CHAPTER VII

PRO-POOR GROWTH AND PUBLIC POLICY IN INDIA

7.1 Introduction

The most powerful manifestation of a global commitment to poverty reduction is the Millennium Declaration passed by the General Assembly of the United Nations in 2000, where over 160 Heads of State Government pledged their commitment to the achievement of the Millennium Development Goals (MDG). First among these goals is the target of reduction of the incidence of global poverty by half by the year 2015 (in comparison to the level prevailing in 1990). Other goals like elimination of hunger, universal access to primary education, reduction in mortality, gender equality, etc., are all essentially supportive of the goal of reducing poverty. Given its large population, the pattern of poverty reduction in India will have a significant bearing on whether the Millennium Development Goal of halving global poverty by 2015 is achieved (Pasha, 2002). Pro-poor growth, i.e. rates and patterns of economic growth that are associated with significant increases in the incomes of the poor, is central in reducing absolute income poverty and thus to reach the first Millennium Development Goal.

The major concern of the present chapter is to examine the public policy to address the problems of poverty as well as inequality. Accordingly, this chapter has been divided into seven sections. First section is introduction itself. Second, section gives brief concept of pro poor growth. Role of public policy to address the issues of inequality and poverty is discussed in section III. In section IV policy of government of India and various schemes to reduce inequality as well as poverty is highlighted. Effectiveness of macro economic policies have been described empirically in section V. Section VI attempts to answer that why inequality and poverty is still there. The ways to tackle regional inequality and poverty is explained in section VII. Lastly concluding remarks are presented in section VIII.
7.2 Concept of Pro–Poor Growth

Pro-poor growth is about changing the distribution of relative incomes through the growth process to favour the poor. Wignaraja (2004) gives a theoretical justification for pro poor growth. According to the author, it is not the growth taking place through the decision in boardrooms of public sector and private sector and then trickles down. Rather, it is a growth based on the efficiency, creativity and knowledge of the poor. It is a part of three sector model rather than a two sector model. If 40 to 50 per cent of the people are in informal sector and are poor, there has to be a three sector model. When the poor participate as subjects and not as object of the development process, it is possible for them to generate growth. Then even at low levels of income, they can save, invest and move from dehumanization to dignity. In this manner the growth is not only through public sector or private sector activities and subsequent redistribution, the poor too can contribute directly to growth. In that type of pattern of growth, human development and greater equity are not mutually exclusive trade offs, but are complementary elements in the same process.

Hussain, Sirivardana and Wignaraja (2004) pinpoint two fundamental conceptual differentiations regarding the approach to pro poor development. In the conventional paradigm, pro poor growth is conceived of in terms of laying greater emphasis on micro enterprises simply by creating new institution for giving access to micro credit and skill training. Poor exists as isolated individual entrepreneur who are free to respond to market opportunities. According to participatory development paradigm instead, the poor are seen not as isolated individuals but as groups, with common interests, whose creative potential can be unleashed by a sequenced process of social mobilization and income generation.

Beyond a concern for increasing average incomes and reducing poverty, there is a greater appreciation for a need to enhance the security for the population if one is to ensure sustainable pro poor growth. The security of the poor is threatened by physical threats such as accidents and violence, by the volatility of macroeconomic conditions, by the varying inevitable hardships of the life cycle, by volatility of the weather and prices, and by volatility of personal and social relations. As a result, the poor are forced to avoid risks that may carry high rewards, can get trapped in cycles of poverty and insecurity, and
are regularly pummeled by shocks that militate against sustainable reductions in poverty (World Bank, 2000b). Reducing the source of these instability, the vulnerability of the poor to such shocks, as well as increasing the resilience of the poor to deal with them have become important new themes in the pro poor agenda. These concerns have led to an increased appreciation of public safety nets, disaster relief, public works, and targeted transfers as policies that not only enhance welfare but can also enhance economic productivity.

7.2.1: Definition of Pro Poor Growth

There are two definitions for measuring pro-poor growth used in recent literature and policy-oriented discussions.

7.2.1 A: Relative Definition

The first and relative definition of pro-poor growth compares changes in the incomes of the poor with respect to changes in the incomes of the non-poor. Using this definition, growth is pro-poor when the distributional shifts accompanying growth favour the poor (Kakwani and Son, 2003).

Although intuitively appealing, this relative definition of pro-poor growth presents three limitations, particularly when applied in an operational context. First, by focusing on inequality the relative definition could lead to sub-optimal outcomes for both poor and non-poor households. For example, a society attempting to achieve pro-poor growth under the relative definition would favor an outcome characterized by average income growth of 2 per cent where the income of poor households grew by 3 per cent over an outcome where average growth was 6 per cent, but the incomes of poor households grew by 4 per cent. While the distributional pattern of growth favors poor households in the first scenario, both poor and non-poor households are better off in the second scenario (www.worldbank.com, August 2008).

In short, the relative definition places a premium on reducing inequality through growth more than reducing poverty. Second, under this definition an economic contraction could be pro-poor if the incomes of poor households fall by less than those of non-poor households despite the fact that poverty has not fallen. Third, this definition
might favor public sector interventions that reduce inequality regardless of their impact on growth. While in principle reductions in inequality may be welcomed and even become a policy objective. It is clear that a disregard for the impact of such actions on growth is likely to be of limited operational use (www.worldbank.com, August 2008).

7.2.1 B: Absolute Definition

The second and absolute definition avoids these problems by focusing instead on what happens to poverty. Growth is considered to be pro-poor if and only if poor people benefit in absolute terms, as reflected in some agreed measure of poverty (Ravallion and Chen, 2003). In this case, the extent to which growth is pro-poor depends solely on the rate of change in poverty, which is determined by both the rate of growth and its distributional pattern. In short, under this definition the aim is to achieve the greatest amount of poverty reduction possible through growth and progressive distributional change.

7.3 Role of Public Policy to address the issue of Poverty and Inequality

Growth, inequality and poverty are the three subjects of major interest to development economists and policy makers. There is a two way relationship between growth and inequality. Changes in distribution of income affect the pattern of economic growth. In the similar vein, changes in economic growth also affect the distribution of income. This two way relationship is presented in Figure 7.1. The relation between growth, inequality and poverty is presented in Figure 7.2 which explains that poverty reduction is influenced by both economic growth and distribution of income. Inequality. Now the main concern of this chapter is to ascertain the impact of public policy on the growth and poverty reduction (discussed later in section 7.5). Public policy can affect both the rate of economic growth as well as the volume of poverty reduction as presented in Figure 7.3. Now the interaction among these four variables (growth, poverty, inequality and public policy) is shown in Figure 8.4 by combining the Figures 7.1 to 7.3. In this process of interaction, public policy has an important role to play.

