

Great Transition in Indian Society

Religion, Economy and Foreign Policy



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 **World Scientific**

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Chapter 3

Inclusive Growth in India! Did We Succeed?

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Introduction

The present buzzword for India's development strategy is inclusive growth, which emphasizes a more equitable distribution of income as well as building capabilities for attaining better health and education. If popular press articles are any indication to go by, then most of the recently published articles on inclusive growth are about the effectiveness of government development programs in reducing poverty (*The Hindu* 2019) and whether pursuing economic reforms has any negative fall-out, such as an increase in income inequality (Oxfam 2020). According to the report titled *Time to Care*, published by Oxfam, the richest 1 percent population in India hold more than four-times the wealth held by 953 million people who make up the bottom 70 percent of the country's population.

Income inequality leads to inequality in other fronts — inequality in terms of access to healthcare, education, sanitation, and participation in political process. For example, although with improvement in medical care life expectancy on average has improved in the US between 1990 and 2000, for the poorest group there has been little progress, and for the poor women life expectancy has actually been declining (Cristia 2009).

Income, health, education, and sanitation are important constituent elements of development. In the words of Professor Amartya Sen, development is synonymous with freedom (Sen 2001). Freedom from poverty, illiteracy, infant mortality, and freedom to participate in political processes are a few examples. One can achieve freedom from poverty, provided there is opportunity to earn income; freedom from illiteracy, provided the citizens are educated; freedom from infant mortality, provided there are enough hospitals and an adequate healthcare system; and freedom to participate in political processes, provided there is good governance. Only when each member of the society has the capacity to avoid impediments to happiness, which are poverty, under-education, malnutrition, political unrest, and gender inequality, can a society consider itself developed. South Korea, Japan, the Nordic, and the North American regions are examples of developed countries.

Inclusive growth marked by overall development is important. A country with better growth prospects but one that neglects development cannot grow in the long-run. Improved standards of living cannot be ensured through increased growth rate alone. For example, during the 1960s and 1970s, Brazil witnessed higher growth, but as distribution of income along with other quality indicators of life, such as health and education, were neglected, policy-makers eventually had to follow populist policies for fear of losing power. This has put a halt to Brazil's reform programs and has prevented it from achieving full employment level of output. As the levels of development were low and the larger group of *have nots* was neglected, the ruling parties in Brazil were repeatedly thrown out of power. So, the initial reform process which resulted in higher growth could not be sustained. Therefore, in addition to growth, policy-makers also need to ensure that the society is also developing, that is, the citizens have access to quality living.

Inclusive Growth, Development, and India

According to the Human Development Report published by United Nations Development Programme (UNDP), India ranked 131 out of 189 nations on the Human Development Index (HDI) 2020. Although one of the fastest growing larger economies in the world, India's per capita income fell to US\$6681 in 2019 from US\$6829 in 2018. There has been an increase in income inequality. The total wealth of all Indian billionaires is more than India's full-year government budget spending (Oxfam 2020).

This rise in income inequality is a matter of concern as it is impacting a society which is already marred along the line of caste, creed, religion, and geography.

A widening income inequality is bad. A decline in per capita income marked by overall level of development may lead to other social manifestations, for example, drug abuse and a deteriorating law and order situation; all of which may take a toll on health and life expectancy (Stiglitz 2012). Growth may also suffer. Marginal propensity to consume (share of consumption as a percentage of income) is generally higher for the lower income group, and they usually spend this money on domestic goods. On the contrary, the rich not only spend a lower share of their income on consumption but a considerable portion of such spending is devoted toward foreign goods and services. For instance, the low and the middle-income group usually spend their money in procuring necessities such as food, shelter, healthcare, and education. Whereas the rich may spend their money toward foreign made luxury items such as cars or take up any foreign vacation. Such conspicuous consumption does not lead to domestic investment and growth. In fact, it may aggravate trade balance of any country. Therefore, both from the perspective of continuation of reforms (as mentioned earlier), and from the perspective of macroeconomic health, it is required to control income equality.

