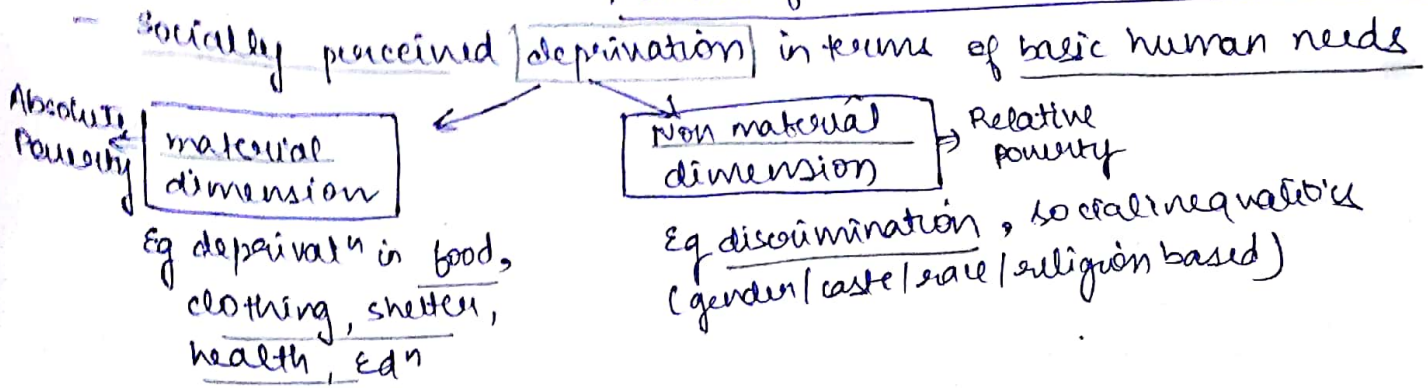


POVERTY

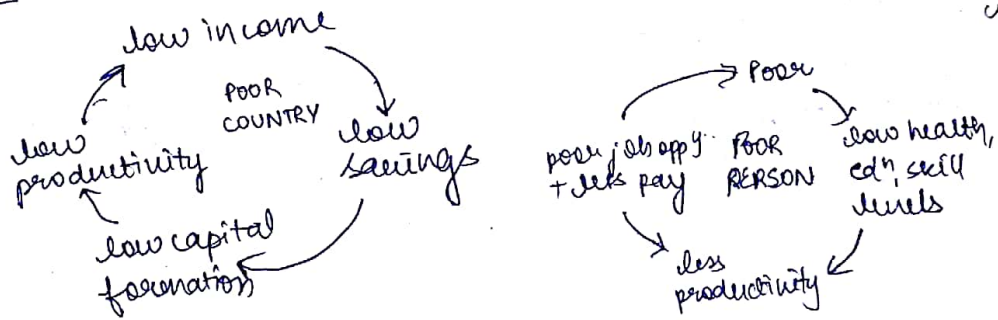
Definition

Sigs: lack of income & resources required for sustainable livelihood.
manifestation: hunger, malnutrition, lack of access of health, Edⁿ, sanitation etc



- So it is not merely lack of income
- ~~Acc to Amartya Sen~~ - deprivation of basic
- Reality both dimensions manifest in each other
- It is a state of deprivation which is structurally generated rooted in economic differences & perpetuated by social, political & cultural backwardness
- It is deprivation of basic capabilities rather than merely downness of income
- ∴ It is an artificial construct

- vicious cycle



"overcoming poverty is not a gesture of charity. It is an act of justice" - Nelson Mandela

"Test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little" - Franklin D Roosevelt

"poverty anywhere is a threat to prosperity everywhere"

MEASUREMENT

Poverty estimates : Tendulkar

70% at index (Tendulkar)

	Rural	Urban	Total
1993	50	32	45
2004	42	26	37
2011	26	14	22
	31	26	30

22 being used
30 → Rangarajan

ABSOLUTE POVERTY

Measuring → Traditional approach of Expenditure

- 1) Alagh - calorie approach. Sep for rural urban
- 1) Lakshmanan : calorie approach / Income approach

→ methodology to calculate state wise.

same as Alagh 2400 cal/day - rural, 2200 cal/day - urban
+ state wise
+ How to translate this to monetary terms
update
CALCULATING POVERTY LINE

- 2) Tendulkar : Expenditure approach

[N = 30 Rural
N = 40 Urban]

Same basket for rural & urban

Mixed Reference Period (2 ref pd - 30 & 365 day)

30 days → food expenditure?

365 days → Edⁿ, clothing, foot wear, health care, durable goods

State wise rural & urban poverty line

monthly per capita consumption exp. calculate → put in

Fischer formula to get poverty line

- 3) Rangarajan : Expenditure approach

[N = 34 Rural
N = 47 Urban]

Modified mixed Ref^e Period (3 ref pd - 30, 7, 365 day)

again de-link rural & urban

30 day → Rent, taxes, Non-institutional medical expenditure, some food items

365 day → same as Tendulkar

7 day → food (fruit, veg, paneer, intoxicants, spices, oil, egg, meat ...)

Same way but monthly expenditure of household

CALCULATING POVERTY

1.) Headcount Ratio = $\frac{\text{Total BPL pop}^n}{\text{Total pop}^n} \times 100 = 30\%$ (doesn't tell intensity of poor)

2.) Poverty gap ratio = $\frac{\text{avg short fall in poverty line}}{\text{poverty line}} \times 100 = 4.8\%$ (in 2011 WB)

→ Traditional poverty line approach drawbacks:

causes public indignation • Criticized for being too low BUT focus shud be to track the most poor below basic subsistence

Rangarajan: showed that if we double poverty line, huge benefits of poverty schemes as APL, may miss out on ^{exclusion error} benefits of poverty schemes

Now SECC will be used to identify beneficiaries

↑ in head count ratio
↓ majority living just above poverty line

Need const. revision coz with income needs & want change
Eg fridge want for poor, need for less poor.