Public policy is concerned with what government does, why they do it and what difference it makes. It may deal with a wide variety of substantive areas like defense,
Figure 7.1: Relation between Growth and Inequality

Source: Adapted from Lopez (2004) power point presentation

Figure 7.2: Relation among Growth, Poverty and Inequality

Source: Adapted from Lopez (2004) power point presentation
Figure 7.3: Relation among Growth, Inequality and Public Policy

Source: Adapted from Lopez (2004) power point presentation

Figure 7.4: Interaction among Growth, Inequality, Poverty and Public Policy

Source: Adapted from Lopez (2004) power point presentation
environment, energy, welfare, foreign affairs, education, taxation, housing, health, economic opportunity, development, inflation and so on. With the help of public policy it is possible to accelerate the process of growth which in turn results in the reduction of absolute poverty. Specifically pro-poor growth policy can directly benefit the poor and increase their resources.

Alhuwalia (1974) argued that government has a wide range of choice between alternative types of policy intervention. The level and growth of income of different groups in society are determined as part of a general equilibrium of the economy as a whole, and government can intervene at different points in this system. He proposed six unique areas of intervention namely factor market, commodity market, ownership and control of assets, provision of public consumption goods, taxation of personal income and wealth and the state of technology.

Therefore, there is a legitimate role for public policy in the promotion of growth and in the pursuit of equity. Particularly, public action should aim to expand the opportunities of those who in the absence of policy interventions have the least resources, voices and capabilities (World Development Report, 2006). There is also a clear consensus that government policies need to target inequality, with a particular emphasis on ensuring that the poor have better access to vital economic assets such as land, human capital (education and health), finance, and natural capital (World Bank, 2000 b).

7.4 Policy of Government of India to eradicate Poverty and lessening Inequality

In a large country such as India, with substantial regional differences in physical endowments, climatic conditions, social traditions and differences in the initial levels of development, growth rates are bound to vary among regions. It is the task of state policy to implement compensatory measures to push forward the lagged regions and spread growth and development more evenly. However, during almost the entire period of national planning, as is well known, a steady widening of regional disparities has taken place. These disparities are in growth rates, poverty levels and in indices of social development (Chelliah and Shanmugam, 2007).
India has a history of economic and political discourse on poverty of its people. Perhaps the earliest scholarly discussion goes back to the writings of Dadabhai Naoroji that provided the intellectual basis for the anti-colonial movement. In the 1938, Congress President S.C. Bose appointed National Planning Committee headed by Jawaharlal Nehru to examine all aspects of economic policy for the impending Independent India. Nagaraj (2005) has identified broadly three distinct policy regimes explained as under:

During the first period (1950-65) the economic policy focused on import substituting industrialization and removing relative poverty (or inequality) by radical land reforms. While the record of industrial progress was respectable, progress in addressing inequality was negligible. By the early 1960s, the focus shifted to addressing absolute poverty. In the second policy regime (1966-80), the focus shifted to agriculture, and more generally to growth with redistribution. Poverty alleviation took the shape of assisting small and medium sized farmers to augment productivity and creating non-agriculture employment with the help of bank credit.

The third policy regime (1980-onwards) witnessed launching of integrated rural development that grew in size in the 1980s. With the acceleration in the pace of economic reforms, the rural development effort got discredited on account of huge leakages and mounting bad loans, jeopardizing the financial standing of the banking sector. In the same period wage employment programmes replaced self-employment in the 1990s. There has probably been a further change after 2004 where inclusive growth form the basis for a new phase of development.

Before discussing the policy of government adopted to tackle the twin problems of poverty and regional disparity, it becomes important to have a glance at our constitution which lay down the foundations for such policies to be implemented. While many of these are merely pious statements of intent, largely representing the personal predilections of the framers of the Constitution, the general tenor of these provisions has been used over the years to lay down the ground for various forms of public intervention against poverty and inequality.
7.4.1 Provisions under the Constitution

The Constitution of India guarantees equality of opportunity and status under the Preamble. Article 38 (1) speaks of economic justice; 38 (2) talks of minimizing inequalities in income and elimination of inequality of opportunity. Article 39(c) specifies that the State shall attempt to secure “that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment”. Article 39 also talks about providing adequate means of livelihood for all, equal pay for equal work, and prevention of exploitation on the basis of economic causes.

There is a federal union of states and a parliamentary system in the constitution. The national government has exclusive powers over areas such as foreign affairs, international trade and relations, trade policies, credit and monetary policies, and those areas having implications for more than one state. The states are responsible for public order, public health care, agricultural development, irrigation, land rights, fisheries and industries, and minor minerals. Some areas are the joint responsibility of both the national and state governments, mainly education, industrial relations, transportation, social security and social insurance (Besley, Burges and Volart, 2005).

Although the states have their own revenues (the tax on the sale and purchase of goods being its most significant source), the states help finance their expenditures with transfers from the centre. These transfer are prone to be affected by political influence, for example, whether the same party is in power in the center and states. Even though the Finance Commission, one of the bodies giving transfers, has used "objective" formulae to determine tax sharing, it also makes various grants. Naturally states which are more represented in the membership of that commission seem to do relatively well in terms of those grants (Rao and Singh, 2004).

7.5 Survey of Macro-Economic Polices of Government of India against Poverty and Inequality

There is now a widespread consensus that macroeconomic stability is a prerequisite for pro-poor growth (Mkandawire and Soludo, 1999). In particular, it has been found repeatedly that high inflation (particularly above a level of about 10 per cent) hurts the
poor (and economic growth), and that large budget and current account deficits will eventually lead to crises in which the poor will suffer disproportionately (Ravallion and Datt, 2000). Macroeconomic policies are used in combination for stabilization, structural adjustment programs and economic restructuring. Macroeconomic statistics (national accounts, government finance, external trade and balance of payments, money and banking) as well as social and demographic statistics (population, health, nutrition, education, labor) are used to inform such policies. A brief survey of these macroeconomic policies is explained as under:

7.5.1: Monetary Policy

The reserve bank of India is authorised to formulate the monetary policy of the country with the objective to accelerate the pace of economic development and the standard of living as well as to control and minimize the inflation which adversely affect the poor. Since the first plan onwards, the Reserve Bank of India followed the monetary policy to attain “economic growth with reasonable price stability”. In recent years, the monetary policy of the country has been following two set of objectives. Firstly, the policy is trying to enhance the flow of bank credit in adequate quantity to industry, agriculture and trade to meet the requirement and secondly, to provide special assistance for neglected sectors and weaker section of the community (Dhar, 2010)

