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Abstract

It is going to be 25 years since India embarked on big-bang economic reforms in 1991. What are the achievements in terms of growth and inclusive growth in the post-reform period? What are the issues in poverty measurement? Has poverty declined faster in the post-reform period? What are the determinants and policies needed for reduction in poverty? Has inequality increased in the reform period? What should be done to reduce inequalities? This paper addresses these questions relating to economic reforms, poverty and inequality. There has been visible change but some failures in the processes and outcomes in the post-reform period. Poverty declined faster in the second half of 2000s as compared to that of 1990s. Inequality increased in urban areas. Among other things, creation of productive employment is crucial for reduction in poverty and inequality. New generation wants equality of opportunity rather than just rights based approach. India aspiring to be a global power should invest in human capital and improve human development.

Keywords: Poverty, inequality, economic reforms, productive employment, equality of opportunity, multi-dimensional poverty

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ECONOMIC REFORMS, POVERTY AND INEQUALITY[1]

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1. INTRODUCTION

It is going to be 25 years since India embarked on big-bang economic reforms in 1991. What are the achievements in terms of growth and inclusive growth in the post-reform period? What are the issues in poverty measurement? Has poverty declined faster in the post-reform period? What are the determinants and policies needed for reduction in poverty? Has inequality increased in the reform period? What should be done to reduce inequalities? This paper addresses these questions relating to economic reforms, poverty and inequality.

2. TWENTY FIVE YEARS OF ECONOMIC REFORMS: A SIGNIFICANT VISIBLE CHANGE BUT SOME FAILURES

Economic reforms were initiated in mid-1991 due to problems such as insurmountable external debt, unmanageable balance of payments situation, high possibility of acceleration in the rate of inflation and the underlying fiscal problems. The external factors like the Gulf war and the collapse of the Soviet economy have also contributed a bit to this crisis. With a view to tide over the unprecedented economic crisis and ensuring the sustainability of the growth process, it was considered necessary to introduce certain major policy reforms on industrial, trade and public sector fronts, almost simultaneously with measures of stabilization for reduction in fiscal and current account deficits. The reforms aimed at fundamental shift towards greater reliance on the market mechanism to allocate resources and influence decision making. In the first budget speech in 1991, the finance minister Dr. Manmohan Singh said that ‘the idea of the emergence of India as a front ranking powerhouse of the world economy was an idea whose time had indeed come”. Quoting Victor Hugo, he also mentioned that ‘no power on earth can stop an idea whose time had come’.

It is well known that we have moved beyond ‘Hindu Rate of Growth’ in the last three and half decades. There is a debate on the turning point and structural breaks in economic growth in the country[2]. Nayyar (2006) believes that the turning point in the early 1950s was much more important than the structural break in the early 1980s. Inspite of low growth during 1950-1980, there were some achievements such as creation of institutional capacities, development

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[1] Second Suresh Tendulkar Memorial Lecture, Organized by Symbiosis School of Economics, February 26, 2016, Pune

[2] Several studies have examined structural breaks in economic growth since independence. See Virmani (2004) and Rodrik and Subramanian (2004)

of social institutions and legal framework for a market economy, priority to science and technology, establishment of capital goods sector etc[3]. Thus, one view is that the base created during the first three decades after independence helped during the reform period since 1991.

Some argued that the turning point started in the Fifth Plan itself. Growth rate of GDP was 5% during 1974-79 period. According to this view, one of the reasons for this break could be increase in savings rate for household sector and public sector. Bank nationalization in 1969 could have helped in mobilizing savings in both rural and urban areas[4].

Everyone agrees that economic growth in terms of GDP since 1980s was much higher than during the period 1950s to 1970s. Some studies indicated that the real break occurred in the 1980s[5]. According to some analysts, the growth in the 1980s was not sustainable and the real break occurred in 1991 because of economic liberalisation[6]. There is no doubt that growth and other macro indicators have been much better since 1991. As shown in Table 1, growth rates of GDP increased significantly in the post-reform period led by service sector growth. The trend rate of GDP growth in the 25 year reform period has been 6.5 per cent per annum. The growth rate was nearly 9 per cent per annum during 2003-04 to 2007-09. In the last one and half decades, the growth rate has been around 7 per cent per annum. Service sector growth was 7 to 9 per cent per annum in the last two and half decades. Industrial growth was the highest in 2000s. On the other hand, agricultural growth in the last one and half decades was lower than those of 1990s and 1980s. The average growth of the last five years in agriculture was around 1.7 per cent per annum[7].

In the post-reform period, India has done well in many indicators such as economic growth, exports, balance of payments, resilience to external shocks, service sector growth, significant accumulation of foreign exchange, information technology (IT), stock market and improvements in telecommunications[8].

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[3] More on this see Nayyar (2006)
[4] Mentioned by Kaushik Basu in a IDPAD-end Symposium at CESS, Hyderabad, November 1, 2006
[5] See Rodrik and Subramanian (2004)
[6] See Srinivasan and Tendulkar (2003) and Panagariya (2004).
[7] See Parikh et al (2016) on the importance of agriculture growth.
[8] See Panagariya (2008) on India as emerging giant.

Table 1. Growth in Real GDP (%) per annum

Period	Agriculture	Industry	Services	GDP
1950s	2.7	5.6	3.9	3.6
1960s	2.5	6.3	4.8	4.0
1970s	1.3	3.6	4.4	2.9
1980s	4.4	5.9	6.5	5.6
1990s	3.2	5.7	7.3	5.8
2000s	2.5	7.7	8.6	7.2
2011-2 to 2015-16 (NS)	1.7	5.5	8.9	6.5

NS= New series with 2011-12 base,

Note: New series refer to Gross value added (GVA) at basic prices; 2015-16 numbers are advance estimates; Numbers upto 2000s are based on 2004-05 base, GDP at factor cost.

Source:Author's estimates for 2011-12 to 2015-16 based on Central Statistical Organization data. Panda (2013) upto 2000s.

After big-bang reforms in the early 1990s, India has followed a gradualist approach. Gradualism or calibration could be due to two factors. First, it is better to be cautious instead of taking many risks as India can't afford too many risks with so many poor people. Second one is where you do not need caution but you have to be gradual and slow due to compulsions of the democratic process in a very large and heterogeneous country. You need consultation and consensus building which often takes time. One good feature of Indian elections in recent years is that people are also voting for development apart from other factors.

Political Economy of Reforms: Tendulkar and Bhavani (2007) discuss some individual initiatives under political economy of reforms[9]. They deal with four selective specific reform initiatives to illustrate the evolving political economy of interest group politics that determines the future path. They classify the reform measures into three broad groups keeping in mind the coalition politics. These are: (a) measures carried out by an agency other than the central government like the financial sector and exchange rate reforms carried out by the Reserve Bank of India; (b) measures that lie within the discretionary powers of the government; (c) measures that require legislative amendments. According to them, given the constraints of democracy, diversity and coalition politics, the progress of reforms can be fastest in category (a), slow in category (b) and extremely difficult in category (c). In the present context of disruptions to Parliament, their observation particularly on category 'c' is more relevant now.

