Chapter - 4

Causes of Poverty and Inequality in India

In the Indian setting poverty has been usually discussed along with the question of inequality and it has even been contended that poverty is both the cause and the consequence of inequality in income distribution. Again, inequality in income distribution is the manifestation of the inequitable distribution of the means of production and the imperfections existing in the market structure. The whole issue has been complicated by the dual nature of the Indian economy and as such inequality should be analysed separately in the case of rural and urban areas. Behind the income inequality in the rural structure, there is often social inequality in the form of caste hierarchy, the existence of which contributes to the persistence of inequality by providing social sanction to the hierarchical structure.

In the following paragraphs, first the issue of poverty and inequality in rural areas is discussed; then this discussion is integrated with the discussion of the urban sector to have a total view of poverty and inequality in the economy as a whole.

On the question of inequality in rural India our attempt is mainly confined to post-independence period, though for the sake of continuity we have to go back beyond 1947. During this phase of Indian history, three types of factors will be discussed and they are: market forces, governmental measures and the impact of political decisions.
To illustrate the impact of market forces on rural hierarchy in Orissa Bailey found (193?) that in early fifties land has been marketed and the consequence was transfer of land from one caste to another. Similar observation has been made by other anthropologists studying villages in other parts of the country. Such transfer of land from the higher castes to the middle castes has been described as a change from a system of cumulative inequalities to one of dispersed inequalities, or from a relatively closed to a relatively open system of stratification.

But marketing of land does not necessarily indicate diminution of the skewness in the distribution of land holdings. There is reason to believe that in some areas land is passing from the hands of very small holders into those of middle and large proprietors. With the introduction of new technology, agriculture has been profitable to those who have both land and capital to invest in it. It is argued that the bias against the small peasants is built into the new technology by the very costly nature of the inputs, the role of indivisibles like tractors and also by the selective strategy accompanying the new technology. Thus the relatively low profitability of smaller farms has induced transfer of land from the small farmers to the big ones, which increases the skewness in the distribution of land holding in the "green revolution" areas.
What effect does the new agricultural strategy produce on the distribution of income? There is no positive finding on this issue. But logically one may proceed like this: Since the smaller holdings usually earn from many diverse sources, while the larger farm depends mainly on farm business income, one would expect a somewhat less skewed distribution in terms of household income, compared to the figures for land distribution. But distribution of farm assets has become more skewed over the years, which should enable the big farmers to retain their advantage over the smaller farms partly because of their greater creditworthiness and risk-bearing capacity based on the high value of their asset holding, and partly because of the higher earning capacity from the ownership of farm assets.

We can study the impact of the new technology in greater detail. The production relations in the agrarian structure at present have a three-tier composition viz. owner-cultivator, tenant-cultivator and landless farm labourer. This composition broadly embodies a dual system of farming — peasant and capitalist with two forms of farm production, which are family labour-based and hired-labour based respectively. While the capitalist farms maximise profit-income and a part of their incomes is invested for the intensification of production, the peasant farms maximise output.

The existence of a dual system of farming in Indian agriculture indicates that the magnitude of wage labour and the institutional character of land-labour relations in production
belonging to the capitalist farm sector of agriculture depend primarily on the size of land holdings, social status of the farmer and the nature of the technology being applied to agriculture. Similarly, regarding the peasant farm sector, the extent of use of family labour depends on the size of land holdings.

The use of the new technology has affected the distribution of land in our rural economy. According to Divatia (1978) the share of the lowest 30 per cent of the rural households in the total rural assets has slipped from 2.5 per cent to 2 per cent and that of the top 30 per cent has increased from 79 per cent to 31.9 per cent during the sixties. Another study by Pathak, Jena, and Sarmu (1977) also brings out the sharpening of inequality in rural areas. According to it, the highest decile group improved its share from 33.71 per cent to 41.79 per cent between 1961 and 1971. A study by C.H. Shah reveals that despite the ceiling laws, the concentration of ownership of land has not changed much in recent years and again, despite a marginal decline in the concentration of land ownership, the concentration of assets has tended to increase. These all point to the insignificant effect of land reforms measures on the reduction of inequality in rural areas.