• Judgement of what constitutes basic necessity varies am person to person so choosing PL difficult
• Unidimensional (not health, Ed, caste disadvantage etc...)
• Poor as a category. Ignores structural inequalities with which generate, sustain & reproduce poverty

→ Objectives of Poverty line

- (1) To identify poor for schemes
- (2) Track poor spatially, temporally
- (3) Estimate expenditure on anti poverty prog.

Don't need PL coz now SECC & OI universal schemes like MgnREGS anyway don't need. For targeted use see NOT identification

Need poverty line for this purpose
+ has simple concept easily understood helps in poverty discussion
• SDG-1: ↓ by 50% acc to Natl PL eliminate all below \$1.25

→ ways of measuring:

- (i) Traditional Tendulkar, Rangarajan - calc. poverty ratio
- (ii) Recently WB adopted - Reverses conventional approach take pre decided proportion of populatⁿ at bottom to be poor (Eg bottom 30% are poor ^(in terms of income) assume). Instead of finding out this '30% value' - then track their expenditure over time
- (iii) Directly measure progress of key components of material poverty [like consumptⁿ of milk, cereals; housing; Basic facilities - 24hr power, sanitaⁿ, road connectivity; Edⁿ, Health]. Being done by schemes like Housing, Power for All by 2022

compliment (i) don't substitute it coz (ii) easier to directly observe good sense of incidence of poverty

Engel Curve :

based poverty line is based on level of expenditure on food requirements with rise in income. It is assumed that share will decline

criteria: categorizes poor & non poor based on share of food expenditure in total income

Amartya Sen axioms for his poverty measure

Poverty index should satisfy following axioms

1) Focus axiom: It should depend on only those who are poor & be independent of non poor population

2) Weak monotonicity axiom: ↑ in poor man's income holding others constant must ↑ poverty index

3) Impartiality axiom: Index should be same for any given set of income irrespective of who is earning what

4) Weak transfer axiom: Index should ↑ if income transferred from poorer to less poor (STU BPL)

5) ~~Strong upward transfer axiom~~

5) Continuity axiom: must vary continuously with income

6) ~~Replication~~ Poverty gap axiom: distance from poverty line should impact poverty measure,

Eg in HCR policy takes from poorest to give to poor near line to push him up. This should not have been so

$$\text{Sen's Index} \rightarrow S_p = H \cdot \left(G_p + (1 - G_p) \cdot G_{\text{ini}}^{\text{poor}} \right)$$

Head count index Poverty Gap index Gini coeff of income distribution among poor

satisfies all axioms . But

- Not intuitive
- works when no. of poor is large
- huge data needed
- cumbersome calculation

TRENDS & CAUSES

① Economic Failure of 'trickle down' effect of growth → Growth not sufficiently 'proposed' or inclusive

1950s, 60s expected but by 70s realised not working

Why? - Population ↑ faster & growth not enough
 - L intensive ignored China, Taiwan, Korea relied only on growth but less mfg L intensive so poverty ↓
 - SSI use substitutⁿ so export based started

Access to Edⁿ, Health, transport, basic facilities only then 'trickle down'

- Some so poor, can't even undertake travel costs for basic services being provided coz of growth
 - low human capital endowment so poor not able to benefit from growth
 [gr itself was also quite low coz import substitⁿ, dint open up. stuck hindu gr 3%]

⇒ Growth necessary but NOT sufficient

[NOTE: New thinking 'Washington Consensus' - promote market force - goes back to 'trickle down' theory]

- ② Agri distress - ↓ productivity, lack of formal credit
- ③ Globalization & proliferation of informal sector, urbanization - urban poverty
- ④ Pattern of Growth - lack of empⁿ generatⁿ

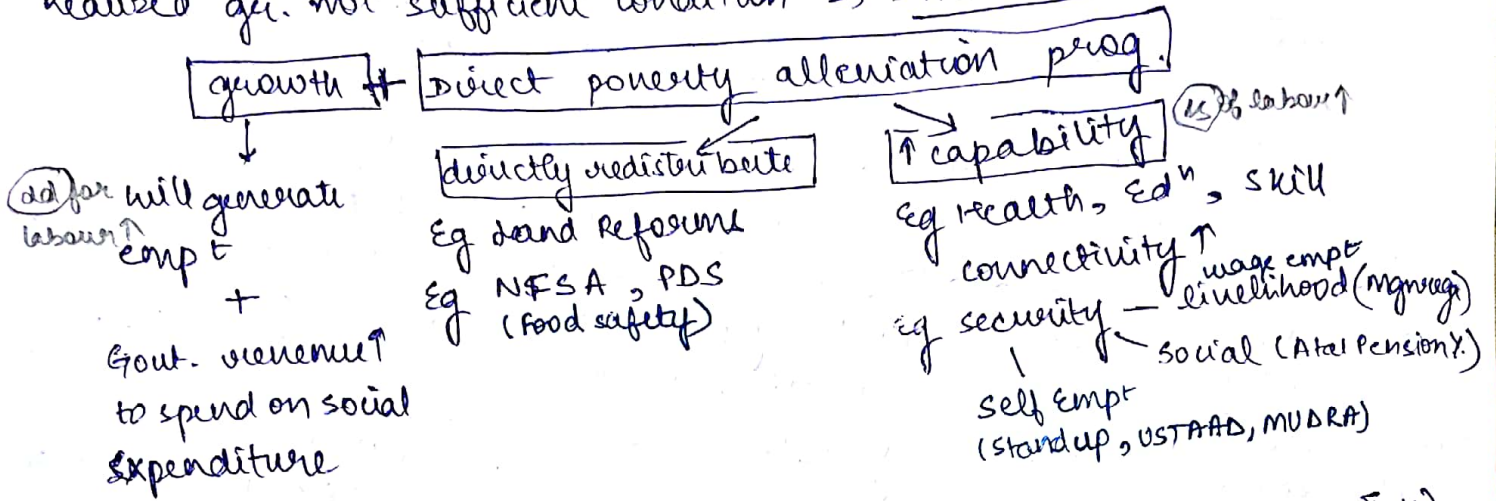
Agri: coz large poor here, if gr in Agri then poverty ↓
Mfg: L intensive neglected + in K intensive also high skill, MSME neglected not grow

