CHAPTER I
INTRODUCTION

1.1 Introduction
The primary focus of world economic attention for the past four decades has been on the ways to accelerate the growth rate of national income. Economists and politicians from all nations, rich and poor, capitalist, socialist and mixed, have worshipped at the shrine of economic growth. “Growthmanship” has become a way of life. Even governments can rise or fall if their economic growth performance ranks high or low on the global scorecard (Todaro, 2000). But what is the meaning of that growth if it is not translated into the lives of people. The growth that has taken place has served mainly to benefit the few--the richest 20 per cent of the population (Thirlwall, 1986).

The question of how inequality is generated and how it reproduces over time is really a billion dollar question. The patterns and determinants of changes in inequality are subject of perennial interest to economists and policy makers alike (Prasad, 2000). Moreover, it was argued by Atkinson that 'inequality is what economics should be all about' (Atkinson, 1973). Some of the greatest economists and philosophers of two centuries ago were bold and outspoken about the injustice of extreme inequality, nationally and internationally. Yet by almost every standard, global inequality has grown substantially since that period, just as national inequality has grown in most countries over the last two or three decades. So, there is a case today for more outspokenness about the ills and causes of inequality (Jolly, 2006). Otherwise there will come a time when looking back at today’s world human beings will wonder about how primitive we were that we tolerated all this (Basu, 2005).

The early literature on the evolution of income inequality over the process of development used to be dominated by Kuznets hypothesis (Aghion, Caroli, and Penalosa, 1999). Using both the cross-country and time series data, Simon Kuznets (1963) found an inverted U-Shaped relation between income inequality and GNP per head. This hypothesis serves as a cornerstone of modernization school which tends to emphasize
relative differences in the level of income or wealth as a key determinant of differences in the degree to which income is distributed equally within nations. Dependency theory offers a second major perspective in this area of research. Most of the dependency analysts seem to agree that the main cause of within-nation inequality (especially in the Third world) is between-nation inequality (Chan, 1989).

There is as yet no consensus throughout the economics profession on the relationship between income inequality and growth (Iradian, 2005). Economic theory does not predict unambiguously the direction of dependence of inequality on economic growth. However, this direction and scale of dependence is very important for policy decision and evaluation (Ayal, 2004). If inequality does not change systematically with growth, only then government can stop worrying about inequality and devote all efforts to promote aggregate growth, because it would benefit all segments of economy. But in reality countries face trade-off between reducing inequality and improving growth performance. There is also a possibility of virtuous circle in which growth leads to lower inequality, with lower inequality in turn leading to faster growth. But it is not the rate of growth or stages of economic development but the kinds of economic growth that affect inequality (Felix, 2002).

It follows from the aforesaid discussion that there is legitimate role for public policy in the promotion of fairness 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 Bank, 2006a). Making growth more pro-poor really requires a combination of more growth, a more pro-poor pattern of growth and reduction in the antecedent inequalities that limit the prospects for poor people to share in the opportunities unleashed in a growing economy (Ravallion, 2006). The right policy prescription is to combine policies that promote economic growth and policies that redistribute income in favour of poor. But these two types of policies are likely to be contradictory; hence the choice of policy is reduced to the question of right mix (Ayal, 2004).
1.2 Growth versus Inequality: In Indian Context

Given the worldwide media coverage, everybody surely knows by now that India is one of the fastest growing countries in the world. Well known Economists and the various studies conducted across the globe predicted that India will emerge as a global power in the 21st century along with China. Although the world has just discovered it, India’s economic success is far from new. Since independence Indian economy has thrived hard for improving its pace of economic development. For half a century before independence, the Indian economy was stagnant. Between 1900 and 1950, economic growth averaged 0.8 per cent a year—exactly the same rate as population growth, resulting in no increase in per capita income. In the first decade after independence economic growth picked up averaging 3.5 per cent from 1950 to 1980. Indians mournfully called this “The Hindu rate of growth” (Das, 2006).