They select two procedural and two institutional reforms to bring out both the strengths and weaknesses of coalition politics. In the case of two procedural

[9] Reddy (2013) and Srinivasan (2013) comment on the political economy of reforms given in Tendulkar and Bhavani (2007)

initiatives (a) liberalization of domestic and international private investment and (b) liberalization of international trade in goods and services, the progress in reforms was rapid. The two institutional procedures are (a) privatization of government owned commercial enterprises and (b) organized labour market reforms. There was a partial success in the case of privatization while in the case of labour reforms, one observed emergence of informal labour flexibility.

Indian economy with more than 2 trillion dollars in 2016 is different from 1991. The country is more globally integrated now as compared to the year when reforms started. The global financial crisis that originated in the US in 2008 transmitted to emerging market economies like India[10]. Again continued global slowdown in the last few years had adverse impact on India's economy as the value of exports declined significantly in the last one year.

India has the potential to achieve 8 to 9 per cent GDP growth. In order to have higher and sustainable growth, the country needs to have appropriate policies and implementing systems. For raising growth investment has to be revived particularly private investment. There is a debt problem for private sector. It may take some time for revival of private investment and climate has to be created. Global economic situation is not in good shape. There has been slow down in Europe. Brazil and Russia are not doing well among BRIC countries. The slow-down in China is particularly worrying. Exports in India showed negative growth consecutively in the last 13 months. Therefore, one has to concentrate on domestic economy. Public investment in infrastructure and other areas is crucial as counter-cyclical measure to revive the economy. This can also raise private investment. The problem of large NPAs (non-performing assets) in public sector banks has to be resolved. Political economy with crony capitalism and political interference are visible particularly in public sector banks. One should stick to fiscal deficit targets. Revenue deficit has to be reduced to zero over time. Both the objectives of raising public investment and sticking to fiscal deficits can be achieved if non-merit subsidies are removed and disinvestment targets are achieved. On corporate tax, reduction in the rate must be accompanied by reduction in exemptions. This can be used for infrastructure and social sector development. Monetary policy by reducing repo rate has tried to improve credit and investment growth. However, monetary transmission to other banks has not happened.

The present NDA-led government has undertaken several reform measures in the last one and half years. The second generation reforms should be continued to improve growth although it looks like introduction of Goods and Services Tax (GST) may get delayed. Land acquisition and labour market

[10] See Reddy (2011) on the global financial crisis. See Ahluwalia (2010) for challenges in the post-crisis world. See Acharya and Mohan (2010), for performance and challenges for Indian economy.

issues should be left to states. There is a need for further improvement in the rank of ‘doing business’ in India. Among other things, introduction of Bankruptcy laws can help in improving business environment. Focus on agriculture and social sector is also necessary to improve sustainable economic growth and well being of people.

Five Failures

In the last 25 years of reform period, India has done well and one can see significant visible change. But, there have been some failures in policies, processes and outcomes in the post-reform period. I feel that there are five failures, which are elaborated below. There is a need to focus on these five areas in short and long terms.

(a) Slow Infrastructure development

Although there is lot of progress, almost all indicators score poorly if one looks at India’s infrastructure particularly compared with countries like China. For example, power shortage is perennial in India. This is one of the single biggest constraints for our growth. Meeting the energy requirements for growth of this magnitude in a sustainable manner presents a major challenge. It is not surprising that the index of infrastructure across states is highly correlated with per capita income and level of poverty. In the post-reform period, we have much greater dependence on private investment through different forms of public-private partnerships (PPPs) than was the case when the reforms started. PPPs have not met the expectations. Ahluwalia (2012) says “ policy is being framed such that PPPs should be a means of bringing private money into public projects and not siphoning public money into private projects!”. May be a different approach is needed on PPPs. Moreover clearances on environment and land acquisition should be faster so that investments can be improved. Similarly ease of doing business in India has to be undertaken. Vijay Kelkar committee’s recommendations would be useful to revive PPP in infrastructure projects. Particularly energy security is important for economic growth and providing power to many households.

(b) Failure in increasing labour intensive manufacturing

Rise in manufacturing employment is need of the hour. Share of manufacturing in total employment has been almost stagnant at 11 to 12 per cent for a long time. It increased marginally to 13 per cent in 2011-12. In 2010, India accounts for 1.4% of the world exports of manufactures while the share of China is a whopping 15%. The reforms since 1991 have not been comprehensive enough to remove the bias towards capital and skill intensive industries. Also there are distortions in input markets like land and labour. For example, some strongly believe that among other things, labour market reforms are one of the key factors for revival of manufacturing sector particularly in the organized sector.

A study by Ramaswamy and Agarwal (2013) strongly suggest that services sector would be an unlikely destination for the millions of low skilled job seekers. India needs to focus on manufacturing sector to provide large scale employment. Manufacturing has the capability because it has stronger backward linkages unlike the services sector. We cannot afford to neglect manufacturing at this stage of development. The policy signals have to clearly say that we stand to support manufacturing activity in a big way. India needs to focus on manufacturing sector to provide large scale employment. Manufacturing has the capability because it has stronger backward linkages. We cannot afford to neglect manufacturing at this stage of development. Labour intensity of organizing manufacturing sector has to be improved apart from increasing the productive employment in SMEs and unorganized manufacturing.

(c) Not taking advantage of demographic dividend.

It is known that with demographic dividend, there will be large numbers joining labour force. Labour force in India is expected to increase by 32 per cent while it will decline by nearly 5.0 per cent in China over the next 20 years. India is supposed to have surplus of 56 million while rest of the world will have shortage of 47 million working population. Demographic dividend varies across regions. Northern states will have young population (dependency ratio in Bihar 1.05 , UP 1.08)Southern states have already started aging (dependency ratio TN 1.74, Kerala 1.79). There has been sluggish progress in education and skill levels of workers. Young population is an asset only if it is educated, skilled and finds productive employment. During the Twelfth Five Year Plan (2012–17), 50 million non-farm employment opportunities are proposed to be created and at least equivalent number of people would be provided skill certification. There are huge challenges in raising education and skills of workers and population.

In India, education and skills of workers is low although it has been rising over time. As shown in Table 2 even in 2011-12, around 78 per cent of rural female, 56 per cent of rural males, 47 per cent of urban females and 30 per cent of urban males are either illiterate or have been educated upto primary level. Only about 5 per cent of rural females and 13 per cent of rural males have education higher secondary and above. In the case of urban workers, the share of graduates and above rose significantly particularly for urban females.

Table 2 Education of Workers: 1999-00 to 2011-12 (Usual Principal and Subsidiary Status, UPSS)

	Female			Male		
	1999-00	2004-05	2011-12	1999-00	2004-05	2011-12
	Rural					
Not literate	73.9	66.4	56.3	39.6	33.8	28.0
Literate& upto primary	15.5	18.4	21.8	27.3	29.4	27.6
Middle	6.2	8.7	10.8	16.3	18.1	19.0
Secondary	2.8	3.6	5.9	9.3	9.3	12.9
Higher secondary	0.9	1.4	2.6	4.2	4.6	6.6
Diploma/certificate	--	0.5	0.5	--	1.0	1.1
Graduate&above	0.6	0.9	2.1	3.3	3.8	5.0
All	100.0	100.0	100.0	100.0	100.0	100.0
	Urban					
Not literate	43.9	37.3	27.9	16.0	13.1	11.2
Literate& upto primary	17.6	20.3	19.5	21.9	22.7	18.8
Middle	10.3	11.9	12.3	18.8	19.4	17.5
Secondary	8.8	7.3	9.1	16.9	15.0	16.5
Higher secondary	5.5	5.1	7.1	9.4	9.2	10.9
Diploma/certificate	--	3.4	2.3	--	3.7	2.9
Graduate&above	13.9	14.7	21.8	16.8	16.9	22.2
All	100.0	100.0	100.0	100.0	100.0	100.0

Source: NSSO (2014)

Regarding skill development, only 10 per cent of the workforce in the age group of 15-59 years received some form of vocational training in 2009-10. The percentage of workers who received vocational training was the highest in the service sector with 33 per cent. This is followed by manufacturing (31 per cent), agriculture (27 per cent). In the non-manufacturing and allied activities only 9 per cent had vocational training (GOI, 2013). But, the main problem is that vast majority of workers have non-formal vocational training. Only 11 million workers had formal training while 33 million workers had non-formal training. The present government has also emphasized the importance of skill development. This has to be given priority to take advantage of demographic dividend.