⑤ Climatic factors - natural, man made disaster prone
extreme weathers, GW
hot humid efficiency of work ↓

- ④ Social factors - Caste system, traditions (eg spending on marriages), patrilarchy, women potential stifled.
- ⑤ Political factors - Joint family, weak health Edⁿ, infer
Administrative - Corruption, leakages in anti poverty schemes
Governance, Institutions not strong

COMBATING

Realized gr. not sufficient condition \Rightarrow SUSTAINABLE STRATEGY:



→ Past reform: Poverty ↓, even more in high growth years (2003-10)
 ↓ growth + MGNREGA, PDS

→ Different approaches

- Poverty line approach
- Basic needs "
- Capabilities "
- Redistribution with growth (use note copy of Govt Eco)

Basic Needs Approach

- ↑ Consumption
- Access to basic basket of goods & services.

- +ve:
- Multidimensional
 - Advocates pro active policy making
 - Easily applicable

- ve:
- Consensus on health, Ed, Sanit etc but constituents can vary to location, time
 - Predefined bundle so consumer preferences neglected
 - Materialistic view, aspects ignored

Capabilities Approach (Amartya Sen)

- ↑ Freedom to make choices
- Poverty = lack of capabilities
- ∴ ↑ choices to lead long healthy creative dignified life

- +ve:
- materialistic, spiritualist, social aspirations included
 - Advocates public discussion to reveal priorities

- ve:
- No set defined array of functionings so unclear
 - policy implication overall less so continuous public dialogues needed

Eg

Building water pipes for poor hrs

BNA: successful intervention if ppl's access to clean water ↑

Indicators: % of hh getting access

CA: Exposure new opp. made pbl by this

Eg children women no longer need to get water 4m wells

→ opens opp. for emp^t, edⁿ

Both favour redistribution. BNA for ↑ consumptⁿ & CA for freedom to make choices

⇒ BNA insight into overall policy

CA: fine tuning policies by involving local populatⁿ

* next pg

Growth led strategy / Trickle down theory

Followed in 50s, 60s. Now also ~~was~~ Washington consensus advocates.

WB - Health, edⁿ, ↑ instensive growth etc necessary interventions

to "make trickle down work"
So Redistributⁿ with growth → by cherry and WB

~~Growth~~

(i) Empowerment - decision making include poor
eliminate disabilities
state be more sensitive

(ii) ↑ security to protect them 4m shocks

(WB → foreign aid, open markets for DG, promote economic stability)

70s, 80s we started the 'Garibi Hatao':
PDS, IRDP (Integrated Rural Devt Prog.),
RLEGP (Rural Landless Emp^t generation program)

Eg Individuals themselves invest in own human capital as growth creates opp.

Recent study: merely informing families in a village outside B'dere that call centres were hiring educated women

increased likelihood that adolescent girls of the village completed school

Impact of LPG on poverty

poverty ↓ ed
 Tendulkar: 45% (1993) → 22% (2011)

Inequality ↑ ed
 (IMF estimate) Gini: 45 (1990) → 51 (2013)

How?

- Rich's income grew faster than poor's as they reaped benefit
- Then how poor shifted out of poverty?
- Soz distributional effect: govt. gave supplemental income
 (4m Rich to poor) eg food subsidy

1) Philosophy	BNA ppl shud achieve min. subsistence	CA ppl shud achieve freedom to make choices they value
2) Poverty def ⁿ	Deprivat ⁿ in <u>consumptⁿ</u>	Dep ⁿ in <u>opportunities</u>
3) Poverty reduct ⁿ	Ensure adequate access to <u>consumptⁿ</u>	Opp ^y
4) Policy obj	<u>Subsistence</u>	<u>Empowerment</u>
5) Power relationship	<u>Paternalistic</u>	<u>Deliberative</u>

Sen & Deere: in both privt sector, NGOs will play imp role

A) growth mediated strategy

- ↑ GDP growth with particular emphasis on sectors like to ↑ income of poor

* Eg Kerala model of devt successful in raising literacy levels, controlled popⁿ social security schemes

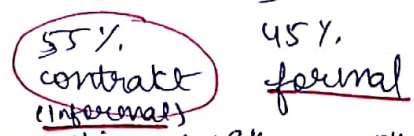
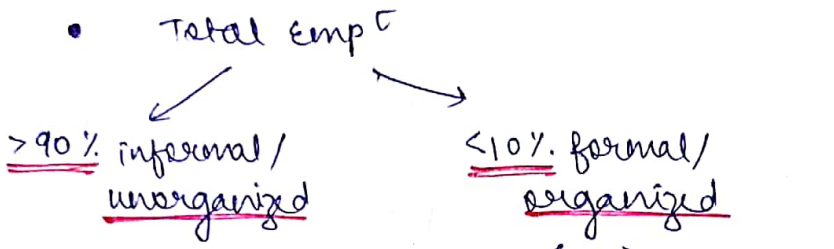
B) Support led security

Public support in areas like emp^t, health, edⁿ, social assistance to ↑ distribution

Eg land reforms, PDS, ICDS, IRDP, emp^t genⁿ scheme, social security ^{*}measures

