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Impact on Structure of Growth and Poverty

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ABSTRACT

India will grow between 6to8 percent annually and will become the third or fifth largest economy of the world in this period.(for a model based on which these projections are derived after some modifications taking into account recent experience, see pandit,2004 and alagh,2000).The investment rate and productivity growth will be the drivers. For example, around a third of India's GDP growth in 1997/2003 is technology driven. Trade will also matter –will become around 4 percent of world trade. First, in most recognizable way, the Eleventh plan brings a shift, the way we look at economic growth. In its own way the plan emphasized not only on 'growth. It recognized that that increase in aggregate income is critical –and an extremely important one-but its distribution in favors of poor is equally important for inclusive development and growth to is poverty reducing. Second aspect is that, in more explicit way it also recognized that poor.

INTRODUCTION

India is not a homogeneous category but differs in terms of economic, social and religious belonging. And therefore, while poor as an economic category are assets less, unemployed, less educated, without necessary skills, ill-health but are also those who suffered from social exclusion and discrimination. Higher growth in GDP,(with the national income growing in the range of 6to 8 percent per annum for over 15 years now) has not accelerated the decline in poverty. The incidence of poverty among certain marginalized groups, e.g. the Sts, has hardly declined. The absolute number of poor people has declined only marginally (GoL,2009: 1) indicating a weak relationship between economic growth and poverty particularly in the decade of 1990s The Eleventh plan, therefore, singled out 'the type of growth' ,rather than growth alone, as an important element of inclusive growth strategy. However, to expect the growth to be inclusive is one thing, but to realize it in practice through relevant strategies is another. Whether the gains from income growth will be shared by the poor, would depend not only on the intial condition in terms of poor people's access employment, which in turn is determined by skill and education level, health, non-discriminatory access to credit. It is in this context, the nature of relationship between growth and income distribution bear significance for the speed of poverty reduction. In order to have reasonable idea about the potential of a particular growth process for inclusiveness and poverty reduction, insight into the observed empirical relationship between growth, inequalities and poverty in a specific (Indian) 'economic and social context 'is necessary, to develop specific inclusive policies.

GROWTH, INEQUALITY AND POVERTY LINKAGES: INSIGHTS FROM LITERATURE

There is voluminous literature that provides useful insights on the relationship between economic development and inequality in distribution (and poverty).First systematic statement on this relationship was made by Kuznets in the 1950s, where he argued that the long-term secular

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behavior of inequality follows an inverted U-shaped pattern with inequality first increasing during the early stages of growth in developing countries but is likely to fall after some time (Kuzenets, 1955).Empirical studies that follow kuzents' pioneering work provide evidence that, beside growth in per capita income, the ncome rate,income (or worker) share in non-agriculture sector, urbanisation level, education, government interventions, and others.This strand of thought which is called 'institutionalism', is based on the cross- country experiences that recognizes the role of other factors in shift in income distribution in favour of poor(Tsakloglou, 1988).
The most influential empirical studies on this issue are undoubtedly those of Ahluwalia (1976a and 1976b) and to lesser extent that of paukert (1973) that support kuzenets' assertions and those of Adelman and morris (1973) and papanek (1978) which support the 'institutionsalist approach' (Tsakloglou, 1988: 510). Later work of Ahluwalia (1976b) combined the GDP per capita growth with other variables (such as literacy level, secondary enrollment rate,rate of population growth, share of agriculture in GDP, share of urban population etc.) and emphasized that beside growth, expansion in eduction, diminution of demographic pressures and changes in the structure of production in favour of modern sector turn out to be important (Ahluwalia,1976b)

The most recent work which combines the GDP per capita with other variables include studies by Tsakloglou (1988),hull (2009) and ravallion (2009). Tsakloglou (1988) found that the rate of population growth was positively related to income inequality. Conversely, the educational level, the extent of government activity and the rate of growth of GDP per capita income hold negative relationship with inequality (Tsakloglou,1988:526). Other studies found that while the share of non-farm sector is important, the increase in employment in more productive sector and increase in productivity in traditional sector are critical for decline in poverty (Hull, 2009).the research by ravallion (2009) brought further insight on the relationship between growth, inequality and poverty but with deviating results. For the most part of(1980-2000) for 80 countries, ravallion (2009) reports that there is 'little or no correlation between changes in inequality and rates of economic growth- inequality rose about as often as it fell',and concluded that 'as generalization across cross country experiences, it still appears that growth trends to be roughly distribution neutral' (Ravallion, 2009:180). He also found that the rate of decline in poverty less responsive to growth. Further, the decline in poverty tend to be less with rising inequality than with decling one. The high inequality also affects growth and serve double blow to prospects for reducing poverty-' it entails less growth, and it means that growth is less pro-poor'.