The Chakravarty committee (1985) recognized the existence of violent fluctuations in agriculture production in India caused by weather conditions and the consequent difficulty in controlling the inflationary prices. Accordingly the committee advocates strong supply and demand management measures. But there has been many such occasions where the monetary policy has failed to attain the desired results and the country had to experience inflationary spiral in prices (especially of food) at considerable degree. Considering the recent surge in price level to a 48-month high 7.61 per cent as on May 9, 2008, and then to 11.42 per cent as on June 14, 2008, the government of India has taken some short measures on March 31 2008. These include increasing the import of edible oils, wheat and pulses, cancelling export of non-basmati rice, imposing ban on cement export etc (Reserve bank of India, 1995).
There is consensus that monetary and exchange rate policy must be coordinated to ensure low inflation. Regarding exchange rate policy, there appears to be a consensus that governments should avoid an overvalued real exchange rate at all cost as it will destroy efforts to boost exports, generate a balance of payment crisis in time, and is typically anti-poor as the rich have a much higher propensity to import (World Bank, 2000 b)

7.5.2: Fiscal Policy

Attainment of equality in the distribution of income and wealth through the imposition of progressive direct taxes is the major objective of fiscal policy in India. Considering the persistent mounting fiscal deficit as a major cause of hyper inflation, the government has made serious efforts to reduce the fiscal deficit from 8.4 per cent of GDP in 1990-91 to 6.6 per cent in 1991-92 and then nearly to 5 per cent in 1996-97 and then again to 3.1 per cent in 2007-08 (Dhar, 2010).

The finance commission in India has been giving due weightage to backwardness of a state as an important criteria for resource transfer from the centre to state. But the resources so transferred are not always utilized for the development of backward areas or districts of such backward states. Rather there is a growing tendency to “divert funds intended for backward and difficult areas to more forward areas and easier programmes (Government of India, 1980).

In order to fight the problem of industrial backwardness of some backward regions and also to promote private investment in backward regions, various fiscal and other incentives have been provided by central government. New industrial units settled in backward areas and set up after January 1971 are allowed to a deduction to the extent of 20 per cent of their profits for the computation of assessable income. The 1993-94 budget introduce a system of tax holiday for new industrial units located in backward regions. In 2006-07, the central government introduced Backward Regions Development Fund (BRFG) which will cover 250 identified backward districts of the country. The scheme to be covered under this fund would be implemented by the Panchayati Raj institution and the planning of the schemes would be prepared at the district level according to its local requirements so as to meet the genuine needs of backward areas.
The allocation under this fund has been increased from Rs. 5000 crore in 2006-07 to Rs. 5800 core in 2007-08.

Inspite of all, ironically, the fiscal policy of the country has failed to check the extent of inequality in the distribution of income and wealth and has also failed to solve the problem of unemployment and poverty even after more than 63 years of independence.

7.5.3: Banking and Financial Sector policy

The banking sector through its several policies has been assisting the poor section to obtain advances at lower rate of interest. Under the differential rate of interest (DRI) scheme introduced in 1972, public sectors banks are required to fulfill the target of lending of at least one per cent of the total advances as at the end of the preceding year to the weakest of the weak sections of the society at an interest rate of four per cent per annum.

Since 1975, Regional Rural Banks were established to take the banking services to the door steps of rural masses, especially in remote rural areas with no access to banking services. These banks provide institutional credit to the weaker sections of the society at concessional rate of interest. These banks were also intended to mobilise rural saving and channelise for supporting the productive activities in rural areas. With a view to consolidating and strengthening RRBs, the government of India initiated, in September 2005, the process of amalgamation of RRBs in a phased manner.

Since April, 1989, a new strategy for rural lending named ‘Service Area Approach’ was implemented under the preview of ‘Lead Bank Schemes’. Under this scheme branches of commercial banks were allotted certain specific semi-urban and rural areas. These banks were made responsible for overall development in these allotted areas. Reserve bank of India also issued essential directions to commercial banks in November 1992 to eliminate various drawbacks of Service Area Approach.

In the backdrop of inadequate bank credit to the poor, micro finance programme of rural finance was launched as a pilot project in 1992. The economic survey 2004-05 observed in this connection that, “the programme has been providing the rural poor
access to the formal banking system and has achieved several milestones in terms of
gender sensitization, empowerment and poverty alleviation.”

7.5.4: Industrial Policy

On August 1991, the government of India announced its new small sector industrial policy entitled ‘Policy Measure for promoting and strengthening small, tiny and village enterprises’. The main objective of this new policy is to inject higher degree of vitality and growth impetus to this sector in order to attain a higher growth rate in respect of its output, employment and exports. Small scale industries being labour intensive generate a huge number of employment opportunities.

The Small Industries Development Bank of India (SIDBI) was set up in 1990 as an apex institution for promotion, financing and development of industries in small scale sector. SIDBI has adopted a comprehensive strategy for making strong impact on rural industrialization and micro enterprises for the benefit of rural poor. The strategy has been given in the shape of various five major programmes namely, Rural Industrialisation Programme, Informal Lending Scheme (ILS), Mahila Vikas Nidhi (MVN), Udyog Sadhna, Rural Entrepreneurship Development Programme (REDP).

Further, the government is encouraging the Khadi and Village industry which has been playing an important role as an instrument to generate large scale employment in the rural areas with low per capita investment. Khadi and Village Industries Commission (KVIC) is playing an important role in Indian economy as it covers about 2.48 lakh village throughout the country. Over the years, the main thrust of KVI activities has been to provide a larger share of employment to scheduled caste and scheduled tribes and women. A loan agreement for $ 150 million was signed between the Government of India and the Asian Development Bank in December 2009 for implementing the comprehensive Khadi Reform Programme, under which the Khadi and Village industries (KVI) sector is proposed to be revitalized with enhanced sustainability, income, employment and artisan welfare (Government of India, 2010 b).

The government of India also enacted the Micro, Small and Medium Enterprises Development act (2006) which provides the first ever legal framework for recognition of
the concept “enterprise ” and integrating the three tiers of these enterprises, viz. micro, small and medium.

None of the documents that address the issues of industrial policy say much on the use of industrial policy to promote regional industrial development in areas where poverty is concentrated. Given the large regional disparities in poverty, this is another crucial area of policy research where more direction is needed. Moreover locational pattern of industry, developed in India is not at all advantageous for the interest of the country. Too much of the industrial concentration in the states like Maharashtra, Gujarat, Tamil Nadu, West Bengal etc has resulted in various repercussions throughout the country. The already developed regions are gradually becoming more and more developed at the cost of underdeveloped regions. This sort of unbalanced growth is not conducive to the interest of the country rather it is responsible for various socio-economic problems along with discontent and belief in the minds of the people of those backward regions of the country.