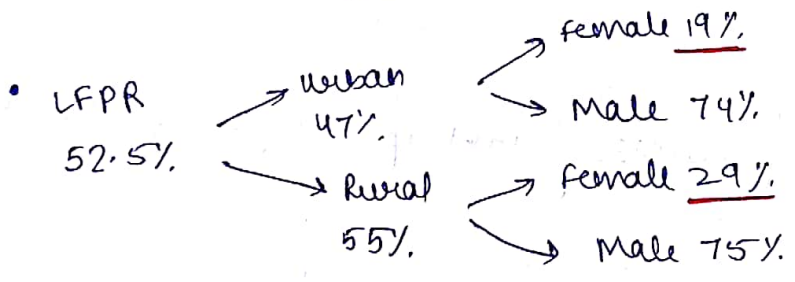
UNEMPLOYMENT

68th round
of NSSO
survey
2011-12



Prev. this was 48% in 2004-05
Informal emp^t within org sector ↑ ing

Labour
Bureau
of India
2011-12



- unemployment rate 15% (labour Bureau survey higher in urban)

3 Job deficits
currently in
India

→ Overall: B/w 2005-12 : 13 m enter workforce per year
3m jobs

→ Quality unorganized sector, contractual

↓ women: FLPR only 20% in urban

Underemployment
Voluntary unemp^t
disguised

• Edⁿ, skill better than wages available
: " " " " " "
- Agri

Jobs created
2016 : 2.3 lakh
Source: labour bureau

Reasons

Supply side :

- Quality of workforce - defective Edⁿ system. Eg Aspiring minds report said > 80% of Indian engineers are unemployable
- skill mismatch

Demand side :

- Lack of Mfg. growth, high intensive like textile leather API
- Rigid labour laws \Rightarrow informal economy

It is a myth that small firms create most jobs. Small firms that grow big create jobs - Raghuram Rajan
(Eg MSME: avg 2 ppl per MSME. Eg start up many fail, those who grow big create jobs \rightarrow but per unit capital, more jobs created, (invst))

Consequences

- Individual - vicious cycle of poverty
exploited workplace faces youth gambling extremism crime + efficiency + if unemployed for long
- Society - social unrest eg reservation stir Kavyana, Gujarat
Anti migrant attitude. Outsiders seen as job grabbers
fuels son of soil politics Politics of Nativism
- Govt - Social indicators poor so burden on govt.
social security, welfare schemes.
- Nation - high popⁿ turned into liability rather than asset
human capital wasted

Jobless growth

"A rising tide should lift all boats"

- 2014 RBI paper estimated employment elasticity (1% change in emp if 1% change in eco. growth)
 - EE declining since 70s, 80s
 - Overall EE low
 - Mfg: EE more in organized than unorganized
 - Mfg: some sectors like motor vehicles, electrical equipment, apparel relatively higher EE

2016 WB paper on factor misallocation in India (Land, Labour, Capital - FOP)

Land allocation:
almost random

- Mfg: land most misallocated
worse than random - less efficient firms hv better access to land than more efficient
- services: labour most misallocated
- Overall land allocation is barely better than random
- Misallocated lands → Financial misallocation as land used as collateral
- Huge disparity in access to finance in
 - urban vs rural
 - between states eg Guj, Punjab, Raj, Haryana hv higher per capita income & better access also to loans also Bihar UP worst access to loan
 - gender inequality, women owned enterprises less access

For land: do better taxation of property

Regulation

clearly defined property right, tenancy right only then land will develop

Emp't elasticity: Planning Commission.

when avg gr. highest 2000-05: 0.45
phase, (8%) ← 2005-2010: (0.01) (almost 0!)
annual ⇒ ∴ jobless growth
currently ~ 0.2

(before 1991 it was 0.4)

- Do factor market reforms - land, labour
- Govt. pushing for self emp
- Automatⁿ further threat

50% job
20% in
emerging
economy

→ states major role
- Arvind Panagariya: Jobs growing but no credible data
rigid labour law firms not able to expand, work efficiently
so informal contractual labour ↑
IDA: if > 100 then ever to file 1 take approval 4m min of job & empⁿ
Schumacher: small is beautiful recommended intermediate /
appropriate tech by Dg - labour intensive yet productive

use labour surplus model

coordinate b/w ministries eg if skill min fulfill target - so many skilled educated youth - but jobs not created yet - frustration

For every job created in mfg 3 more jobs created in unskilled sector w/ high multiplier effect

- MSME - Textile, leather, Food Processing
- Agri - 2nu + Tech ↑
- mfg → but labor laws stify else only informal jobs ↑
MII, GST, Infra inv (freight corridor, electricity)

Affirmative action: see if poorest among upper cps, some section of minority left out

- Reasons -
- edⁿ system - skill mismatch
 - Agri → services premature deindustrialization
 - labour laws market rigidities
 - 1991 reforms: Trade ↑ so imported capital goods cheaper vica vic labour so firms substituted

Foreign tech was capital intensive which we copy
Foreign market is K intensive where our experts hv to compete

mfg

- highly K intensive
 - within mfg also higher skilled intensive
- inequality ↑ benefits to small elite section
mfg not grown, ~ constant contribⁿ to GDP, Agri declined
all gain in share is in services

- Automobile
- Chemical
- Petro-Refining
- Telecomm
- Pharma
- Software

fast growing sectors & they don't employ low skilled labor in large no.

High labor intensive like clothing
poorly performing in exports
like leather, food processing, electronic assembly.
our clothing exports < B'desh & even Vietnam whose poplatⁿ is just 90m

To boost mfg to generate jobs

- MII - GST - Infra (freight corridors, power)

- Nat'l mfg Policy 2011

- ↓ duties on synthetic fibres to make apparel industry competitive in global market

- Expedite mega food parks

- ↓ duties on key inputs of final electronic products

NITI Aayog - Presence of large firms needed for high productivity based
Raghuram on evidence.

