ECONOMIC GROWTH, INCOME INEQUALITY AND
PUBLIC POLICY IN INDIA

ABSTRACT
The main objective of the present study is to re-examine the links among Economic Growth, Income Inequality and Poverty across fourteen major and most populous States. Major tools and techniques used in analysis include Gini Coefficient, Theil Entropy Index, Atkinson Index, Decomposition of Gini, Atkinson and Theil index by Population subgroups, σ Test of Convergence, β Test of Convergence, Augmented Dicky Fuller Unit Root Test, Granger Causality Test, Cross Section Time Series Regression with panel corrected Standard Errors, Test of U hypothesis, Panel Regression- between effects model etc. The period of study used in thesis is post reform period (1993-05) and constructed, according to the quinquennial rounds of consumption expenditure survey of NSSO. Our results indicate that the extent of inter state inequality across major states was low but increasing, as inferred by each measure of inequality used, with few exception. Also, the extent of inter state income inequality turns out to be more by using per capita data instead of aggregate data. By applying beta test for convergence across fourteen major Indian states, the results point to the fact that there is absolutely no sign of β convergenc. States are in fact diverging with respect to their per capita state product. The results, pertaining to growth interdependence among the states, point to the fact that the linkages between states economies are not generally ‘growth transmitting’ From the detailed analysis of inter state consumption inequality, we conclude that the level of inequality is higher in consumption of non-food items than that of food items. By decomposing the inequalities at all India level, we reached the conclusion that, contribution of within-state component has been quite high (approximately 90 percent) in comparison to the between-state inequality. The results regarding effectiveness of policies in raising the level of growth points to the fact that out of six, only three policies have remained effective in raising the level of growth. There is high need to get the effective implementation of public policy to solve the problems of poverty and inequality and to see why people at the grass root level are still suffering.