In fact, since the start of the planning process during the early 1950s, the emphasis of the policy-makers was to ensure a balanced regional growth. India adopted a policy of freight equalization, which meant a factory can be set up anywhere in India and the government will subsidize for the transportation of mineral and raw materials required. There was an implicit universal understanding among the policy-makers that an attention on state level balanced development would automatically take care of inter-district disparities within each of the states. Between 1950 and 1980, India's GDP registered an average rate of growth of 3.5 percent (also famously known as the, "Hindu Rate of Growth").¹ During this period, per capita income increased by a meagre 1.3 percent. Income inequality was

¹The term "Hindu Rate of Growth" was coined by Professor Raj Krishna who taught at University of Delhi, India. In one of his lectures in the late 1970s, he suggested, India a country with mostly "Hindu" population was growing at a much slower pace in comparison to some of the Asian tigers. It is to be noted that during early 1950s, India had similar level of per capita income to that of South Korea and Taiwan. Exponential economic growth has transformed the latter two countries into developed regions, while India continues to lag.

also low. Gini Coefficient, which is a measure of income inequality, was 0.28 in 1990–1991 (start of the economic reform) increasing to 0.30 in 2010–2011 (Dreze and Sen 2013).

It is to be noted, to increase growth rate and per capita income for India, it was necessary to undertake economic reforms. Economic reforms began in earnest in July 1991. Policy-makers started opening-up the economy by reducing tariffs barriers and allowing private sector participation in domestic industry. With more market participation or investment by the private players, it is only natural that some people with better skillsets will benefit more from it. This led to an increase in income inequality. For example, people employed in the software and private banking sectors started earning more in comparison to the ones employed in the manufacturing and agricultural sectors. It should be noted that the perception regarding economic reforms only benefiting the rich might have been one of the factors responsible for the ouster of the National Democratic Alliance (NDA) government, paving the way for the election of the United Progressive Alliance (UPA) to government initially during 2004, and the subsequent re-election in 2009. The slogan about “India Shining” completely backfired for the NDA. To address this perception about increased inequality — with the rich getting more opportunities to participate in the market than the poor — the UPA Government started market intervention. Schemes such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme, under which the poor are guaranteed 100 days of employment, is a classic example of labor market intervention. There has also been a plethora of other schemes by the UPA Government such as mid-day meal schemes, Indira Awas Yojana (housing for all), Pradhan Mantri Gram Sadak Yojana (connecting and building rural roads) among others. Capital market intervention such as micro-financing has also emerged in a big way.

How successful were these interventions? A way to understand whether these interventions have been successful is to examine the consumption expenditure and per capita income data. An effective government intervention would imply dispersion in consumption expenditures and per capita income between rich and the poor has not fallen. In this chapter, I look at consumption expenditure and per capita district income data to analyze whether income inequality has changed (increased or decreased) during post-reform period. The rest of the chapter is organized as follows. I start with a literature survey. Thereafter, I introduce the data.

What follows next is analysis of the data. Finally, is the conclusion with some policy recommendations.

Literature Review

There are two ways to approach income inequality. One is regional income inequality — whether during post-reform period average per capita income of some states and districts in India has increased relative to the others.² The second is intra-region income inequality, that is, within any state, district, or any geographical domain, how has inter-personal income inequality changed.

Regional Income Inequality

There are several studies that indicate India is spatially heterogeneous in terms of level of development. Singh *et al.* (2010) give a detailed account of this literature. These studies merely stop at classifying districts and/or states based on some development indicators without quantifying the linkages between the growth and development indicators. Based on the 1991 Census (Government of India 1991), Kurian (2000) finds evidence about widening regional disparities in India when measured in terms of sex ratio (females per 1,000 males), female literacy, infant mortality, and level of infrastructure development. He finds that the forward group of states (Andhra Pradesh, Gujarat, Haryana, Karnataka, Kerala, Maharashtra, Punjab, and Tamil Nadu), with higher per capita income, have moved ahead in terms of performance on the development indicators relative to the backward group of states (Assam, Bihar, Rajasthan, Uttar Pradesh, and West Bengal), that is, the states with lower per capita income. Based on data obtained from Planning Commission (Government of India 2000), Mehta (2003) finds spatial inequalities exist at all level of disaggregation — a given state may perform extremely well on all indicators, but there may be districts within that state that are among the most deprived in the country, or a state may have very high levels of attainment on certain specific development indicator(s), but not on all of them.

