18 Food Subsidy Changes in Sri Lanka: The Short-Run Effect on the Poor

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When a basic needs approach began to be emphasized in development economics, Sri Lanka gained much prominence due to its long-standing involvement in broad social welfare policies.[1] Long before the advent of the basic needs approach, Sri Lanka had pursued a policy of allocating large amounts of resources to enhancing the health, education, and nutrition of the population. On the other hand, it was not too long after the virtues of meeting basic needs started to be appreciated globally that Sri Lanka made a sharp turn from welfare through sharing of poverty to welfare through growth. The change that began in 1977 has led to abandonment of the major element in welfare policy that aimed at broad nutritional welfare through food subsidies. Operationally, the change has resulted in the elimination of all rationing and price subsidies on food and the introduction of an income transfer program through issuance of food stamps intended to protect the really needy. Implicit in the curtailed welfare policies is the expectation that newly adopted growth-oriented investment policies will generate incomes for all, including the present poor. This chapter will examine some implications of this change on fiscal costs, income distribution, and the nutritional welfare of low-income households.

Historical Setting

For nearly four decades, Sri Lanka had a comprehensive food subsidy scheme where eligibility was almost universal. This scheme, in general, included a major subsidy on rice, the staple food of the entire population; other major commodities subsidized at some time or another were wheat flour, sugar, and powdered milk. Over the years, the quantum of the subsidies and the consumer entitlements have undergone changes influenced

1. See Isenman, 1980; "Participatory Development and Dependence," 1979.

by fiscal and political considerations. A few salient features in the history of the food subsidy program are as follows:

1. Notwithstanding some sharp differences in political ideologies, since the country's independence successive national governments have ensured the continuance of food subsidies to achieve the dual objectives of political stability and social equity.
2. The success of the subsidy program was closely linked to the balance-of-payments status due to the country's dependence on imports for over 50 percent of the food supplies during most of the period.
3. A remarkably high degree of active political participation by the population, particularly the organized sector of the labor force, provided sufficient pressure to ensure continuation of the subsidies.
4. The provision of certain input subsidies to rice farmers and the operation of a state-sponsored guaranteed price scheme were intended to minimize the deleterious effects of consumer subsidies on producers.

Although begun as a wartime necessity to ensure equitable distribution of limited supplies and protection of consumers from postwar inflationary pressures, the scheme continued beyond the war situation. For nearly two decades, the program provided around four pounds of rice per capita, per week, to the entire population at highly subsidized prices. In the mid-1960s, there was a halving of the quantities issued under ration, but the universal subsidy was unchanged. It was only during the late 1970s that any substantial attempts at targeting food subsidies were seen.

The political sensitivity of the subsidy program was clearly exhibited during food-related riots in the early 1950s. Within a few years of the food subsidy scheme's operation, fiscal strains were clearly visible due to the postwar inflationary prices of rice. The government's overenthusiastic adherence to a proposal by the International Monetary Fund led to drastic reductions in the subsidy component—related not only to food but also to certain other commodities and services. This first attempt to bring administered prices closer to costs was met with widespread protests, spearheaded by organized urban labor. The food riots led to partial abandonment of the subsidy reforms, the resignation of a prime minister, and, shortly after, a change of government. The new political regime did restore the original benefits. The lower world prices of rice during the second half of the 1950s considerably assisted these changes.

During the early 1960s, acute fiscal and balance-of-payments problems led to a proposal by the finance minister to curtail the subsidy. This was squelched by the backbenchers, and the minister resigned. In the second half of the 1960s, continued balance-of-payments difficulties and a worldwide rice shortage brought about a strategic compromise between economic logic and political feasibility: the rice ration was reduced by half

but given free of charge. Food subsidies were a key issue in the general election of 1970, however, and political power did change hands. Some increases in subsidized ration entitlements were made, which were aided by the decline in world prices of rice in the early 1970s. Some adjustments to prices and entitlements were achieved in response to worldwide food shortages during 1972/73, and income taxpayers were removed from the scheme. The latter had only a negligible effect on the subsidy bill, however, and most drastic changes in the scheme were undertaken by the government that came into power in 1977. In February 1978, the rice ration was limited to about 50 percent of the population; in September 1979, quantity rationing was replaced by an income transfer in the form of food stamps; during 1980, all remaining price subsidies on food were eliminated.