7.5.6: Policy for Human Capital

Human Capital is essential for overall growth. Low disparity in human capital increases growth and increases the poverty impact of growth. Increased investment in education and health, particularly basic education and primary health care is essential for formation of human capital. The national policy on population was formulated in April 1976 and was modified in subsequent years. Prior to this policy, government’s action was very much confined to family planning through clinical facilities. The policy statement of the government observed in this connection that “to wait for education and economic development to drop in fertility is not a practical solution” (National population Policy, 1976). After that the new national policy announced by NDA government in February 2000, list fifteen promotional and motivational measures for adoption of small family norms including awards for Panchayats and Zila Parishds for exemplary performance in universalizing the small family norms, achieving reduction in infant mortality rate and promoting literacy with completion of primary schooling.

From April 2005, a Reproductive and Child Health Programme was commenced for a five year period. This encompasses the entire National Family welfare programme.
and is based on decentralization planning. This programme is to be funded by central government with partial funding support by World Bank.

The National Rural Health Mission was launched in 2005 to provide accessible, affordable and accountable quality health service to rural areas with emphasis on poor person and remote areas. It is being operationalised throughout the country, with special focus on 18 states, which include eight Empowered Action Group States (Bihar, Jharkhand, Madhya Pradesh, Chhattisgarh, Uttar Pradesh, Uttarakhand, Orissa and Rajasthan). The NRHM aims to provide an overarching umbrella to the existing programmes including the reproductive child health project, integrated disease surveillance and other programmes for treatment of Malaria, Blindness, Iodine deficiency, Filaria, Kala Bazar, TB, and leprosy by strengthening the public health delivery system at all levels. (Pratiyogita Darpan, 2010). The draft of Eleventh Five Year Plan, has also laid down more stress on education with proposing to increase the allocation from 7.68 per cent (in the previous plan) to 19.36 per cent of the Gross Budgetary Support (Eleventh Five Year Plan, 2007).

In education sector, the scheme of Sarva Shiksha Abhiyan, a national flagship programme was launched in 2001 in all the districts of the country. The programme covers the entire country with special focus in education needs of girls, SC/STs and other children in difficult circumstances. The major emphasis of this scheme is to open new schools in those remote areas which do not have schooling facilities and strengthen existing school infrastructure. The SSA also seeks to provide computer education even in rural areas to bridge the rural divide.

Further Indian government has recently launched Rashtriya Madhamic Shiksha Abhiyan (RMSA) for improving the quality of secondary education in the country. World Bank has also come forward to support and provide funds for this scheme. The World Bank has taken interest in RMSA keeping in view the objective of the programme to check the drop-out rate at secondary level completely by 2020. In the Eleventh Five Year Plan, the sharing pattern for financing RMSA is 75 per cent for central government and states will share the remaining 25 per cent. However the sharing pattern will be 50:50 per
cent for the Twelfth Five Year plan. During the 11th plan, the government has allocated Rs. 20120 crore, for this scheme

7.5.7 Land policy

Land reform is firmly back on the agenda of development policy, particularly in the context of pro-poor growth. The question of land redistribution is particularly critical in improving and strengthening use rights and improving agricultural productivity. In this area, there is a clear consensus that past policies failed as they did not provide sufficient incentives and were biased against agriculture. Instead, more public investment in agricultural, including research, extension, rural infrastructure, irrigation and rural credit is needed to improve productivity in this critical sector (World Bank, 2000a).

Land reforms have a special importance in an agricultural country like India. As mentioned in the Second Five Year Plan of the country that the objective of land reform was to create the necessary conditions for evolving the agrarian economy with high degree of efficiency and productivity and also to establish an egalitarian society as early as possible. The Seventh Five Year Plan Document, observed in this connection that “redistribution of land could provide a permanent asset base for a large number of rural landless poor for taking up land based and other supplementary activities. Similarly consolidation of holdings, tenancy regulations and up-dating of land records would widen the access of small and marginal land holders to improved technology and inputs and thereby directly lend to increase agricultural production.”

Various land reforms legislations starting from the Zamindari abolition of 1950 to the ceiling on ownership legislation of the 1970s were launched by government of India. Land reform programmes in India include (i) the elimination of intermediaries between the government and the cultivator, (ii) tenancy reforms, (iii) determination of ceiling of holdings per family and to distribute surplus land among landless people and (iv) Consolidation of holdings. Measure of tenancy reform further includes (i) Regulation of rent, (ii) Security of tenure and (iii) conferment of ownership on tenants.

Laws for land ceilings were enforced in various states during fifties and sixties which were further modified on the directives of central government in 1972. Legislation
for ceiling on existing holdings and unit of application has been enacted in two phases. Under both the phases, 73.95 lakh acres land was declared surplus (upto September 30, 1995), out of which 65.58 lakh acres of land was taken over by the government and 51.68 lakh acres of land was distributed among 50.33 lakh landless labourers (including 36 per cent scheduled caste and 14 per cent scheduled tribe beneficiaries. Surprisingly no land was declared as surplus under land ceiling laws in the states of Bihar, Karnataka, Orissa and Rajasthan, which shows the loopholes in the law (Pratiyogita Darpan, 2010)

But the sad history of land reforms in India is well documented. The failure to achieve significant redistribution of land has led many to look elsewhere to remove poverty (Srinivasan, 1974). Dandekar and Rath (1971) concluded that “it is futile to try to resolve the problem of rural poverty; in an over populated land which is in short supply… any drastic lowering of the ceilings and redistribution of the surplus to the landless workers will serve no useful purpose”.

7.5.8 Agriculture Policy

Raising agricultural Productivity is critical for pro poor growth. In union budget 2010-11, Rs. 400 crore were granted for extending green revolution in the eastern region comprising Bihar, Chhattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa. Regarding advances to agriculture sector, banks were initially given a target of extending 15 per cent of the total advances as direct advances to the agriculture sector to be achieved by March 1985. This target was subsequently raised to 18 per cent to be achieved by March 1990. The public sectors banks have been formulating Special Agriculture Credit Plans (SACP) since 1993-94 with a view to achieving distinct and marked improvement in the flow of credit to agriculture. As against the target of Rs. 2,80,000 crore for agriculture credit in 2008-09, the banking sector disbursed credit of Rs. 292437 crore to agriculture sector, there by exceeding the target by around 4 per cent (Government of India, 2010a).

