

Why is Indian poverty getting worse after 12 years of economic reform?

Professor Amartya Sen's stinging criticism of the government's obsession with faster (unbalanced in his view) growth, has triggered a fierce debate. Labelling it as "[s]tupid," Sen argues that instead of focusing on double-digit growth, which he believes will take care of itself, policy-makers should focus on allocating more funds toward health and education. On the other hand, Professor Jagdish Bhagwati and Arvind Panagariya disapprove of Sen's analysis, stating that high growth has not only provided gainful employment but also provided the government with revenues for funding the desired social programs. Martin Wolf adds to that by saying that higher incomes are a necessary condition for better state-funded programs aimed at poverty alleviation. This debate is part of a larger one raging in India's academic corridors, where sharp differences of opinions exist not only about the actual poverty estimates in India but also about the level of inequality.

In a recent paper titled "The Official Poor in India Summed Up," Shukla gives estimates of income inequality and poverty using NCAER's household income surveys data (Micro Impact of Macro Adjustment Policies (MIMAP) 1994-95 and National Survey of Household Income and Expenditure (NSHIE) 2004-5), which is a departure from the conventional estimation of poverty based on the National Sample Survey Office's (NSSO's) household consumption expenditure data. One of the striking findings of the paper is the increase in inequality in both rural and urban India. The last decade was one of high economic growth, which is expected to continue and will certainly bring further structural changes in the economy. Taking net national product (NNP) growth at 8.75 percent during 2010-15, the top 20 percent households have gained the most, from a 37 percent share in total income in 1993-94 to 58 percent in

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2004-5. However, the sharper decline is noted among those in the middle rather than those on the bottom rung—the share of bottom 20 percent households was 7 percent in 1993 compared with 6 percent of households in 2004-5. The expected annual increase in average Indian household income will be about 11,000 INR between now and 2015; urbanites gain three times more than rural residents. Also, the top 20 percent in both rural and urban India have gained 24,000 INR and 75,000 INR, respectively, in their annual income. On the other hand, people at the bottom of the pyramid have gained only about 2,100 INR, irrespective of place of residence.

While the debate on the incidence of poverty is mired in methodological issues that range from the survey coverage of the NSS consumption expenditure (NSS-CES) to specification of the poverty norm, the evidence from the NSHIE on poverty and inequality shows that one of the important reasons for the deceleration of the rate of poverty decline is the existence of a high level of inequality, which is comparable to the inequality levels prevalent in the developed countries. The worrisome feature of inequality is that it has increased significantly during the past decade (12.9 percent in rural areas and 14.9 percent in urban

areas). The Gini coefficient calculated from the NCAER income data suggests not only that inequality is increasing but also that inequality levels in the rural areas are disconcertingly close to those in urban areas and are rising at almost the same rates. The inequality level in India is now comparable to the rates prevailing in several developed and middle-income countries, such as China, Hong Kong, Singapore, and the United States.

On the other hand, Bhalla, using NSS-CES data, reported a decline in both urban and rural inequality in 1993-94 and 1999-2000. According to Bhalla, rural inequality had decreased in 15 out of 16 major Indian states, while urban inequality had declined in 8 out of 17 states over the period. However, another study by Singh et al. could not find strong evidence of increases in household inequality for the period 1993-94 to 1999-2000. According to Singh et al., "there are some indications of increases in regional inequality, but they are neither uniform nor over dramatic." The problem lies in the change in methodology used by NSSO in the 55th round—that is, the results are not comparable with previous rounds, implying that lower Gini coefficients should not be interpreted as a sign of reduction in inequality in India. On the other hand, Pal and Gosh emphasized that the National Human Development Report published by the government of India, reported an increase in rural inequality in 7 states, while 15 states saw a rise in urban inequality.

It is important to note that inequality as reported in Shukla is based on income estimates, while most other measures of inequality are based on consumption expenditure. Banerjee and Piketty on the basis of income tax reports, reported that real incomes of the top 1 percent of income earners in India increased by

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roughly 50 percent. Furthermore, among this top 1 percent, the richest 1 percent increased their real incomes by more than three times during the 1990s.

For the purpose of estimating inequality, Shukla used the Gini coefficient, which is the most commonly used of the various measures for calculating inequality. However, the inability to break it down merits the use of the general entropy (GE) class of inequality measures. General Entropy or GE can be easily broken down into (1) between group inequality, and (2) within group inequality. The parameter in GE represents a weight given to distances between incomes at different parts of the income distribution. For lower values, GE is more sensitive to changes that affect the upper income brackets (Litchfield).

Table 1 states that total inequality as measured by the Theil index rose from 0.31 in 1994–95 to 0.367 in 2004–5. Breaking down this inequality (0.367) into the two components, the between-group inequality was only 0.307 while the within-group inequality was 0.342 for

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2004–5. The inequality figures reported in the tables below are the within-group inequality components of the various population subgroups. For example, for rural and urban population subgroups, inequality measures are 0.307 and 0.342 in 2004–5, respectively, which are the within-group inequality component. The all-India figures clearly show that income inequality has increased at both the rural and urban levels.

By breaking down GE inequality into two parts—namely, between-groups and within-groups—we are able to clearly analyze the inequality among the various population subgroups. Table 2 shows that income inequality for various educational categories has risen over the period under consideration.

The *Financial Times*' report of Professor Sen's remarks, reproduced in turn by Chinese publications, had sparked the debate (facilitated by CUTS, a Jaipur-based, free-trade advocacy group). During a meeting with President Obama in Washington last year, Prime Minister Manmohan Singh had said that India could aspire to an annual growth rate of 10 percent over the next many years. It is evident from the tables that income inequality has, in fact, increased over the period. However, what should worry the policy-makers is not the high-income inequality, per se, but that it continues to widen, even after two decades of reforms.

The problem is not that the rich are richer, but that those at the bottom have not been given the wherewithal to improve their earning capability. In the initial years of reforms, an increase in income inequality was understandable, because those with access to resources or equipped with skills would naturally have been in a better position to make use of the opportunities. However, over time, the benefits of the near double-digit growth should have percolated to the economically disadvantaged sections of society, which has not happened. Access to meaningful and affordable education, for one, continues to be an issue and lack of physical infrastructure makes it difficult for the hinterland to be integrated into the market economy. 🍁

Note

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TABLE 1 Measure of income inequality

	Theil Index (GE Mean Deviation Log)			Gini Index		
	1994–95 MIMAP	2004–5 NSHIE	Percent change	1994–95 MIMAP	2004–5 NSHIE	Percent change
All India	0.310	0.367	18.3	0.433	0.466	7.6
Rural	0.219	0.307	40.1	0.365	0.429	17.7
Urban	0.278	0.342	23.0	0.402	0.448	11.3

TABLE 2 Decomposition of income inequality by level of education

	Theil Index (GE Mean Deviation Log)			Gini Index		
	1994–95 MIMAP	2004–5 NSHIE	Percent change	1994–95 MIMAP	2004–5 NSHIE	Percent change
Illiterate	0.209	0.239	14.2	0.358	0.377	5.3
Higher secondary (12th)	0.248	0.295	18.8	0.385	0.419	8.7
Graduates and above	0.256	0.286	11.6	0.381	0.402	5.5