² India is a federal union comprising 28 states and nine union territories. Each state is further sub-divided into administrative divisions known as districts.

Considering the impact of economic reforms on regional income inequality, Ahluwalia (2002) finds that not all the rich states have become richer relative to the poorer states. While examining the growth performance of 14 major states during the pre-reform period (from 1980–1981 to 1990–1991) with the post-reform period (from 1991–1992 to 1998–1999), the study finds, except for the three poorer states (Bihar, Uttar Pradesh, and Orissa), all the other states have narrowed the distance between themselves and two of the richest states (Punjab and Haryana) during the 1990s. Middle-income states such as Karnataka, Kerala, Tamil Nadu, and West Bengal grew faster during the post-reform period relative to their growth rates during the pre-reform period.

However, Bhattacharya and Sakthivel (2004) find evidence in favor of increasing regional inequality, with the state domestic product (SDP) widening more drastically during the post-reform period. They argue that the comparison in Ahluwalia (2002) is based on two different sets of SDP data. The new 1993–1994 base year SDP data series used for doing post-reform period analysis is different than the old 1980–1981 base year SDP data series used for analyzing performance of states during pre-reform period. There has been a change in product classification in the new SDP data series, with more sectors included from the financial services, the real estate, and the agricultural allied services than there were in the old SDP data series (Bhattacharya and Sakthivel 2004). The authors extend the new SDP data series backward to compare growth and regional variation across states with a common database. Their results show that the coefficient of variation in the per capita SDP growth rate has increased from 0.19 during the 1980s to 0.29 during the 1990s, and the correlation coefficient between the average growth rates of SDP between the 1980s and the 1990s across states is 0.50. This means that the states with higher SDP growth rates in the 1980s continued to experience higher growth rates in the 1990s.

Intra-Regional and Inter-Personal Income Inequality

What about intra-regional inequality? Here studies find mixed evidence. Based on estimates of household consumption expenditure data from National Sample Survey (NSS), Bhalla (2003) finds that both urban and rural Gini coefficients have declined between 1993–1994 and 1999–2000. According to his calculation, rural inequality has declined in 15 out of

16 major states in India, and urban inequality has declined in eight out of the 17 states over this period. Bhalla concluded that inequality had not worsened in India after reforms. However, the National Human Development Report (2001) published by the Government of India does not find any strong evidence in favor of an increase in income inequality. This report published state-wise Gini coefficients for the years 1983, 1993–1994, and 1999–2000. Gini coefficients were estimated using the 38th, 50th, and 55th rounds of Household Consumer Expenditure survey conducted by the National Sample Survey Organization (NSSO). Comparing level of inequality between 1993–1994 and 1999–2000, among 32 states and union territories, seven states have experienced an increase in rural inequality and 15 states have experienced an increase in urban inequality. There were five states where both urban and rural inequalities increased. All these five states are located in the North-Eastern part of India. States and Union territories where rural inequality has increased are Assam, Manipur, Mizoram, Nagaland, Sikkim, Chandigarh, Dadra and Nagar Haveli, and Arunachal Pradesh. States and union territories where urban inequality has increased are Assam, Bihar, Gujarat, Haryana, Karnataka, Manipur, Mizoram, Nagaland, Punjab, Sikkim, Tamil Nadu, Tripura, Uttar Pradesh, Daman and Diu.

The study that did not agree with the conclusion that income inequality had fallen during the post-reforms period argued that there was a problem in comparing 55th round of NSS (1999–2000) with the earlier ones. Sen (2001) pointed out that the reference periods in the Consumer Expenditure Survey of the 55th round of NSS survey were changed from the uniform 30 day recall period (questions asked about consumption), used till then, to both seven and 30 day questions for items such as food and intoxicants, and to 365 day questions for items of clothing, footwear, education, institutional medical expense, and durable goods. The change from 30 days to 365 days in the reporting period for these low frequency items possibly has been responsible for lower poverty and inequality estimates. The longer reporting time reduced the mean expenditures on these items, but because a much larger fraction of people reported something over the longer reporting period, the bottom tail of the consumption distribution was pulled up, and as a result, both inequality and poverty were reduced. Therefore, although the unadjusted data show a decrease in income inequality between 50th (1993–1994) and 55th (1999–2000) Round, the adjusted comparable data suggested that inequality has in fact

gone up between these two rounds (Deaton and Dreze 2002). According to these studies, both urban and rural inequality increased in Assam, Manipur, Mizoram, Nagaland, and Sikkim. This is also reflected at the pan-India level, showing that urban inequality remained higher than the rural inequality for all the reference years.