Changes in the Subsidy Program

Given the high political sensitivity of the food subsidies, the drastic changes of the subsidy program effected during 1978 and 1979 were remarkable. The overall change has been hailed as an "achievement which no government in a quarter century before managed," and also that "it had contained the burden of the food subsidy without disastrous political consequences and without obvious or pervasive ill effects on welfare" (Nelson, 1983). The immediate causes and mechanics of the change and the degree to which welfare, at least nutritional welfare, has been affected will be discussed in the following sections.

Two of the main objectives of the government elected (with a massive mandate) in 1977 were a liberalized trading system and substantial domestic savings. That these objectives should have a direct effect on the food subsidy and rationing program should not be surprising.[2] By early 1978, the new policies had resulted in a substantial devaluation of the currency, which in turn resulted in a massive increase in the total food subsidy. Effects of the devaluation thus provided the immediate reason for curtailing the food subsidy.

The drastic reductions in the food subsidy burden, strategically phased over two years to minimize adverse reactions, were implemented in three major steps. The first step was to conduct a means test in January 1978 in order to restrict the number of recipients. Specifically, subsidized rice was restricted to families whose monthly incomes were less than Rs 300 per month. Marginal adjustments were allowed for large families with higher incomes. There was no change in the quantity entitlement of the free ration of one pound of rice per person per week or the three pounds of rice that could be purchased at a subsidized price. The means test was

2. Almost every study that praised Sri Lanka's achievements in social welfare through state intervention also commented on the high cost of achieving them.

conducted on self-reported incomes of the households. This procedure, as well as the difficulties in checking on incomes, may have been conducive to underreporting. This partially explains why there were no explicit protests to this change. Other reasons for lack of protests were the popularity of the newly elected government and the maintenance of the subsidies on rationed rice and nonrationed foods such as wheat flour and sugar. The first phase of the change resulted in the restriction of rice rationing to 7.6 million persons, or nearly 50 percent of the population.

The second phase involved the change from ration shops to food stamps in September 1979. After much publicity, households were required to apply for food stamps through a declaration of incomes and household composition. All members of households receiving a monthly income of less than Rs 300 were eligible for food stamps.[3] Children under eight years of age received stamps to the value of Rs 25; children between eight and twelve years received Rs 20; others received Rs 15 per month. Special stamps to the value of Rs 9.5 per household were issued to purchase kerosene. If necessary, these stamps could be used to purchase food. The bundle of commodities that could be purchased using food stamps included rice, paddy (unhusked rice), wheat flour, bread, sugar, powdered milk, and certain locally produced pulses. Although substantial reductions in coverage were expected when changing to the food stamp scheme, the number of recipients remained virtually the same as in the curtailed ration scheme. In fact, the number of recipients increased with each issue of the food stamps (every three months). This led to a freeze on new issues, beginning in March 1980. The most striking characteristic of the new food stamp scheme was the allocation of a fixed nominal amount of approximately Rs 1.8 billion in the annual budget for the cost of food and kerosene stamps.

The third phase marked the elimination of price subsidies on food. Under the rationing scheme, as well as during the first phase of food stamps, price subsidies remained on rice, flour, sugar, and infant milk foods. These subsidies amounted to Rs 2,326 million in 1979. In 1980, prices of rice, flour, and sugar were raised to reflect the costs, and the total price subsidy was reduced to Rs 305 million. By the end of 1982, these subsidies were almost totally eliminated. Prices of most of the major foods more than doubled between 1979 and 1982—a reflection of the effect of general inflationary pressures and the removal of subsidies. The administered prices of wheat flour and sugar increased 170 percent and 133 percent, respectively, between early 1979 and the third quarter of 1982 (Sri Lanka, 1983). The percentage increase in bread price is equivalent to the increase in the wheat flour price.

3. Adjustments for higher incomes and family size have been allowed for.

Fiscal Costs

The food stamp scheme in its final form—with a constant allocation of Rs 1.8 billion and food priced so as to incur no losses—has been most successful in reducing the fiscal burden of the food-related welfare policies. This is clearly evidenced in some of the government accounts shown in table 18.1.

In earlier years, some foods imported by the government had been sold at a profit, thus leading to a reduction in the overall food subsidy. This practice is particularly evidenced in the case of profits from the sale of sugar, which during the 1960s brought about substantial reductions in the net food subsidy. The reduction or elimination of these profits in later years, the increased costs of imports, and the increased population receiving subsidy benefits resulted in food subsidies accounting for a substantial share of government expenditures. In the mid-1970s, they accounted for approximately 15 percent of total government expenditures and about 5 percent of the gross national product. By 1982, total food subsidies inclusive of the food and kerosene stamps had fallen to 5 percent of the total government expenditures and 2 percent of the gross national product.

