

Poverty and Inequality in India: An Exploratory Analysis

K. S. Hari* and Neelambar Hatti**

Abstract

India is a country characterized by multi-layered diversity and cultural heterogeneity where different types of inequalities and poverty have always been a fact of life. Since independence in 1947, she followed a development policy based on interventionist central planning and import substitution with the objective of reducing inequality and poverty. Policymakers adopted a middle path in which income inequality was tolerated, provided it was not 'excessive' and led to a higher rate of growth. From the mid-1980s, the Indian government gradually adopted market-oriented economic reforms. The pace accelerated during the early 1990s with the adoption of neo-liberal reforms programmes, marking a period of intensive economic liberalization. The focus changed from state intervention for more equitable distribution towards liberalization, privatization and globalization. During the past two decades, India has made rapid economic progress resulting in an expanding middle class with unprecedented access to goods and opportunities. Yet, it is not only that the new income generated by economic growth has been very unequally shared, but also the resources newly created have been inadequately utilized to alleviate the enormous social and economic deprivation of a majority of the society. This paper analyses the nature and causes of inequality and poverty in India.

Key words: Poverty, inequality, India.

I. Introduction

The past three decades have seen the economic emergence of many developing countries, generally exhibiting growth rates much higher than those in the industrialized countries. However, the transformation of this economic growth into reducing poverty and inequality has been disappointing and concerns have been raised over the growth not being equally distributed.¹ Economists are increasingly focusing on the link between the rising inequality and fragility of growth. Rising inequality despite sustained high rates of growth has become a big issue both in popular and academic literature², and much of the debate has centred on whether the main focus should be placed on growth or poverty and/or on inequality. It is argued that the achievement of sustainable high growth 'must be judged in terms of impact that economic growth has on lives and freedoms of people'³. Rapid economic growth achieved at the expense of worsening redistribution of resources ultimately becomes unsustainable and may engender social and economic tensions in the society (Jha, 2000).

India, with one of the emerging economies, has done well in terms of the growth of GDP and became the second fastest growing economy, next only to China. Nevertheless, it has seriously fallen behind in terms of economic and social justice for large sections of its population. Given a young population in a hurry, uneven distribution of the benefits of growth⁴, and resulting in inequality and poverty, is provoking tension.

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¹ The link between economic growth and inequality is a hotly debated issue in economic literature. For a theoretical discussion, see Beck and Kamionka (2012).

² For a recent review of literature on growth, equality and poverty, see Ostry, Berg and Tsangarides (2014).

See also Augustin Kwasi Fosu (2010); Berg and Ostry (2011).

³ Amartya Sen & Jean Drèze (2013). See also Utsa Patnaik (2007).

⁴ In India more than 10 per cent of GDP is in the hands of 55 individuals.

Since gaining independence in 1947, the Indian economy has gone through various growth phases. From the 1950s to mid-80s the average growth of GDP was around 3.5 per cent⁵, the famous 'Hindu Rate of Growth', and per capita income grew by a mere 1.3 per cent. The economy moved on a higher growth path in the late 1980s when some efforts were made to reform the economy. However, after a blip in growth during 1990-92, broad economic reforms were introduced for aligning the Indian economy with the world, putting the economy back on the path of a higher sustained growth. It is now a well-established middle-income country in terms of gross GDP at US \$ 1.95 trillion, the tenth richest in the world. The country is also macro-economically stable, having maintained relatively stable fiscal and monetary bases during the past decades. Nevertheless, there have been serious concerns that while the privileged class has done well in this period, a large section of the population continues to have a life of low standard and deprivation.⁶ With a population of over 1.2 billion India is home to the largest number of poor in the world. About 42 per cent of the Indian population lives under the global poverty line of \$1.25 per day⁷ (Rangarajan, 2014). Using a broader definition of the poverty line which includes other dimensions of human capabilities, over half of the population is poor (Kannan, 2014). Many social indicators such as infant, child and maternal mortalities in many Indian states including Gujarat, one of the richest, are worse than in sub-Saharan Africa.⁸ Despite sustained high growth rates, while some aspects of social inequality have weakened, 'new heightened imbalances such as economic inequality and poverty have developed during the past two decades'.⁹ As Kaushik Basu has noted, "the bulk of India's aggregate growth is occurring through a disproportionate rise in the incomes at the upper end of the income ladder" (Basu, 2008). Quality and distribution of the high growth that India has experienced are causing widening inequalities between classes, regions, rural and urban areas, a classic growth-inequality paradox. Wealth created by sustained high rates of growth remains unevenly distributed at macro-level as well as in terms of significant inter-state and intra-state regional disparities.¹⁰ Low growth rates and poor public services in poorer states have further widened the disparity.¹¹ The polarization has divided the country into two distinct groups of rich states and poor states (Bandyopadhyay, 2011).

