CHAPTER I

INTRODUCTION
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India is changing at a very fast rate since the past decade. It may be that India is not in the league of developed nations but surely in terms of the rate of growth it is no less than many a big economies. The reforms since 1991 have led to the formation of a vibrant economy populated by a dynamic middle class mainly in towns and cities which include a brand new generation of executive, businessman and industrialists who have not only started excelling themselves but have also began to compete in global market. Whatever be the field, be it Science and Technology, be it Information Communication and Technology, be it Business Process Outsourcing, be it Knowledge Process Outsourcing, India now has a name of its own. India is no more a poor country of village people; rather it is now a brand of its own. Not only economically but politically also, India has become more important and more strategic as is evident from India’s initiatives for a permanent seat in UN Security Council or from the Indo-US Nuclear deal or from the quality and quantity of substantial trade and bilateral cooperation in science and technology with US and Europe. Economically, the GDP growth trend has transformed from the so called ‘Hindu’ rate of growth of 3.5 percent per annum to 8 to 9 percent growth per annum nowadays. Even the two digit growth rate seems plausible now and that too the maximum contributions to GDP comes from a much diversified and technologically advanced manufacturing and service sectors. From a
poor and static country of villages India has graduated into a country where technology is getting rapidly upgraded, competition becoming fiercer, thereby ultimately profiting the consumers and a dynamic IT industry providing all information. With the quantitative restrictions on imports being removed, custom duties progressively lowered and both direct and portfolio foreign investment lowered, export performance has buoyed leading to a surplus in the current account and a strong balance of payment position. The days of scarcities are gone: food grains are in abundance, foreign exchanges are in abundance and investments are in plenty.

But as to whether the poor are included in this changing scenario, is an important question. While on one hand metros propound the virtues of emerging super power status of Indian state, the country-side on the other hand is suffering acutely from the withdrawal syndrome. No one doubts growth, but whether this growth is inclusive or not or whether this growth is devoid of equality. If the situation is so that neither everyone is participating, particularly the poor and disadvantaged groups, nor everyone is benefiting from the growth then this variance in the spread effects of the growth process is as serious as no growth altogether. This problematic phenomenon could be understood by studying the relationship between growth, poverty and employment. It is now a well known accepted fact that growth itself is not enough, if it doesn't produces such flow of benefits which aren't widespread. We need
a growth process which raises the incomes of the poor, which generates quality employment while ensuring essential services like education and health to one and all. In other words, we can say that we need growth which is more inclusive. The Indian economy, though still backward, is no longer caught in a 'low level equilibrium trap' where it remained for a long period under the British. Since Independence, it has recorded a significant increase in the national income, though one cannot be equally sure of the trickle down benefits of growth. We further notice that the Indian economy during the past five decades has progressed structurally when we consider the growth of capital goods industries, expansion of infrastructure, performance of the public sector, changes in the financial organization and the progressive transformation of the agrarian scene. These factors over the years are believed to have created an element of dynamism in the country’s economy and one can hopefully say that it would sustain development in the future.

1 (I) THE ECONOMIC SCENARIO:

The nineties have been a decade of changes in the India’s economic structure and policies. Ever since the country gained its Independence in 1947 the economic structure was based on the belief that comprehensive planning combined with direct participation and control of economic activity by the state are both necessary and desirable to achieve rapid economic growth, poverty eradication, employment generation and a just and equitable society. This belief is manifested in the planning structure
of India characterized by its Five Year Plans and heavy dependence on State. Although many economists have criticized excessive state involvement and interference, obsession with heavy industries and highly autarkic policies on ground that they made the system rigid, reduced their capacity for flexible adaptation to changing condition and inhibited innovations but the economic, social and political condition that India inherited at the time of Independence was is no way ripe for a full market oriented capitalist structure of economy. It is highly irrational on part of anybody to blame the initial policymakers in this respect. On the contrary India was rather smart enough to absorb the ideologies of both the capitalist and the socialist structure, with the pure motive of drawing out the good things from both of them. The development pattern up till 1990 was characterized by a strong decentralized planning, government owned basic industries, excessive regulations on the private sector, tariffs and quotas leading to trade protectionism accompanied by distrust towards foreign capital. It was characterized by quota, permit and license regime under the control of a strong bureaucracy. This led to an inward looking and import-substitution strategy to growth.

Despite the heavy planning, gross domestic product growth rate remained more or less stuck at 3-4 percent per annum. But this failure was not because of the policy making rather it is due to the poor implementation of it. No doubt democracy gave greater political voice to the poor, the compulsions of election politics made it imperative for
subsequent governments to launch direct attack on poverty and unemployment through special poverty alleviation programmes and commit substantial resources for them. But experience shows that they did not benefit the weak and the vulnerable class in full measure as expected. On the other hand, they have led to massive corruption and abuse of power by the functionaries and institutions of the State to further their own interest and the interests of the influential.