Apart from the savings to the government, the new scheme provides a clear advantage for budgetary planning purposes. Under the earlier price subsidy scheme, final commitments on the food subsidy were not known until the profit-loss accounts of the sale of all imports (and domestically purchased commodities) were finalized. The new scheme, on the other hand, provides a clear picture of the financial commitments prior to actual expenditures.

What has been the effect on the budgetary savings? If the magnitude of the food subsidy alone is considered, substantial savings are indicated. Compared with the total food subsidy of Rs 2,893 million in 1979, the allocation for food stamps has resulted in a savings of around Rs 1,000 million. What is perhaps more important is the net savings for all expenditures linked with the new scheme. As the food stamp scheme was introduced to support the incomes of the poorer households, steps were also taken to protect wage earners (most of whom are not eligible to receive food stamps) from the effect of eliminating subsidies. Accordingly, wage increases to employees of government institutions and public corporations have been effected. The cost to the government in the form of a higher wage bill for its own employees and lower export duties to permit state corporations to grant wage increases to their workers has been estimated at around Rs 700 million in 1980. If this amount is to be treated as a direct outcome of the policy of shifting to food stamps with limited beneficiaries, then the net budgetary savings drop to a mere Rs 300 million.

TABLE 18.1 Fiscal costs of subsidy and transfer programs, Sri Lanka (million rupees)

Year	Rice	Flour	Sugar	Other Foods	Net Subsidies	Food Stamps
1966/67	445.3	−22.1	−224.8	3.6	202.0	
1967/68	548.9	−24.0	−239.5	10.9	296.3	
1968/69	582.0	−11.2	−254.6	12.6	328.8	
1969/70	532.4	3.6	−221.1	12.5	327.4	
1970/71[a]	586.2	10.4	−64.0	1.9	534.5	
1971/72	526.5	22.6	−47.1	33.2	525.2	
1972/73	564.0	111.0	−21.8	24.0	677.2	
1974	745.1	148.1	26.5	30.8	950.5	
1975	785.5	218.0	215.0	11.9	1,230.4	
1976	679.3	52.0	165.1	41.2	937.6	
1977	943.0	363.6	70.0	47.5	1,424.1	
1978	1,066.1	1,027.9		68.7	2,162.7	
1979	1,215.6	894.1	138.6	77.7	2,326.0	508.0
1980	72.0	272.0	−144.0	105.0	305.0	1,614.0
1981	75.0	105.0	48.0	82.0	310.0	1,321.0
1982				100.0	100.0	1,475.0

SOURCES: Central Bank of Ceylon; World Bank.

[a]Four-fifths of expenditures during the fiscal year of fifteen months: October 1, 1971 to December 31, 1972.

These are, of course, the immediate fiscal effects. Larger savings will accrue in the long run, arising from the nonindexed nature of the income transfer through food stamps.

Distributional Effects

About half of all households are beneficiaries of the food stamp scheme. Households receiving free rations at the time of the change from rations to stamps was also about half the total number.[4] Eligibility criteria in both schemes were based on a minimum income level of Rs 300 per family. Under both schemes, around 58 percent of rural households received government transfers. In the change from quantity rations to food stamps, the incidence of recipients in the urban and estate sectors, which

4. Comparative analyses of the food stamp scheme and the food rationing scheme are based on Central Bank of Ceylon (1981, 1984). Most of the first survey was conducted when quantity rationing was in operation. The food stamp scheme was in operation when the latter survey was conducted.

