Prosperity in the 21st century

A case for bringing the issue of poverty to the centre stage of public policy has recently been made by two of India's prominent economists. In their article, How the data sets stack up (*The Hindu*, Editorial page, April 4), C. Rangarajan and S. Mahendra Dev suggest that since the publication of Thomas Piketty's *Capital in the Twenty-First Century* global attention may have got somewhat disproportionately focussed on the issue of inequality, crowding out attention to poverty. They argue that poverty is an important indicator of a country's development on its own.

This is an important intervention to have made, for we can see from the histories of different parts of the world that the relationship between the movements in poverty and inequality is not unique. In particular, we find from the Indian experience that there are instances in which a public policy focussed on the reduction of inequality may not result in the elimination of poverty. Essentially, inequality can be reduced by taxing the rich, a form of 'levelling down', but poverty can be permanently eliminated only by raising the incomes of the poor, a form of 'levelling up'.

Not only has public policy in India paid far too little attention to the latter but also some of the measures adopted to tackle inequality may have exacerbated poverty here. The long-term strategy should be to tackle these two jointly through the equalisation of capabilities. However, in the short-term, public policy must address livelihood opportunities for the poor, the exact implication of which for inequality is not always obvious. The experience of poverty for an individual is not necessarily the same as that of inequality, and poverty reduction often requires particular attention. The article by Professors Rangarajan and Dev serves to remind us of this. The scale of poverty in India remains massive. The Planning Commission had estimated it at 363 million in 2011-12 (*Report of the Expert Group to Review the Methodology for Measurement of Poverty*, Chair: C. Rangarajan; henceforth 'Planning Commission, 2014'). This is larger than the combined populations of Germany, France, the U.K., Spain and Italy, and amounted to about a third of the population of India in that year.

To understand the drivers of poverty it is necessary to take a longer view, avoiding exclusive focus on poverty trends after 1991 as this could lead to misleading inference. For instance, Professors Rangarajan and Dev point to an accelerated reduction in poverty in India since 1991, and by implication the role of the reforms in this process. The fact of an acceleration is incontestable but the role in this development of the reforms as we understand them, as opposed to other public policy interventions, needs clarification. To get there we need first to acknowledge that poverty measured by the number of poor begins to decline in the 1980s itself. Official poverty estimates exist for two time points in the 1980s, 1983 and 1987-88. Poverty declined in both these years, 1983 being the first time ever that a decline in the number of poor was registered. The rate of decline in poverty accelerated between 1983 and 1988. But this was not to last, and the next estimate, for the year 1993-94, actually showed a mild increase. (The foregoing analysis is based on poverty estimates using the 'Lakdawala Method'. The analysis that follows is based on poverty estimates using the 'Tendulkar method'. Data in both cases is from 'Planning Commission, 2014').

It is important though to see the recorded fluctuations in poverty in perspective. Poverty estimates appear at intervals that are not always uniform, and are influenced by the prevailing prices as consumption expenditure is adjusted for price movements. Despite this we have reason to believe that the recorded rise in poverty in 1993-94 need not be an artefact for the estimated number of poor rises further, though marginally, in 2004-05. It is only the estimate for 2009-10 that shows a decline in the number of poor in India once again. This is followed by a quite spectacular decline over the next two years. To get an idea of the magnitude of the decline, the numbers for 2004-05, 2009-10 and 2011-12 are 407 million, 355 million and 270 million, respectively. So while it is correct say that poverty had declined rapidly since the reforms, it actually declines only after about one and a half decades from 1991.

Though the extent of poverty reduction over the period 2009-10 to 2011-12 is very high by historical standards, it is not altogether implausible. When we understand this, we are also able to see the potential of the reforms as understood for poverty reduction. The plausibility of the recorded decline in poverty is based on the fact that it comes soon after a period when growth itself in India was fastest ever, the five-year period from 2003-04 onwards. In three of these years growth came close to breaching the double-digit barrier. More crucially, however, the reduction took place when agricultural growth was at its fastest ever. Bipin Deokar and S.L. Shetty have estimated average annual agricultural growth at 4% during 2005-06 to 2013-14 compared to 2.5% for the decade prior to this. A 60% increase in the rate of growth of agriculture sustained for a reasonably long stretch is likely to have impacted poverty significantly. Similarly, the 1980s, when poverty reduction first accelerated, had also been a period of accelerated agricultural growth.

The relative roles of the reforms and agricultural growth in driving poverty-reduction after 1991 are clear from the differential trends of rural and urban poverty. It is only after 2004-05 that we see for the first time ever a reduction in the number of the urban poor. Till that date this figure has steadily risen while rural poverty had resumed its downward trend after 1993-94 itself. This places the role of the reforms in perspective. The economic reforms had mainly focussed on trade, industry and financial sector reforms. Activity in these sectors is mostly based in urban areas. For well over a decade after 1991 it had not succeeded in reducing the number of urban poor. It is only after the agricultural sector began to grow faster from around the middle of the next one that the number of urban poor begins to decline.

Two processes are likely to have been at play in this. Rural prosperity could have fuelled demand for urban products and, following the significant decline in rural poverty, migration from the villages, swelling the numbers of the urban poor, may have slowed. The role of agricultural growth in reducing poverty is apparent in the fact that between 2004-05 and 2009-10 the number of rural poor declined by 15% while the number of urban poor declined only by 5%. This points to the possibility that economic reforms without a robust agricultural growth may not have made much of a difference to urban poverty. The faster growth of agriculture itself came due to sector-specific public policy that was not a subset of what has come to be understood as reforms, defined by liberalisation of the policy regime. The relevant policies have been identified as increased public investment, faster rate of growth of credit for private investment and the launching of the National Horticulture Mission. Strategies for the elimination of poverty are advisedly based on the historical record rather than the promise of “more reforms”.

Pulapre Balakrishnan is Professor, Ashoka University, Sonipat and Senior Fellow, IIM-Kozhikode

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