India is a unique mixture of fundamental divisions and disparities. Few countries have had to contend with such 'extreme economic and social inequalities, characterized by deeply entrenched hierarchies, defined by major disparities of caste, class and gender'. (Sen & Drèze, 2013) It is precisely for this reason that Indian inequality is deeper and more pernicious than that of many other emerging nations. Being well aware of the historical legacy of multiple inequalities at the time of independence in 1947, the Indian government under Jawaharlal Nehru set the goals of unifying the nation, building industry, promoting economic growth, and in the course of these, reducing inequality and poverty. Since early 1950s, eradication of poverty and creation of a more

⁵ The term was coined by Raj Krishna who argued in one of his lectures in the 1970s that "...no matter what happens to the economy the trend growth rate in India will be 3.5 per cent". For a broader analysis of the different phases of growth of the Indian economy since independence, see Virmani (2004).

⁶ It is important to remember that poverty has many dimensions, not only material deprivation and a low standard of life, but also deprivation of education and culture. See Utsa Patnaik (2007).

⁷ Even using the rather parsimonious state definition of the poverty line, there are over 30 per cent abjectly poor in India.

⁸ The societal reach of economic growth in India has been markedly limited. While the country has been overtaking other countries in the progress of its real income, it has been overtaken by many of these countries in terms of social indicators. Even a much poorer country like Bangladesh has caught up with and overtaken India regarding many social indicators. (Sen & Drèze, 2013)

⁹ Despite vast differences in the political systems of India and China, the common factor has been increasing inequality accompanying higher growth. However, while China grew faster, inequality or relative poverty also grew faster in there than in India.

¹⁰ It is not only that the new income generated by rapid economic growth has been unequally shared, but also that the resources newly created have not been utilized adequately to relieve the marked social deprivations of large sections of the population.

¹¹ For example, the adjoining states of Bihar, Jharkhand, Uttar Pradesh, Madhya Pradesh, Orissa and Rajasthan collectively account for 44 per cent of the total population and over 60 per cent of the poor. Most of these states are rich in natural resources, but very poor in infrastructure and human development. See Census 2011 (population), Govt. of India.

egalitarian society have been among the main objectives of India's Five-Year Plans. Nevertheless, even after decades of planning, the rate of reduction in poverty and inequality has remained painfully slow and large sections of the population continue to suffer from chronic deprivation. Many explanations have been advanced for this sad state of affairs: stagnation in commodity production (especially in the agricultural sector due to lack of suitable policies), and inadequate investments in economic and social infrastructure and other factors (Dandekar & Rath, 1974; Ahluwalia, 1976; Kohli, 2012; Sen & Dréze, 2013). Poverty alleviation policies of the Indian government during the past decades, particularly during the Congress regimes, have focused more on numerous subsidies which have contributed to perpetuating inequality because such policies take away any incentive to take one's own initiatives in life. These subsidies or political sops have increasingly created a *culture of dependence*, a kind of *cargo cult* wherein with each successive government the poor expect more such subsidies, perpetuating the dependence culture.¹²

The year 1987-88 recorded a *structural* break in the long term GDP growth in India¹³ and the economy started to grow around 5-6 per cent per annum. In 1991-92, broad economic (neo) liberalization initiatives were undertaken in the country for pushing the growth rate further.¹⁴ Indian economy attained the historically higher eight to nine per cent growth during the period from 2004-05 to 2008-09 (Nagaraj, 2010). To what extent the high growth phase has contributed to reducing the number of poor in the country is widely debated.¹⁵ It should also be borne in mind that the GDP growth was primarily driven by the growth in service sector. Not all sectors of the economy grew at the same pace. This is clearly reflected in the rather low agricultural growth rate, low quality employment, poor education, inadequate health infrastructure, rural-urban divide social inequalities and regional disparities. The growth was, theoretically speaking, supposed to reduce the number of poor through the *trickle down* mechanism. There are mixed results in the literature, with a majority of people arguing that the speed of poverty reduction is slow in India. Here again interregional inequalities are vast. There are states like Bihar and Odisha whose performance in this regard is poor and half of the population in them is still poor.

Another major characteristic of India's high growth phase has been growing inequality across sectors, regions and households¹⁶. The reform initiatives have created a great potential for economic advancement but it has also created new vulnerabilities and insecurities. New imbalances have emerged, including a heightened inequality in economic conditions as well as opportunity. Capital began to flow into states and regions which were already developed and this, in turn, led to greater divergence than convergence not only between rural and urban sectors but also within the urban sector. The newly emerging service sector is a mix of dichotomous activities, with highly paid IT and related activities which employ very few people on the one hand and the low paid petty trade and related services, which employ a majority of people on the other. The agricultural sector, with a history of exploitative relationship between land ownership and labour, continues as the last resort for over 60 per cent of Indian work force, which stays back in the rural areas.¹⁷

It is against this backdrop that the present study tries to understand the long run dynamics of poverty and inequality in the country. Given the extremely heterogeneous character of the Indian

¹² Moreover, given widespread corruption prevailing in India, many of such subsidies have a tendency to benefit the richer than the poorer sections of the population.

¹³ See, Wallack (2004), Virmani (2005), Balakrishnan and Parameswaran (2007) for a detailed discussion of the long term growth in the Indian economy.