Kerosene Stamps	Total Subsidies and Stamps Values		Total as a Percent of Government Expenditures	Total as a Percent of GNP (Market Prices)
	Nominal	Real (1952 = 100)		
	202.0	175.9	8	2
	296.3	243.8	10	3
	328.8	251.9	10	3
	327.4	236.9	9	3
	534.5	376.6	14	5
	525.2	384.2	10	4
	677.2	409.6	13	4
	950.5	511.5	16	5
	1,230.4	620.5	17	6
	937.6	467.2	11	4
	1,424.1	700.8	16	5
	2,162.7	949.4	12	5
59.3	2,893.3	1,146.6	14	6
163.0	2,082.0	654.3	7	3
164.0	1,995.0	531.4	7	3
171.0	1,746.0	419.6	5	2

were 40 percent and 21 percent, respectively, before the change, dropped to 32 percent and 13 percent after the change.[5]

The relatively higher percentage of beneficiaries in the rural sector can be attributed to the fact that rural incomes, which are mostly agriculture related and seasonal, are not easily accountable. The low average income levels in the rural sector may also have contributed to this higher incidence. In the urban sector, average incomes are relatively higher, more regular, and more accountable—particularly in the organized sector. Estate-sector incomes are largely concentrated among organized labor working in the plantations. Their wage payments are highly identifiable and are usually received by more than one member in a household.[6]

5. Distribution of the population among different sectors during this period shows about 75 percent in the rural sector, 18 percent in the urban sector, and 7 percent in the estate sector. The estate sector consists of all households in tea and rubber plantations of over twenty acres and with more than ten resident workers.

6. The average number of income earners per household in the urban, rural, and estate sector is 1.64, 1.45, and 2.46, respectively (Central Bank of Ceylon, 1981, 1984).

Although around half of all households receive food stamps, this group is by no means coterminous with the poorer half of the population. In fact, according to survey data, about 30 percent of the households in the lower half of the population appear not to have received these income transfers, while a similar percentage of households in the upper half of the expenditure range do receive food stamps.

Shares of total government outlay on food stamps in 1981/82 and the net food subsidy in 1978/79 received by expenditure classes and sectors are shown in table 18.2. The poorest 40 percent received only 50 percent of the food subsidy in 1978/79. Due to leakages in the rationing scheme as well as untargeted price subsidies on wheat and milk products, income classes above the fortieth percentile captured half of food-related subsidies. After the change to food stamps, the share captured by the bottom 40 percent increased from 50 to 60 percent.

Table 18.3 indicates that the relative contribution of government transfers to total expenditures of poorer households declined after the change in the program. The nominal value of the food stamps, though substantially higher than the nominal value of the food rations received in 1978/79, remained constant throughout, while nominal prices and expenditures increased over time. As an income redistribution measure, the effect of both schemes on the poor has been significant. But the nonindexed nature of food stamp payments will continue to erode their real value.

Nutritional Welfare

Some of the major factors expected to minimize the adverse effects of the removal of food subsidies on nutrition are (1) higher agricultural incomes due to free-market pricing; (2) new and expanded income-earning opportunities due to liberalization of trade and removal of controls; (3) new employment opportunities arising from agricultural development, construction, and other forms of investments; (4) wage increases to government and semigovernment employees; (5) higher wages in the private sector; and (6) income transfers through the food stamp scheme. The overall effect of these factors on real consumption vis-à-vis nutritional welfare of low-income households is examined in the following sections.

Price subsidies on certain food and nonfood items and free issue of rice rations were prevalent during 1978/79. During 1981/82, there were no food price subsidies, and some nonfood subsidies, such as on public transport, have also been either drastically reduced or eliminated. Direct assistance to the poor was through food stamps.

The average food share in the household budget increased from 66 percent in 1978/79 to 68 percent in 1981/82. This change is statistically

TABLE 18.2 Distribution of food subsidy and stamp transfers among income groups, Sri Lanka (percent)

Per Capita Expenditure Quintile	Food Stamps Transfers, 1981/82				Food Subsidy Transfers, 1978/79			
	All-Island	Urban	Rural	Estate	All-Island	Urban	Rural	Estate
1 (poorest)	35	2.7	31.6	0.40	26	4.8	19.6	1.0
2	25	2.5	22.7	0.20	24	4.1	17.3	2.9
3	18	2.3	15.5	0.07	20	3.0	12.9	4.2
4	12	2.0	9.8	0.15	17	3.9	10.0	2.8
5	10	2.9	4.9	0.10	13	4.1	6.1	2.0
Total	100	13.0	85.0	1.00	100	20.0	66.0	13.0

SOURCE: Data from Central Bank of Ceylon.

TABLE 18.3 Relative contribution of government transfers to total household expenditures, Sri Lanka (percent)

Per Capita Expenditure Quintile	Food Stamps, 1981/82	Food Subsidy, 1978/79
1	14.0	16.1
2	8.5	10.0
3	6.5	7.9
4	5.5	5.5
5	4.5	2.1

SOURCE: Data from Central Bank of Ceylon.

significant and, according to Engel's law, implies worsening of the real incomes. Higher food shares during the latter period are also indicated for all income groups, except the poorest decile.