Just as the ceiling laws have failed to change the ownership pattern of land in rural areas, other Government measures since the middle of the sixties have also not been able to prevent the natural deterioration in the share of the
Poor in total asset holdings in the rural economy. On the contrary, measures like asset-based advances, high support prices for rich farmers and provisions for highly subsidised inputs have brought about a shift in asset ownership leading to concentration of incomes in agriculture. The studies by Bardhan (1974), Saini (1976) and Shah (1976) have revealed this aspect of agricultural development in the country. Saini's study is based on two wheat producing districts of Ferozepur in Punjab and Muzaffarnagar in U.P., while Bardhan covers, apart from these two districts, some sample farms of Hooghly in West Bengal and Ahmednagar in Maharashtra. These studies reveal the following:

The agricultural development since the mid-sixties has led to a widening of income disparities between regions, between small and big farms and between land owners and landless labourers.

Moreover, some studies reveal that real wages of farm labourers have tended to decline even in Punjab, Haryana and Western U.P. since 1970-71. While the trend of development in agriculture has been going against the poor, the government has established some institutions and has taken up some programmes for the uplift of the small and marginal farmers. These are Small Farmers' Development Agency (SFDA), Agency for Marginal Farmers and Agricultural Labourers (AMEAL), Crazy Scheme for Rural Employment, Drought Prone Area Programme and Integrated Tribal Development Projects. But these solutions offered by the government suffer from the
following weaknesses. First, there is a widely shared view that most of the benefits under the schemes have been diverted and appropriated by better-off farmers. Secondly, it is now recognised that even in 1970-71, after the full implementation of these programmes, their coverage has been meagre. It has been contended that in the absence of basic changes in the organisation of agriculture, such reformist measures will not redress rural poverty. But in our opinion, such a contention does not do full justice to the role of these specialised agencies. Let us explain it in detail.

The major limitation of the small farmer is the small size of his holding, which puts on him resource and system constraints. But the new technology in agriculture is resource-using, which involves larger use of current inputs as well as an expanded base of durable capital especially for irrigation. The resource position of small and marginal farmers regarding long-term investment is extremely weak. Hence the small farmer has either to be content with the meagre investible resources or face the increased risks involved in using borrowed finance. The combined effect of all these is severe capital rationing and increased economic disparity between small farmers and big farmers.

The NSS 26th round data suggest that for every 100 landless families, 37 had a milk animal. In the next class, cultivating less than 0.2 hectares, the situation is better: 3 out of 4 families had an animal. But, those cultivating above 20 hectares had 14 animals per household. This positive association
of the number of animals with the size of the cultivated holding can be interpreted as a resource barrier for small and marginal farmers and landless labour. Hence agencies like SFDA have been advised to supply cattle to these families at subsidised rates.

The agencies like SFDA and INFL have viewed the problem of small farmers essentially as problems of resources — providing more credit, milk animals, improved seeds etc. They have the necessary organisation — the extension agency, the Credit Cooperatives, the skilled personnel of agricultural department. But the reason why they have not succeeded fully in their tasks is that the organisational wings work with a linear authority structure which results in a lack of cohesion within the organisation. However, we will discuss this issue in the last chapter again.

The feeling is now widespread that government measures to reduce inequalities in the agrarian structure have been unsuccessful. But the measures adopted have at least called in question the legitimacy of the existing inequalities and created new expectations about what is desirable and possible. One result of this has been organised political action to transform the agrarian hierarchy. Different political parties, peasant associations and other organisations are now involved in the attempt to change the agrarian structure. Their approach to the rural conditions is completely different from the approach adopted by the government. Sharecroppers in West Bengal, for example, are known
to be working under exploitative conditions and have received little protection from the law. The peasant associations have tried to prevent eviction of share croppers through political pressure. However, it is difficult to assess the redistributive effects of the forces thus operating. When land is forcibly seized by a party, it is not necessarily distributed to the landless poor. This often transforms the conflict between the rich and the poor into a conflict between rival political parties. But for our present purposes we need not pursue it further.

**Industrial Stagnation and Urban Poverty:**

The growth of the industrial sector in India and the consequent urbanization have not been successful in absorbing the landless unemployed labourers in rural areas into urban employment. While the towns have helped very little in alleviating rural poverty, poverty in urban areas has deepened since the middle of the sixties. Moreover, the pattern of industrialization in India has not been on the desired lines. The stagnation in the industrial sector in recent years has been explained in terms of perverse industrial development in a society where extreme income inequality has made for a shrinking demand base.