Based on indices of real mean per capita consumption expenditure by fragile group, Sen and Himanshu (2005) show that whereas consumption level of the upper tail of the population, including the top 20 percent of the rural population, went up remarkably during the 1990s, the bottom 80 percent of the rural population suffered during this period. Ghosh and Gupta (2008) estimated that India's vulnerable population is close to bottom 50 percent. There is enough evidence to show that rural India has always remained poorer than the urban areas, and the difference has increased over time (Chaudhury and Gupta 2007). Banerjee and Banik (2014) found that within any district income inequality has increased. Households depending on the agriculture sector, particularly the landless agricultural laborers, small and marginal farmers, and rural artisans constitute bulk of the rural poor. The income of these groups has not increased as fast as what is noticed for the high-income households. It is also notable that during the reform period, urban inequality in India was much higher than rural inequality. In 31 out of the 32 states and union territories, urban inequality remained higher than rural inequality (Ghosh and Gupta 2008). The first district level study undertaken by the Government of India (GOI 2010) also found intense variations of developmental performance across districts within each state except Punjab, Haryana, Himachal Pradesh, Kerala, and Gujarat. Although India is one of the fastest growing large economies (in terms of GDP growth), Dreze and Sen (2013) demonstrated that India lagged behind its South Asian neighbors in key social and development indicators such as infant mortality, open defecation, literacy rates, and mortality rates.

Irrespective of what these studies suggest, there is hardly any doubt that the Indian economy is a tale of two worlds. One that is visible in terms of high-end shopping malls, skyscrapers, luxury cars, fashionable dresses, and night clubs, and the other, which survives in the rural hinterland and urban informal sectors. According to Tharoor (2007), India is a country that manages to live in several centuries at the same time. Likewise, Luce (2007) commented, "In India things are never as good or as bad as they seem." In urban areas, gleaming Mercedes-Benz vie for space with rickety auto rickshaws.

Data and Methodology

I use monthly per capita consumer expenditure (MPCE) to investigate performance of people residing in districts in India in terms of bottom 25 percent, middle 50 percent, and top quartile people between 2004–2005 (National Sample Survey (NSS), 61st Round) and 2009–2010 (NSS, 66th Round). I consider district level per capita income to understand how distribution of income has changed between these two time periods.³ I also consider the data district per capita income, to ascertain whether consumption expenditure data imitate income data. As majority of the poor people in India belong to the rural area and are dependent on agriculture sector, at a sectoral-level, I look at how mean per capita income has changed with respect to agriculture sector.⁴ All datasets — MPCE and per capita income — are based on India Census, Government of India. MPCE data are published by National Data Bank, Government of India.⁵ District-level per capita income is sourced from Planning Commission (now, NITI Aayog), Government of India.

It is to be noted, one of the largest labor market intervention in the world, MGNREGA, was initiated in 2005 (Banik *et al.* 2020). An effective labor market intervention would imply that consumption expenditure would have changed between these two time periods, that is, between 2004–2005 and 2009–2010. Also, as during post-reform period India witnessed a high growth, it is expected to see a change in income distribution function. For understanding change in consumption expenditure, I estimate district level proportions of population in three economic classes: "poor" class (bottom 25 percent), the "middle" class (middle 50 percent people), and the "rich" class (top 25 percent). I estimate the mean MPCE for each class and for each district as a whole. This dataset is deflated by consumer price for agricultural laborers (CPIAL) so that they are directly comparable between 2004–2005 and 2009–2010. The total number of districts covered are 559 from 27 states. Thereafter, I plot per capita income density function (with and without median adjusted) to

³I am referring to distribution of per capita income across districts, and not within a particular district.