Meanwhile, by the seventies, the sharp contrast between India's performance and that of East Asian and South-East Asian countries began to attract increasing attention. The latter were achieving very high and historically unprecedented rates of growth of output and employment, and improvement in living standard. Their expansion was widely attributed to reliance on the market mechanism rather than state sponsored centralized planning, openness of their economies, a dynamic export trade and import of foreign capital modern technology.

The sharp contrast between the performances of these countries and that of India was instrumental in persuading the emerging generation of political and bureaucratic elite as well as the middle class that India's economic structure needed to reform. The collapse of the erstwhile Soviet Union and East European communist regimes further reinforced this trend. All this taken together with the comparatively lack luster achievement of India's own efforts at planned development gave credence to the notion that free market-free entry-free trade system,
would produce better results in terms of efficiency, growth of income and employment and reduction of poverty and led to some half hearted attempts at liberalization during the 1980s itself. The intellectual ground for reforms of the 1990’s had thus been prepared much earlier. Limited as only liberalization during the eighties in which expansionist fiscal policy and larger investments in infrastructure pursued during the decade resulted in a significant improvement in the growth rate. But it was accompanied by a growing strain on government finances, degradation of balance of payments and rising prices and the implications of such a policy of larger public investments financed out of borrowing, especially high cost short term external borrowings subsequently led the economy to the crisis of 1991 and the final blow came with the exhaustion of foreign reserves resulting in government seeking external assistance.

This was a period when the philosophy of ‘free market free trade and globalization’ was being pushed aggressively on several crisis-ridden third world counties in the name of ‘Structural Adjustment Programmes’. In India’s case too the donors exerted strong pressure for far reaching changes in lines of the Washington Consensus. The reduction of fiscal deficits and balance of payments deficits and drastically reducing, if not total dismantling of controls on the private sector, cutting back public sector involvement, a strong push towards privatization of economy and allowing free flow of private foreign capital were among the initiatives
taken. To make matter worse the Gulf crisis in the late 1990 sharply accentuated macro economic problem. There was also political instability in the country at this juncture. All these developments together eroded international confidence in the Indian economy and, as a result, this country's credit rating in the international market declined sharply. However, it has to be recognized that the problems of the economy did not assume crisis propositions abruptly. These problems, on fact were very much there for years destroying the capacity of the economy to cope with any internal or external shocks and foreign exchange reserves dropped to levels which were not sufficient.

The working of the Indian economy particularly during the 1980s was characterized by growing macroeconomic imbalances in the shape of high fiscal deficit, high current account deficit, increasing external debt and weakening financial system. Large monetized deficit leading to fiscal deficit, ultimately led to increasing money supply and inflation. This spilled to the external sector resulting in unsustainable current account deficit and finally this huge public debt culminated into an external payment crisis in 1991. In response to the crises situation of 1990-91, the government decided to introduce economic policy reforms which consisted of two distinct strands - macro economic stabilization and structural reforms. Structural reforms deal with sectoral adjustment designed to tackle the problems in the supply side of the economy. And stabilization dealt with demand management. The constituents of
macroeconomic stabilization were mainly control of inflation, fiscal adjustment and balance of payment adjustments whereas structural reforms constituted of trade and capital flows reforms, industrial deregulation, public sector reforms and disinvestment, and financial sector reforms. With the policy makers the thrust was to increase the efficiency and international competitiveness of industrial production, to utilize foreign investment and technology to a much greater degree than in the past, to prove the performance and rationalize the scope of the public sector, and to reform, and modernize the financial sector so that it can more efficiently serve the needs of the economy. These reforms aimed at the reorientation of the economy from a centralized and state controlled command economy to a market-oriented economy for further growth.

More than fifteen years have passed since these changes have taken place in the Indian economy. This study aims at evaluating the entire reform process on the broad aspects of growth, poverty and unemployment. Before gathering momentum on the evaluation part, here is a brief introduction of the reform process.

1 (II) ECONOMIC REFORMS IN INDIA:

The key elements of the reforms package included the following:

(i) **Industrial Sector Reforms:**

Opportunities and space for greater efficiency were sought to be enhanced by dismantling all controls over industrial investment, choice
of technology, scale and location of plants, production and pricing
relaxing restrictions on foreign direct investment and adopting a
proactive policy of wooing such investment. Almost all industrial
licensing have been abolished. The restrictions under the Monopolies and
Restrictive Practices (MRTP) Act has been reduced anti-trust concerns
have been eased. Entry requirements for both private domestic and
foreign players have been relaxed. Sectors like those of defence, power,
airlines, telecommunications and mining, which were once under the
total control of the state have been opened for all private participation.

(ii) External Sector Reforms:

Dismantling the import and export licensing system, reducing
tariffs, and moving towards a more or less free trade regime to increase
the pressure of competition and thereby induce domestic industry to
increase efficiency. Quantitative restrictions were completely disbanded
by 2001. The exchange rate system was transformed from a
discretionary, basket packed system to a largely market determined
exchange rate. Foreign investments particularly the foreign direct
investments approvals are by and large made automatic. For liberalizing
the operating environment for firms with foreign equity Foreign Exchange
Regulation Act (FERA) was replaced by Foreign Exchange Management
Act (FEMA). Further Attempts were made to promote the participation of
foreign institutional investors in the secondary market in Indian stocks,
particularly through Global Depository Receipts (GDRs) and American Depository Receipts (ADRs).