(d) Slow social sector development.

Although there have been achievements in social sector during the reform period, the progress has been very slow. India has success in growth but there is a failure in progress of social indicators[11]. The country is not only behind china but the progress is slower than many of the Asian countries. It is known that India's rank of human development index (HDI) is lower compared to many other developing countries. Basically the argument is that compared to economic growth, reduction in inequality, hunger, malnutrition is much slower. Improvement in health and quality of education is slower. There is disconnect between economic growth and malnutrition. Slow reduction in

[11] See Dreze and Sen (2013)

malnutrition is one of the failures in the post-reform period. We know that the solutions lie in improving agriculture, health, women empowerment and nutrition programs. Also, regional disparities are high in human development. Southern states have done better than Northern and Eastern states. There are five problems in social sector: (a) low levels of social indicators (b) slow progress (c) significant regional, social and gender disparities (d) low level and slow growth in public expenditures particularly on health and (e) poor quality delivery systems. Social sector should be one of the focus areas for sustainability of economic growth and equity.

(e) Governance Failures

Last and fifth one is governance. Reforms were expected to improve governance at various levels. However, there are new problems in governance and persistence of old problems including corruption. Apart from many achievements, the post-reform period also witnessed many scams in the financial and real sectors. These scams in the last 25 years could have been avoided with better governance. There has been a nexus between politicians, business people and bureaucracy. Crony capitalism is one of the factors for corruption. Jalan (2006) says the interface between politics, economics and governance, and their combined effect on the functioning of our democracy, which will largely determine India's future.

A study on performance of Karanataka's Lokayukta suggests that without overhaul of the country's administrative structure, ex-post prosecution of corruption or withdrawal from economic activities can not reduce corruption (Babu et al, 2013) At present the design of anti-corruption ombudsman leaves a lot to the personality of Lokayukta. The analysis also suggests that the overburdened legal system needs legal reforms. Many people feel that governance problem is the biggest constraint for achieving our development goals in the country.

The focus of reforms can now be shifted to more efficient delivery systems of public services. It has been recognized that better governance is very important for inclusive development. This is important for better implementation of sectoral policies and poverty alleviation programmes. Social mobilization, community participation and decentralized approach are needed. The new government is talking about 'minimum government and maximum governance". Fixing governance problem is important for success of the above four areas also[12].

[12] Bardhan (2005) indicates that there are extreme positions in India on the nature of economic reforms. He says that "the left claims the reforms are 'anti-people' when in essence it is defending the interests of the small strata of the salaried. The supporters of reforms, on their part, offer less than reasoned arguments in support of privatization and labour reform, and work themselves into a frenzy about wastage in anti-poverty programmes. Discussion on reform is

To conclude on economic reforms, India has done very well in many indicators on economy in the post-reform period. It has to focus now on unfinished reforms and the above five failures. On economic reforms, commenting on the analysis of Tendulkar and Bhavani (2007, 2012), Reddy (2013) says that this work could be supplemented with two other areas of study. First one is the impact of global financial crisis on the destination of economic reforms. Second is the critical role of states in the future of reforms. This is important because of the increasing role of state governments in providing economic and social infrastructure.

3. POVERTY

Eradication of poverty is an important objective of development policy. We describe here briefly on measurement of poverty and discuss policies for reduction of poverty.

Measurement of poverty

There are many approaches for poverty measurement. Human beings need a certain minimum consumption of food and non-food items to survive. However, the perception regarding what constitutes poverty varies over time and across countries. Generally the approach is to look at it in terms of certain minimum consumption expenditure on food and non-food items. Any household failing to meet this level of consumption expenditure can be treated as a poor household.

In India, we have had a long history of studies on measurement of poverty starting from the study of Dadabhai Naoroji (1901)[13]. Officially, the erstwhile Planning Commission was the nodal agency in the Government of India for estimation of poverty. These estimates are based on the recommendations of the committees appointed by it. A working group of the Planning Commission prepared a methodology of poverty estimation in 1962. There has been intense debate on this methodology by the academicians, experts and policy makers over the years. The Planning Commission constituted Task Force/Expert Group from time to time to review the methodology. These

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preoccupied with issues of trade and fiscal policy and financial markets. Reform would have been more popular if it were equally concerned about the appalling governance structure in the delivery of basic social services for the poor (p.4998).

[13] Srinivasan (2007) reviews the evolution of poverty lines in India from a historical perspective and critically discusses some issues relating to official poverty lines. Also see Deaton and Kozel (2005), Vaidynathan (2001). Srinivasan (2013), among other things, discusses about poverty lines in India in the recent past. For a discussion on poverty debate in India see Deaton and Kozel (2005)

include the Task Force under the chairmanship of Y.K. Alagh in 1977 (GOI, 1979); the Expert Groups under the chairmanship of D.T. Lakdawala in 1989 (GOI, 1993) and S.D. Tendulkar in 2005 (GOI, 2009)[14].

Tendulkar Committee submitted its report in 2009. The Expert Group (Tendulkar) did not construct a poverty line. It adopted the officially measured urban poverty line of 2004-05 based on Expert Group (Lakdawala) methodology and converted this poverty line (which is Universal Reference Period URP-consumption based) into Modified Reference Period (MRP)-consumption. Here the MRP-consumption based urban poverty line is worked out as the level of per capita consumption expenditure in the MRP consumption distribution that corresponds to the bottom 25.7 per cent of the population in 2004-05. The Committee moved away from the calorie intake as anchor for poverty estimation.

In June 2012, the Government of India appointed an Expert Group (C. Rangarajan as Chairman) to take a fresh look at the methodology for the measurement of poverty. The Committee submitted its report towards the end of June 2014.

The Expert Group (Rangarajan) has gone back to the idea of separate poverty line baskets for rural and urban areas. In defining the new consumption basket separating the poor from the rest, the Rangarajan Committee is of the considered view that it should contain a food component that addresses the capability to be adequately nourished as well as some normative level of consumption expenditure for essential non-food item groups (Education, clothing, conveyance and house rent) besides a residual set of behaviorally determined non-food expenditure. The introduction of norms for certain kinds of non-food expenditures is an innovation. In the absence of any other normative criteria, the median fractile class expenditures were treated as the norm. In fact, non-food consumption as a proportion of total consumption has been steadily rising. That is why the Group decided to take a fresh look at the basket rather than only updating the old basket for price changes.

