Abstract for "Can Economic Growth Transform into Human Capabilities in India?"

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Background

The basic needs and the capabilities approach has often taken the view that economic growth may not be sufficient to generate progresses in human living conditions (Streeten et al 1981, Stewart 1985, Sen 1989, 2002, Nussbaum 2000, Alkire 2002 a, Fukuda-Parr 2003). Although the Indian economy in recent past remained at the top ten in terms of its growth potential, it has lagged behind many poorer countries in terms of its human capabilities. Dreze and Sen [2013] have recently argued that while India surpassed other countries in real incomes, it had been overtaken in terms of social indicators by smaller countries in the South Asian region, due to its slow progress in the provision of social services like schooling, health care, water and sanitation to the majority of population.

Although studies on the growth pro-poorness and/or growth-inclusiveness have remained numerous in the Indian context, most of them have been performed by examining the growth impacts on income poverty rather than the poverty in capabilities. While the income poverty is generally represented by the income deprivation, the poverty in capabilities can include deprivations in health, access to education and skill, living conditions, livelihood security, etc.

Research Objective

This paper has a specific objective of examining whether the levels of economic growth tend to correlate with the different dimensions of human capabilities by employing state-level data from India. A major analytical difference of this study with the present line of research is that we just do not inquire whether the levels of per capita income tend to correlate with any of the aggregate capabilities measure. On the contrary, we examine as to which particular dimensions of human capabilities have had any stimulus from the economic growth process of Indian states. The individual dimensions of human capabilities are meaningfully constructed for our present purpose, which is indeed useful for policy purposes. The advantage of adopting a disaggregated approach for the measurement of capabilities is that the deprivation can be separately assessed in each of the individual dimensions. We subsequently aggregate the dimension-specific capability deprivations into a composite index on the understanding that a multi-dimensional measure can capture the overall quality of life better than the one that is based on any specific dimension.

Our analysis proceeds in the following sequence. We first discuss the theoretical grounds of the capabilities approach to understand how the growth process impacts on the development of capabilities. In section 3, we construct the multi-dimensional capability index individually for four different dimensions as well as the aggregate - for different states of India. We have used the principal component method to determine the set of weights that are to be employed for deriving the composite index. This is necessary, since the use of equal or any other weights among variables – as is done in the case of HDI – is liable to encounter potential methodological problems in case two or more variables are inter-linked and correlated. Thus, we have employed a method of normal or single stage principal component to work out

the dimensional capability indices from the relevant variables for four individual dimensions. Subsequently, the aggregate multi-dimensional capability index is constructed by applying the second stage principal component method over the four dimensional capability indicators. We finally explore on whether the per capita income growth in different states has led to an impact on any of these individual capability dimensions (section 4). We use correlation and regression analysis to discern the growth and human capability linkages for individual dimensions.

Results

Some interesting results emerge from the ranking of states on the basis of their four individual capability indices as well as the aggregate capability indices covering all the four dimensions. We observe instances, where states with top rankings in aggregate capabilities lagging in one or two specific dimensional capabilities.

Overall, a positive association with the real per capita income can be noticed for each of the four capability dimension. However, the correlation appears to be the highest for the living conditions and livelihood security dimensions, followed by the educational dimension. The dimension of longevity and health revealed the lowest correlation with the real per capita income, so that the fitted trend turns much flatter instead of yielding a positively sloped line. It therefore appears that while the growth process can improve upon the livelihood and living conditions, developments in health and educational capabilities would require direct policy interventions.

Policy Relevance

We utilize the capability approach to examine the pro-poorness of Indian economic growth, which evaluates the growth performances across states according to their impact on people's capabilities and well-being. This paper provides dimensional indicators on the extent to which people are healthy, educated, have accesses to basic amenities such as drinking water and sanitation, have opportunities for livelihood security, freedom from social/minority discrimination, and many more.

It appears that the Indian growth process has led to the access for livelihood and basic living conditions, but certainly not transformed into extending people's choices for living a long and healthy life and be educated. These results could provide some important insights in understanding the multi-directional links of the growth process with various capability dimensions and provide useful leads for public policy making.