¹⁴ The approach to liberalization in India has some clear differences with the standard approach (The Washington consensus). India opted for gradual and controlled liberalization in contrast to the stress on the speed of reforms advocated by the Washington consensus.

¹⁵ Mehta and Shah (2003) give a detailed review of poverty debate in India. See also Utsa Patnaik (2007), Dev and Ravi (2007) Sengupta et al. (2010), Datt and Ravallion (2010), and Kannan and Ravindran (2011).

¹⁶ There is a growing literature which discusses the various dimensions of inequality in the country and how it affected the long term deprivation of its poor. See Deaton & Dréze (2002), Bardan (2010), Ghosh (2010), Motiram and Sarma (2011), Vakulabharanam (2010), and Weisskopf (2011).

¹⁷ For an excellent analysis of rural poverty see, Utsa Patnaik (2007).

economy and society, the achievements and failures cannot be understood in composite terms. It is essential to examine the experiences in a sufficiently disaggregate form. The internal diversities in India offer a great opportunity to learn from within (Sen, 1999). Given the heterogeneity of India, the question of learning from the country itself has to be integrated with learning from others.¹⁸ In our society where distributional aspects of growth to reduce poverty are important, political decisions that ultimately produce policies in order to redistribute the fruits of growth are central. Thus, the empirical analysis will be limited to the post-1991 reform period and we will be focusing on the policy failures for explaining the current high growth rate along with increasing inequality and continuing poverty.

II. Level of per capita income

How fast higher growth is translated into the disposable income of the citizens in each state depends on the changes in the level of income. The simple way to understand it was by ranking the states according to the level of per capita income as done in Table 1, and inferring that there was no significant difference in the ranking of the states. The poorer states as a group remained the same. Five poorer states, viz., Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan and Odisha remained poor throughout the last four decades. The number of richer states has gone up since the liberalization period. This was possible mainly because of higher per capita income growth rates in Kerala and Tamil Nadu. Andhra Pradesh moved from a poor state category in the 1970s to the middle income state category by the end of the first decade of the twenty-first century. Bihar continued

Table 1: Per capita income (actual income and ranking) across states

Year	1970/71 to 1972/73	1980/81 to 1982/83	1990/91 to 1992/93	2000/01 to 2002/03	2007/08 to 2009/10	2010/11 to 2012-13
Andhra Pradesh	585(9)	1504(8)	2078(8)	17042(8)	34767(8)	38636(8)
Bihar	402(14)	933(14)	1106(14)	6402(14)	10626(14)	13198 (14)
Gujarat	829(3)	2011(4)	2704(4)	18312(6)	45463(3)	56535(3)
Haryana	877(2)	2419(3)	3476(3)	25603(2)	51250(2)	61188(2)
Karnataka	641(7)	1563(6)	2193(7)	17623(7)	36419(7)	41819(7)
Kerala	594(8)	1487(9)	1858(10)	20804(4)	43148 (5)	52866(5)
Madhya Pradesh	484(12)	1369(10)	1617(12)	11248(11)	18616(12)	23281(12)
Maharashtra	783(4)	2452(2)	3573(2)	22532(3)	53877(1)	61986(1)
Odisha	478(13)	1265(12)	1463(13)	10468(12)	22706(11)	24558(11)
Punjab	1070(1)	2818(1)	3829(1)	25978(1)	41314(6)	46316(6)
Rajasthan	651(6)	1261(13)	1891(9)	12942(10)	22905(10)	29318(10)
Tamil Nadu	581(10)	1555(7)	2290(5)	19910(5)	43687(4)	56320(4)
Uttar Pradesh	486(11)	1299(11)	1631(11)	9733(13)	15442(13)	18012(13)
West Bengal	722(5)	1727(5)	2236(6)	17012(9)	28581 (9)	32552(9)

Note: Figures in brackets are of respective ranking of states.

Source: India, CSO, *Estimates of State Domestic Product* (various years) and *National Accounts Statistics* (various years).

to be the poorest state in terms of per capita income in India among the major fourteen states. The gap between the richer and poorer states actually increased in India. The richest state in the 1980s, i.e., Punjab, had a per capita income of around three times that of Bihar. This difference doubled during the last five decades. During the last three years, Maharashtra, the richest state in India, had a per capita income almost five times that of Bihar.

Punjab, which remained in the top position for the last three decades, recorded a decline in growth rate in the post-reform period. Its income level came down from the first to the sixth position, and Maharashtra, which was in the high income category, moved to the top position in

¹⁸ Torsten Person & Guido Tabellini (2014).

India. Karnataka, West Bengal and Andhra Pradesh remained in the middle income category. The only significant change in ranking happened in the case of Kerala and Tamil Nadu in the post-liberalization period. These two states have the dual advantage of higher economic growth as well as reduction in population growth. Hence, there is improvement in both numerator and denominator of per capita income estimate.

III. Income inequality: Recent trends

One facet that has given rise to debate is inequality. On the one side, there are some scholars who argue that inequality is not of great concern (Bhagwati & Panagariya, 2012; Bhagwati, 2010; Panagariya, 2008), whereas on the other side are those (Bardan, 2010; Ghosh, 2010; Motiram & Sarma, 2011; Vakulabharanam, 2010; Weisskopf, 2011) who argue that inequality (and poverty) is increasing, raising serious questions about the equity and sustainability of the Indian growth process¹⁹.