The poverty lines in the year 2011-12 for all India are presented in Table 2. For 2011-12, for rural areas the national poverty line using the Tendulkar methodology is estimated at Rs. 816 per capita per month and Rs. 1,000 per capita per month in urban areas. Thus, for a family of five, the all India poverty line in terms of consumption expenditure would amount to about Rs. 4,080 per month in rural areas and Rs. 5,000 per month in urban areas. Per year it would amount to Rs.48960 in rural areas and Rs.60,000 in urban areas.

[14] For details on these committees see GOI (2014); on calories and poverty, see Dev (2005)

Similar numbers are given for estimates based on Rangarajan Committee methodology. The poverty lines based on Rangarajan committee are higher than those of Tendulkar Committee. For a family of five, the expenditure would amount to Rs. 4860 in rural areas and Rs.7035 in urban areas.

Table 3: Poverty Lines in 2011-12, All India (Rs.)

	Tendulkar Committee			Rangarajan Committee		
	Monthly Per capita	Monthly per house hold	Per year per house hold	Monthly per capita	Monthly per house hold	Per year per house hold
Rural	860	4080	48,960	972	4860	58320
Urban	1000	5000	60,000	1407	7035	84420

Source: GOI (2009), GOI (2014)

There have been questions on whether one can live with this money. Sundaram (2011) mentions Suresh Tendulkar’s views on absolute poverty line as follows. “ The absolute poverty line is not the aggregation of expenditure needed for purchasing the commodities and services required for fulfilling all the basic needs. This follows from the problems of objective norm specification as well as those of aggregation across interdependent basic needs… and from the fact that households are not uniform in their composition, tastes and location across climatic conditions. There is therefore an inherent and irreducible element of arbitrariness in the specification of the absolute poverty line and (there is) no alternative but to treat it as broadly representing a ‘low enough yet reasonable’ minimum living standard” (p.111, Sundaram, 2011). As shown below, there were about 250 to 350 million poor people based on these poverty lines of the two committees. One should be concerned about the poor population.

Trends in Poverty: **Declined faster during 2004-2012 period as compared to 1993-2005 period.**

In the post-reform period, there has been a debate about the impact of reform policies on poverty. It has been argued that inspite of higher GDP growth, the rate of reduction in poverty has been slower. However, this was true till the early 2000s. Poverty declined only 0.74 percentage points per annum during the period 1993-94 to 2004-05. But, as shown in Table 3a, poverty declined by 2.2 percentage points per annum during the period 2004-05 to 2011-12. It is the fastest decline of poverty compared to earlier periods.

Table 3a: Changes in Poverty : All India estimates based on Tendulkar Committee methodology

	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1
2011-12	25.7	13.7	21.9	216.5	52.8	269.3
Annual decline 1993-94 to 2004-05 percentage points	0.75	0.55	0.74			
Annual decline 2004-05 to 2011-12 percentage points	2.32	1.69	2.18			

Source: Planning Commission, press release, 2013

The estimate of poverty ratio for the years 2009-10 and 2011-12 derived from the Expert Group (Rangarajan) methodology and Tendulkar methodology are summarised in Table 4.

Table 4: Poverty Estimates in 2009-10 and 2011-12

Year	Poverty Ratio			No. of poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
Expert Group (Rangarajan)						
1. 2009-10	39.6	35.1	38.2	325.9	128.7	454.6
2. 2011-12	30.9	26.4	29.5	260.5	102.5	363.0
3. Reduction (%age points)	8.7	8.7	8.7	65.4	26.2	91.6
Expert Group (Tendulkar)						
1. 2009-10	33.8	20.9	29.8	278.2	76.5	354.7
2. 2011-12	25.7	13.7	21.9	216.7	53.1	269.8
3. Reduction (%age points)	8.1	7.2	7.9	61.5	23.4	84.9

Source: GOI (2014)

A comparison of the poverty ratio for the two years 2009-10 and 2011-12 derived from the Expert Group (Rangarajan) method and the Expert Group (Tendulkar) method shows that the average level of poverty ratio derived from the Expert Group (Rangarajan) method is higher than that derived from the Expert Group (Tendulkar) method. The all-India poverty ratio derived from the Expert Group (Rangarajan) method is 8.4 percentage points higher in 2009-10 and 7.6 percentage points higher in 2011-12 than that derived by the Planning Commission using the Expert Group (Tendulkar) method. The all-India poverty ratio in Expert Group (Rangarajan) fell from 38.2% to 29.5%. Totally, 91.6 million individuals were lifted out of poverty during this period. Though Rangarajan Committee methodology gives higher level of absolute poverty ratio, the reduction in poverty ratio from Rangarajan method is not very different than that of Tendulkar method (GOI, 2014).

Some other Issues in Poverty Measurement

Bottom Quintile and Shared Prosperity: Some analysts use other methods such as share of bottom quintile population in consumption to examine the changes in poverty without using poverty line[15]. World Bank started using the share of bottom 40% (B40) as an indicator of shared prosperity. The idea is that prosperity needs to be better shared with the bottom 40% of the income distribution (Cruz et al, 2015). World Bank report also talk about depth of poverty[16]. It examines the trends in new poverty measure called person-equivalent headcounts. According to the report, the depth elasticity at the global level between 1990 and 2012 was 1.18 indicating that the reductions in traditional head count ratios were accompanied by even-larger reductions in person-equivalent poverty ratios. Rangarajan and Dev (2015c) examine the

[15] See Basu (2006)

[16] We also have other poverty measures like poverty gap, Sen Index, FGT Index.

depth of poverty in India using different cut-offs of poverty line. They found bunching of poverty around the poverty line in both rural and urban areas.

Multi-Dimensional Poverty: Income or consumption poverty can be different from deprivations based on education, health etc. Oxford Poverty and Human Development Initiatives (OPHI) and UNDP together developed multidimensional poverty index (MPI). It used ten indicators relating to health, education and standard of living (OPHI, 2015)[17]. However, there are several issues regarding multidimensional measures particularly problems in aggregation[18].

Identification of Poor and Socio Economic Caste Survey (SECC): Planning Commission has earlier decided to delink the consumption based poverty estimates for allocating resources to states[19]. The Rangarajan Committee recommended that the beneficiaries under target group oriented schemes of the Government may be selected from the deprivation-specific ranking of households. Such ranking of households could be generated from BPL (below poverty line) surveys and the latest one is Socio Economic Caste Survey (SECC) 2011[20]. The objective is to collect socio economic data and rank the households and state governments can prepare BPL list. Caste information also would be useful. Official poverty estimates will not be used as caps. The beneficiaries could be selected from this set of households until the resources earmarked for the programme/scheme permit. The data are captured directly on an electronically handled device (a tablet PC). Collected data has to be verified in the panchayats.

Three step criteria are being used for ranking the households. These are: (1) automatic exclusion[21] (2) automatic inclusion[22] (3) remaining households will

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[17] Radhakrishna (2015) examines multi-dimensional poverty in India

[18] Some of these issues are also discussed in GOI (2014). Also see Rangarajan and Dev (2015a).