Rajan quote
SMI compete with them or become ancillaries
LSI ↑ productivity of SMI

Eg India - automobile, software - did well had large firms
but intensive Apparel, footwear, FPI. - No large firms

- Construction, trade, transport - hv high emp^t elasticity

- Land Acquisition Act 2013 - ↑ cost of securing land for non agri use. Reduce procedural delays

Another reason why mfg suffered post LPG, is inverted duty structure (duty on intermediates high, on final low last 12-15 yrs happening. FICCI pointed out in 2014 - on steel, capital goods electronics. For electronics govt. made changes)

→ Impact of 1991 reforms on emp^t

- Conc. in high skilled (service sector contrb 64% after)
- Growth is more productivity intensive than emp^t intensive (emp^t elasticity ↓)
- Informalization (79.3% in informal sector)

→ Potential of startups to create emp^t (govt. wants this)

↳ most of them are in IT, tech intensive, skill intensive, concentrated in some regions (B'lore, Bombay...)

not all
Eg OCA
but so many
driven
employed.

To create jobs - broader sectors
Eg Agrofarming, Aggregators to provide services based on soil health cards, in FPI, in NE (Eg server farms of IT companies)

Contractualization of labour since 2000s

cost of rigid labour laws

Eg Britain - Zero hour contract

No stipulated working hours, employee required to be available if employer needs him

Eg Gig economy.

why : paid less, no social security

flexible

↳ intensive sectors hv project based labour requirement

↓ compliance cost as obligations on Agent

Impact : For worker : wage ↓, no soc. security

For Biz : productivity hit 62 dnt invest in labour training

+ demotivated workers (opposite efficiency wage theory)

way forward : legal framework needed - some min threshold period
Protection

schemes - MII, Skill, Digital, start up.

- PM Rojgar Pratsah Yojana - 8.33% EPF contribution of employees for new employment paid by govt. 4 3 yrs
- Natl Career Service Project - career related advice
- Industries can post vacancies

Trends

→ Agg emp^t grew at avg 2% in past 4 decades

→ East, SE Asia followed (Mfg) led gr + (HRD)

→ China ~~also~~ believed to ~~be~~ have already passed Lewis turning point

hence wages ↑ ing.

wages, labour productivity in China 2.5-3 times that of India

Automation

- Necessity no more an option
- Blessing in disguise maybe
- Recent McKinsey study: for every 1 million existing jobs lost due to automation in future, 1.9m jobs will be created in same timeframe
- Emerging disrupting tech
AI, IoT, virtual reality, Big data analytics, 3D printing, robotic process automation
- Forces ppl to acquire multidisciplinary skills
new roles Eg 3D engineer, visual effects (VFX) artist, cyber security analyst
- IT has been the cornerstone of growth & prosperity of India's middle class

→ A foreign bureaucrat told Milton Friedman that his country workers were being given shovel instead of tractors to build canal to create more jobs. Friedman quipped "if its jobs u want, then u shud give the workers spoons, not shovel"

→ "Dump of labour fallacy": ppl commonly but mistakenly believe that there is only limited work in an economy so available work needs to be spread among populatⁿ to prevent unemp^t

→ Luddite movmt of 19th century called for destroying machines to save jobs

Reality → Tech^s caused massive job losses for centuries yet new forms of work always cropped up to absorb this displaced labour coz human needs virtually unlimited compared to LS.

- Techn & Industrial Revⁿ of 19th, 20th cen → greatest ↑ in std of living → achieved not by saving jobs but allowing their creative destruction

Demographic dividend

age structure benefit

Window of opportunity that creates potential for growth not destiny
So potential benefit An age structure

Ratio of working age populatⁿ (15-59) high
dependent populatⁿ

Necessary not sufficient
Need qualitative workforce

Not just v. young populatⁿ + in large amt.

Population bulge in working age grp of India => created eco growth potential => DD

Challenges tackle by: 2 requirements to tap this potential

1) Creating productive workforce ① Quality of workforce

A) Education : gender Atlas, SSA, Sabla
Nat'l child labor project (NCLP) - bridge Edⁿ

B) Skill : NSRF, PMKVY

C) Health : Any general... Rashtriya Swastha Kishor Karyakram

② Ability of labour market to absorb the workforce

2) Creating jobs

↑ qty (Startup, MII, MSME)
↑ quality (EoDB, Infra, labour laws, etc)

- Make in India, GST, freight corridors (Infra...)
- Start up India, Stand up India, Atal innovatⁿ
- MSME : MUDRA loans → [create more emp^t per unit of capital]
- Nat'l Mfg policy: 25% GDP by 2025, 100m new jobs
- Labour laws rationalize (else unorg. sector jobs created)
- Infra, EoDB, taxation reforms

to boost mfg.
labour reforms

→ ~~IndoAsia Report 2016: demographic adv to last only till 2040~~

→ Defⁿ Acc to UN populatⁿ fund DD = economic growth potential which can result from shift in the population's structure mainly

when the share of working age group is more than the share of non working age grp.

- dependency ratio = $\frac{\text{working age grp populatⁿ (15-64)}}{\text{non working age grp populatⁿ (<15, >64)}}$ = 1.7 peak by 2022 (Eco. survey)

63% of popⁿ in working age grp (Census '11) Expected to last for 25 years only

DD will ~~not~~ peak within next 5 yrs (ES 2016)

$$1 + \frac{y}{x} = \frac{1}{1.7} + 1$$

$$\frac{x+y}{x} = \frac{2.7}{1.7}$$

$$\frac{x}{y} = 1.7$$

$$\frac{x}{x+y} = \frac{1.7}{2.7} \times 100 \%$$

Gig Economy

- freelance economy, workers support themselves through a vast part-time project oriented jobs (or gigs)
- young millennials attracted to it - work life balance, women esp
- companies also embracing - employers flexibility to its work force.
- work around regulatory, political uncertainties
- They see workers as contractors not employees individual
- So not savings option, healthcare, paid leave, other social security benefits
- Govt. shud regulate for worker protection

→ Tragedy of commons - climate change classic eg
everybody owns env^t stability even though nobody depends on it.
overgrazing of common grassland or overfishing in high seas
shared resource system where ~~the~~ every user acts independently
acc to own self interest contrary to common good of all