In literature on inequality, a distinction has been made between inter-personal or vertical inequality and group based or horizontal inequality. It is argued that the latter has received unduly less attention (Stewart, 2002). In the light of this, we examine both inter-personal inequality and inequality among sub-groups of population. We have analysed inequality across caste, sector (rural versus urban), state and class.

Table 2: Inequality (Gini) for major states

States	1993-94			2004-05			2009-10		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Andhra Pradesh	0.290	0.323	0.312	0.294	0.375	0.345	0.286	0.395	0.364
Bihar	0.225	0.309	0.253	0.213	0.355	0.259	0.234	0.358	0.273
Gujarat	0.240	0.291	0.279	0.271	0.310	0.334	0.261	0.338	0.343
Haryana	0.314	0.284	0.311	0.339	0.366	0.355	0.310	0.368	0.339
Karnataka	0.270	0.319	0.309	0.266	0.369	0.361	0.240	0.341	0.350
Kerala	0.301	0.343	0.316	0.381	0.410	0.393	0.439	0.527	0.473
Madhya Pradesh	0.280	0.331	0.315	0.277	0.407	0.357	0.297	0.367	0.351
Maharashtra	0.307	0.357	0.376	0.312	0.378	0.393	0.276	0.423	0.409
Odisha	0.246	0.307	0.282	0.285	0.353	0.324	0.268	0.401	0.326
Punjab	0.281	0.281	0.285	0.294	0.402	0.351	0.297	0.382	0.339
Rajasthan	0.265	0.293	0.280	0.250	0.371	0.303	0.230	0.396	0.300
Tamil Nadu	0.312	0.348	0.344	0.323	0.361	0.379	0.271	0.340	0.342
Uttar Pradesh	0.282	0.326	0.302	0.291	0.367	0.327	0.281	0.367	0.322
West Bengal	0.254	0.339	0.308	0.274	0.383	0.353	0.245	0.393	0.338
All India	0.286	0.344	0.326	0.305	0.376	0.363	0.300	0.393	0.370

Source: Estimates using various rounds of NSSO Unit level data on Consumption Expenditure in India.

As we can observe from Table 2, from 2004-05 to 2009-10, for the country as a whole, rural inequality decreased slightly, urban inequality increased and all India inequality also increased. The increase was less pronounced as compared with the same during the period 1993-94 to 2004-05. However, it is worth noting that in the comparison between the latest two rounds, we examine changes over only five years, whereas in comparison between 1993-94 and 2004-05, we examine a much longer period. Taking roughly the two-decade period between 1993-94 and 2009-10, inter-personal inequality increased at all the levels- rural, urban and all India. Further, we can observe that in most states, urban and overall inequality increased from 1993-94 to 2004-05; the observation holds for rural inequality as well, although for a lesser number of states. If one looks at consumption for the poor and the wealthy as a percentage of median consumption, we can see that the expenditure of an individual at the 90th percentile as a percentage of the median has increased since the 1990s - 212.63 per cent (1993-94), 235.20 per cent (2004-05) and 234.41 per cent (2009-10).

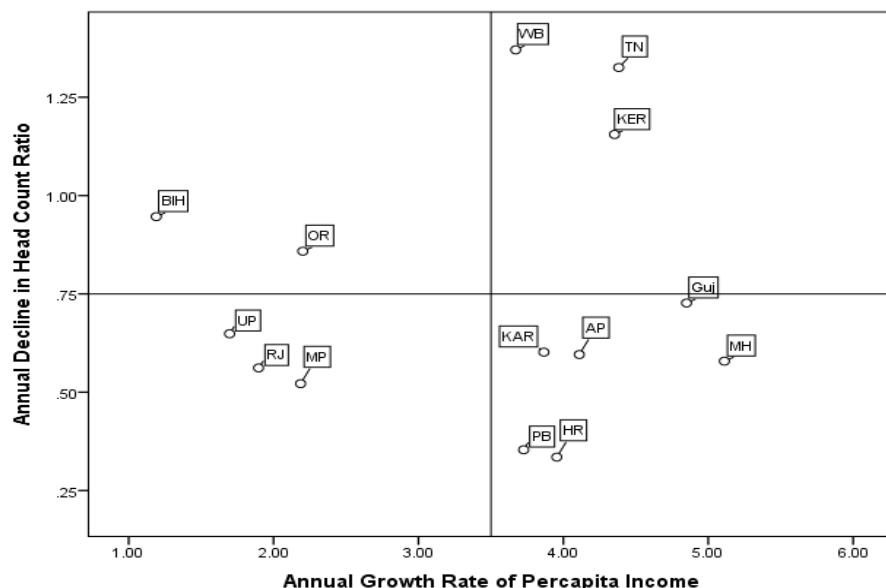
¹⁹ One prominent and sensitive observer of India (Guha, 2011) has argued that 'inequality and corruption are two mundane and materialist' challenges that are confronting the very idea of India today'.