[19] See Rangarajan and Dev (2015b) on the distinction in the the estimates between NSS and SECC

[20] Earlier we had three BPL surveys in 1992, 1997 and 2002 in rural areas

[21] A household with any of the following will be EXCLUDED AUTOMATICALLY:

(1) Motorized two/three/four wheeler/ fishing boat (2)Mechanized three/four wheeler agricultural equipment (3) Kisan (farrmer) Credit Card with credit limit of Rs. 50,000 and above (4) HH with any member as a Government employee (5) HH with non-agricultural enterprises registered with the Government (6) Any member of the family earning more than Rs. 10,000 per month (7) Paying income tax; Paying professional tax (8) Three or more rooms with all rooms having *pucca* walls and roof(*Pucca* is with brick and cement) (9) Own a refrigerator (10) Own Landline phone (11) Own 2.5 acres or more of irrigated land with at least 1 irrigation equipment (12) 5 acres or more of irrigated land for two or more crop seasons (13) Owning at least 7.5 acres of land or more with at least one irrigation equipment

[22] A household with any of the following will be INCLUDED AUTOMATICALLY.

(1) Households without shelter (2) Destitute/ living on alms (3) Manual scavengers (4) Primitive tribal groups (5) Legally released bonded labourers

be ranked based on deprivation indicators[23]. The final selection of the indicators for ranking of households at the State level would be decided by an Expert Group, appointed recently by the Ministry of Rural Development.

Policies on Poverty: Growth and Social protection

How do we reduce poverty? **Policy makers must continue to follow the two-fold strategy of letting the economy grow fast and attacking poverty directly through social protection programmes[24]**. Literature shows that variables such as agricultural per capita (non-agriculture in the case of urban), land and labour productivity in agriculture, inflation rate/relative food, rural non-agricultural employment, government's development expenditure, infrastructure and human development are important determinants of rural poverty. Studies have shown that agricultural growth leads to reduction in poverty twice to that of non-agriculture. This is because many livelihoods are dependent on agriculture in rural areas. In recent years, the importance of developmental public expenditure in reducing poverty has been recognized. Fan et al (1999) examine the causes of decline in rural poverty in India and particularly, the study concentrates on the impact of government spending on productivity and poverty. The study finds that investment in rural roads and agricultural research has greatest impact while government spending specifically targeted to poverty reduction such as employment programmes have only modest effects[25].

We have many social protection programmes such as wage employment (MGNREGA), self employment (NRLM), food and nutrition security programmes (public distribution system, Integrated Child Development Scheme, mid-day meal schemes), housing programmes, National Old age pension schemes, insurance schemes for unorganized workers etc. These social protection programmes are useful in reducing poverty[26]. There is a debate whether we should have in-kind transfers or cash transfers to the poor.

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[23] The remaining households will be ranked using the following 7 Deprivation Indicators.
(1)Households with only one room, *kucha* walls and *kucha* roof. *Kucha* house is made of mud and clay (2) No adult member between the ages of 16 and 59 (3) Female headed households with no adult male member between 16 and 59 (4) Households with disabled member and no able bodied adult member (5) Sheduled caste/scheduled tribe households (6) Households with no literate adult above 25 years (7) Landless households deriving a major part of their income from manual casual labour

[24] On the importance of growth in reduction of poverty see Bhagwati and Panagariya (2013)
[25] See Sen (1996)
[26] See Vyas (1993) on the need for public intervention.

Small Things Matter

In their book on 'Poor Economics', Banerjee and Duflo (2011) argue that so much of anti-poverty policy has failed over the years because of an inadequate understanding of poverty.

They try to answer questions like why would a man in Morocco who doesn't have enough to eat buy a television? Why is it hard for children in poor areas to learn even when they attend school? Why do the poorest people in the Indian state of Maharashtra spend 7 per cent of their food budget on sugar? why the poor need to borrow in order to save, why they miss out on free life-saving immunizations but pay for drugs that they do not need, why they start many businesses but do not grow any of them, and many other puzzling facts about living with less than 99 cents per day. Based on hundreds of randomised control trials, Banerjee and Duflo show why the poor, despite having the same desire and abilities like the rest of the population end up with entirely differently lives.

Small changes can have big effects. For example, treating children who were treated for their worms at school for two years, rather than one earned 20 per cent more as adults every year. Similarly giving micronutrients than grains can improve nutrition significantly.

Several research studies on education have shown **strong impact of remedial instruction programs on learning outcomes.** Banerjee et al (2007) did experimental evaluation of a program run by PRATHAM targeted at the lower end of the class in public schools in cities of Mumbai and vadodara. The programme provided an informal teacher (*Balasakh*i) for teaching basic learning in reading arithmetic. For about 2 hours remedial instruction was given out of the regular classroom. The program improved student test scores. The gains were more for the lowest performing children[27]. Thus, small changes can make big difference in the lives of the poor.

Productive Employment

Sustained higher per capita GDP growth particularly, higher per worker productivity can reduce poverty. Rising productivity per worker provides economic opportunities to larger and larger numbers. And it is rising economic opportunities in this sense which are in fact the best solution to the sustained eradication of economic poverty or income poverty. In other words, creation of productive employment is crucial for reduction in poverty.

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27 See Muralidharan (2013)

Quality of employment improves with changes in structure of employment from low productive to high productive occupations and sectors. Quality increases with shift from casual workers in informal sector to formal sector regular workers. Productive employment rises if workers in agriculture are shifted to manufacturing sector.

In this context, 'Make in India' campaign is in the right direction. The aim is to create 100 million jobs by 2022. It is important to examine the prospects of manufacturing particularly in job creation in the light of East Asian experience and in the present context of global stagnation. It is argued here that one has to include services also in 'Make in India' program for creation of employment.

Historical experience shows that countries follow agriculture-industry-service sequence in order to obtain higher growth and productive employment. Many East Asian countries including China could increase their manufacturing share in GDP.

Table 5: Manufacturing in GDP and Employment

Countries	Period	Peak Share % in manufacturing	
		GDP	Employment
Japan	1970	36.0	27.0
South Korea	2000	29.0	23.3
Taiwan	1990	33.3	32.0
China	2005	32.5	15.9
Indonesia	2004	28.1	11.8
Thailand	2007	35.6	15.1
India	2011-12	15.7	12.8

Source: NSS for India; Ghose (2015b), for rest of the countries

However, the share of manufacturing employment in China is low (Table 5). Japan peaked share in manufacturing in GDP (36%) and employment (27%) by 1970. In Taiwan, the share of this sector in GDP (33.3%) and employment (32%) peaked by 1990. Similarly Korea has slightly lower shared and peaked by 2000. In the case of China, the share of manufacturing in GDP is around 33% now but its share in employment is only 16%.

What are the reasons for low manufacturing share in employment in China? Early industrializing countries like Japan, Korea, Taiwan could improve the share in employment. But late industrialization in China, Indonesia and Thailand resulted rise in share of manufacturing in GDP but not employment. Employment in manufacturing today is not quite comparable to employment in manufacturing in earlier times. The reason is that manufacturing enterprises used to directly employ staff for a variety of services required but now they outsource them from service enterprises (Ghose, 2015a). In other words, employment that counted as manufacturing employment now counts as services employment. To put it another way, manufacturing today generates less direct employment but more indirect employment in services[28].