New Agricultural policy was announced by Union Government in the parliament on July 28, 2000. The government has planned this policy under the provisions of World Trade Organisation to face the challenges of agriculture sector. In this policy, 4 per cent growth rate per annum is targeted to be achieved for the next two decades. Due emphasis
has also been given for promoting research for developing new varieties and ensuring protection to the developed varieties. New agriculture policy has been described as ‘Rainbow Revolution’ which includes Green Revolution (Food grain production), White Revolution (Milk), Yellow Revolution (Oil Seeds), Blue Revolution (Fisheries), Red Revolution (Meat/Tomato), Golden Revolution (Fruit/Apple), Grey Revolution (Fertiliser), Black/Brown (Non-Conventional Energy Resources).

According to the view point put forward in the strategy of Eleventh Five Year Plan (2007-12), if agriculture grows at the recent growth rate of only 2 per cent, the industrial growth required to meet the GDP growth targets become much higher, and a much higher export growth is required to absorb the additional industrial growth rate. In the 9 per cent growth scenario, export growth would have to be nearly 26 per cent instead of the 16.4 per cent if agriculture grows at 4 per cent. Such very high export growth requirements may not be easily attainable. Therefore a strategy aiming at acceleration in the growth rate should provide for acceleration in agricultural growth not only because it is more consistent with reducing poverty and generating income in rural areas, but also because it is more consistent with the likely constraints in export performance. Keeping in view this requirement, 11th plan has set a target of 4 per cent growth rate in agricultural sector (Government of India, 2008 b).

In 2007, government of India approved the National Policy for farmers after taking into account the recommendations of the National Commission on farmers. The National Policy for farmers is to provide a holistic approach to development of farm sector. The focus of this policy is on the economic well being of the farmers, asset reforms, efficiency in water use, encouragement to new technology, establishment of national agriculture bio security system, support services for women, facility of credit and insurance, establishing gyan chaupals at village level and effective implementation of minimum support prices.

In the union budget 2008-09, the government announced a scheme of agricultural debt waiver and debt relief for farmers with the total value overdue loans being waived estimated at Rs. 50,000 crore and a one time settlement relief on the overdue loans at Rs. 10,000 core for implementation by all scheduled commercial banks, besides RRBs and
cooperative credit institutions. Nearly 3.68 crore farmers have been benefited from this scheme involving debt waiver and debt relief of Rs. 65318.33 crore (Government of India, 2008 a).

7.5.9 Policy for Gender Equality

Gender inequality leads to reduced growth and makes growth less pro poor. More supply of education for girls plus targeted subsidies to boost enrollments; removal of restrictions on female control of other assets; affirmative action policies and political empowerment of women is required to uplift the status of women in the society.

Union budget 2010-11, has increased the outlay for Women and Child Development by almost 50 per cent. A mission for empowerment of women is also being set up. The ICDS platform is being expanded for effective implementation of the Rajiv Gandhi scheme for adolescent girls. The central government has also launched a Mahila Kisan Sashakti Karan Pariyojna to meet the needs of women farmers with Rs. 100 Crore (Government of India, 2010a)

According to a study made by the Ministry of women and child development, the gender based disparities in the country have shown a decline over a period of 10 year from 1996-2006. Both the Gender development Index (GDI) and the Gender Empowerment Index (GEI), the main two key parameters of women’s development have improved during the study. GDI which reflects the existence of gender based disparities in three dimensions, i.e. health, literacy and standard of living has increased from 0.514 in 1996 to 0.590 in 2006. GEI which measures political participation and decision making, economic participation and power over economic resources has increased from 0.416 in 1996 to 0.497 in 2006.

The Union Government has also launched a National programme for education of girls at elementary level (NPEGEL) in order to provide additional support to education of girls at the elementary level. Under NPEGEL, 39852 model schools have been opened in addition to support 11261 ‘Early Childhood Care and Education’ (ECCE) centres.

From August 1995, Union government has launched Indira Mahila Yojna to create awareness among the women and to provide the income resources to them. Under
the Indira Mahila Yojna, women groups are formed in the villages and urban slums which work with the support of the Indira Mahila Kendras established at Anganwadi level from July 2001. This scheme has been merged with Mahila Swayam Sidha Yojna afterwards.

7.5.10 Policy for Regional Inequality

The need for the removal of regional disparities was well recognized by the leaders of independent India. The constitution of India has made it mandatory for the government at the Union to appoint a Finance Commission once at least in every five years. Accordingly, the balanced regional development had become the declared goal of the Union government and of its two principal agencies, the Planning Commission and the Finance Commission. One of the objectives of planning was to restore the balance between various areas and regions.

To begin with, planning was primarily restricted to the national level. Hardly any attention was paid to the problem of regional disparities and the few measures that were taken were adopted to deal with specific problems faced by certain areas having natural calamities. Thus, the problem of regional development in a national context did not get adequate attention of the policy makers. Some of the already developed regions enjoyed the privilege to develop further at the cost of the backward regions which continued to stagnate.

Removal of regional disparity became an acknowledged goal since the Second and Third Five Year Plans of India. But, the issue of regional balance was directly or indirectly addressed in almost every Five Year Plan in India. The adoption of planning and a strategy of State-led industrialization were intended to lead to a more balanced growth in the country. This approach has been realized through policies designed to facilitate more investments in the relatively backward areas. It was expected that inter-State disparities would be minimized in the long run. However, the perception is that regional imbalances have actually been accentuated, particularly over the period of economic reforms (Khomiakova, 2008).

The main focus of regional policy during the Indian plans has been on the dispersal of industry among the different regions of India. But, in spite of various
attempts for industrialisation, agriculture continues to be the most important economic activity from the point of view of output and employment in most of the States in India. And within the agricultural sector, because of emphasis on immediate increase in production, inter-state disparities in per capita agricultural production have been on the increase. It is well known that in agricultural development policy, the green revolution and its impact has been confined to relatively small areas. Thus, the disparities in socio-economic conditions of the people have been increasing both within and between different regions of the country.

Efforts of fiscal equalization and decentralization try to address the issue of regional inequality but, they remain largely focused on fiscal issues. Devising policies that promote economic activities in backward regions is a critical policy issue that needs much more attention than it currently gets. The Government of India has been unable to bring about greater inter-state equity over time through centre-state financial transfers despite a commitment to do so. Development expenditure per capita remains highly unequal between poor and rich states. (Shepherd, Anderson and Kyegombe, 2004)

7.6 Development and Employment generation Programme

Since the 1950s, the India has initiated, sustained, and refined various planning schemes and programs to alleviate poverty, including subsidizing food and other necessities, increased access to loans, improving agricultural techniques and price supports, promoting education and family planning. These measures have helped eliminate famines, cut absolute poverty levels by more than half, and reduced illiteracy and malnutrition (World Bank, 2006 b).