(iii) **Financial Sector Reforms:**

The entire banking sector has been reformed particularly the non-performing assets. This deregulation has been sensibly accompanied by more stringent prudential and capital adequacy norms. Private players have been allowed both in banks and in insurance sector. Foreign equity is also being encouraged. Interest rates are now largely deregulated, reserve requirements have been reduced and banks have been given greater autonomy in its operations. The office of the Controller of Capital Issues, which regulated the IPOs have been abolished making firms free to price their own equity. The recognition of SEBI as an apex body in the financial field has properly regulated and organized among many other things the discrepancies and uncertainties in the share market making an environment conducive for not only big players but also for small investors. Mutual fund operators and Indian firms are now allowed to raise funds from offshore-markets through global depository rights and capital markets have been opened for foreign institutional investors, though in a small manner.

(iv) **Macro Economic Stabilization and Structural Reforms:**

Macro economic stabilization dealt with demand management and structural reforms dealt with sectoral adjustment designed to tackle the problems in the supply side of the economy. These reforms were targeted
at the macro economic variables of the economy. Some of the aspects of macro economic stabilization were control of inflation and a strict control over money supply, reducing the government fiscal deficit, tax reform to raise revenue, cutting implicit and explicit subsides on food fertilizers and export, improving the balance of payments situation, and compressing and reorienting public sector plan expenditure. Structural reforms constituted of trade and capital flows reforms, industrial deregulation, public sector reforms and disinvestment, and financial sector reforms.

(iv) Second Generation Reforms:

These reform measures have been dubbed as the First Generation Reforms and these were by and large administrative reforms and did not require any legal and institutional changes. But there were many areas which were not covered by these reforms which were subsequently put in place like the state level reforms: which included power sector, states being given authority to attract foreign investment in certain sectors etc. and agricultural reforms like lifting of Essential Commodities Act, Institutional reforms like changes in Board of Industrial and Financial Reconstruction (BIFR) and Sick Industries Companies Act (SICA), Value Added Tax (VAT), Telecom Regulatory Authority of India (TRAI), Insurance Regulatory and Development Authority (IRDA), Ways and Means Advances, demutualization of stock exchange, dematerialized trading and rolling settlement with t+1 payment mechanism and lastly
legal reforms like Fiscal Responsibility Act, Insolvency act, Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFESI) Act, Competition Act, National Rural Employment Act etc. These were called the Second Generation Reforms. These reforms were supportive, complementary and consensus driven as they required political consensus whereas the earlier reforms were crisis driven.

Measures for trade liberalization went through fairly smoothly. Import and export trade are now more or less free, tariff rates have been lowered and rationalized substantially, exchange rates are left to be determined by the market subject to strategic intervention by the Reserve Bank, and a limited degree of convertibility on capital account is now permitted. The dismantling of the control system widely welcomed by large scale private sector industries was also completed in a relatively short time. The financial sector and markets have also been opened up and permitted to operate more freely. But fiscal consideration and privatization have floundered in the face of severe oppositions.

The role of planning process in the context of restructuring and liberalization of the Indian economy was redefined. So far, resource allocation had been the predominant role of the Planning Commission. This changed and instead of looking for more increases in plan outlays, emphasis shifted to increase in efficiency of utilization of allocations being made and the prospects of return on the investments. The Planning Commission played mediatory and facilitating role among states
to manage the changes smoothly and create a culture of high productivity, cost efficiency and sound financial discipline in the government. The process of planning was reoriented to make planning largely indicative. Planning proceeded with a vision of the society to be created and through an appropriate mix of policy instruments with the influence of decisions of the various economic agencies to achieve the desired goals.

1 (III) REVIEW OF LITERATURE:

Sen (1995)¹ brings out the interdependence between markets and government. When he talks about market excluding and complementary interventions he makes himself very clear as to what is the role of the state and what is the role of the market. As markets do certain things and abstain from others and a ‘failure can arise from either positively doing something that would have harmful consequences or from not doing something that would have to be done for good results. The market like other institutions, does certain things, and abstains from others. There is a real asymmetry here which is hidden by unclear contrasts between the market mechanism and non market systems. An economic arrangement can be non market in the sense that markets are not allowed to operate freely or even to operate at all. This can be called market excluding arrangement or it can be non market in the sense that many things are done, say, by the state, that the market would not do. Such supplementary operations do not have to

¹ Sen (1995)
prohibit markets and exchanges. This is called a market complementary arrangement'. He brings out the positive and negative effects of reforms when he says 'market allocation can certainly have some un-equalizing influences, but so do bureaucratic controls, public sector inefficiency and trade restrictions. The benefits of trade liberalization is that it 'tilts economic activity towards the production of exportable commodities, which tend to be labour intensive and this can be expected to have often enough, an inequality reducing influence' and the negative effect could be the 'fact that privileged social groups are often in a position to take advantage of new economic opportunities.' He seems very sensible when he says that 'if the reforms in question take the form of simply removing controls, and leaving things to the market, it is difficult to predict in which direction the distributional effect will go. On the other hand, if the economic policy involves a strong emphasis on promoting labour intensive economic activity on enabling disadvantaged groups to participate in the process of economic growth on making use of growing resources to expand public services and developing social security arrangements the reform process may provide a real opportunity to achieve greater equity as well as to reduce poverty'.