10). On the other hand, expenditure of an individual at the 10th percentile as a percentage of the median has decreased steadily since the 1990s- 56.67 per cent (1993-94), 56.32 per cent (2004-05) and 55.99 per cent (2009-10).

IV. Growth and Poverty Reduction

The other side of development is deprivation. An analysis of the deprivation indicators becomes important in the Indian context since more than 30 per cent of the Indian population is still living below the poverty line (GoI, 2014). The extent to which the better-growing Indian states succeeded in reducing deprivation will show the result of the trickle down strategy. With this objective, we analyse the two important deprivation indicators and relate them to the levels of income in this section.

Figure 1. Annual growth in per capita income and poverty decline in India (1983 to 2004-05)



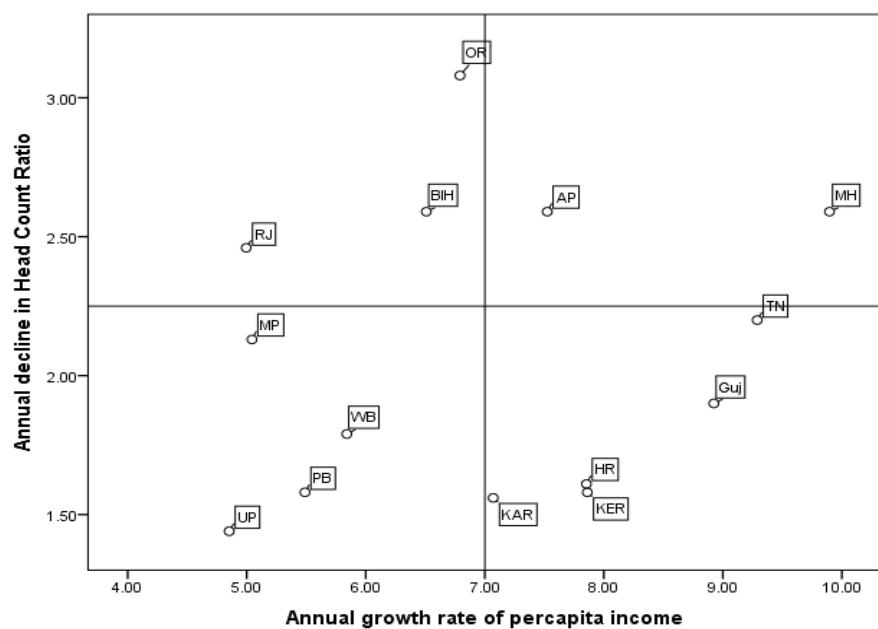
Differences in the growth performance of the individual states have important implications for poverty reduction, which is a critical objective of the national policy. The debate on poverty in India centred around two themes: (i) whether the post-reform period succeeded in reducing the proportion of poor in India or not; and (ii) the methodology of estimation of official poverty line and per capita consumption expenditure estimate of NSSO, which is used for estimating head count of the poor in India. The rationale of using head count ratio as a measure of poverty is questioned in the literature and the need for more comprehensive indices for understanding this complex issue is also highlighted.²⁰ We have analysed the efficacy of states in reducing the number of poor by taking in to account the temporal movement of per capita income growth and poverty decline. The results are given in Figures 1 and 2. In India comparable figures of officially estimated figures for poverty for the period 1983 to 2004-05 are available using the methodology of Lakdawala and figures from 2004-05 to 2011-12 are available based on Tendulkar methodology (Rangarajan, 2014). Hence, we have plotted the temporal movements in separate graphs.

The percentage decline in the officially poor among the major states in India for the period 1983 to 2004-05 along with corresponding per capita income growth is given in Figures 1. Poverty ratios for total population in major states show that it declined significantly in almost all the states since 1983. Although there has been a decline in the proportion of people below the poverty line,

²⁰ See Sengupta et al. (2008) and Kannan and Ravindran (2011) for the Indian case, and Alkire and Santos (2010) for the international scenario.

the degree of decline varies across the states, with some having very high poverty ratios for the total population. States like Kerala (Ker), Tamil Nadu (TN) and West Bengal (WB) attained higher per capita income growth as well as higher decline in the number of poor. On the other hand, states like Maharashtra (MH), Gujarat (Guj), Andhra Pradesh (AP), Karnataka (Kar), Punjab (Pu) and Haryana (Hr) attained more than average growth in per capita income but fell short of average performance in terms of reducing the number of poor. Uttar Pradesh (UP), Rajasthan (Rj) and Madhya Pradesh (MP) failed in attaining higher per capita income growth as well as poverty reduction. Bihar (Bih) and Orissa (Or), even though succeeded in a relatively better performance in poverty reduction in spite of low per capita income growth, have a higher backlog of large number of poor. The recent picture of states in terms of per capita income growth and poverty reduction is given in Figure 2. In the recent years all the states in India have attained higher per capita income growth. Uttar Pradesh, with a per capita income growth of around 5 per cent is the lowest growing state. Along with Madhya Pradesh, it belongs to the category of low per capita income growth and low decline in the number of poor. Even though West Bengal and Punjab belong to the same category, they have already attained a very low level of poverty during the previous period. Rajasthan, Bihar and Orissa have a long way to go in terms of both per capita income growth and poverty reduction to catch up with states like Maharashtra and Andhra Pradesh. Gujarat remains in the cluster of high growth with less than average annual decline in poverty reduction. This clearly indicates that growth alone will not lead to poverty decline, and better redistributive policies as done in states like Kerala and Tamil Nadu can bring down the number of poor in these states drastically. Growth is a necessary condition but not sufficient in itself.