⁴We follow standard definitions of agriculture (primary), manufacturing (secondary), and services (tertiary) sectors as defined by Central Statistical Organization, Government of India.

⁵For detail see: http://mospi.nic.in/sites/default/files/national_data_bank/hdb-rpts-61.htm.

understand the change in per capita income. This exercise is repeated both for the aggregate level of income (national income), and also for income originating from the agricultural sector (that is, agriculture GDP). For the consumption expenditure, the methodology is as follows. At first, I look at the percentage of people at district level corresponding to each class — poor, vulnerable, and rich. This is done by identifying the state's bottom quartile to get the resultant MPCE, because each state has separate official cost of living index in India. Then the MPCE corresponding to bottom 25 percent is used for each district in the concerned state so that district level quartiles are obtained such that state-level mean data are weighted average of districts. The same process is repeated for middle 50 percent and top 25 percent class. Then weighted mean MPCEs of bottom, middle 50 percent, and top quartile are derived separately for each district.

Results

Measured in terms of consumption expenditure, a successful implementation of the MGNREGA is expected to reduce the gap between the rich and the poor income households. However, as is evident from Tables 1 and 2, there has been a slight fall in MPCE for the people belonging to the “poor” category. Even within the “poor” category, the coefficient of variation increased between 2004–2005 and 2009–2010. This implies even the gap between the “poor” and the “vulnerable” or ultra-poor section, increased.⁶ For the “middle” category, the MPCE remained more or less constant. On the contrary and unlike the poor category, for the “rich” category, MPCE increased between 2004–2005 and 2009–2010. Overall, the mean MPCE, taking into account all the three categories, increased. Although reform process has been able to usher in growth and a higher per capita income, the results show that the richer are becoming rich faster, in comparison to the poor becoming rich. And, all this happened during a period when India saw introduction of the largest labor market intervention in the form of MGNREGA. It is expected that the poorer

⁶In 2011, India had a new poverty line. An individual spending less than Indian Rupees 31 in urban areas and Indian Rupees 25 in rural areas, per day, on food, health, and education, every day is considered poor. On 31 December 2011, \$1 was equivalent to Indian Rupees 53.06.

Table 1: District-Level Proportion of Population in Terms of MPCE (Indian Rupees), 2004–2005

Variable	Coefficient of			
	Mean	Variation (CV)	Minimum	Maximum Range
Lowest 25 percent	25.4	58.9	0	89.0 High
Middle 50 percent	49.9	22.1	8.733	88.1 High
Top 25 percent	24.6	53.5	1.362	86.1 High
Mean MPCE Lowest 25 percent	315.3	25.4	164.1	647.6 High
Mean MPCE Middle 50 percent	496.8	24.6	309.2	917.2 High
Mean MPCE Top 25 percent	1001.8	36.2	540.2	3052.6 High
District Mean MPCE	578.8	32.9	217.9	1559.4 High

Table 2: District-Level Proportion of Population in Terms of MPCE (Indian Rupees), 2009–2010

Variable	Coefficient of			
	Mean	Variation (CV)	Minimum	Maximum Range
Lowest 25 percent	24.8	64.1	0	86.0 High
Middle 50 percent	49.8	26.6	2.00	88.0 High
Top 25 percent	25.3	60.4	1.41	92.0 High
Mean MPCE Lowest 25 percent	340.4	25.0	161.2	675.6 High
Mean MPCE Middle 50 percent	537.2	24.8	343.9	929.2 High
Mean MPCE Top 25 percent	1079.2	44.5	557.2	5221.6 High
District Mean MPCE	974.8	37.4	307.9	3395.5 High

states are more likely to use MGNREGA funds as there are less alternative job opportunities available. However, data show a correlation between poverty levels and implementation of MGNREGA was not very high. 46 percent of the rural poor households in India live in the states of Bihar, Maharashtra, and Uttar Pradesh (CAG Report 2013). In India, MGNREGA as a program has been partially successful (Banik *et al.* 2021). Inter-district disparities measured by proportion of bottom quartile and top quartile people are very high across rural districts. This may be due to poor implementation of the MGNREGA, the inability to use laborers for MGNREGA, and leakage of funds resulting from corruption. There are numerous ways money meant for MGNREGA work was stolen; including

false documentation, false worker lists, and a significant proportion of missing assets, that is without actually constructing the assets that were mentioned in the web feedback system. For example, in the state of Kerala, there were not many workers available for MGNREGA work, and the *Panchayat Pradhans* (*Head of Village Council*) were instructed to submit wage bills wherein the beneficiaries are the local party workers.⁷ Other southern states, such as Andhra Pradesh, Karnataka, and Tamil Nadu, although they fared well in terms of implementing MGNREGA, used most of these funds for buying heavy machinery for the construction of MGNREGA assets. Poor laborers for whom the MGNREGA was designed were not employed.