Mishra and Prusty (2001)\textsuperscript{2} argues that despite the introduction of a large number of deregulatory measures in the new industrial policy of 1991, the growth performance of the Indian industry in the new regime is far from satisfactory and the reforms package in general and new
industrial policy in particular have largely failed in bringing back even the level of growth seen in many of the constituent sectors in the eighties and are of the view that the current liberalization process of the industry sector needs a fresh look. The liberal measures in the industrial policy should be supported by reforms of the policies relating to infrastructure, international trade, etc. for their effective functioning. Besides, the policy initiatives, apart from removing the imperfections existing in the system, also need to encourage development of indigenous technology through in house R&D, building up manufacturing and marketing related complementary assets and making adequate exposure to the international market through exports. Finally, the restructuring and growth strategies of the firms through merger and acquisitions (M&As) have serious implications for industrial policy in general and competition policy in particular. Although the fast changing global environment has made it necessary for firms to enhance their competitiveness and grow through M&As, it should be ensured that the M&As do not pose any threat to competition.

Gupta (2001)³ is of the view that development is a long and complex evolutionary process of social change rather than merely generation and accumulation of economic resources and that development thinking has evolved into a broad spectrum realization that it must move beyond economic growth to include important social goals like reduced poverty, eradicating unemployment, enhanced opportunities
for better education and health and improved quality of life and for a sustainable progress towards these goals requires integrated implementation which must be open, participatory and inclusive.

Mishra and Dhaka (2001)⁴ say that sustained development requires institutions of good governance that embody transparent and participatory processes and that encompass partnerships and other arrangements among the government and other element of civil society and that a strong network of effective organizations and enabling institutions is central to holistic development. When a government provides goods directly, it is often a monopoly supplier, as such it must not take advantage of its monopoly position to provide a sub optimal level of service to the public, and rather it must structure itself in a way that provides incentives for efficient production and for ongoing gains in productivity. These governance institutions are of primary importance in determining how society addresses human development.

Datt and Sundharam (2001)⁵ call for a reform of the reform process itself as ‘the reform process initiated in 1991 has been emphasizing the use of the market forces, which naturally attract investment to regions more developed in infrastructure—both economic and financial. It does not pay any attention to the question of regional imbalance.’

Stiglitz (2002)⁶ admits that globalization is not working particularly for many of the world’s poor. Of particular interest is his analysis of
priorities and strategies of the pro-reformers which he proves to be faulty. For example, stabilization is on the agenda but job creation is off the priority, taxation along with its adverse effects is on the agenda while land reforms is off, there is money to bail out banks but not to pay for improved education and health services let alone to bail out workers who are thrown out of their jobs as a result of IMF's advocated macro economic stabilization. He argues that the West acting through the IMF and WTO has seriously mismanaged the process of privatization, liberalization and stabilization and by following its advice many of the Third World countries and have become actually worse off. But he does not simply take a pro or anti-globalization stance. Instead he confronts us with the difficult realities of the economic world. He states just what he believes the market can be trusted to do and which responsibilities the government must not hand over to it. He also offers real solutions to it. He doesn't say that these reforms are entirely bad, but the important thing is that there are some pre-conditions that must be fulfilled before these reforms take place.

Mitra (2002)\textsuperscript{7} argues that rural India is suffering from acute unemployment and the only viable alternative for employment generation seems to be engaging them in allied agricultural activities by the local Common Pool Resource Management. The way is cooperative formation, which will be controlled by Panchayati Raj Institutions (PRIs).
Mahendra Dev and Moorj (2002) focusing on social sector expenditure in the 1990s, feels that India's performance in the social sector is far from satisfactory as there are also huge regional disparities within India. Some states or regions within states do much better than others.

Sundaram and Tendulkar (2003) examine the levels and changes in poverty indicators of the rural and urban population in India disaggregated by social and economic groups. Their analysis is based on the comparable estimates of poverty for the mixed reference period computed from the unit record data for the 50th (1993-94) and the 55th (1999-2000) rounds of the Consumer Expenditure Surveys conducted by the National Sample Survey Organization (NSSO). The issue is how far different social and economic groups shared the overall decline in poverty in the 1990s. The social groups most vulnerable to poverty have been identified to be scheduled caste and scheduled tribe households with both these groups having above average levels of poverty indicators in the rural and the urban population. Among the economic groups, the most vulnerable groups are the agricultural labor households (rural) and the casual labor households (urban) each having the highest levels of poverty indicators in their respective population segments. In terms of changes in poverty in the 1990s, it is found that while scheduled caste, agricultural labour (rural) and casual labour (urban) households experienced declines in poverty on par with the total population,
scheduled tribe households fared badly in both the segments. They examine the levels and changes in poverty indicators in the 1990s for rural and urban populations disaggregated by social groups and household types distinguished according to major source of livelihood during the 365 days preceding the date of interview.