→ Growth & inequality

- Kuznets hypothesis - comforting but not true empirically
- Regional inequality b/w diff states, Post reforms
- states that grew faster, greater inequality
- studies - cast gender, caste, b/w rural urban
- Gini coeff : .45 in 1990, .51 in 2013
- IMF report: ↓ dependence on indirect tax, ↑ reliance on direct
↑ Access to health, Edⁿ, financial inclusion

- French economist Thomas Piketty: "Capital in the Twenty First century"
say inequality ↑ cos of capitalism & call for state intervention
If rate of return (r) on capital > economic growth rate ⇒ inequality as
concentration of wealth

Labour reforms

(Labor in concurrent, so lot of laws)

- States like Raj relaxed
- Shram Suvidha Portal
- Universal Acc No. for portability of PF across jobs
- Nat^l Career Service Portal
- PM Rozgar Paktahan Yojana (gov. will pay EPS contrib for new jobs)

Evolution

Factories Act 1880s - to make labor costlier, 8 hr work, x child labor, et

Trade Dispute Act 1929 - x Right to strike

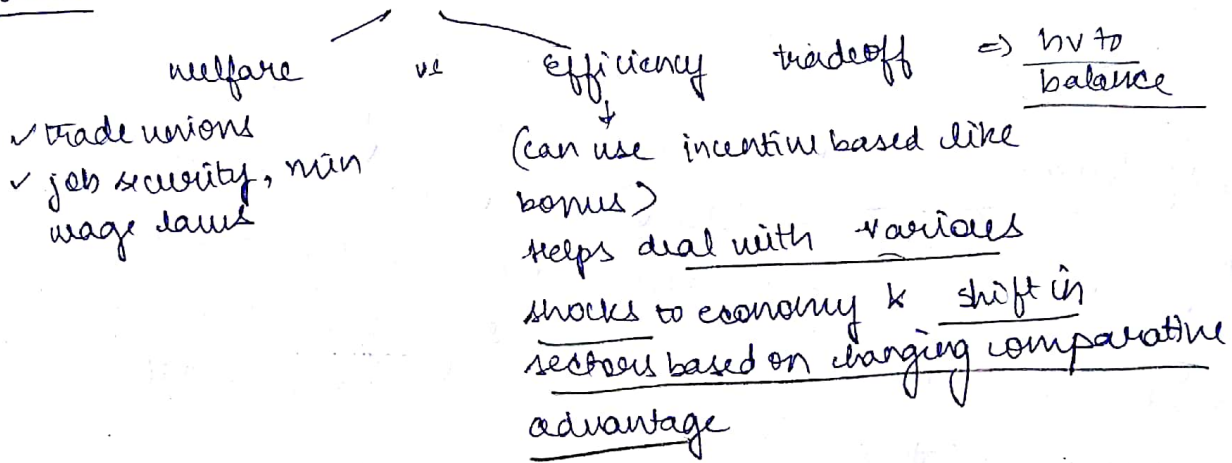
Industrial Dispute Act - To repeal TDA.

if > 100 workers, then permission from state govt - to lay off even 1

Rigidity in labor laws

- Mandatory contributions, fittings, Inspector Raj or frequent checks

Problem



Int^l

usually when country is 1st, less exempt then can afford to be more welfare oriented

China: even though communist party, pragmatic labor laws

Eg severance pay of 1 month' salary

East Asia: Bonus linked to firms' profitability

UK

labor rules are in form of laws enforced through courts (neutral)
India eg hv to take approval for firing (under IDA) by govt. (politicians won't go approval for firing for fear of adverse fallout from trade unions).

⇒ Ease of Doing Biz

Reforms

- GST, Insolvency & Bankruptcy code
- e Biz website 24x7
- Investor facilitation cell under Invest India to guide, assist & handhold investors during entire life cycle
- FDI liberalized, simplified

WB ranking : 130/189

Good

- ✓ Protection of minority investors
- ✓ getting electricity
- ✓ getting credit

Bad

- X Paying taxes
- X Enforcing contracts
- X Resolving insolvency

Purpose :

- Attracting inv^t ⇒ growth, jobs
- Policy efforts can be focused on parameters we perform bad (eg contracts...)
- competitive Fed^m NITI Aayog (eg Telang, AP top rankers)
BRAP (Biz Reform Act^m Plan)
↳ seriousness
↳ celebrates achievements

Net imp :

- Methodology : only 2 cities (Delhi Mumbai)
GST, IBBC will take yrs to show impact
- Aspirational so if all undertaking reforms, then no recognition in terms of improvement ranking
- Top 10 improvement countries don't feature among top 50 inv^t attracting countries
but India most attractive despite low rank

Inequality & Growth

Evidences

WEF Global Risk Report '15 - Inequality major global risk
- Thomas Picketty: "Capitalism in 21st Century" - Inequality ↑ coz of capitalism (esp US, Europe)
- Our own experience of 1991 Reforms

Gini: 1990: .45 → 2013: .57

- Evidences across globe, especially India China, that ↑ growth & ↑ inequality together many studies show within India

- Even evidence 4m states: Faster growing states - more inequality

B. Should we redistribute existing pie & compromise growth OR focus on growth coz "a rising tide will lift all boats"

Q. Why growth accompanied by inequality?

coz (same forces) drive both.

① Capital intensification of technology + Globalization, Liberalization
(Now locate anywhere where labor cheap)

→ K ↑, L ↓ so share of profits ↑ vis a vis wages
and for skilled L ↑ vis a vis unskilled L ⇒ wage differentials ↑ inequality

eg miniaturization - tech change that combined room sized computer, bulky TV, landline phone into single smartphone

Reservation unrest
ad for K ↑ & L ↓
anti migration sentiments
politics of reservation

Q. But addressing inequality crucial for growth - (hence WEF). Why?

coz inequality has strong -ve feedback effect on growth

eg social tensions, security, RoL threatened

consumerism 24x7 TV even poor exposed to lifestyle of rich by
Qⁿ, feeling of relative deprivation Adverse impact of "demonstration effect"

In India to pacify this - MGNREGS, NFSA, RTE, Migration freely
Appeasement politics

Reservation policy - Even richer sections doing just coz others hv it
Patidar, Jat, Marathas

→ migration ↑ but regional inequality dint ↓ (Eco Survey 2016-17)

- Governance or institutional traps
- Skill intensive & crossfused

celebrated for Economist
 → Thomas Picketty's recent study "Indian income inequality 1922-2014: From British Raj to Billionaire Raj"

Top 1% are doing very well. Their share of Natl Income highest since records began in 1922
 No country has been able to win against mass poverty w/o rapid eco. growth.