Figure 2. Annual growth in per capita income and poverty decline in India (2004-05 to 2011-12)



Himanshu (2007) and Dev and Ravi (2007) looked into the absolute number of poor in different states. They found that the number of poor for the total population (rural + urban) rose in Madhya Pradesh, Maharashtra, Odisha and Uttar Pradesh. The number of rural poor increased in three states, Madhya Pradesh, Odisha and Uttar Pradesh in 2004-05 compared to 1993-94. On the other hand, the number of urban poor increased in eight out of fourteen states during this period. They further found the concentration of poor in a few states. A group of four states comprising Bihar, Madhya Pradesh, Odisha and Uttar Pradesh had a share of 49.8 per cent of the rural poor in the country in 1983. This share increased to 55 per cent in 1993-94 and further to 61 per cent in 2004-05. Similarly, the share of seven states, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh in the urban areas rose from 61.6 per cent in 1983 to 70 per cent in 1993-94 and to 76 per cent in 2004-05. Poverty of the total population (rural + urban)

was found to be concentrated in five states, viz., Bihar, Madhya Pradesh, Maharashtra, Orissa and Uttar Pradesh, their cumulative share being 65 per cent of the total poor in the country in 2004-05.

Dev and Ravi (2007) further found that the decline of percentage points per annum in total poverty was higher for nine out of fourteen states in the post-reform period as compared with the pre-reform period. Decline in rural poverty was also higher for all these states except Gujarat. In the case of urban poverty, the rate of decline was higher only in four states, viz., Andhra Pradesh, Gujarat, Karnataka and Madhya Pradesh.

V. Growth and under-nutrition

The extent of under-nutrition is another indicator which captures the failure of economic growth in a country. The macroeconomic growth and higher per capita income, if evenly distributed, is likely to have a positive impact in reducing the incidence of under-nutrition. Cross-country studies have shown that income growth has a positive impact on reducing malnutrition²¹. Severe incidence of under-nutrition and nutrition-related deaths are a serious problem faced by several districts in India. We have examined the extent of under-nutrition across states in terms of three indicators for children, namely, severely stunted, severely wasted and severely underweight and totally thin in the case of adult men and women. The anthropometric information collected by the National Family Health Survey (NFHS-3), 2005-06 indicates the severity of this problem across the Indian states. We compared these indicators with the average per capita income of the states for the time period 2005-06. Our results are given in Table 3.

In this dimension also, Maharashtra's higher level of per capita income failed to translate into higher nutritional outcome. Two of India's high income states, Maharashtra and Gujarat, showed a relatively poor performance in terms of nutritional outcome indicators. Their ranking in these indicators shows that while Maharashtra was in the sixth position in terms of children severely stunted, its rank came down to the seventh and eighth positions in terms of severely wasted children and women who are totally thin. Gujarat performed the worst compared with all the other states in the high income category. Kerala performed well in all the indicators of under-nutrition. Tamil Nadu also performed well except in the case of severely wasted children. The low income states as a group performed badly in terms of nutritional indicators as well.

VI. Towards an explanation

As discussed in the previous sections, India is a country characterized by multi-layered diversity and cultural heterogeneity where different types of inequalities and poverty have always been a fact of life. Since independence in 1947, India followed a development policy based on interventionist central planning and import substitution with the objective of reducing inequality and poverty. Policymakers adopted a path in which income inequality was tolerated, provided it was not 'excessive' and led to a higher rate of growth.

From the mid-1980s, the Indian government gradually adopted market-oriented economic reforms. The pace of the policy accelerated during the early 1990s, with the adoption of neo-liberal reforms programmes, marking a period of intensive economic liberalization, the focus being towards liberalization, privatization and globalization. During the past two decades India has made rapid progress in industrial and economic fields with unprecedented access to goods and opportunity. Yet, it is not only that the new income generated by economic growth has been highly unequally shared, but also the resources newly created have been inadequately utilized to alleviate the enormous social and economic deprivation of a majority of the society.

²¹ See Strauss and Thomas (1998) and Haddad et al. (2002) for a detailed discussion. Based on their cross-country study, Haddad et al. (2002) found that income growth has a positive impact on reducing under-nutrition among women and children.