Jha and Sharma (2003) argued that the spatial distribution of poverty in India has emerged as a matter of urgent concern in recent times. They conclude that the economic reforms programme has been unable to make any significant dent on the spatial distribution of expenditure poverty.

Maura (2004) argues for a better way to create inclusive development and growth emphasizing that unless India's growth percolates to its poor and underprivileged India will have a divided and unequal society and nation. He highlights some key steps that are needed to put India on the appropriate growth trajectory. These include dialogue and according to him India needs to create a consensus for inclusive growth. He stresses on how businesses must look beyond profits and emphasizes the critical need for collaboration between businessmen and government for nation building and presents a conceptual roadmap for India's future suited for its diverse economic, social and cultural needs.

Bhalla and Lapeyre (2004) investigate the notion of social exclusion as a new way to approach issues as the 'new' poverty, long
term unemployment, precariousness and social polarization and distinct disintegration. Exploring the specific forms of social exclusion in the ongoing processes of globalization, deregulation, and the crisis of the welfare state he points out at the failures of the Washington Consensus and talks of a new alternate development paradigm and underlines the importance of participation and ownership for a successful economic transformation.

Misra and Puri (2004) are of the view that there are some “inherent flaws in the stabilization and structural reform measure undertaken so far” and pointed out five shortcomings: absence of a broader development strategy, wrong sequencing of reforms, hasty pace of reforms, prerequisites of reforms ignored and absence of human development goals as an integral part of the strategy.

Joshi (2004) shows that there has been a growing 'tertiarisation' of the structures of production and employment in India emphasizing the 'catalytic' role that can be played by the tertiary sector, at least in the medium term, in employment generation and poverty alleviation. However, in the long run the simultaneous growth of the three sectors is desirable. The analysis of the sectoral composition of GDP and employment for the period 1950-2000 brings out the fact that during the process of economic development in India, a growing 'tertiarisation' of the structure of production and employment has been taking place. The tertiary sector emerged as the major sector of the economy both in terms
of growth rates and share in GDP in the 1990s. It is to be noted here that while the agriculture and manufacturing sectors have experienced phases of deceleration, stagnation and growth, the tertiary sector has shown a uniform growth trend during the period 1950-51 to 1999-2000. In fact, the recent years' experience shows that the growth of services sector has imparted resilience to the economy, particularly in times of adverse agricultural shocks as also driving cyclical downturns in industry. The sectoral distribution of the workforce in India during the period 1983 to 2000 reveals that structural changes in terms of employment have been slow in India as the primary sector continued to absorb 60.4 per cent of the total workforce even in 1999-2000, followed by the tertiary and industrial sectors (22.7 per cent and 16.8 per cent) respectively. There has been disproportionate growth in the tertiary sector, as its share in employment has been far lower as compared to its contribution to GDP. Not only this, the primary and tertiary sector witnessed deceleration in growth rates of employment during the post-liberalization period (1994-2000). In case of the latter, it was mainly due to the sharp deceleration in employment growth in community, social and personal services to 0.55 per cent in the post-liberalization period as against 2.90 per cent in the pre-liberalization decade.

Parikh and Radhakrishna (2004) say that economic reforms have caused structural changes in the Indian economy as redeployment of resources often causes transitional problems as there are gainers and
losers in resource allocation. On poverty reduction they say that while poverty has been reduced in all major states during the nineties, the process has been very uneven and the poor got concentrated in less developed states and among a few vulnerable social groups. The occupational composition of the poor is also changing as rural poverty is getting concentrated mostly in the agricultural labour and artisan households and urban poverty in the casual labour households. Also, there was a difference in the rate of reduction in poverty between urban areas and rural areas with the former declining faster. They also take poverty to be a social phenomenon as poverty is disproportionately high among scheduled castes and scheduled tribes. They give three reasons for poverty growth not being impressive during the nineties. First, poor performance of agriculture; second, slowdown in expansion of rural employment and third, skewed spatial pattern of growth with less growth in areas where poor are mostly located.

Radhakrishna, Rao, Ravi and Reddy (2004) focus on two interrelated but distinct issues of chronic poverty and malnutrition. They feel that the incidence of chronic poverty is higher than that of very poor in both rural and urban areas but the former is lower than severe malnutrition. They are of the view that although the risk of malnutrition decreases with household income, elimination of poverty cannot ensure eradication of malnutrition. The incidence of child malnutrition is particularly high among poor households where mothers have poor
nutritional levels, less education and poor access to antenatal care. The lowest incidence of child malnutrition is not in the richest but in the middle income states with progressive social policy. In the 1990s, with faster urban economic growth, urban poverty declined faster, but inter-quintile urban inequality and rural-urban inequality worsened. Poverty, chronic poverty and malnutrition, together, got concentrated in a few geographical locations and among specific social groups.