Further, I draw per capita income density function at a district level. In line with the results from above, I find evidence in favor of a uniform increase in income across all the districts. There is a shift in the per capita income density function between these two time periods. This is due to a significant increase in the mean, and the median per capita income, from 2004–2005 to 2009–2010. Also noticeable is there is no evidence of twin peaks: clustering of the rich and low-income districts, across India. This idea is in the spirit of works done by Quah (1993; 1996), who introduces the notion of twin peaks in the cross-country distribution of incomes. Quah (1993; 1996) finds evidence of persistence, and stratification of income density functions.⁸ Emergence of twin peaks implies polarization of the cross-country income distribution into rich and poor convergence clubs. The results (Figure 1) imply that all the districts in India have benefited, with a rise in mean per capita income, during the period of post-reform high-growth years. However, within any district the difference

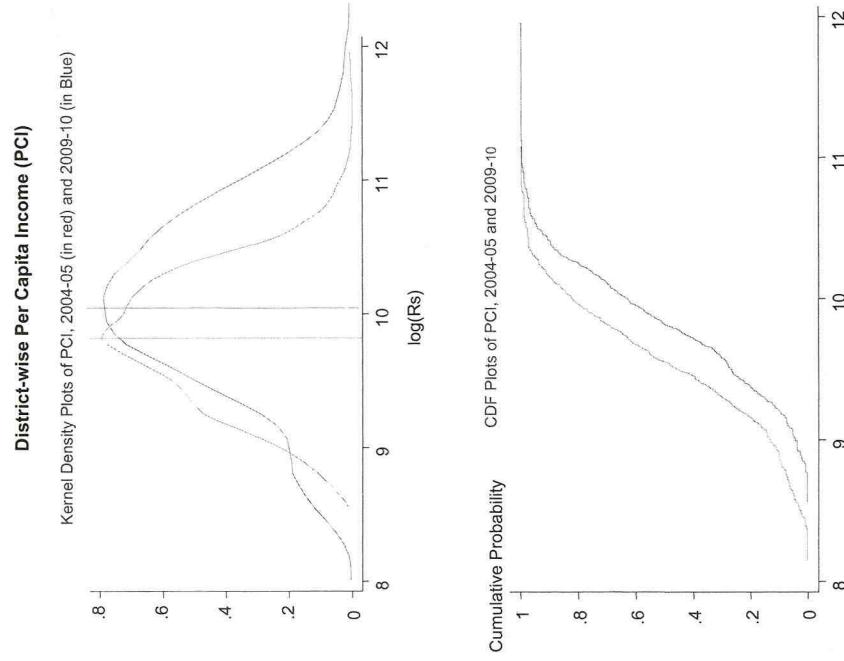


Figure 1: District-Level Per Capita Income Distribution and Density Plot

between the rich and the poor income households increased (Banerjee and Banik 2014).

Interestingly, although median income increased, looking at the agricultural sector there has not been much change in per capita income between 2004–2005 and 2009–2010 (Figure 2). The share of agricultural sector that supports livelihood of 57 percent of the Indian population in 2009–2010 has fallen from 56.9 percent of GDP during 1950–1951 to 14.7 percent of GDP during 2009–2010. On the other hand, services sector (excluding construction) supporting livelihood of around 24 percent of the population in 2009–2010 has increased from 29.8 percent of GDP during 1950–1951 to 54.7 percent of GDP during 2009–2010 (Economic

⁷Villages are sub-divisional units of a district. According to the 2011 census, there are 649,481 villages in India. Gram panchayats stand for village councils. The rural societies are accustomed to the regulation of their domestic, religious, social, economic, socio-political, and judicial affairs at the grassroots level through their traditional village councils and the collective wisdom of the people in the village. Gram Panchayat, comprising more than one village, is the primary unit of local self-governance in rural India. There are 250,000 village panchayats.