There are constraints even for raising GDP growth in manufacturing. Rajan (2015) says that "world as a whole is unlikely to be able to accommodate another export-led China… Export-led growth will not be as easy as it was for the Asian economies who took that path before us"(p.6). One reason is that present global situation is not conducive for export led growth. Secondly, manufacturing activity is also being 're-shored' to other countries. He also argued for 'Make for India' rather than exports. Employment growth is much more difficult than GDP growth in manufacturing. This sector in India has been capital intensive. Even China could not increase share of its manufacturing much in employment unlike early industrializers Japan and Taiwan. Also, indirect employment is created in services.

Table 6 provides the share of services in East Asia and India. Countries like Japan, Korea and Taiwan have 60 to 80% share of services in both GDP and employment. On the other hand, China, Indonesia and Thailand have around 35 to 45% share of services in both GDP and employment. In all these East Asian countries, the share of services in both GDP and employment are more or less similar. **India is an exception to this trend. The country has high share of services in GDP but the share of services in employment is exceptionally low as shown in the Table 6.** India's share of services in employment is only 26.4% compared to 58.4% share of services in GDP. Thus service sector in India presently is not employment intensive. At the same time, manufacturing sector has low share in GDP (17%) and employment (12.8%). Therefore, the challenges are to raise both GDP and employment growth for manufacturing and employment growth in services.

Table 6: Services in GDP and Employment, 2013

Countries	% Share in GDP	% Share in Employment
USA	78.6	81.2
Germany	68.4	70.2
France	78.5	74.9
U.K.	79.2	78.9
Brazil	69.4	62.7
China	46.1	35.7
Japan	72.4	69.7
South Korea	59.1	76.4
India	**58.4**	**26.7**

Source: Economic Survey 2014-15, Government of India

[28] Personal correspondence with Ajit Ghose

It may be noted, however, that services generate less employment opportunities for the low skilled. On the other hand, manufacturing can generate substantial employment opportunities for the unskilled workers.

First, there is hardly any disagreement India needs to aim at higher growth of productive employment and decent work, and that the manufacturing sector is critical to growth. Constraints that prevent manufacturing growth need to be addressed in cooperation with states. For example, we need investment, physical infrastructure, skill development, land acquisition, ease of doing business etc. Small and medium enterprises (SMEs) and micro and medium enterprises (MSMEs) account for 95% of the total industrial activity in India and can play vital role in boosting employment generation. Estimates suggest, the SME-MSME sector offers maximum opportunities for self employment jobs after the agriculture sector.

Second, services also need to be promoted as both manufacturing and services are complementary. The indirect employment from manufacturing is created in India can't ignore services which contributes 60% of GDP.

India has the potential to increase the number of workers in manufacturing and the contribution to the sector to overall growth. But its future development path is unlikely to mimic that witnessed in East Asia like Japan, Taiwan or even in China. In the case of manufacturing China could improve its share considerably in GDP but not in employment. Some lessons can be learnt from East Asia. But, India has to forge its own path that will rely on both manufacturing and services as growth engines.

Fourth Industrial Revolution, Digital Age and Robotics: Industrialists and others at Davos meeting said that we have to be ready to approach a fourth industrial revolution which includes advanced manufacturing, quantum engineering, 3D printing and robotics. It may lead to some disruption in the established sectors and may lead to some inequalities. But, overall net employment may rise with fourth industrial revolution including robotics.

4. INEQUALITY: DIMENSIONS AND ISSUES

Inequality has been an important issue in development debates. Several philosophers and economists have discussed about inequality[29]. Tendulkar (2010) draws a distinction between inequity and inequality. He examines the path breaking work of Simon Kuznets who indicates that inequalities rise with economic growth upto a point and then decline. This is the so called Kuznets inverted 'U' shape curve. Initially economic growth increase overall inequality as the rural-urban transformation takes place and labour moves from low

[29] For example see Rawls (1971), Sen (1973)

productivity agriculture to high productivity urban industrial and service sector activities. Tendulkar says that even if measured inequality increases, there may not be increasing feeling of inequity as people observe high mobility and can aspire to move upwards like others. In this context, he also reviews the work of economists like Tibor Scitovsy and Albert O.Hirshman who have also discussed with the general issue of inequality not leading to inequity. According to Tendulkar, social consensus with respect to social acceptability of a degree of inequality is feasible on the existence of three conditions: (a) the observation of merit based income mobility; (b) the existence of equality of opportunity; (c) improvement in the living conditions of people at the lower end of distribution. He also says that we do need to be mindful about perceived fairness, equality of opportunity, the provision of basic needs, and poverty alleviation.

With the release of the book entitled “Capital in the Twenty-First Century” by French economist Thomas Piketty (2014), there has been debate on inequality in several parts of the world. The main merit of the book is the massive collection of historical data for several countries. In the 18th and 19th centuries western European society was highly unequal. But inequality declined and stabilized during 191-70. Again income inequality has been rising since then. From this history, Piketty develops a grand theory of capital and inequality. The author recommends that governments should adopt a global tax on wealth, to prevent rising inequality contributing to economic or political instability.

Dimensions of Inequality

Recently, Credit Suisses (CS) and Oxfam have released reports on global wealth and inequality. According to CS report, the top percentile of wealth holders now own over half of the world’s wealth and the richest decile 87.7 per cent. The richest 1 per cent owns half of all the wealth in the world. Oxfam report released ahead of the annual World economic Forum in Davos in 2015, shows that the combined wealth of the richest 1 per cent will overtake that of the other 99 per cent in 2016 unless the current trend of rising inequality is checked. The share of global wealth of richest 1 per cent rose from 44% in 2009 to 48% in 2014 and at this rate it will be more than 50% in 2016.

Credit Suisse report on India reveals that the richest 1% owned 53% of the country’s wealth while the share of the top 10% was 76.3%. In other words, 90% of Indians own a less than 25% of the country’s wealth.

Generally inequality is examined with consumption distribution as income distribution data is not available. Table 7 shows inequality represented by gini coefficient increased only marginally in rural areas over time particularly in

2011-12. In the case of urban areas, gini coefficient increased in 2009-10 and 2011-12. Inequality in consumption may be an under estimate as NSS data may not be capturing the consumption of the rich adequately. Inequality in income would be much higher than that of consumption. It may be noted that if we consider access to education and other public services like health, electricity, drinking water, the inequalities could be much higher.

Table 7 Inequality (Gini Coefficient) of consumption Expenditure: All India

Sector	1983-84	1987-88	1993-94	2004-05	2011-12
Rural	0.304	0.299	0.286	0.304	0.311
Urban	0.342	0.350	0.344	0.376	0.390

Source: Singh et al (2015)

Another way of looking at inequality is to examine the growth rates of consumption for three classes: bottom 30%, middle 40% and top 30% population. The growth rates in table 8 shows that they were higher in the second period (1993-94 to 2009-10) compared to the first period (1983-97) for all the three classes. The growth rates were higher for urban areas. However, the growth rate in the second period was higher for top 30% as compared to that of bottom 30% in both rural and urban areas. In other words, consumption of rich was much higher than the poor and middle classes.