Devarajan and Shah (2004)\textsuperscript{17} build an analytical and practical framework for using resources more effectively by making services work for poor people. It focuses on services that have the most direct link with human development—education, health, water, sanitation and electricity—and uses examples of service delivery from India, elsewhere in South Asia and the world to illustrate the framework.

Dwivedi (2005)\textsuperscript{18} argues that in the wake of economic reforms, while the economy has performed well in terms of growth rate of GDP, its performance in the form of human indicators has been unsatisfactory. Social sectors like health, family welfare, education, training, employment, women empowerment and rural infrastructure have lagged behind in the race for better standard of living.

Luthra (2005)\textsuperscript{19} feels that though India has been on track to reduce income poverty, but the achievement in respect of human development concerns like that of health, education, availability of drinking water etc. has not been up to mark. The efforts to achieve a
higher GDP growth during the foreseeable future will not be adequate to achieve the millennium goal of reducing by half the number of people in absolute poverty by the year 2015. The economic reforms and the new initiative taken have mainly benefited the sectors like industry, IT, services and external sector, but the government has not paid adequate attention towards sectors like agriculture, social sector and rural development. He warns that the data on GDP growth, production, foreign exchange reserves, poverty etc. should not comfort us as the situation on the ground is not happy as poverty is still rampant, quite visible in villages, town and cities, and not only that, reforms have also in fact increased inequality and the rich have become richer and the poor have become poorer leading to resentment and social jealousy which is boiling over into violence.

Sury, Mathur, Bhasin (2006) are about the view that to ensure the benefits of development planning flow to all parts of the country, regional balanced development has all along been accepted as an important national objective. However, the pattern of economic reforms over the years has not promoted this cherished objective. It has left in its trail a variety of inequalities which have caused socio-politico tensions. Some states, that is, Karnataka, Andhra Pradesh, Maharashtra have surged ahead while others are lagging behind. While the economy has performed well, since mid-1980s, in terms of growth rate of GDP, its performance in terms of human development indicators has been
satisfactory. Economic reforms of the last 15 years have not paid adequate attention to the social sector (health, education etc.). There is a feeling in some quarters that the industrial growth of India is becoming elite-oriented by registering relatively large increase in the production of electronics items, beverages, cosmetics, motor cars, refrigerators, and finer variety of textiles. It needs to be emphasized that 70 per cent of India's population (70crore) still lives in rural areas and 26 per cent of the population (26crore) is still officially below the poverty line.

Tripathy (2006)²¹ feels that the rural population in India which forms about two-third of the total population is still dependent on agriculture and there is a crying need for timely and adequate availability of funds for agricultural and rural finance is a must for improving the condition of the poor. According to him micro-credit and micro-finance is one of the most effective strategies to alleviate poverty as it can effectively generate employment and sustain the income of the households by giving them opportunities of work.

Sankaran (2006)²² advocates that it is truisms that India lives in the villages. In this regard he is particularly concerned with the employment options of those who, do not migrate to urban areas and continue to live in the rural settlements. He argues that to provide employment to all the migrants in the cities is not an exact solution rather the emphasis should be to provide employment at the place of residence itself by organizing unskilled workers into people centered participatory
institutions like Labor Contract Cooperative Societies affiliated to the state level cooperative structure.

Swaminathan (2006)\textsuperscript{23} feels that overall economic growth rates have little meaning if we do not look after the economic health and survival of over 60 per cent of our population. He talks of various concerned areas like soil health enhancement, irrigation water, supply augmentation and demand management, credit and insurance and on markets.

Alagh (2006)\textsuperscript{24} laments on the neglect of agriculture and says that during the nineties, agricultural growth fell, structural change in the economy in terms of rural-urban shares slowed down and inequality between rural and urban areas went up and without a dynamic agriculture, inclusive growth becomes a mirage. Agricultural growth of a sustained and widespread kind is a precondition of rural development, which is possible in a market and increasingly open economies only if the reform process makes crop production profitable.

Babu (2006)\textsuperscript{25} describes India’s economic reforms process as a top down approach- moving from broad economic reforms in macro sector towards the individual sectors, which is in sharp contrast to the economic reforms in transition economies such as China where the now famous household responsibility systems began with agricultural sector. He adds that investment towards rural transformation could result in a considerable pay off in terms of economic growth, equity and sustainable
management of natural resources. According to him the totality of challenges facing Indian agriculture could be broadly defined under the broad spectrum of productivity losses, environmental degradation, and lack of crop diversification, domestic market and trade reforms.

Kamalakannan (2006)\textsuperscript{26} is of the view that rural industrialization is important not only as a means of generating employment opportunities in the rural areas with low capital cost and raising the real incomes of the people, but also because it contributes to the development of agriculture and urban industries. Without rural industrialization it would not be easy to solve the problem of unemployment in rural areas. This employment is the surest way to enable the vast numbers living below the poverty level to rise over it. Rural industries are capable of offering employment opportunities at the place of residence to a large section of population. These industries have the capacity to correct regional imbalances by initiating industrial activities on dispersed basis in the most neglected, backward inaccessible areas where perhaps large scale sector is unable to penetrate. Rural industrialization is a key to rural development.