According to Basu (1975), in a capitalistic society investment and production decisions are taken by the capitalist class, who are quite distinct from the class of labourers. The
result is on unduly high premium on the production of luxury goods profitable to the capitalist and relative neglect of the mass consumption goods required by the labourers. This has led to high rates of growth, but this is also associated with distortion in the pattern of production, consumption and distribution. Bagdpat pleads for an end to the dichotomy that exists in the capitalist system and substitution of the present economy based on luxury by one based on austerity.

Bagchi (1979) considers inequality in the distribution of income as the basic constraint on the industrial development in India. Inequality in income distribution is aggravated by the process of growth for it is the private sector which owns the means of production and thus appropriates the increments in income. The government is unable to exercise effective control over the allocation of resources between (i) consumption and saving and (ii) 'essential' and 'non-essential' consumption. While the former is reflected in the failure to mobilise domestic resources for investment, the latter is revealed by the excessive importance of luxury goods in industrial production. It is not possible for the government to maintain a high rate of investment in the face of the unequal income distribution and the demand pattern generated by it.

While Bagchi puts emphasis on the overall inequality in income distribution, Sitra (1977) argues that the redistribution of
income in favour of agriculture and against industry is a major factor responsible for the deceleration in industrial development since 1965-66. He has suggested that the shifting terms of trade have been instrumental in reducing the real incomes of the majority of the population in both the urban areas and the countryside. An increase in foodgrain prices squeezed the non-food expenditure of the urban as well as the rural poor, thus reducing the demand for manufactured products. The result is the diminution of the demand for mass consumption goods. But a question remains. What about the demand of the rural rich who, according to Mitra, have accumulated a lot in the process of redistribution of income in favour of the agricultural sector. It remains a puzzle and perhaps a change in the preference pattern of the rich in rural areas can generate demand for the manufactured items.

One interesting aspect of the pattern of consumer expenditure has been revealed in the study of Ban (1974), who, on the basis of NSS data, has shown that the percentage of per capita consumer expenditure spent on industrial goods declined over the period 1952-53 to 1964-65. He further finds that the decline is much more pronounced in the case of the poorer sections of the population.

Demand for manufactured goods may be constrained by stagnation in the agricultural sector, which has been emphasized by Raj (1976). He has found that regions characterized by
moderately high and stable rates of agricultural growth have also experienced high growth rates in industrialization. Moreover, according to Raj, if "agricultural output does not grow rapidly enough, or even if it does grow a little faster but the increases in output are realised mainly in the larger farms, this is likely to take place only alongside further accentuation in the inequalities of income and wealth." The logical conclusion of this process is "a pattern of industrial development based on high rates of growth of demand for 'luxury' and 'semi-luxury' products which may well come to be regarded as the only way of maintaining a high rate of growth of output in this sector."

The perverse industrial development creates its own constraints and the opportunity of exports cannot solve the problems of inadequate demand, which has been shown by Raj (1976) and Bagchi (1975; 1977). Moreover, with the start of the seventies the growth in agricultural sector began to slow down for want of necessary institutional changes and this circumscribed industrial growth in more than one way. Food prices began to rise and necessary raw materials became scarce, which diminished the support to industry. As the inter-sectoral terms of trade shifted in favour of agriculture, and the support from the principal sources of industrial growth waned in course of time, industry faced a more unfavourable situation for growth. The situation worsened with a positive deceleration in the growth of public expenditure and investment, notwithstanding the fact that growth of public expenditure in India helped redistribution of income against the poor.
Even this, coupled with a wide arrangement of subsidies, could not alleviate the ills surrounding the industrial sector of the country.

The question of distribution has assumed importance in the perspective of overall stagnation in industrial sector and the slowing down of the growth of agricultural production. In this context the comment of Leontieff (1973) on the economic performance of China is worth mentioning. According to Leontieff, in China, in spite of very poor per capita income compared to developed countries in the west, "basic human needs absorb a fraction of the material costs needed to satisfy the demands of the high and middle - income groups in our industrialised, prosperous society, and general living conditions for the average Chinese are decidedly better than those of disadvantaged Americans at the bottom rung of our economic ladder." Though Leontieff compares Chinese economy with its western counterpart, the question of fair distribution becomes important in his discussion. In contrast, the production structure in Indian industry has been oriented to elicit consumption and the percentage of income going to non-productive consumption is also high compared to even developed countries. This explains two things simultaneously. First, it implies lower quantum of savings to be realised for investment. Secondly, it perpetuates inequality in income distribution. Such a situation is hardly conducive to the eradication of poverty in a developing country.