

Growth, Poverty and Inequality Paradox in India –A Panel Data Analysis

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It is well recognized that immediately after independence of our country the avowed objectives were the ending of poverty, inequality and ignorance. Of course there has been an evolution of policy strategies since independence from growth mediated development to public action programme led development and finally to the both so as to fructify the above objectives. Further we are facing a paradoxical situation of service sector driven high growth rate of N.I coupled with joblessness, high degree of relative and absolute inequality leading to a vicious circle of inequality trap and chronic poverty. Under this backdrop, this paper investigates the proximate explanatory factors behind the cross-state differentials in the growth rates and the various dimensions of inequalities and poverty in India by using both the cross-state regression technique and the panel data approach. We find that our economy has indeed achieved a tremendous structural transformation during the period of reforms with a remarkable fall in the domination of agriculture on GDP which is accompanied by almost no increase in the contribution of industry to GDP but with a significant increase in the contribution of service sector. In fact the growth process has failed to include the industrial sector in right path. The structural break analysis reveals that the behaviour of the GDP and its sectoral composition has experienced structural breaks not in an uniform manner. However we find that during the post reform period almost all the states have registered very high growth rates in varying degrees as compared to the growth rates achieved during the pre-reform period. Thus we can say that the reform process seems to have given a tremendous boost to the growth performance of all the states such that the states have been able to reap the benefits of the market in varying degrees.

The quality of living is concerned so far we find that the high growth rate of our economy has been a solace to a vast majority of our rural people and the objective of inclusiveness is still far from reality. Now so far as the poverty is concerned we find that the incidence of poverty has declined not only at the national level but also at the rural and urban areas in varying degrees. The phase wise analysis of the percentage point changes in the extent of poverty across the states reveals a mixed picture such that majority of the states have experienced fall in the incidence of poverty in varying degrees over the four phases of our analysis since 1973-74. Interestingly enough the cross-state differentials in the incidence of poverty and its magnitude of decline are found to be high and the same is increasing at an alarmingly high rate. The divergence of the incidence of poverty across the states highly matches with the significant divergence of the growth of real per-capita NSDP albeit the latter show an increasing trend. One cannot unequivocally conclude that all the states have experienced the rise in inequality and inequality is the major explanatory factor for the persistence of chronic poverty. The high rate of economic growth as well as the reform process have failed to provide any cushion against the poor and the vulnerable classes of people rather they have helped intensifying their deplorability of socio-economic condition. The relation between growth experience, poverty and inequality across the states does not reveal any uniform pattern. Some states have experienced high growth with lower inequality coupled with the persistence of the higher incidence of poverty. While some others have experienced relatively lower growth rates of Net State Domestic Product with

lower level of incidence of poverty. We actually find a paradoxical coexistence of growth, poverty and inequality.

The results of our panel data analysis clearly indicates that the inequality ,social sector expenditure, literacy, industrial growth and the growth rates of per-capita real state domestic product together explains 86% of the cross state variations in the incidence of poverty over time such that all these explanatory factors excepting the variable industrial growth are highly significant with their respective desired signs. We can safely conclude that the growth process that we have experienced since the inception of reforms has produce a mixed picture and failed to engender desirable impact on the objective of inclusiveness and for this purpose a domestic demand driven growth with sufficient public intervention programme seems to be more relevant

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