Mukhopadhyay (2006)\textsuperscript{27} argues in favor of Right to Information Act and its importance in eradication of poverty and unemployment and good governance as accountability means far more than accounts and audit. In the context of anti poverty programmes, problems posed could be overcome if government audit for local bodies is properly mandated and
plays a supportive role with reference to social audit by taking note of the
documentation of local bodies.

Singh (2006)\(^{28}\) is of the opinion that the Right to Information Act
can start a process of governance that gradually could shift the Indian
democracy to a vigorously participatory one.

1 (IV) OBJECTIVE OF THE STUDY:

The basic objective of this study entitled “Pattern of Growth and its
Impact on Poverty and Employment in the Indian Economy since 1991”
is to analyze the pattern of growth that has taken place in the Indian
economy since 1991 and its impact on poverty and employment. The
important change that took place was the economic reforms of 1991
which resulted in a shift from state dominated economic structure to a
privatized, liberalized and globalized economy. Among all other things the
main motive of the economic reforms of 1991 and the subsequent
reforms was economic growth. These reforms were introduced in India
with great optimism and enthusiasm based on the argument that the
regime of controls and licenses has put heavy chains on the development
process and the remedy suggested was that unless these controls and
licenses regime is dismantled, the economy would not be able to expand
as investment had stifled, the regime had resulted in the growth of
corruption and had formed an evil nexus between the politicians and the
bureaucrats, which was an obstacle to growth. Hence, it was hoped that
once the economy is freed from the regime of controls, licenses and
quotas it will result in a much higher growth. As far as this reasoning is concerned that growth is a necessary condition for not only economic but also for social progress, the rationale for these reforms becomes logical but a question arises as to whether economic growth can also be taken to be the sufficient condition for progress and development. If this economic growth is inclusive of all, via the trickle down mechanism there seems to be no problem with the over-involvement with growth only, as the percolating of benefits of growth to the lowest segment, implying that it is only growth which is important. According to this view economic growth is the panacea for all the social ills. That is, a higher growth will rather automatically lead to, among all other things, to a decline in poverty and an increase in employment. In this study a relationship is sought to be established between GDP growth and reduction in poverty and unemployment. This study concentrates on the growth of GDP and the reduction of poverty and unemployment.

1 (V) RESEARCH HYPOTHESIS:

There is a very strong debate, famous not only in economic circles but also in common man's view, that these reforms and the changes in the economic structure of the country have rather neglected the social aspects. In view of the above changes in the Indian economy, particularly the economic reforms of 1991 and the presumed negative relationship between growth and the evils of poverty and employment, this study concentrates on three hypotheses:
• GDP growth rate has shown a valid change since 1991.

• The number of poors has declined after 1991.

• The number of employed have increased since 1991.

1 (VI) SOURCES OF DATA AND METHODOLOGY USED:

The study is extensively based on the secondary data. The relevant data have been collected from the various issues of Economic Survey and NSSO data. The data on national income pertains to the estimates of Central Statistical Organization as published in respective year's Economic Survey. Some data particularly on sectoral growth rates have been taken from National Income Statistics of CMIE. Some data have also been taken from Planning Commission documents, Directorate of Economics and Statistics and the Economic Times. The statistics related to the international arena is collected particularly from various issues of World Development Reports and Human Development Reports.

As far as the methodology is concerned, statistical techniques of correlation and regression have been used. Correlation analysis deals with the association between two or more variables. If two or more quantities tend to vary in sympathy so that movements in one tend to be accompanied by corresponding movement in the other, then they are said to be correlated. The value of the coefficient of correlation lies between +1 and -1. If both the variables are varying in the same direction, that is, if one variable is increasing then, on an average, the other is also increasing or, if one variable is decreasing the other, on an
average, is also decreasing, correlation is said to be positive. On the other hand, if the variables are varying in the opposite direction, that is, as one variable is increasing, the other is decreasing or vice versa, correlation is said to be negative. In this study particularly two different methods are used for finding correlation. The first one is Karl Pearson correlation Spearman's Rank Correlation, with the formula:

\[ r = \frac{\sum \chi y}{\sum \chi^2 \sum y^2} \]

Where, \( r \) = Karl Pearson correlation coefficient

\( \chi = x - \text{mean of } x \) and \( y = y - \text{mean of } y \)

In this study two correlation analyses has been done: one between the poverty ratios and GDP growth and the other between unemployment rates and GDP growth.