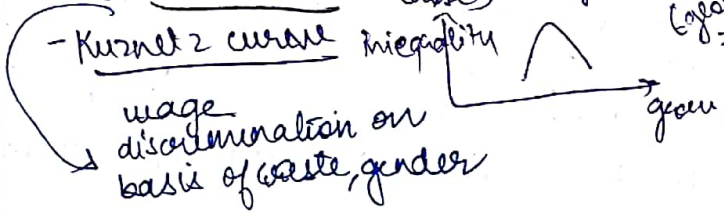
- Inequality ↑ post 1980s
- Avg income of top 1% was 70 times bottom 50%
- Top 1% → 22% income
- Inequality highest since 1922

// → Reasons (general)

- Corruption
- Elite capture of power
- LPG, nature of growth
- Techy chang
- Tax avoidance (Oxfam said major cause)

- Crony capitalism

Oxfam 2017
 Richest 1% - 58% wealth (global avg 50%)



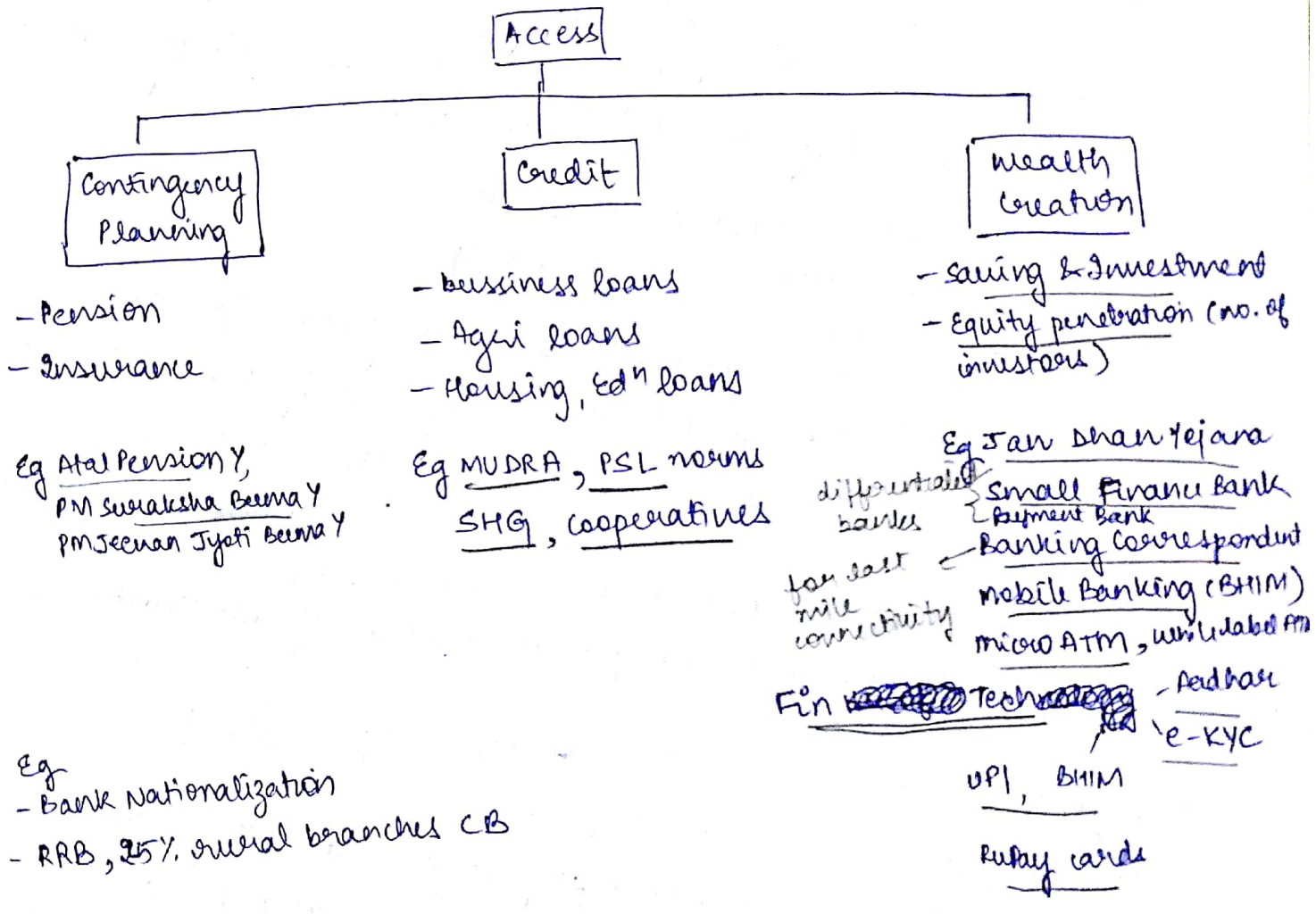
Impact of inequality:

- 1) Economic: Room for GDP coz poor have ~~more~~ higher propensity to consume so if their income ↑, consumption level will ↑
- 2) Concentration of wealth in hands of few leads to market structure of monopoly, oligopoly → effici ↓
- 3) Social conflicts. Domination of 1 grp over other
 ↳ works of Subraj Ray, Amritan Mitra
- 4) Income inequality spills to other areas sa health, Edn
 public health & Edn casualty if elites have higher say in budgetary provisions
- 5) Demoralize workers, dampens productivity