A plausible explanation concerning the poor's inability to increase their relative budget shares to food is that the poor have certain fixed commitments intrinsic to survival and to future income generation. Expenditures on clothing, housing, lighting, and transportation form some of these basic costs. While food is also a basic good, food itself may not be forthcoming if these nonfood costs, such as for transportation to work, are not incurred. When real incomes decline, maintenance of these fixed commitments may occur at the expense of food intake.

If higher food shares allow maintenance of adequate nutritional intake, then the losses in welfare may only be nonfood related. That this has been so on the average is indicated by the almost identical levels of mean per capita calorie consumption during the two periods. In fact, the mean calorie consumption levels of 2,283 and 2,271 per day in 1978/79 and 1981/82, respectively, exceed the recommended allowance of 2,200 calories for the average Sri Lankan (Sri Lanka, 1972).

Of greater relevance than mean calorie intake is the distribution of calorie intake relative to income. The effect of the policy change on the nutritional welfare of low-income households during the short period under consideration appears to be clearly negative. While calorie inadequacy vis-à-vis recommended allowance has continued to be a problem of the bottom five deciles, the nutritional position of the poorest two deciles had deteriorated significantly by 1981/82. The decline registered is around 122 calories per day, or 8 percent from their already low levels of calorie intake of about 1,500 calories per person per day. In contrast, the middle- and upper-income classes have either sustained or improved their calorie intake (Edirisinghe, 1987).

Nutritional poverty at the level of the individual household can be assessed using Lipton's (1983) definition of ultrapoor households as those failing to achieve 80 percent of recommended calorie allowance although they allocate over 80 percent of their total incomes to acquire food. The incidence of ultrapoor households among all households has increased from 4.6 percent in 1978/79 to 6 percent in 1981/82. The proportion of ultrapoor households in the poorest quintile increased from 19.5 percent in 1978/79 to 25 percent in 1981/82 (Edirisinghe, 1987).

The new policy package envisaged substantial growth in the agricultural sector, particularly the domestic sector where paddy is the mainstay. In fact, agricultural performance during the new policy regime has been noteworthy. Between the 1976–78 average and the 1980–82 average, agricultural gross domestic product has had an annual growth rate of 4.4 percent, with paddy production recording a rate of 7.9 percent per year (Thorbecke and Svejnar, 1984). Comparative rates of growth during the previous seven years have been 1.9 percent for agricultural gross domestic product (GDP) and 1.4 percent for paddy production. Removal of constraints on transportation and input supplies, increased demand for domestic agricultural products (particularly due to removal of price subsidies on imported wheat flour), favorable weather, and larger agricultural investments may all have contributed to expansion in agricultural production. The overall growth in the economy has also been remarkable; the GDP grew 8.2 percent in 1978, 6.3 percent in 1979, 5.8 percent in 1980, and 5.8 percent in 1981, with the contribution of the agricultural sector outstanding (World Bank, 1982).

How were the poorer households in the agricultural sector affected by the expansion in economic activity in that sector? If the effect is to be viewed through the incidence of ultrapoverty, table 18.4 indicates that agricultural workers, in both the domestic and export sectors, were made worse-off. Their poverty rates increased significantly by 1981/82 relative to 1978/79. Plantation workers appear to have lost the most.

TABLE 18.4 Incidence of the ultrapoor in agriculture, Sri Lanka (percent)

Agricultural Population	Among Poorest 20 Percent		Among All Households	
	1978/79	1981/82	1978/79	1981/82
General farmers	15.8	17.8	3.0	3.2
Plantation workers	14.0	23.8	3.2	6.3
Agricultural workers (mainly paddy)	23.8	36.7	10.8	15.4

TABLE 18.5 Contribution of income transfers through food stamps and food subsidies to total calories, by expenditure class, Sri Lanka