The other method is Spearman’s Rank correlation coefficient, with the formula

\[ R = 1 - \frac{6 \sum D^2}{N(N^2 - 1)} \]

Where, \( R \) = Spearman’s Rank Correlation Coefficient

\( D \) = Difference between the two Ranks

\( N \) = Total number of items. In this study rank correlation has been done between the increase in income of various states and a respective decrease in the state’s poverty ratios.
The technique of regression analysis is used to determine the statistical relationship between two or more variables and to make prediction of one variable on the basis of others. It helps in obtaining a measure of the degree of association that exists between two or more variables. Here, there are two types of variables, dependent and independent variable. The regression equation to be used is

\[ Y = a + b X_1 + c X_2 + d X_3 + U. \]

Where, 
- \( Y \) = dependent or explained variable
- \( X_1 \) = first dependent or explanatory variable
- \( X_2 \) = second dependent or explanatory variable
- \( X_3 \) = third dependent or explanatory variable
- \( a \) = intercept term
- \( b \) = coefficient of first dependent or explanatory variable
- \( c \) = coefficient of second dependent or explanatory variable
- \( d \) = coefficient of third dependent or explanatory variable.

Here the dependent variable \( Y \) is expressed in terms of three independent variables. The greater the value of a particular regression coefficient, higher is the attribution of the changes in the dependent variable to that particular variable. In this study a multiple regression has been done with primary, secondary and tertiary sector as the independent variable and GDP growth rate as the dependent variable.

The estimates of correlation and regression are then tested for their significance using hypothesis testing. Hypothesis testing enables a
researcher to decide whether sample data will provide support to a particular hypothesis based on which it can be generalized to the overall population. First a null hypothesis is formulated which asserts that there is no significant difference between the statistic and the population parameter and whatever observed difference is there, it is merely due to chance and the hypothesis that contradicts the null hypothesis is the alternate hypothesis. In order to measure the significance of the analysis P value has been used. The P value is the probability that the hypothesis being tested is true. If P value is 0.05 it indicates that the hypothesis has a 5 percent chance of being true. Generally P value of 0.05 is taken as the critical level for the rejection of the hypothesis. This level of significance is a measure of the degree of risk that a researcher makes while interpreting results. As it is the null hypothesis that is generally being tested we are always looking for low P values to reject this hypothesis. The smaller the P value the more confident we can be in the conclusions drawn from it. As an example, a P value of 0.0001 indicates that the chance of the hypothesis being tested being true is one in ten thousand.

The coefficient of multiple regression measures the magnitude of the association of the variable involved in the multiple regression. It is denoted by $R^2$. In mathematical terms it measures the percentage of variation in variable $Y$ explained by the independent variables. For example, if the $R^2$ value is 0.70, then this implies that 70 percent of the
total variations in Y variable are explained by variation in the independent variables. In this study F-test has been used to test the significance of $R^2$ value.

1 (VII) SCHEME OF THE STUDY:

This study is basically divided into six chapters. Chapter first is an introductory chapter. In the introduction, first of all the economic changes that have occurred in India since 1991 are discussed followed by a review of literature related to the current topic. This is followed by the objective of the study, the research hypothesis and finally sources of data and the methodology used.

The second chapter deals with the properties of growth and development. Emphasis is laid on analyzing the difference between the two followed by the study of the indicators of growth and development, with particular emphasis on human development index (HDI). The classification of the world economies on the basis of income and the determinants of economic development have also been discussed in this chapter.

The third chapter deals with the pattern of growth of the Indian economy. It includes various indicators of economic growth followed by an analysis of the transition of the economy from a primary sector dominated to a tertiary sector oriented economy. Then a comparison between the growth rates in the decade of eighties and nineties is made in order to bring out the impact of reforms. It also deals with the study of
the sector-wise performance of the Indian economy during the nineties followed by a study of the inter-state variations in terms of growth. Finally the level of inequality prevalent in the economy has been discussed.

The fourth chapter deals with the incidence of poverty. After a discussion on the concepts of poverty, the poverty monitoring system of India is discussed followed by the estimates of poverty during respective NSSO Surveys. In order to look for the impact of the reform process on poverty the 55th round and 61st round of NSSO is particularly emphasized as it pertains to the time period after reforms and finally the correlation between economic growth and poverty reduction is seen.

The fifth chapter examines the unemployment situation prevalent in the country. It deals with the study of the workforce participation rates followed by an analysis of sector-wise distribution and status of employment and various alternative measures of unemployment used in India. This is followed by a detailed study of the employment-unemployment situation during and after nineties involving sector-wise, industry-wise and state-wise analysis.

Finally in the sixth chapter the role of government and the future of the reforms are discussed followed by the remedial measures to promote economic development. This is followed by the bibliography.

This study is strictly limited to the secondary data available as it was beyond the scope of the study to go for primary data collection. And
it also concentrates mainly on the government and official data. Another limitation is that this piece of work could not study the aspects of India's development in terms of entitlements, capabilities and freedom as discussed by Amartya Sen and others. As this study particularly concentrates on the growth pattern of the Indian economy and the trends in poverty and unemployment there is further scope for future research in analyzing social sector expenditure, and poverty and unemployment alleviation programmes. Although in this study inter-state analysis has been done, there is also further scope for future research in studying inequalities.
REFERENCES:


