mixed. In Colombia, CCTs improved child nutrition as measured by height-for-age (Attanasio et al 2005). In Mexico and Nicaragua, too, CCTs are associated with
improvements in child height. However, both in Honduras and in Brazil, evaluations of CCTs reveal that they had no meaningful effects on pre-school nutritional status, blood haemoglobin levels and rates of anaemia (Hoddinott and Bassett 2008). 

On the other hand, empirical investigations using data for Brazil and Mexico indicate that CCT programme participation is not significantly associated with adult labour supply decisions. Foguel and de Barros (2010) find that CCTs in Brazil do not have significant effects on either labour market participation or on the number of hours worked by men and women over a five-year period. Skoufas and Di Maro (2007) study whether Mexico’s CCT programme affects adult participation in the labour market and adult leisure time over two years and find that programme participation does not have any significant effect on either outcome.

The results on the impact of CCTs reported above warrant two clarifications. First, these estimates do not provide information on the contribution of separate policy components to outcomes. As policy analysts, we are ultimately interested in which design and implementation details are associated with outcomes, in addition to the combined programme effect. For example, does conditionality contribute to improved education and health outcomes? If so, which features of conditionality design and implementation are associated with outcomes?

Second, the national incidence analysis of transfers reported above does not take into account behavioural responses and other social and administrative costs associated with targeting and conditionality. These could offset part of the progress made towards intended outcomes and should be considered for a more complete picture of policy effects.

Work Disincentive Effects

Theory predicts that targeted income transfers may generate an incentive for individuals to maintain low incomes in order to qualify for the benefit, offsetting poverty reduction efforts. This work disincentive effect could be especially strong where cash transfers display a high benefit withdrawal rate. Brazil’s CCT, for example, by design generates a high withdrawal rate, as a unit increase in beneficiary income above the income eligibility threshold determines loss of eligibility.

In practice, are CCTs associated with reduced work effort? Evidence on Nicaragua’s CCT programme reveals that programme participation is associated with reduced adult work effort in the first two years of programme implementation (Maluccio 2007). However, the study also finds no significant effects on the number of hours worked in later years and suggests that a reduction in transfers for those entering the programme later, compared to transfer values in the initial period of CCT implementation, may have reduced the labour supply disincentive.

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Targeting also entails administrative costs. These may reach high shares of total programme costs and vary over time as policies encounter particular challenges or reach stages of maturity. In Honduras, the cost of identifying CCT beneficiaries amounted to 26% of operational costs in 1999 and maintained similar levels, at 25%, in 2002 (Caldes et al 2004). The latter also explain that difficulties associated with the transition to a new programme team and in maintaining beneficiary registration lists lie behind this trend. Elsewhere, CCT administrative costs declined. In Brazil, the reorganisation of targeting tools, through the consolidation of beneficiary registries and the standardisation of social assistance eligibility rules, contributed to a reduction in CCT administrative costs. These declined from 15% (pre-reform CCTs) to 5% of total outlays (Lindert et al 2006).

In addition to direct financial costs, targeting may lead to social costs in the form of deepening social divisions. Adato’s (2000) study of Mexico’s CCT programme for example, highlights the tensions arising from its targeting mechanism in the form of unease and resentment resulting from the distinction between beneficiaries and non-beneficiaries. Although most studies on these issues rely on contextual methods, the qualitative nature of the evidence should not hinder the inclusion of these examples in discussions on the costs and benefits of targeting.

Costs of Conditionality

Evidence regarding the effects of conditionality in CCTs on education and health outcomes remains limited. Two recent studies shed light on the effects of conditionality on education. Both exploit variations in households’ perceptions to assess the impact of conditionality on school enrolment. Interestingly, both studies reveal that the information-sharing associated with conditionality implementation (i.e., people’s perception or understanding that benefit receipt is conditional on sending children to school) and initial conditionality monitoring activities (for example through the distribution of monitoring forms) are associated with higher school enrolment, independently of the full implementation of conditionality (Schady and Araujo 2006 on Ecuador, and de Brauw and Hoddinott 2008 on Mexico).

The inclusion of conditionality in cash transfers has raised concerns over the risks of exclusion and the potential additional penalisation of vulnerable groups. Poor households facing high opportunity costs in meeting conditions may experience a higher risk of exclusion from the programme. In their study of beneficiaries who dropped out of Mexico’s CCT as a result of non-compliance with conditions, Alvarez et al (2006) find that indigenous populations and the extreme poor in communities where there is likely to be greater inequality have higher odds of dropping out of the programme. Other studies still, have drawn attention to the ways in which conditionality imposes burdens disproportionately among household members, with additional responsibilities falling mainly on mothers (Gonzalez de la Rocha 2005; Molyneux 2006).

Finally, conditionality costs also arise from people’s (mis)perceptions of the definitions and purpose of conditionality and the related unintended behavioural effects. In Nicaragua, one of the conditions during the first phase of CCT implementation required children to gain weight. If they fell twice below an established weight gain, parents could be sanctioned by the suspension of the benefits. Adato (2008) reports how this requirement led to the overfeeding of children before they were weighed. In education, Nicaragua’s CCT initially required beneficiary pupils to pass their grade successfully, leading some schools to advance children to the next grade even when such a move was not deserved (Maluccio and Flores 2005).
In conclusion, both the economic and non-economic costs associated with targeting and conditionality deserve serious consideration in decisions regarding targeting strategies and conditionality design. Even if a study does, say, detect a statistically significant impact of conditionality on an intended outcome (for example, on school enrolment), policymakers would need to weigh these benefits against the administrative and social costs of conditionality monitoring and enforcement.

4 Implementing CCTs: Lessons Learned

The previous section reviewed the evidence on the achievements of CCTs and provided examples of the costs associated with targeting and conditionality, including those that are not readily quantifiable. This section identifies the institutional arrangements, design and implementation details that facilitated progress towards poverty reduction and helped minimise the risks of exclusion and costs mentioned above. These are grouped around three sets of related policy aims – enhanced coverage of the vulnerable or target population, reduction in income poverty and improvements in education and health indicators.

4.1 Improving Coverage

As was highlighted in the previous section, one of the most important achievements of CCTs is their targeting performance, the ability to reach individuals with low incomes and those frequently excluded from pre-existing social policies. This result has important implications in terms of both providing income support and promoting the use of public services. Numerous decisions regarding institutional arrangements and cash transfer design details that accompanied the introduction of CCTs have facilitated this result.

In some countries, the introduction of a CCT was accompanied by the implementation of a single national registry collecting information on the socio-economic characteristics of people with low incomes or of vulnerable groups. Along with efforts to distribute ID cards – for example by setting ID card possession as a requirement to claim a benefit and through information campaigns calling for ID registration – this proved to be an important tool for reaching those previously excluded from public spending.

In addition to facilitating the identification of beneficiaries and helping in monitoring the circumstances of the poor, the establishment of social assistance registries has been particularly helpful in improving outreach and coverage where they were set up as part of the reorganisation of national social assistance policies more broadly, thus contributing to the reduction of duplication and overlaps. These objectives were further assisted through the regulation of eligibility rules and identification practices with the aim of guaranteeing minimum common procedures and treatments nationally.

The ability of CCTs to reach the poor is also credited to the mechanisms employed in transfer payments. In many countries, CCTs are paid directly to beneficiaries. Reforms of existing mechanisms led to the minimisation of the numbers of intermediaries and to the establishment of the direct transfer from the central government agency to the vulnerable target population. In Colombia, the reliance on the banking system for CCT payments, led to the restriction of programme implementation to areas with a bank and necessary infrastructure (Attanasio et al 2005). Elsewhere, special delivery mechanisms were set up to reach areas with limited infrastructure. This is the case in Brazil, where beneficiaries in remote areas, as without access to a bank can collect payments at other service points, including post offices.

4.2 Income Poverty

In terms of policy design, decisions that directly affect the impact of CCTs on income poverty in the short to mid-term include the amount of cash transferred, the rules regulating the adjustment of transfer values over time and the targeting rules on the verification of beneficiary eligibility and loss of entitlement to programme participation.

As mentioned above, the first round distributional analysis of public cash transfers shows that, when these are well-targeted, higher benefit amounts are associated with higher poverty impact. In addition to varying at one point in time, CCTs differ depending on whether their values are adjusted over time. The erosion of the real value of benefits over time limits their poverty reduction impact. In Honduras, real transfer values dropped by 30% during the first phase of CCT implementation (Bastagli 2009). In Brazil, average CCT transfer values fell by 10% between 2001 and 2005 (de Barros et al 2009). As a result, in several countries, governments have adopted uprating rules and transfer values are now indexed to inflation (for example in Honduras). In others, benefit values are uprated in an ad hoc fashion.

At the same time, as mentioned earlier, higher transfer amounts in targeted cash transfers risk generating work disincentives that offset progress in poverty reduction. In Brazil, evidence on the absence of a work disincentive effect, even where by design CCTs have a high withdrawal rate, may be partly explained by the relatively low value of cash transfers as a share of beneficiary income.

Setting cash transfer levels thus involves a careful balancing of considerations regarding the effects and trade-offs associated with higher income benefits. It also involves the consideration of their interaction with targeting rules since potential work disincentive effects arise from the targeted nature of CCTs.

Evidence suggests that the absence of reduced work effort associated with CCTs is related to the failure to strictly enforce targeting rules, at least in the early years of policy administration. For example, in their study on Mexico, Skoufias and Di Maro (2007) show that although regulation rules mandated the review of the eligibility status of CCT beneficiaries within three years following a household’s entry into the programme, in practice more than five years elapsed before any effort was made to revise the list of beneficiaries. Similarly, in Brazil, the frequency of verification of CCT beneficiary circumstances and eligibility was well below the mandated maximum time limit, leading, in practice, to the absence of a high benefit withdrawal rate – at least during the early years of programme implementation (Bastagli 2009).

These findings point to some of the advantages associated with the “fuzzy” implementation of targeting rules by avoiding the automatic suspension from programme participation when eligibility criteria are
no longer met. In some industrialised countries, this has been institutionalised with the introduction of procedures of gradual benefit withdrawal.

4.3 Education and Health

The evidence for the impact of CCTs on the utilisation of education and health services and on education and health outcomes raises three sets of observations.

First, results point to the importance of governmental commitment to improving service access and quality. In the area of health, studies highlighting the limited effects of CCTs on outcomes indicate weak service provision as one of the determinants of this result. For example, Hoddinott and Bassett (2008) hypothesise that shortages and incomplete deliveries of iron supplements in Honduras explain the absence of CCT impact on rates of anaemia.

Evidence also points to the importance of service quality in promoting improvements in education and health outcomes. Although improvements in the use of services represent an essential step forward towards better human capital outcomes, these alone do not guarantee such results. Evaluations of CCTs underscore how desired impacts on education and health outcomes crucially hinge on the quality of services provided.

For example, in their study of Mexico’s CCT programme, Behrman et al. (2005) show that longer exposure to school has no effect on achievement test scores. They also show that an initial test of links between school characteristics (measured in terms of student-teacher ratio) and educational outcomes (measured in terms of grades of schooling attainment) finds that impacts differ with the quality of schooling available.

A second policy implication that arises from experience to date concerns programme duration. As seen earlier, some CCTs include maximum participation time limits. If human capital accumulation is a policy objective, and CCTs have a maximum duration of, say, three years – as was the case in Colombia and Nicaragua – participation is permitted for a period well below children’s education and health cycles (Veras and Britto 2007). Maximum time periods of two to three years severely limit the potential for a cash transfer to promote human capital outcomes. At a minimum, short participation limits point to an inherent contradiction between policy objectives and design, if improvements in education and health are objectives pursued by a CCT. In practice, in some countries where cash transfers were introduced with maximum participation limits, while pursuing human capital accumulation objectives, duration periods were revised and extended to better reflect policy priorities (for example in Colombia).