CHANGES IN RURAL POVERTY

Let us look at the changes in poverty first. Rural poverty continue to decline during 1983/84 and 2004/05, at a per annum rate of 1.89 percent. However, the poverty declined at relatively lower rate for ST and SC and the Muslims compared to the others (non-SC/ST) among the social groups and Hindus and others religious minorities. The STs, SCs and Muslims which suffered from high level of poverty in the base year had experienced lower decline compared to groups with low poverty in the base year. In the economic group, the self-employed farmers and self-employed non-farm producer and business households have performed better than the wage labor households during 1983/2004. The rate of decline was lowest for farm wage labour. This implies that the gains and business household than the wage earners household. For the economic groups, poverty has declined at different rate for different social and religious groups. The SC and ST self-employed farm and non-farm households experienced lower decline compared to others (among the social groups) and the Muslims (compared social groups, and Hindus and ORM households benefitted more from the growth in farm and non- farm sector compared to SC,ST and Muslim households. The poverty among SC and ST wage labour households (both farm and non-farm) had also

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declined but at lower rate compared to rest of the social groups. Thuse, the wage labor which constitute bulk of the poor and suffered from high poverty, experienced less decline than poverty during 1983-2005.

CHANGES DURING 1980S AND 1990S TILL MID-2000

Between the two sub- periods, namely the 1980s and the 1990s, at overall level, there is less difference in the rate of decline in rural poverty. Among the social and religious groups, during the 1980s, the poverty had declined at slower rate for SC households compared to others, the ST did better and comes fairly close to others in reducing poverty. The decline was also low for the Muslim households compared to Hindus. Thus, during the 1980s, the SC and Muslim households compared to Hindus. Thus, during the 1980s, the SC and Muslim households lagged behind in poverty reduction. During the 1990s, the story changed. The STs performed badly, with only 1 percent decline. Unlike the 1980s, in the SC households did somewhat better in reducing poverty. So did OTHERs among the social groups. The Muslims also performed better in the 1990s. Thus SCs ,Muslims and ORMs had improved their performance in poverty reduction during the 1990s. At the level of household type during both the periods, households in both periods.

MOST POOR IN 2005

Notwithstanding the decline in rural poverty, in the mid-2000(2004/05) poverty was still very high, as close to one-third were still trap in poverty. The most poor were wage lab our engaged in farm and on-farm activities in rural area, the poverty rate being 44 percent and 32 percent respectively. Among the caste groups, the poverty also exhibits a typical old hierarchal order. The poverty is highest for SCs, (37%)(who are placed at the bottom of caste hierarchy), followed by OBCs (26%) and higher caste (17.47%). With 45 percent, the STs are most poor, (33%) but better than SCs and STs (45%),SCs(37%) and non- farm wage lab our, with 56 percent and 46 percent for STs and 46 percent and 37 percent for SCs respectively. The farm wage lab our is thus the poorest among all.

Changes in monthly per capita Expenditure

Let me turn to changes in income, taking monthly precipitate expenditure (MPEC) as proxy for income. During 1983 and 2005, the MPEC increased at per annum rate of 1.2 percent. The growth was nearly the same for social and religious groups, varying in a narrow range of 1.1 percent to 1.3 percent. In case of economic groups, the self- employed non-agricultural households showed higher increase in MPCE (1.3 percent. In case of economic groups, the self-employed non-agriculture households, the STs and others among the social groups and Hindus and ORMs showed higher change in MPCE, than SCs and Muslims. In the case of self-employed farm households, the inter- social group differences were minimal. The MPEC of farm wage labour had increased at per annum rate of 1.1 percent and with the exception of Muslims (1.6%), there was much less difference among the social groups. IN the case of non-farm wage lab our, the MPEC increased at per annum rate of 0.8 percent. The increase was marginally lower for SCs and STs.

CONCLUSION

The prospects for Indian agriculture are good. Demand will grow fast and if we create the correct incentive and organization systems, the Indian farmers will not fail us as he has responded well in the past when our policies were supportive. Research systems will have to concentrate on much larger cafeteria of crops and support to non-crop agriculture, including animal husbandry, fish ad forests. The real danger apart from anti agricultural policies are in running into real resources constraints. Again here the strategies for land and water management are known and agricultural research can fill in the gaps. Unfortunately the 11th plan is the first plan without chapter on the

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perspective of the economy and we have ro rely on the efforts of people concerned about India's future outside the Government, like me. We hope for a more serious effort in the mid-term review of the Eleventh plan.

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