Table 3: Extent of Under-nutrition in Indian states (2005-06)

State	Children [% below -3 SD]			Body Mass Index		Per capita Income (2005-06)	Category
	Height-for-age (Severely Stunted)	Weight-for-height (Severely Wasted)	Weight-for-age (Severely Underweight)	Women	Men		
Maharashtra	19.1 (6)	5.2 (7)	11.9 (6)	36.2 (8)	33.5 (6)	40947 (1)	High Income
	19.4 (7)	5.0 (5)	14.2 (9)	31.3 (4)	30.9 (5)	40313 (2)	
Gujarat	25.5 (11)	5.8 (9)	16.3 (11)	36.3 (9)	36.1 (11)	36102 (3)	High Income
	6.5 (1)	4.1 (3)	4.7 (1)	18.0 (1)	21.5 (2)	34837 (4)	
Tamil Nadu	10.9 (2)	8.9 (13)	6.4 (2)	28.4 (3)	27.1 (3)	34126 (5)	Middle Income
	17.3 (3)	2.1 (1)	8.0 (3)	18.9 (2)	20.6 (1)	33960 (6)	
Karnataka	20.5 (9)	5.9 (10)	12.8 (7)	33.5 (5)	33.9 (7)	29231 (7)	Middle Income
	18.7 (5)	3.5 (2)	9.9 (4)	33.5 (6)	30.8 (4)	27486 (8)	
West Bengal	17.8 (4)	4.5 (4)	11.1 (5)	39.1 (11)	35.2 (8)	23808 (9)	Low Income
	22.7 (10)	7.3 (11)	15.3 (10)	36.7 (10)	40.5 (13)	19445 (10)	
Odisha	19.6 (8)	5.2 (8)	13.4 (8)	41.4 (12)	35.7 (10)	17964 (11)	Low Income
	26.3 (12)	12.6 (14)	27.3 (14)	41.7 (13)	41.6 (14)	15927 (12)	
Uttar Pradesh	32.4 (14)	5.1 (6)	16.4 (12)	36.0 (7)	38.3 (12)	13443 (13)	Low Income
	29.1 (13)	8.3 (12)	24.1 (13)	45.1 (14)	35.3 (9)	7798 (14)	

Source: NFHS 3, IIPS Mumbai.

There is now a general acceptance of the role of state in economic development and an added emphasis as a facilitator. An effective state is vital for the provision of the goods and services—and the rules and institutions—that allow markets to flourish and people to lead healthier and happier lives. Without it sustainable development, both economic and social, would be impossible (World Bank, 1997).

The most important lesson one can learn from the East Asian economic development is that the state played a crucial part in every case (Young, 1992, 1994; Krugman, 1994). An essential goal of public policy has been to ensure that the bulk of young population has the capability to read, write, communicate and interact in a way that is essential for modern industrial production. In India, in contrast, there has been remarkable apathy towards expanding elementary and secondary education, and certainly “too little” government action, rather than “too much”, has been the basic failure of Indian planning in this field. The economic roles of education, learning by doing, technical progress and even economies of large scale can all be seen as contributing in different ways to the centrality of direct human agency in generating economic expansion in the newly industrialized countries (NICs) (Drèze & Sen, 1995; Sen, 1999; Sen & Drèze, 2013). The neglect of illiteracy is marked in relation to the low cost of making an adult literate. A comparison of the type of provisioning across countries shows that public expenditure on higher education in India is far greater than elsewhere in the world. The comparative degree of the bias is staggering. Spending

on higher education exceeds that on primary education by a factor of six in India (Balakrishnan, 2010).

VII. Towards inclusive growth

Inclusive growth not only creates new economic opportunities but also ensures equal access to the opportunities created for all segments of the society including the disadvantaged and marginalized. Growth is inclusive when it allows all members of the society to participate in and contribute to the growth process on an equal footing regardless of their individual circumstances (Ali & Zhuang, 2007). The importance of equal access to opportunities for all lies in its intrinsic value as well as instrumental role (Ali, 2007). The intrinsic value is based on the belief that equal access to opportunity is a basic right of a human being and that it is unethical and immoral to treat individuals differently in access to opportunities. The instrumental role comes from the recognition that equal access to opportunities increases growth potential, while inequality in access to opportunities diminishes it and makes growth unsustainable because it leads to inefficient utilization of human and physical resources, lowers the quality of institutions and policies, erodes social cohesion and increases social conflict.

The distinguishing feature of the inclusive growth process is that it focuses attention on understanding the causal factors behind inequality outcomes and then addresses the causal factors. Inclusive growth depends on average opportunities available to the population and how they are shared among the population (Ali & Son, 2007). We have already seen the failures of India in terms of ensuring the opportunities to its citizens and the corresponding outcome indicators in the previous sections. In terms of opportunities and access to them, the Indian scenario presents a sad story. Growth continues to bypass a large section of the society. A large majority of Indians living in rural and urban areas are, and continue to be, excluded from the benefits of growth. From the practical point of view, the efforts made by the state for attainment of inclusive growth would be more a rhetoric of the policy makers than reality.