Table 8: Annual Growth Rates of Monthly Per Capita Consumption expenditure by broad expenditure groups

Period	Bottom 30%	Middle 40%	Top 30%	All Classes
Rural				
1983-97(URP)	1.22***	0.93***	0.96***	0.99***
1993-94 to 2009-10(MRP)	1.32***	1.32***	1.92***	1.62***
Urban				
1983-97(URP)	1.36***	1.41***	2.00***	1.73***
1993-94 to 2009-10(MRP)	1.71***	2.25***	3.32***	2.77***

***Significant at 1% level
Source: Radhakrishna (2015)

Subramanian and Jayaraj (2016) examine the trends in the shares of bottom quintile population during the period 1983 to 2011-12. The study indicates that on average the share of bottom quintile in the mean per capita expenditure was around 46% in rural areas and 38% in urban areas. The shares of bottom quintile did not show significant changes in rural areas while it declined from 40% in 1993-94 to 35% in 2011-12 in urban areas. The bottom quintile expenditure has grown at a compound annual rate of 2.10% per annum in rural and 1.96% per annum in urban over the period 1983 to 2011-12[30].

[30] Subramanian and Jayaraj (2016) say that we should target to have 3% per annum growth in consumption of bottom quintile.

Poverty Across Social Groups

Another way of looking at inequality is to examine the poverty ratios across social groups. Poverty declined much faster for all the social groups during the period 2004-05 to 2011-12 as compared to the period1993-94 to 2004-05 (Table 9). The rate of decline in poverty is the highest for SCs. The decline in poverty for SCs and OBCs exceeded the national average during the period 2004-05 to 2011-12. Poverty decline for STs was more or less similar to that of national average. It looks like SCs, STs and OBCs benefited equally or more in the high growth phase of 2004-05 to 2011-12. However, the poverty levels are higher for STs and SCs as compared to other groups. Particularly the poverty ratio of STs was two times to that of national average in 2011-12. There is a need to focus on policies relating to STs for reduction in their poverty[31].

Table 9. Poverty by Social Groups, 1993-94 to 2011-12

Social Groups	Share in Population	Percent Population Below Tendulkar Committee Poverty Line			Percentage Point Poverty Reduction	
	2011-12	1993-94	2004-05	2011-12	1993-94 to 2004-05	2004-05 to 2011-12
Rural						
ST	11.1	65.9	62.3	45.3	3.7	16.9
SC	20.8	62.4	53.5	31.5	8.9	22.0
OBC	45.0		39.8	22.7	9.0	17.1
FC	23.0	44.0	27.1	15.5		11.6
All	100.0	50.3	41.8	25.4	8.5	16.4
Urban						
ST	3.5	41.1	35.5	24.1	5.6	11.4
SC	14.6	51.7	40.6	21.7	11.1	18.8
OBC	41.6	28.2	30.6	15.4	5.8	15.2
FC	40.3		16.1	8.1		8.0
All	100.0	31.9	25.7	13.7	6.2	12.0
Rural+Urban						
ST	8.9	63.7	60.0	43.0	3.7	17.0
SC	19.0	60.5	50.9	29.4	9.6	21.5
OBC	44.1	39.5	37.8	20.7	8.1	17.1
FC	28.0		23.0	12.5		10.5
All	100.0	45.7	37.7	22.0	8.0	15.7

Source: Panagariya and More (2013)

Inequality and Human Development

Higher inequality can lead to lower human development. A study by Suryanarana (2013) estimates both Human Development Index (HDI) and inequality adjusted HDI for all India and States (Table 10).

[31] See Deshpande (2013) on the discrimination in small business

Table 10. Human Development Index (HDI) and Inequality Adjusted Human Development Index (IHDI) and Loss

States	HDI	IHDI	Loss (%)	Rank HDI	Rank IHDI
A.P.	0.485	0.332	31.6	19	20
Bihar	0.447	0.303	32.1	26	24
Chattisgarh	0.458	0.297	35.1	24	25
Gujarat	0.514	0.363	29.5	15	13
Jharkhand	0.470	0.312	33.7	21	21
Karnataka	0.508	0.353	30.5	18	18
Kerala	0.625	0.520	16.8	1	1
M.P.	0.451	0.290	35.7	25	27
Maharashtra	0.549	0.397	27.8	7	8
Odisha	0.442	0.296	33.1	27	26
Punjab	0.569	0.410	28.0	4	4
Rajasthan	0.468	0.308	34.0	23	22
Tamil Nadu	0.544	0.396	27.3	9	9
U.P.	0.468	0.307	34.5	22	23
West Beng.	0.509	0.360	29.3	17	14
All India	0.504	0.343	32.0	--	--

Source: Suryanarayana (2013)

The rank of Madhya Pradesh for inequality adjusted HDI is the lowest while Kerala has the highest rank. The average loss in HDI due to inequality at the All-India level is 32%. It is the highest for Madhya Pradesh (36%) and Chhattisgarh (35%) and the lowest for Kerala (17%). The loss due to inequality is the highest with respect to education dimension (43%), followed by health (34%) and income (16%). It shows that inequalities in non-income indicators like education and health are higher than that of income. The analysis also shows that with lower inequalities, HDI would have been much higher

Labour Market Inequlities

Most of the inequalities (economic and social) will have labour market dimension. Some issues on inequality exclusively deal with labour market structures, processes, mechanisms and outcomes while some others are influenced by labour institutions and labour market forces (IHD, 2014)[32].

The evidence based current research has shown that there have been significant inequalities in labour markets in India. Inequalities can be found across sectors, wages and earnings, quality of work, labour market access and, between organized and unorganized sector. Labour market segmentation is another important issue regarding inequalities. Wage differentials can’t be explained by economic factors alone inspite of increasing occupational and geographical mobility. Sometimes people do not move despite the attraction of higher earnings. Segmentation based on occupational skills and consequently industry and sectors is well known.

[32] On rural non-farm sector and inequality at village level, see Himanshu et al (2013)

Reducing labour market inequalities is important for sustainability of growth, reduction in poverty and rise in human development.

Gender Inequalities

Inequality between men and women is an important issue in India. Gender inequality index is the highest for India among the countries listed in Table 11. The percentage of 25 plus female population with some secondary education and female participation rates are the lowest among these countries.

Gender discrimination is another form of labour segmentation. As is well known, the wages of women workers are lower than those of men across most employment categories and locations. There are distinct conventionally earmarked spheres of work for women and the entry of women into most male-dominated occupations is constrained. Conventional women's work is characterized by lower wages and earnings and limited upward mobility.

Table 11. Gender Inequality Index and other components for Selected Countries: 2013

Countries	Gender Inequality Index		MMR 2010 (death per 1 lakh life birth	25+female population With at least Some Secondary Education%	15+ female labour force participation rate
Argentina	0.381	74	77	57.0	47.3
Russian Fed.	0.314	52	34	89.6	57.0
Brazil	0.441	85	56	51.9	59.5
China	0.202	37	37	58.7	63.8
Indonesia	0.500	103	220	39.9	51.3
South Africa	0.461	94	300	72.7	44.2
India	0.563	127	200	26.6	28.8

Source: HDR 2014 quoted in Economic Survey 2014-15, GOI

Participation rates of women are low and declined in India (Table 12). Work participation rate for women in India is only 22% compared to 54% for males. In fact in urban areas, only 15% of women's participation in work compared to 55% for men. Recently IMF Chief Christine Lagarde said increase in women's participation rates would increase 40% GDP in India. Mckinsey report also said GDP could increase by 16% to 60% by the year 2025 with increase in women participation rates. It is true that increase in women's participation is important to reduce gender inequalities.