After three post independence decades of meager progress, the country’s economy grew at 6 per cent a year from 1980 to 2002 and at 7.5 per cent a year from 2002 to 2005—making it one of the world’s best performing economies. For the Twelfth Five Year Plan (2012 to 2017), the Planning Commission is likely to set a realistic average growth target of 9 per cent, despite some early enthusiasm that made its chairman, Prime Minister, Manmohan Singh, suggesting a target of 10 per cent for the five-year period beginning April 2012. Planning commission deputy chairman, Montek Singh Ahluwalia stated in this respect that "A 9 per cent target is feasible and we can go till 9.5 per cent, but targeting 10 per cent growth is unrealistic."

Despite sustained high GDP growth in India, one worrying feature that could cause political instability and jeopardise the bullish forecast is the problem of poverty and growing income inequality. This will be one of the most formidable challenges confronting India over the next decade if it is to live up to its promise. Latest poverty estimates by World Bank suggest that, not only is India home to roughly one-third of all the poor in the world, it has a higher proportion of its population living on less than $2 a day than even sub-Saharan Africa. India has around 42 per cent of its population living below the new international poverty line of $1.25 a day. The number of Indian poor
constitutes 33 per cent of the global poor, pegged at 1.4 billion people (www.worldbank.org, August 2008).

The revised estimates also suggest that the percentage of people living below $1.25 a day decreased from 60 per cent in 1981 to 42 per cent in 2005. Even at a dollar a day poverty declined from 42 per cent to 24 per cent over the same period. However, the number of poor people living under $1.25 a day has increased from 421 million in 1981 to 456 million in 2005. This indicates that there are a large number of people living just above this line of deprivation (a dollar a day) and their numbers are not falling (www.worldbank.org, August 2008).

It is also sobering to discover that India’s per capita income is just a shade higher than that of Sub-Saharan Africa and about one-sixth that of Latin America (Basu, 2006). If survey conducted by NCAER (National Council of Applied Economic Research) is correct then only 10 per cent of the India’s population has benefited most from the high economic growth of past 10 years. Most of the benefits of economic growth are going to the wealthiest 20 per cent of society (Zhu, 2006).

No doubt, there are more cars on the street, more high-rise apartment buildings are coming up in urban areas and the salaries of bright young graduates from the IIT’s and IIM’s are rising sky. But what’s about the people whose lives have become even more vulnerable and precarious. Today, more than three quarters of the population live in households with per capita calorie consumption below 2,100 per day in urban areas and 2,400 per day in rural areas – numbers that is often cited as “minimum requirements” in India (Deaton and Dreze, 2009). According to the Global Hunger Index (2010) constructed by International Food Policy Research Institute (IFPRI), India dangles at an ignominious 67th out of 84 countries and is classified as having ‘alarming’ levels of hunger.

Further, according to the National Family Health Survey, the proportion of underweight children remained virtually unchanged between 1998-99 and 2005-06 (from 47 per cent to 46 per cent for the age group of 0-3 years). Under nutrition levels in India remain higher than for most countries of sub-Saharan Africa, even though those countries
are currently much poorer than India, have grown much more slowly, and have much higher levels of infant and child mortality (Deaton and Dreze, 2008).

Recently, United Nations Development Program, had formulated a new measure for measuring Poverty. This new Multi Dimensional Poverty Index was formulated and applied by the Oxford Poverty and Human Development Program, with the help of UNDP. A shocking result of the study was that the acute Poverty prevails in the Indian states. There are almost 421 million people in eight Indian states named Chattisgarh, Jharkhand, Madya Pradesh, Orissa, Rajasthan, Uttar Pradesh and West Bengal and Bihar which is greater than the 410 million people in the twenty six African countries combined (www.indiastudychannel.com, October 2010).

Therefore growth has come, but with widening regional disparities and often little or no growth in lagging poor areas. Non farm economic growth in India has not occurred in the states where it would have the most impact on poverty nationally. As a result, the overall non farm growth process in India has tended to become less pro-poor overtime. The geographical pattern of agriculture growth is also not pro-poor. The states with higher growth in agriculture yields were not the key states with higher share’s of India’s poverty (Ravallion, 2006).