It is only during the past decade that the Indian policy makers have begun to respond to widespread concerns over an unequal distribution of the benefits of growth and made inclusive growth a part of the official agenda. The Indian 11th Five-Year Plan²² defines inclusive growth to be “a process which yields broad-based benefits and ensures quality of opportunity for all”, thus implying *an equitable allocation of resources with benefits accruing to every section of the society*. India has already completed the Eleventh Five-Year Plan (2007-12) and has continued a similar policy in the Twelfth Five-Year Plan: *Faster, More Inclusive and Sustainable Growth* (GOI, 2013).²³ The general public perception about worsening economic plight of the masses has led the government to declare its commitment to *aam admi* (common man) in general and the “poorest of the poor” in particular. Its policy response has been to provide for a variety of rights-based programmes under Jawahar Rozgar Yojna, Mahatma Gandhi National Rural Employment Guarantee Act, Right to Education and recently the National Food Security Act.²⁴

Unfortunately, none of these right based initiatives are designed to improve the human capabilities and provide an equitable access to opportunities. The Indian policy makers still limp along the old strategy of ‘subsidies to the poor’ than making efforts to improve their welfare in a holistic way. Several studies suggest that there is a correlation between inclusive economic growth and level of public expenditure on social development including education and health (Habito

²²11th Five-Year Plan; Towards Faster and More Inclusive Growth, Government of India, Planning commission, 2006.

²³The draft of the Twelfth Five Year Plan (2012-2017) lists twelve strategy challenges which focus on inclusive growth. These include enhancing the capacity for growth, employment generation, infrastructure development, improved access to quality education and better healthcare, and sustained agricultural growth. See, *Inclusive Growth; A Challenging Opportunity*, Deloitte, September 2011.+

²⁴Unfortunately, in India where corruption is widespread and systemic the benefits of many such programs do not always accrue to the poor and the needy but often to the rural economic and political elite.

2009). Literacy is arguably the most significant factor in poverty reduction as it enhances employability. The role played by literacy has been found to be particularly notable by Ravallion and Datt (2002) who reported that nearly two-thirds of the difference between the elasticity of the headcount index of poverty to non-farm output for Bihar (the state with lowest absolute elasticity) and Kerala was attributable to the latter's substantially higher initial literacy rate. In primary education, India is well behind other nations which have comparable level of economic growth and per capita income. It is on primary education that the state has to concentrate most of its resources, physical as well as human.

India's public expenditure on health care in 2013 at 1.2 per cent of the GDP, has been low even by developing country standards. The corresponding share is higher in Afghanistan (1.7), Bangladesh (1.3), Nepal (2.6) Sri Lanka (1.4), and Bhutan (2.7). (WHO, 2015)²⁵ Thus, it is evident that the growth in GDP during the past two decades did not translate into corresponding increase in public spending on health. By comparison, public health expenditure in most of the OECD countries averages around five per cent of their GDP. India not only spends less on overall health, but public expenditure has favoured the rich quintile of the Indian society (NRHM, 2006). One consequence of this imbalance is that skilled health personnel attend just 16.4 per cent of births among the poorest 20 per cent compared with 84.4 per cent in the richest 20 per cent. Less than 3 per cent of India's population has private health insurance. India's attempts in recent years to provide health insurance for the poor have not been successful. Around 25 per cent of the poor do not even seek healthcare because of the costs. A case study by Singh (2010) shows that even in the wealthy state of Punjab, healthcare costs have led to farmers' sale of immovable assets and fatal indebtedness.

It is essential to improve the governance because the state still has a big stake in almost all crucial sectors such as health, sanitation and water. It is in these social sectors that the political parties are least interested once they come to power.²⁶ Yet these are the fields which require more attention if we are to improve human development alongside economic growth. With the current situation, it is no wonder that India figures extremely low on world human development index reports. There also ought to be greater accountability for politicians and civil servants. Progress in a democracy is slow, certainly in the case of a large and diverse country like India.

It is imperative for India to develop holistic and integrated solutions for solving the long-term problems of poverty, inequality, social exclusion, weak governance structure and widespread corruption in all stages of public service delivery. The new solutions, with an emphasis on sustainable inclusive growth, should pay attention to four points in formulating public policies: opportunity, capability, access and security. Opportunity aspect means generating opportunities to people to succeed economically as well as socially. Capability concentrates on providing means to people to create/enhance their capabilities in order to take advantage of opportunities. Access of course simply implies providing the means to bring the first two together. If these points are in place, then follows security, providing means to people to protect themselves against eventual loss of livelihood. Particularly, the first three points are of fundamental importance since if they are provided to the population at large, security will follow. The right policy mix for inclusive growth should be to *expand the opportunities and capabilities* of those who have been left behind in the growth process so as to enable them to participate in a *sustainable* growth process. Inclusive growth is central for reducing social and economic disparities, and also to sustain economic growth.

²⁵ India's public expenditure on health has been not only low, but declined from 1.05 per cent of GDP to 0.91 per cent in the liberalization phase (GOI 2006).

²⁶ The political power of the Indian elite often serves as a barrier to the attention that the poor can actually get resulting in a 'near-exclusion' on many issues of importance to large sections of the poor in India. This exclusion is reflected in a rather pervasive disregard for the interest of the poor in public policy. (Sen & Drèze, 2013)

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