Financial inclusion

Defⁿ: Providing access to financial services in a timely and affordable manner as needed by vulnerable groups like weaker section, low income groups etc. +ve Broadens resource base so eco. dev^t mitigate exploitatⁿ

Includes Financial services



Eg private initiatives: E-choupal (ITC), Project Shakti (HUL)

Reforms needed

→ still several segments where controls dominate.
classic eg sugar industry.
Dismantle in phased manner
Exceptions to control prices, shud be transparent

→ Inclusive growth, participatory growth

cor equity pov ⊕ stability, sustainability

- lessons from E. Asia, China not just high gr, but widely shared
growth assisted by +ve state interventions

- issues: difficult to measure inclusiveness

{ multidimensional concept

{ data with lag

{ +ve impact also after long time. Eg steps to ↑
Edⁿ will ↑ future earning ability but reflected

in actual income much later (Ahluwalia)

- Mfg especially MSME, FPI, textile, leather. Agri

- Human Dev^t → reap demographic dividend coz of age structure

→ Regionalⁱⁿ balance (by 1980s, all relatively uniform)

- Kerala good on human dev^t but not econ

- Guj, Maha grew at rates normally associated with 'miracle
gr'. They were able to provide conducive env^t and thus
benefitted from reforms

- even within a state, backward regions

→ social instability

→ Naxalism

→ regionalism

→ structural imbalance

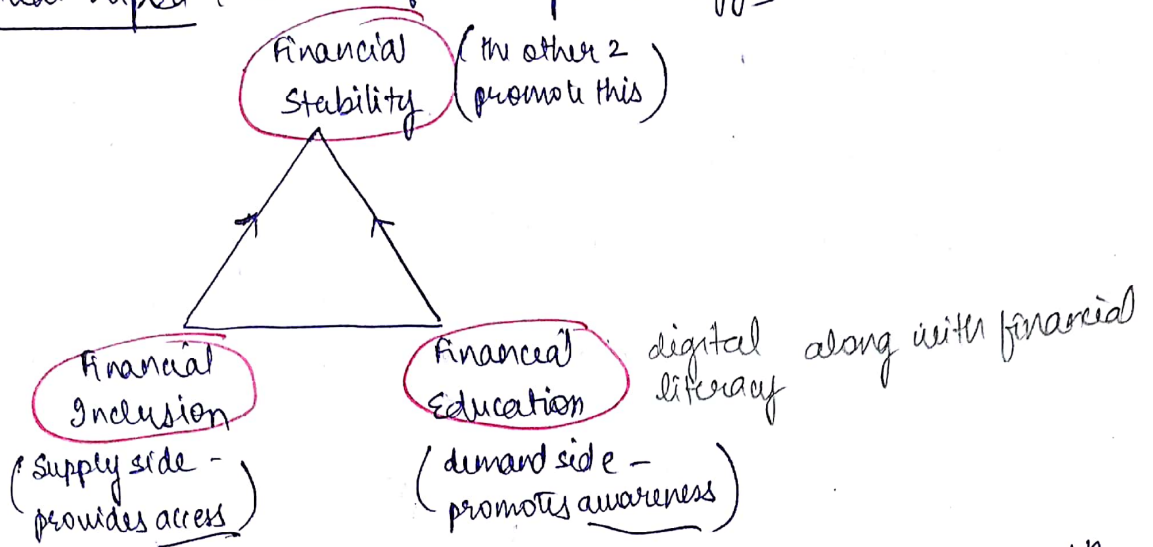
contributⁿ vs emp^t of these sectors

→ Factor market reforms

labor law.

land Acquisition

Financial tripod (elements of an integral strategy)



FSDC (Financial stability dev't Council) to focus on fin. Inclusion & Edⁿ

Challenges

1.) High costs associated with traditional strategy of opening more branch

poor transact less geographically difficult

} digital payments, Banking new so costs ↓

2.) Digital reduces cost, ↑ efficiency But digital literacy even lower (90% don't hv-USB support)

so awareness ↑, training

3.) Inactive banking accounts under PMJDY (Attitudinal inertia)

4.) Last mile connectivity } For this BC

But BC paid irregular commissions per transaction

5.) Regional variations - hilly desert Tribal

6.) Gender inequality

7.) Agri loans (40%) still informal sources still

hilly MSME don't hv collateral to pledge so difficult:
(90% of small biz don't hv link to formal financial institutions (RBI estimate))

(1/3) adults still don't have a bank account (Ecosurvey 2016-17)

SERVICE

Is India over fertilised?

- Kuznetz & Chenery (research during 1950s & 60s) :
Dev't will be associated with sharp decline in contribⁿ of agri to GDP counterbalanced by significant ↑ in industry and modest ↑ in service. Same pattern for emp't.
- But more recent studies show both industry & services contin ↑ and agri ↓ initially and then industry stabilizes
- History tells that no country was able to grow rapidly in sustained manner based on services alone. Mfg has been part of growth story

	Inequality		
	china	India	US
Share of services in economy	45%	55%	80%
services in emp't	35%	29%	79%

way forward.

- India needs broad based growth w/ currently service sector mainly driven by external demand
Internal d^d necessary - vibrant mfg sector
- Agri sector productive
- Currently Software, ^{Telecom} health services leading.
Also focus on Tourism, Trade that has high emp't intensities
& large forward backward linkages with other sectors

Multiplier effect on Agri & Mfg:

In a globalized era, services is regarded as the barometer to measure country's dev^t

1.) Transportation & Storage, Communication

Around & backward linkage of Agri, Mfg

Eg for FPI

2.) Financial & Insurance Services

Agri & MSME poor access to credit

3.) Health & Edⁿ

Human capital => employable

Can remove disguised unemp^t 4m Agri

4.) Knowledge economy

R&D is future, tech^t