We have listed the following major ongoing programmes for poverty alleviation and employment generation in Table 7.1. From the analysis of the development and employment generation schemes it can be inferred that, It would be incorrect to say that all poverty reduction programmes and employment generation programmes have failed. The growth of the middle class (which was virtually non-existent when India became a
free nation in August 1947) indicates that economic prosperity has indeed been very impressive in India, but the distribution of wealth is still very uneven.

**Table 7.1: Major Development and Employment generation Programme/Scheme**

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Name of the Scheme/Programme</th>
<th>Year</th>
<th>Thrust Areas</th>
<th>Brief functioning of Scheme/Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Swaranjayanti Shahari Rojgar Yojna (SJSRY)</td>
<td>1997</td>
<td>Provide gainful employment to the urban unemployed and underemployed poor, by encouraging the setting up of self employment ventures and utilizing their labour for construction of socially and economically useful public assets. The revamped SJSRY has five components</td>
<td>With effect from April 2009, the government revamped this scheme by encouraging the setting up of self employment ventures by the urban poor and utilizing their labour for construction of socially and economically useful public assets. The revamped SJSRY has five components</td>
</tr>
<tr>
<td>2</td>
<td>Swarnajayanti Gram Swarojgar Yojna (SGSY)</td>
<td>1999</td>
<td>to bring the assisted poor families above the poverty line by organizing them into self help groups (SHGs)</td>
<td>SGSY is being implemented on a cost sharing ratio of 75:25 between the centre and the state. Since December 2007, a total allocation of Rs. 19340.32 crore was made available by the centre and the state which formed 27.37 lakh SHGs and assisted 93.21 lakh swarojgaris</td>
</tr>
<tr>
<td>3</td>
<td>Antyodaya Anna Yojna (AAY)</td>
<td>2000</td>
<td>to make Targeted Public Distribution System (TDPS) more focused and targeted towards the poorest section of population for one crore poor families.</td>
<td>This scheme were to identified amongst the BPL families, those families covered under targeted public distribution (TDPS) within the states and providing them food grains at a subsidized rate of Rs. 2 per kg for wheat and Rs. 3 per kg for rice. The scale of the issue that was initially 25 kg per family per month has been raised to 35 kg per family per month with effect from April, 2002.</td>
</tr>
<tr>
<td>4</td>
<td>Pradhan Mantri Gramodaya Yojna (PMGY)</td>
<td>2000</td>
<td>to achieve the objective of sustainable development at the village level.</td>
<td>PMGY initially had five components namely, primary health, primary education, rural shelter, rural drinking water and nutrition. Rural electrification had been added as an additional component from 2001-02. the allocation for PMGY in 2000-01 was Rs. 2500 crore. This was enhanced to 2800 core for 2000-01 and further to Rs. 2800 crore for the</td>
</tr>
</tbody>
</table>
5 Prime Minister’s Employment Generation Programme (PMEGP) 2001 to create over 37 lakh jobs through new credit linked subsidy programme This scheme is implemented through the Ministry of Micro, Small and Medium Enterprises. The maximum cost of a project admissible under the manufacturing sector is Rs. 25 lakh and in the business sector Rs. 10 lakh. Under this scheme the beneficiaries are identified with the help of panchayats. In urban areas, the subsidy for the general category is 15 per cent and 25 per cent for special categories such as scheduled castes, scheduled tribes and the other backward classes.

6 Jawaharlal Nehru National Urban Renewal Mission (JNNURM) 2005 to take care of urban infrastructure projects including water supply, sanitation, sewage, solid waste management, road network, urban transport and redevelopment of inner cities areas This mission has the target to pump at least Rs. 1,00,000 crore into the 63 identified cities over its seven year term (2005-2012) to ensure basic services to fast rising urban population. Of this 50,000 crore will be in the form of direct grant by the central government, while the balance will be mobilized by state government and urban local bodies.

7 National Rural Employment Guarantee Scheme/Act (NREGA) 2006 to provide jobs to rural poor. Under this act, one member of each of the country’s one million rural household will have the legal guarantee to get at least 100 days of employment at minimum wage Under the National Rural Employment Guarantee Scheme, during the year 2009-10, as many as 43.4 million households were provided employment under various poverty alleviation and job generation schemes, for budgetary outlay of over Rs. 70,000 crore. Out of the 1828.8 million person-days created under the scheme during this period, 29 per cent of the jobs went to scheduled castes and 22 per cent to scheduled tribes. Half of the jobs favoured women

Source: Various issues of Economic Survey, Five Year Plan Documents, Pratiyogita Darpan and Union Budgets

7.7 Effectiveness of Policies in Reducing Inequality and Poverty

In the last section, we have enlisted the macro economic policies of government of India. From a policy perspective, there is another issue that what kind of policies a country
should pursue in a successful poverty reduction strategy. Since poverty outcomes will depend on how a given policy affects growth and inequality, assessing how appropriate a particular policy is for a poverty reduction strategy will require knowledge about the links between policies and growth on the one hand and between the policies and inequality on the other hand. In this section we have made an attempt to empirically verify the effectiveness of the policies in reducing regional inequality and poverty.

7.7.1 Methodology adopted for checking Effectiveness of Policies

We have applied panel regression (Between Effects) for 14 major states covering the period between 1993-05. Regression with between effects is used to control for omitted variables that change over time but are constant between cases. It allows using the variation between cases to estimate the effect of the omitted independent variables on the dependent variable. Further, this regression is based on the implicit assumption that simultaneous changes in income, inequality and poverty are motivated by the implementation of a given policy.

To ascertain whether certain policies have been effective in reduction of poverty and inequality and raising growth, we have selected three variables as dependent namely: Growth (Captured by Per Capita Income), Income Inequality (Captured by Sectoral Gini Coefficient), Poverty (Captured by Head Count Ratio). With respect to selection of some policies, we have followed recent work by Lopez (2004), who proposes cross country empirical growth model that focuses on policies that have received the most attention in academic and policy circles, and especially at the World Bank, in the context of structural adjustment programmes. Rest of the policies has been selected on the basis of availability of time series data for 14 major states.

The following is a list of policies used as regressors:

1. Human Capital (Logged ratio of Secondary gross enrollment)
2. Financial Depth (Public Sector Borrowing)
3. Macro-Economic Stability (Cost of living Index)
4. Regional Policy (Net Devolution and transfer of resources)
5. Public Infrastructure (Social Sector expenditure)

6. Development Policy (Per Capita Development Expenditure)

7. Government Burden (Development Expenditure as percentage of GSDP)

8. Financial Aid (Grants from centre)

The text in brackets has been used as proxy for the each policy respectively. For example, logged ratio of secondary gross enrollment is used as a policy variable to reflect the policy namely, Human Capital.

Panel regression has been carried out for three relationships as follows:

**Equations for Panel Regression:**

(i) Change in poverty (HCR<sub>t</sub> - HCR<sub>t-1</sub>) = f (change in Policy X<sub>t</sub> - Policy X<sub>t-1</sub>)

(ii) Change in Inequality (Gini<sub>t</sub> - Gini<sub>t-1</sub>) = f (change in Policy X<sub>t</sub> - Policy X<sub>t-1</sub>)

(iii) Change in Growth (PCY<sub>t</sub> - PCY<sub>t-1</sub>) = f (change in Policy X<sub>t</sub> - Policy X<sub>t-1</sub>)

In case of equation (ii) and (iii) we have selected six policies namely, human capital, financial depth, macro-economic stability, regional policy, public infrastructure, financial aid. The data regarding these policy variables is available for 12 year period. Therefore total number of observations in this case turns out to be 154. For the estimation of equation (i) we have added two more policies namely, Development policy and government burden. But data regarding dependent variable head count ratio (equation (iii)) is available at three points of time i.e. at quinquennial survey rounds of NSSO only (1993-94, 1999-00 and 2004-05). Therefore the number of observation has been reduced to 28 in case of equation (iii).

**7.7.2 Results**

The results obtained from above discussed equations are summarized in Table 7.2, 7.3, and 7.4. The analysis of Table 7.2 points out the fact that out of six policy variables three policies carry a negative sign namely, human capital, financial depth and financial aid. It implies therefore that increase in human capital, financial depth and financial aid leads to
lower inter state inequality. On the other hand, less macro economic Stability (higher cost of living) lead to higher inequality. More transfer of resources in terms of regional inequality leads to more inequality as well. Spending on the part of government on public infrastructure has also led to generate more inter state inequality. Another important observation from the table is that the value of R Squares (within) is too low. However value of R squared (between) is satisfactory (0.528).

In Table 7.3, Poverty is a dependent variable and eight policy variables are taken as regressors. Out of these policies, four policies have remain effective (sharing negative sign with poverty) in bringing down the level of head count ratio. Increase in human capital, financial aid, public infrastructure and regional policy (greater transfer of resources) has undoubtedly reduced the level of poverty. However t-values of the coefficients of these policies variables are slightly low. On the other hand, increased cost of living (Macro economic Stability) has increased the head count ratio. Increased in financial depth and government burden has also led to more poverty than before.

Table 7.2: Effectiveness of Policies in Reduction of Inter State Income Inequality: 
Panel Regression for Dependent Variable = Gini

**Summary Statistics:**

<table>
<thead>
<tr>
<th>Number of Observation</th>
<th>154</th>
<th>R-squared Within</th>
<th>0.029</th>
</tr>
</thead>
<tbody>
<tr>
<td>R-squared-between</td>
<td>0.528</td>
<td>F value</td>
<td>1.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Policy Variable/Regressors</th>
<th>Coefficient</th>
<th>T- Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>-0.073</td>
<td>-0.49</td>
</tr>
<tr>
<td>Financial Depth</td>
<td>-0.657</td>
<td>-1.32</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>-0.578</td>
<td>-0.87</td>
</tr>
<tr>
<td>Macro-Economic Stability</td>
<td>0.188</td>
<td>0.8</td>
</tr>
<tr>
<td>Regional Policy</td>
<td>0.120</td>
<td>0.45</td>
</tr>
<tr>
<td>Public Infrastructure</td>
<td>0.822</td>
<td>2.51*</td>
</tr>
</tbody>
</table>

*Sources: Author’s Calculation

*Notes: * refers to significant at 5 per cent level of significance
Table 7.4 summarizes the effectiveness of policies in raising the level of growth. Out of six, only three policies have remained effective in raising the level of growth. Increased macroeconomic stability, increase in public infrastructure and increase in human capital have resulted in more growth. Another important conclusion drawn from the analysis of the table is that value of the coefficient of public infrastructure is highest. So, the investment in infrastructure is very crucial in raising the level of growth.

Table 7.3 Effectiveness of policies in Reduction of poverty: Panel Regression for Dependent Variable= Poverty Reduction (HCR)

**Summary Statistics:**

\[
\begin{align*}
\text{Number of Observation} & = 28 & \text{R-squared With-in} & = 0.002 \\
\text{R-squared-between} & = 0.477 & \text{F value} & = 0.57
\end{align*}
\]

<table>
<thead>
<tr>
<th>Policy Variable/Regressors</th>
<th>Coefficient</th>
<th>T- Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>-1.648</td>
<td>-0.7</td>
</tr>
<tr>
<td>Financial Depth</td>
<td>1.072</td>
<td>0.16</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>-0.004</td>
<td>-0.09</td>
</tr>
<tr>
<td>Macro-Economic Stability</td>
<td>0.215</td>
<td>0.22</td>
</tr>
<tr>
<td>Regional Policy</td>
<td>-0.915</td>
<td>-0.71</td>
</tr>
<tr>
<td>Public Infrastructure</td>
<td>-1.278</td>
<td>-0.4</td>
</tr>
<tr>
<td>Development Policy</td>
<td>2.542</td>
<td>0.21</td>
</tr>
<tr>
<td>Government Burden</td>
<td>5.268</td>
<td>1.16</td>
</tr>
</tbody>
</table>

*Sources:* Author’s Calculation
Table 7.4 Effectiveness of policies in raising Growth: Panel Regression for Dependent Variable= Growth (PCY)

Summary Statistics:

<table>
<thead>
<tr>
<th>Number of Observation</th>
<th>R-squared With in</th>
<th>R-squared between</th>
<th>F value</th>
</tr>
</thead>
<tbody>
<tr>
<td>154</td>
<td>0.000</td>
<td>0.605</td>
<td>1.78</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Policy Variable/Regressors</th>
<th>Coefficient</th>
<th>T- Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Human Capital</td>
<td>0.025</td>
<td>-0.13</td>
</tr>
<tr>
<td>Financial Depth</td>
<td>-0.395</td>
<td>-0.62</td>
</tr>
<tr>
<td>Financial Aid</td>
<td>-1.519</td>
<td>-1.78</td>
</tr>
<tr>
<td>Macroeconomic Stability</td>
<td>0.072</td>
<td>0.24</td>
</tr>
<tr>
<td>Regional Policy</td>
<td>-0.503</td>
<td>-1.45</td>
</tr>
<tr>
<td>Public Infrastructure</td>
<td>0.623</td>
<td>1.48</td>
</tr>
</tbody>
</table>

Sources: Authors Calculation

Notes: * refers to significant at 5 per cent level of significance

7.8 Why poverty and Regional Inequality is still there?

In the previous section, we have discussed the macro economic policy of government and its effectiveness as well as specified programmes and scheme for tackling the problem of poverty and regional inequality. Now question arises, why is inspite of so much concern and efforts at large to resolve these problems, the issue still there? There are rich people in India who are very rich yet there are poor people in India who get nothing at all to eat and who sleep on the streets of India. Poverty in certain parts of India is so bad that people eat mice to survive especially in the villages (www.cozay.com, June 2010). India is so highly populated that the national fund doesn't reach about 60 per cent of the population of India.
No doubt, India is progressing towards higher rate of economic growth, but, economic growth is not a meaningful end in itself. What is important is whether growth is translated into human development and into the reduction of poverty in particular. Focusing on poverty is also warranted from the perspective of a broader, capabilities-oriented approach to development. An exclusive focus on consumption or income levels constitutes too narrow an approach to development. As Nobel Laureate Amartya Sen has emphasized, the overarching goal of development is to maximize people's ability to lead the kind of life they value. The poor face the greatest hurdles in this area and are therefore the most deserving of urgent policy attention.

The success of economic growth in reducing poverty cannot be taken for granted but depends on a number of factors, such as the sectoral composition of growth, the translation of growth into increases in personal income, and progressive changes in the distribution of personal income (Mckinley, 2001). The main causes of existence of rural poverty in India include improper training, slow job growth and failure of PDS system. The reasons of urban poverty include restricted access to employment opportunities and income, lack of proper housing facilities, unhygienic environments, less social security schemes and lack of opportunity to quality health and educational services.

Further, politics plays its own game in every step in rural as well as urban life. Political polarization provides benefits to one section keeping another vast section in deprivation. The real facts and figures on poverty cannot be revealed to the India's common people unless impartial and efficient techniques for counting poverty are evolved. For this, awareness should be developed among politicians, government officials, academicians, researchers and NGOs.

7.9 How to tackle Poverty and Regional Inequality

Recent debate on the question “Should governments pursue economic growth first, or should they focus on poverty reduction?”, has generated more heat than light because it has become embroiled in broader political controversies on globalization and the impact of World Bank and IMF programs on developing economies. Experience has shown, however, that growth and poverty reduction go largely hand in hand (Rodrik, 2000). The countries which have been most successful in reducing poverty have been ones which
have combined rapid poverty reduction with equity promoting growth. Public policies need to influence both the process of generation and distribution of income in such a way as to disproportionately benefit the poor. In other words, the focus now is on ‘pro-poor’ growth. It needs to be emphasized that the importance of growth cannot be forgotten. A strategy which focuses primarily on reducing inequality, through redistribution of assets or incomes, but ignores or sacrifices growth is unlikely to lead to a sustained process of poverty reduction.

What ever we have to do first, we should have to control corruption then only we can talk about remaining things. Independent accountability institutions will also have to be set up to detect and punish the worst examples of corruption. The development of an appropriate legal and fiscal framework will be essential for providing a suitable enabling environment for the emergence of a strong movement of non governmental organizations. Simultaneously, a free and vibrant press can contribute to greater transparency and accountability in the system.

Further, decentralization and devolution have been considered as one of the most powerful ways of increasing peoples’ participation and empowering the poor. There is currently a wave of decentralization in the Asia and Pacific region, with major efforts at strengthening local governments. The real challenge in most countries is to improve the process of governance in such a way that public policy fundamentally protects the general public interest rather than being a hostage to vested interests.

Recent years have seen ample studies on the linkages between poverty, inequality, and economic growth. Much has been written in the recent past on what should be done in India to reduce poverty and enhance growth. Still much remains to be done for understanding what policies have worked in reducing poverty and inequality. Pasha (2002) underlined the fact that for growth to be, immediately poverty reducing, it should have a pattern that directs resources disproportionately to the following:

- sectors in which the poor work (agriculture)
- areas in which they live (underdeveloped regions)
- factors of production which they possess (unskilled labor)
outputs which they consume (food)

This implies that a strategy of ‘pro-poor’ growth consists primarily of employment generation combined with relative price stability of goods and services which are essential items, like food, in the consumption basket of the poor.

Kimenyi, (2007) proposed some principles for pro-poor reform policies (Details given in Appendix 3). These simple principles highlight the importance of thinking about the poor as people rather than mere numbers and getting a better understanding of the economy and the linkages within sectors and regions.

It follows from the above said discussion that government should use a set of alternative policies which promote growth on the one hand and also leads to reduction of inequalities on the other hand. Upliftment of agriculture should be the top priority while framing these policies. In case of our country, where most of the population is engaged in the agriculture and allied activities, the importance of this sector should not be neglected. Further, government should made healthy policies to check the price rise in the food items, as poor spent major part of their income on food. The government should also amend its policies and acts regarding payment of wages for the work that requires less training. If income of the poor can be raised in this manner, then they can have more money to spend on food as well as on non food items.

7.10 Conclusion

Reduction of poverty and lessening of regional inequality has always remained as top agenda of national government in India. Vast of funds have been allocated from time to time to resolve these issues. But if we consider the reality, poor in India are still poor. Now question arises where does the fault lies? Whether it the failure of government in framing of proper policy, or the failure of system in which funds meant for people never reached them, or failure on the part of poor people who do not desire to come out of this misery intentionally on different grounds. One thing which is very certain is that framing of policy does not imply that the problem will be solved automatically. There is high need to get the effective implementation of public policy to solve these problems and to see why people at the grass root level are still suffering.
As regard the public policy, there remain disagreements over policies that are entirely focused on the poor and policies that attempt to enhance growth more generally. Some policies have a large effect on growth and may not be particularly pro-poor; others do not have such a large effect on growth but are very pro poor. The best policies are those that have a large effect on both. In addition, at times it is critical to implement a package of policies as individual policies alone may not be enough. Here more work is clearly needed as the current wish list for pro poor growth is very long and some kind of sequencing, prioritizing, and packaging is critical. In short poverty as well as regional inequality in India has to be fought and reduced at any cost for the future progress of India as an economic and world superpower.