Finally, the CCT experience has provided important lessons on the role of conditionality in the promotion of human capital outcomes. Evaluations suggest that communicating the importance of regular school attendance and healthcare visits to beneficiaries contributes to increasing the utilisation of services. They also indicate that conditionality promotes access to and use of public services when non-compliance is viewed as a flag of additional vulnerability among beneficiaries or as the result of a shortcoming in service provision. In such cases, the personalised services designed to assist beneficiaries in overcoming adverse circumstances and initiatives to improve service provision where it is weak have facilitated service use.

In some countries, conditionality in cash transfers has been revised in response to unintended effects. In Nicaragua, for example, the CCT requirement for beneficiary children to pass their grades successfully was suspended once it was observed that this condition was associated with schoolteachers promoting beneficiary children to secure their benefit receipt (Maluccio and Flores 2005). Concerns that conditionality may additionally penalise vulnerable households have led to the adoption of procedures aimed at minimising its sanctionary nature towards beneficiaries. These include processes of verification of the reasons for non-compliance and initiatives to assist beneficiaries in complying with education and health conditions.

5 Conclusions

This article has highlighted variations in the design of CCTs and the central issues and trade-offs associated with income transfers, targeting and conditionality. It has also reviewed the evidence on the impact of CCTs on income poverty, education and health indicators and identified the main policy implications that may be drawn from the implementation of CCTs to date.

Three central considerations arise from this review. First, the design of public cash transfers involves a careful balancing of policy priorities and objectives. Governments may have a priority concern for guaranteeing a minimum income and minimum common procedures nationally, or for promoting education and health outcomes, or for providing temporary income support to vulnerable groups. Policy decisions will also include a consideration of these objectives against the containment of programme costs and the avoidance of disincentives, within the context of financial and institutional constraints. In some countries, lack of clarity regarding CCT objectives has led to misguided expectations regarding potential outcomes and to tensions between policy design and what was achieved in practice. It follows, that it may be useful for governments to promote a candid discussion on priorities from the outset with the view of clarifying the primary objectives to be pursued by a public cash transfer.

Second, debates on the possibility of introducing a cash transfer could consider the variety of policy design options and trade-offs associated with different CCT components and their design details. As this article has shown, beyond broad policy categories such as targeted versus universal and conditional versus unconditional transfers, decisions regarding policy parameters may involve more subtle but no less defining choices. Targeting practices vary by degree of targeting and informational requirements. When they are conditional, cash transfers vary depending on the centrality of behavioural requirements in CCT operation and on the emphasis placed on beneficiary behaviour as opposed to the role of service providers. In terms of parameter design, the review of the experience in Latin American countries provides examples of how decisions regarding transfer amounts, targeting practices and conditionality may reflect a central preoccupation for promoting inclusion and minimising administrative and social costs.

Finally, in terms of implementation, the experience to date highlights one common
trend – CCTs have been successful in reducing poverty and show promise in promoting education and health outcomes where reforms are backed by efforts to step up service provision and quality. Services include those related directly to cash transfer administration, such as outreach to potential beneficiaries with the objective of minimising risks of exclusion and the careful regulation of registry compilation and management for the monitoring of citizens’ well-being. They also include initiatives in the areas of education and health, involving efforts to improve services and to promote coordination among government agencies and service providers. These emerge as central prerequisites for successful CCT implementation.

NOTES
1 Formal welfare systems in Latin America have historically been characterised by the pre- minance of social insurance policies and by a weak or largely absent social assistance sector. This institutional configuration led to the exclusion of large portions of the population from any formal social protection coverage. The expansion of social assistance policies, also through the adoption of CCTs, has partly addressed this imbalance.
2 Transfers are progressive when the share of transfers in gross income decreases with the level of income.
3 This is the case in Brazil, where CCT benefit values were adjusted for the first time in 2007 since its introduction in 2003.

REFERENCES


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