0	Per Capita Expenditure Quintile									
	1		2		3		4		5	
Item	1981/82	1978/79	1981/82	1978/79	1981/82	1978/79	1981/82	1978/79	1981/82	1978/79
Per capita expenditure (nominal Rs/month)	131	78	199	116	262	151	351	201	702	441
Food share (percent)	75	75	73	72	71	68	67	64	53	50
Calorie consumption per capita per day	1,368	1,490	1,894	1,914	2,264	2,255	2,678	2,612	3,154	3,152
Expenditure elasticity for calories[a]	.83	.70	.67	.60	.56	.52	.49	.43	.17	.21
Marginal calories per day[a]	8.6	13.3	6.3	9.7	4.9	7.7	3.4	5.6	0.8	1.5
Calorie addition from food stamps or food price subsidies	151	168	110	122	89	92	64	61	22	14
Calories from food stamps or food price subsidies (percent of total)	11	11	6	6	4	4	2	2	0.6	0.4
Price paid for 100 calories (nominal Rs)	0.24	0.13	0.26	0.14	0.28	0.15	0.30	0.16	0.35	0.19

SOURCE: Data from Central Bank of Ceylon.

[a]Expenditure elasticities and marginal calories were derived from the following estimates of calorie consumption functions for 1978/79 and 1981/82:

$$(1978/79)\ C = \underset{(13)}{1.572315} + \underset{(44)}{1.924613}\ (Y) - \underset{(35)}{0.140343}\ (Y^2), \qquad (R^2 = 0.56.)$$

$$(1981/82)\ C = \underset{(10)}{-1.45388} + \underset{(54)}{2.729213}\ (Y) - \underset{(45)}{0.1946917}\ (Y^2), \qquad (R^2 = 0.65.)$$

where C is the natural log of per capita daily calories and Y is the natural log of per capita total expenditure. t-ratios are given in parentheses.

The nutritional situation of the low-income households discussed above appears to be consistent with the observed greater inequality in the distribution of incomes in 1981/82 compared with 1978/79. The Gini coefficient, based on the monthly income of income receivers, increased from 0.49 in 1978/79 to 0.52 in 1981/82 (Central Bank of Ceylon, 1984). Income flows to the bottom deciles have not been able to sufficiently mitigate the adverse effects of price increases.

Government Transfers and Nutrition

Table 18.5 gives estimates of basic consumption relations observed during 1978/79 and 1981/82. What strikes one is the fact that expenditure elasticities have increased substantially among low-income households. Reductions in real incomes of the poorest 40 percent may have affected calorie consumption much more seriously in 1981/82 than in 1978/79. Similarly, marginal calories (the increment to calorie consumption if monthly per capita expenditures are increased by one rupee) declined from 13.3 calories to 8.6 calories between the two periods. These estimates of marginal calories may be used to evaluate the net increment to total calories brought about by government income transfers. One assumes here that households treat government transfers as just another source of monetary income. For the poorest quintile, additional incomes from food stamps brought about a net addition of 151 calories in 1981/82. Food rations and food price subsidies in 1978/79 may have added 168 calories to total calories of the bottom quintile. Although the share of calories from government incomes in total calories is similar in both periods, the absolute level of calorie consumption in 1981/82 by the poorest households had undergone a sharp decline.

That the food stamps have not been able to effectively mitigate the deleterious effects of inflation is clearly indicated when one compares the amount of additional calories that the same nominal value of food stamps may have bought in 1978/79 and 1981/82. Rs 17.55—the mean value of food stamps received by the poorest 20 percent—would have resulted in 234 additional calories or 16 percent of total calories in 1978/79, compared with 151 calories or 11 percent of total calories in 1981/82.

For a comparison of real consumption changes based on calorie consumption, consider the expenditures required in 1981/82 to consume the same number of calories as in 1978/79. Based on the estimated consumption function, the expenditure required by the bottom quintile to consume 1978/79 calorie level (1,490 calories) in 1981/82 was Rs 145.18, which is 86 percent higher than the 1978/79 expenditure level of Rs 78.99. The cost-of-living index related to nutritional welfare of the poorest quintile, therefore, is 1.86. This indicates that the real value of the food stamps had almost halved by 1981/82.

Conclusion

From the point of view of economic growth, Sri Lanka's new economic policies have met with considerable success. It is not expected, though, that the benefits of growth can remove nutritional risk from lower income deciles in the short run. Income transfers through food stamps were intended to cushion the low-income segments from the adverse effects of a new price structure. Since income transfers have not been indexed, their real values have deteriorated over time. For households that have not experienced higher wages, new employment, or larger agricultural and other incomes to compensate for their losses in real incomes due to price increases, nutritional repercussions appear to have been serious. Evidence is strong that government intervention is required to improve the nutritional welfare of households that have not yet been able to participate in the country's economic growth.