⁸Quah (1993) considers log of per capita income data for 118 countries between 1962 and 1985. Although our analysis contains data for a shorter span, we argue that given India's fast growth experience within this short span (average annual growth rate exceeding 7 percent between 1999 and 2005) might make it possible to capture emergence of any cluster in the underlying income distribution function, especially at a sub-regional level.

Kernel Density Plots of Per capita Agriculture, 2004-05(red) and 2009-10 (Blue)

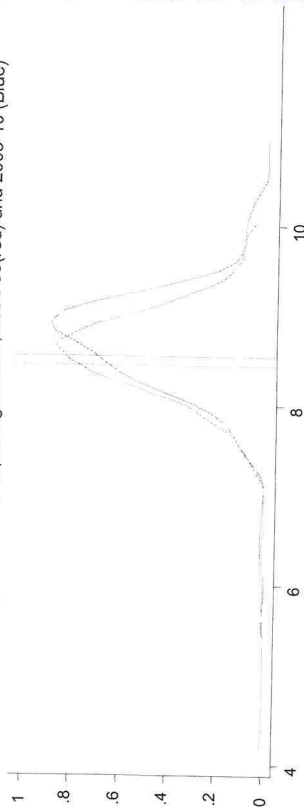


Figure 2: Per Capita District-Level Agricultural Income

Survey, 2011–2012). During post-reform period, services sector grew at a much faster pace in comparison to the agricultural sector (Banerjee and Banik 2014). Productivity in the agricultural sector is low as it is not mechanized and a large tract of land is still not under irrigation. World Bank data show only 35 percent of India's agricultural land is irrigated (artificial application of water to land or soil).⁹ This means the majority (65 percent) of farming is rain-dependent, most of which occurs in just a few months over the summer. Banik (2018) shows that there is a positive correlation between farmers' committing suicide in India and a bad rainfall year. The higher dependence of the population on a low value-added agricultural sector has been the main reason for increase in income inequality in India.

Conclusion

The impact of reforms has been positive for India. Median per capita income increased. However, the fruit of economic liberalization is benefiting the rich more than the poor. India is yet to achieve its objective of inclusive growth. Income inequality persists in spite of labor market intervention such as MGNREGA. Disparities measured by district mean per capita consumption expenditure, and access to health and education have

been rising over time. Average purchasing power of bottom quartile is low everywhere, while that of rich people shows an increase. The rich are getting richer faster than the poor are becoming richer. For a scheme such as MGNREGA to succeed, it is necessary to customize the implementation according to the needs of every region with minimum leakage of funds due to corruption in various administrative layers. Fortunately for India, National Agricultural Research Project by Indian Council of Agricultural Research has divided the country into 127 independent agro-climatic regions depending on soil, rainfall, and agricultural productivities. For the programs to be effective, it is advisable that the MGNREGA schemes are implemented as per the requirement of the geographical characteristics taking into account occupational patterns of the local people. The implementation of the projects should be undertaken under constant supervision of a national body. Otherwise, collective political corruption will continue to snatch the livelihood of the rural poor in such an imperfect democracy. Besides job creation through schemes such as MGNREGA, there is a need to improve agricultural productivity. Policy-makers in India can aim for inclusive growth by concentrating on the agricultural sector. Since India has leapfrogged into skill-intensive services sector by-passing the manufacturing sector, there is a need to increase agricultural productivity. In that way returns to the people dependent on the agricultural sector will increase. This is important, as majority of India's population is dependent on the agricultural sector. The other element for fostering inclusive growth is focusing on small business. There is a need for removing capital market imperfections so that small entrepreneurial activities, agriculture, and agriculture-related allied activities such as fishing, dairying, etc., can grow and flourish. This will also create employment opportunities and make the growth inclusive. Finally, there is a need to impart skills among the laborers. In this way, excess laborers from the agricultural and allied sectors can be meaningfully absorbed in the services and manufacturing sectors.

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