Therefore, in the context of Indian economy, it would not be exaggeration to say that, indeed, economic growth has taken place but somehow development is lacking. The real growth story in India is about the silent growth of interstate disparities in income and absolute poverty. It follows from the discussion that there is legitimate role for public policy in the promotion of fairness 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 Bank, 2006a).

1.3 Objectives

The main objective of the present study is to examine the links among Economic Growth, Income Inequality and Poverty. In the light of main objective specific objectives of the study are as follows:

1. To analyse the changes in the patterns of income across States and over time.
2. To examine the extent and changes in income inequality across States and over time.

3. To examine the relationship between changes in inequality and growth in relation to individual States.

4. To analyse the extent and changes in the poverty across States and over time.

5. To examine the relationship between changes in income inequality and poverty in relation to individual States.

6. To suggest an optimum mix of alternative policies for promoting pro-poor growth.

1.4 Hypothesis

Keeping in view of the objectives, the whole study is based on the following hypotheses:

1. The patterns of income across states have exhibited deep rooted disparities.

2. The extent and changes in income inequality across states have shown a random behaviour.

3. Small (positive or negative) changes in the level of inequality lead to greater (positive or negative) changes in growth rate.

4. States differ in varying degree in relation to poverty reduction over time.

5. There exists a strong positive relation between income inequality and poverty.

6. There exists an optimum mix of alternative policies for promoting pro-poor growth.

1.5 Research Methodology

1.5.1 Sources of data

Commission, Various issues of Economic Survey, Union Budget Documents and official website of Reserve Bank of India.

**Table 1.1: Information about the selected Major fourteen States**

<table>
<thead>
<tr>
<th>States</th>
<th>Area (Sq. km)</th>
<th>Rural Population</th>
<th>Urban Population</th>
<th>Total Population</th>
<th>Density</th>
<th>Sex Ratio</th>
<th>literacy Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>275045</td>
<td>55,401,067</td>
<td>20,808,940</td>
<td>76,210,007</td>
<td>277</td>
<td>978</td>
<td>60.5</td>
</tr>
<tr>
<td>Bihar</td>
<td>94163</td>
<td>74,316,709</td>
<td>8,681,800</td>
<td>82,998,509</td>
<td>881</td>
<td>919</td>
<td>47</td>
</tr>
<tr>
<td>Gujarat</td>
<td>196024</td>
<td>31,740,767</td>
<td>18,930,250</td>
<td>50,671,017</td>
<td>258</td>
<td>920</td>
<td>69.1</td>
</tr>
<tr>
<td>Haryana</td>
<td>44212</td>
<td>15,029,260</td>
<td>6,115,304</td>
<td>21,144,564</td>
<td>478</td>
<td>861</td>
<td>67.9</td>
</tr>
<tr>
<td>Karnataka</td>
<td>191791</td>
<td>34,889,033</td>
<td>17,961,529</td>
<td>52,850,562</td>
<td>276</td>
<td>965</td>
<td>66.6</td>
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<tr>
<td>Kerala</td>
<td>38863</td>
<td>23,574,449</td>
<td>8,266,925</td>
<td>31,841,374</td>
<td>819</td>
<td>1058</td>
<td>90.9</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>308245</td>
<td>44,380,878</td>
<td>15,967,145</td>
<td>60,348,023</td>
<td>196</td>
<td>919</td>
<td>63.7</td>
</tr>
<tr>
<td>Maharashtra</td>
<td>307713</td>
<td>55,777,647</td>
<td>41,100,980</td>
<td>96,878,627</td>
<td>315</td>
<td>922</td>
<td>76.9</td>
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<tr>
<td>Orissa</td>
<td>155707</td>
<td>31,287,422</td>
<td>5,517,238</td>
<td>36,804,660</td>
<td>236</td>
<td>972</td>
<td>63.1</td>
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<tr>
<td>Punjab</td>
<td>50362</td>
<td>16,096,488</td>
<td>8,262,511</td>
<td>24,358,999</td>
<td>484</td>
<td>876</td>
<td>69.7</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>342239</td>
<td>43,292,813</td>
<td>13,214,375</td>
<td>56,507,188</td>
<td>165</td>
<td>921</td>
<td>60.4</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>130058</td>
<td>34,921,681</td>
<td>27,483,998</td>
<td>62,405,679</td>
<td>480</td>
<td>987</td>
<td>73.5</td>
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<tr>
<td>Uttar Pradesh</td>
<td>240928</td>
<td>131,658,339</td>
<td>34,539,582</td>
<td>166,197,921</td>
<td>690</td>
<td>898</td>
<td>56.3</td>
</tr>
<tr>
<td>West Bengal</td>
<td>88752</td>
<td>57,748,946</td>
<td>22,427,251</td>
<td>80,176,197</td>
<td>903</td>
<td>934</td>
<td>68.6</td>
</tr>
</tbody>
</table>