Table 12. Work Participation Rates of Female and Male

	Rural		Urban		Total	
	Female	Male	Female	Male	Female	Male
1983	34.0	54.7	15.1	51.2	29.6	53.9
1993-94	32.8	55.3	15.5	52.1	28.6	54.5
2004-05	32.7	54.6	16.6	54.9	28.7	54.7
2011-12	24.8	54.3	14.7	54.6	21.9	54.4

Source: IHD (2014)

But, women's 'work' and 'non-work' may be misleading. Time use surveys indicate women's unpaid work as home makers and care givers is quite high. Some estimates show that if we monetize unpaid work of women, it amounts to around 16 lakh crores per annum (Nandi and Hensman, 2015).

Inequality and Growth

Generally equity and growth are complements rather than trade-offs. Increase in inequality can reduce the impact of growth on poverty. Higher inequality may adversely affect growth in a number of ways such as social discontent, reduction in size of domestic market due to lower demand etc. Thus growth with increasing inequalities may not be sustainable. Living with high inequalities may lead to lower than expected growth and all the negative consequences of inequalities.

Policies for reducing inequalities

Many of the policies for elimination of poverty and promotion of inclusive growth are also applicable for reduction in inequalities[33]. Correction of failures mentioned above during the reform period will also reduce inequalities.

The 'Kuznets curve' indicates that inequalities rise with economic growth upto a point and then decline. According to this mechanism, if you want higher savings and investments for higher growth, inequalities will necessarily increase. If you try to have redistribution mechanism, savings and investment decline and growth will decline. This view assumes that growth and equity are trade-offs. However, growth and equity policies may have to be followed simultaneously. There may be some trade-offs but growth and equity can be complementary. For example, increase in the productivity of unorganized sector or small and medium enterprises or decline in poverty of SCs and STs can increase both growth and equity.

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[33] On inclusive growth, see Dev (2008), Rao (2009); on interrogating inclusive growth, see Kannan (2014)

One view is that there are also high inequalities in China. High inequalities are harmful whether they are in China, USA or India. But, one has to distinguish between China and India. In China, every one has basic needs and capabilities like health and education. While in India we do not have these capabilities for majority of the population.

Another issue is how to reduce the intensity of Kuznets curve. How do you flatten kuznets curve? Endogenous growth models and capabilities approach or investing in human capital or human development approach may have some answer. This can reduce the intensity of Kuznets curve. This can be shown in the contrast between East Asia and India/South Asia. We know that India has not invested in human capital till recent years. One view is that you do not have to wait for higher growth to achieve human development. One can raise human development with moderate growth. There are examples all over the world and within in India. But for sustainability both higher growth and higher human development are needed.

Yet another issue particularly in the context of India is social exclusion of SCs, STs and minorities and gender. Here economics alone will not help inclusion. Here social and political factors are important apart from economic factors. Growth with redistribution will not affect social behavior without social transformation. We need social movements to reduce social exclusion. This happened partially in South India earlier in Kerala and Tamil Nadu and happening other parts of the country now[34]. It is a long way to for social transformations.

The related issue is whether markets are inclusive or exclusive or state is inclusive or exclusive. In many cases, markets can be exclusive including social exclusion. State can also be exclusive, police, legal system and many other things of state can be exclusive. But, markets and state can also be inclusive. Pronab Sen who was involved in 12th plan document preparation indicates that during their consultations for the 12th Five Year Plan, an overwhelming proportion of the civil society in India clearly believed that the market was more inclusive than government interventions in the India context. This is an interesting observation and needs further investigation.

Some framework is needed for achieving equity. For example, 12th Five Year Plan document mentions six types of inclusiveness: First one is inclusiveness as poverty reduction; Second inclusiveness as group equality. Here the concerns of SCs, STs, OBCs and minorities have to be considered. Similarly, gender equality also comes under group equality. Third one is inclusiveness as regional balance which does not need explanation. Fourth one is

[34] On social movements in different parts of the country, see Baviskar (2015)

inclusiveness and inequalities. Fifth one is inclusiveness and empowerment. Last one is inclusiveness through employment programmes (GOI, 2012).

There is a feeling among many people that we should have some flagship social protection programmes like MGNREGA and others to achieve equitable growth. No doubt these programmes are important for protecting the poor. But, equitable or inclusive growth is much broader than this and productive inclusion in terms of generating quality employment should be the focus of any inclusive approach. Employment focus is the major part of equity approach. Both formal sector and informal sector have roles in generating productive employment. Increase in labour productivity and generation of productive employment would lead to higher growth and decline in reduction in poverty.

The new generation underlines the need for equality of opportunity rather than just rights-based approach. People want better quality goods and services. The young population has high expectations. The government should move out of some activities. And radical changes are needed in institutions to improve governance. Generating productive jobs in India for the future is a big challenge. For the new generation, moving to regular wage employment is the aspiration. The need is to improve the share of organised formal employment, while raising productivity in the unorganised sector. The agriculture sector's share in total employment has fallen to below 50 per cent.

We need more diversified agriculture development. Labour productivity of non-agriculture was six times more than agriculture in 2011-12. Workers must be shifted to manufacturing and services. The unemployment rate by current daily status was only 5.6 per cent in 2011-12, whereas youth unemployment stood at 13.3 per cent. The need for skill development and generation of productive jobs to reap "demographic dividend" is obvious. Everyone, irrespective of caste, class and gender, should have equal opportunities in education, health, employment and entrepreneurship. Equality of opportunity in education and employment can reduce inequalities. Education has intrinsic — for its own sake — and instrumental — increasing economic growth — values. Economic and employment opportunities improve with education and skills. The new generation wants better quality schools and higher education.

5. CONCLUDING OBERVATIONS

Soon we will complete 25 years of economic reforms in India. There have been winners and losers due to economic reforms. But, the net outcome has been positive in the last 25 year period. Both markets and state have roles in the globalization world. There has been significant visible change in terms of economic growth and other indicators. In the post-reform period, India has done well in many indicators such as economic growth, exports, balance of payments, resilience to external shocks, service sector growth, significant accumulation of foreign exchange, information technology (IT), stock market and improvements in telecommunications. But, there have been some failures in the processes and outcomes. The five failures mentioned in this paper are: slow infrastructure development, failures in increasing labour intensive manufacturing, not taking advantage of demographic dividend, slow social sector development and governance failures. These failures have to be corrected in the next few years in order to have higher economic growth and equity.

Poverty declined faster in 2000s compared to that of 1990s. But, still India has more than 300 million poor population and some of the non-poor also falls under vulnerable category. Creation of productive employment is crucial for reduction in poverty. Inequality in consumption seems to have increased particularly in urban areas. There are significant inequalities by sector, region, gender and social groups. The new generation wants basically equality of opportunity in all fields and quality public and private services — and not just rights-based approach.

Central government should play an important role in achieving higher growth and equitable development. However, apart from the Central government, the policies of the state governments are essential for achieving these objectives. State governments have been fiscally responsible than the Centre. In many important areas like agriculture, health care, rural infrastructure and, state governments spend much more than the Centre. Therefore, policies and governance at state level are much more important for better outcomes.

Reforms, among other things, can be shifted to more efficient delivery systems of public services. Many reckon that poor governance is the biggest constraint to achieving goals of the new-generation India. A major institutional challenge is the accountability of service providers, particularly the public sector. It will be difficult to improve service delivery without accountability even if resources are made available. Better coordination between states and the Centre and decentralised systems can enhance accountability.

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