*Source: Registrar General & Census Commissioner, India (2001).*
1.5.2 Sample size

The scope of analysis in this study is restricted to a comparative analysis of the trends in economic growth, income inequality and poverty across fourteen major and most populous States (excluding the Himalayan states, the northeastern states, and the 6 union territories). The fourteen States taken up for the detailed study are; Andhra Pradesh, Bihar, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal. The included states have a combined population accounting for more than 90 per cent of India’s population. Also the area covered by these states is 2.7 million sq. km., accounting for 83 per cent of India’s total land area (Sachs, Bajpai and Ramiah, 2002).

Table 1.1 depicts the information about area, population (urban and rural), density of population and literacy ratio of 14 major states selected for analysis. It is evident from the analysis of table that Uttar Pradesh is the most populous state supporting 17 crore population approximately. However the density of population is highest in West Bengal (903) followed by Bihar (881) and Kerela (819). Regarding sex ratio, Kerela is the only state where female population exceeds male population. Literacy ratio is quite low in BIMARU { (Bihar (47), Madhya Pradesh (63.7), Andhra Pradesh (60.5), Rajasthan (60.4) and Uttar Pradesh (56.3) } states. Kerala is leading ahead in terms of literacy ratio also as approximately 91 per cent people are literate there.

1.5.3 Tools and techniques used

Appropriate Econometric and Statistical estimations have been used for estimating the relationship among economic growth, income inequality and poverty. The details of the Research Methods used in the individual chapters are described as and when it required in the different chapters. However here, we are mentioning the major methods used in compressing the data into indicators.

The list of major tools and techniques used in different chapters is as follows:

(i) Gini Coefficient

(ii) Theil mean Log Deviation Index
1.5.4 Period of Study

The study covers the period 1993-94 to 2004-05, which is post reform period. Keeping in view the data availability and requirements, we have framed this study covering three large quinquennial rounds of NSSO (50th, 55th and 61st). As per need, at some places the whole study period has been divided into two sub periods ranging from 1993-94 to 1998-
99 (First Sub period) describing early post reform period and 1999-00 to 2004-05 (Second Sub period) describing the late post reform period

1.6 Organisation of the study

The study consists of eight chapters. The first chapter introduces the framework of analysis. It includes the information regarding objectives of the study, data sources and methodology. The second chapter presents the review of literature on the subject in order to highlight the significance and empirical evidence on the relation among income inequality, poverty and economic growth. The third chapter deals with empirically analyzing, domestic product of major states. The fourth chapter deals with estimating the extent of income inequality across states by using selected measure of inequality. The extent of poverty across states has been examined by estimating the consumption inequality in fifth chapter. Sixth chapter deals with the empirical analysis and interpretation of relation among poverty, income inequality and economic growth. Seventh chapter throws light on the need for pro poor growth and evaluate the policies pursued by the government from time to time for reducing inequality and poverty. Finally, in chapter eight, summary, conclusions and, policy recommendations have been presented. Beside all this, appendices and bibliography has been added at the end for reference.