

Vol 3 Issue 6 March 2014

Impact Factor : 2.1002 (UIF)

ISSN No : 2249-894X

---

*Monthly Multidisciplinary  
Research Journal*

*Review Of  
Research Journal*

Chief Editors

---

**Ashok Yakkaldevi**  
A R Burla College, India

**Flávio de São Pedro Filho**  
Federal University of Rondonia, Brazil

**Ecaterina Patrascu**  
Spiru Haret University, Bucharest

**Kamani Perera**  
Regional Centre For Strategic Studies,  
Sri Lanka

## Welcome to Review Of Research

RNI MAHMUL/2011/38595

ISSN No.2249-894X

Review Of Research Journal is a multidisciplinary research journal, published monthly in English, Hindi & Marathi Language. All research papers submitted to the journal will be double - blind peer reviewed referred by members of the editorial Board readers will include investigator in universities, research institutes government and industry with research interest in the general subjects.

### Advisory Board

Flávio de São Pedro Filho Federal University of Rondonia, Brazil	Horia Patrascu Spiru Haret University, Bucharest, Romania	Mabel Miao Center for China and Globalization, China
Kamani Perera Regional Centre For Strategic Studies, Sri Lanka	Delia Serbescu Spiru Haret University, Bucharest, Romania	Ruth Wolf University Walla, Israel
Ecaterina Patrascu Spiru Haret University, Bucharest	Xiaohua Yang University of San Francisco, San Francisco	Jie Hao University of Sydney, Australia
Fabricio Moraes de Almeida Federal University of Rondonia, Brazil	Karina Xavier Massachusetts Institute of Technology (MIT), USA	Pei-Shan Kao Andrea University of Essex, United Kingdom
Catalina Neculai University of Coventry, UK	May Hongmei Gao Kennesaw State University, USA	Loredana Bosca Spiru Haret University, Romania
Anna Maria Constantinovici AL. I. Cuza University, Romania	Marc Fetscherin Rollins College, USA	Ilie Pinte Spiru Haret University, Romania
Romona Mihaila Spiru Haret University, Romania	Liu Chen Beijing Foreign Studies University, China	
Mahdi Moharrampour Islamic Azad University buinzahra Branch, Qazvin, Iran	Nimita Khanna Director, Isara Institute of Management, New Delhi	Govind P. Shinde Bharati Vidyapeeth School of Distance Education Center, Navi Mumbai
Titus Pop PhD, Partium Christian University, Oradea, Romania	Salve R. N. Department of Sociology, Shivaji University, Kolhapur	Sonal Singh Vikram University, Ujjain
J. K. VIJAYAKUMAR King Abdullah University of Science & Technology, Saudi Arabia.	P. Malyadri Government Degree College, Tandur, A.P.	Jayashree Patil-Dake MBA Department of Badruka College Commerce and Arts Post Graduate Centre (BCCAPGC), Kachiguda, Hyderabad
George - Calin SERITAN Postdoctoral Researcher Faculty of Philosophy and Socio-Political Sciences Al. I. Cuza University, Iasi	S. D. Sindkhedkar PSGVP Mandal's Arts, Science and Commerce College, Shahada [ M.S. ]	Maj. Dr. S. Bakhtiar Choudhary Director, Hyderabad AP India.
REZA KAFIPOUR Shiraz University of Medical Sciences Shiraz, Iran	Anurag Misra DBS College, Kanpur	AR. SARAVANAKUMARALAGAPPA UNIVERSITY, KARAIKUDI, TN
Rajendra Shendge Director, B.C.U.D. Solapur University, Solapur	C. D. Balaji Panimalar Engineering College, Chennai	V.MAHALAKSHMI Dean, Panimalar Engineering College
	Bhavana vivek patole PhD, Elphinstone college mumbai-32	S.KANNAN Ph.D , Annamalai University
	Awadhesh Kumar Shirotriya Secretary, Play India Play (Trust), Meerut (U.P.)	Kanwar Dinesh Singh Dept.English, Government Postgraduate College , solan

More.....

Address:-Ashok Yakkaldevi 258/34, Raviwar Peth, Solapur - 413 005 Maharashtra, India  
Cell : 9595 359 435, Ph No: 02172372010 Email: ayisrj@yahoo.in Website: www.isrj.net



## ECONOMIC REFORMS AND ECONOMIC INEQUALITY IN INDIA: AN ONGOING DEBATE

Mala Sharma

### Abstract:

*Economic growth is certainly an important measuring rod for a country's performance but it does not reflect country's development as most of the time in many country's GDP is distributed unevenly . If the distribution is mildly unequal it is not a problem but if it is unequally distributed to a high extent it creates many economic and social problems.*

*The data related to income, growth and development of most of the country reflects that inequality is continuously becoming a threat to their stability. This paper exhibits views of various economists regarding inequality and emphasizes more on Indian inequality and particularly after reforms. The Indian economy has grown steadily over the last two decades however its growth is uneven when comparing different social groups, economic groups, geographical regions and rural urban areas.*

### KEY WORDS:

Inequality, Macroeconomic Stability, Equilibrium, Consumption, Reforms, Gross Domestic Product.

### INTRODUCTION

It is believed by most of the economists that inequality is an outcome of the initial period of growth, it automatically subsides when growth triggers up. The empirical evidence of most of the countries does not support the above statement, rather growth has enhanced the problem of inequality.

The last decade has witnessed a blossoming research on poverty-related topics and inequality. The International Financial Institutions, the United Nations and Social Scientists are looking to inequality as a serious threat to macroeconomic stability. While research in this field has made considerable strides, the policy reforms inspired by the Washington Consensus have broadly ignored the issues of high and rising inequality, of its impact on poverty and growth and of the measures required to curtail it. Some proponents of the Washington Consensus view high inequality – either as a non-issue or an issue about which nothing much can be done. Some economists see it as a source of incentives and capital accumulation leading to faster income growth for all, including the poor, or as a stimulus to upward mobility for low-income groups.

It is found that a strategy which is solely concentrating on growth and neglecting inequality is flawed in various respects. Firstly when the initial income inequality is high economic improvements are concentrated within few groups, the poverty reduction elasticity of growth is low. Such growth bypasses smallholder and micro-entrepreneur. Secondly high inequality may hinder the growth rate of GDP in the long run. It is proved that in the case of Latin America high inequality ceased the growth rate for decades. Thirdly the view that inequality is neutral or good for growth is now challenged by most theoretical and applied research [Benabou 1996, Aghion 1999] which sees that high vertical inequality retards growth and poverty reduction.

**Title: ECONOMIC REFORMS AND ECONOMIC INEQUALITY IN INDIA: AN ONGOING DEBATE , Source: Review of Research [2249-894X] Mala Sharma yr:2014 | vol:3 | iss:6**

High horizontal inequality is also challenged by new approaches [Nafziger 2000]

The literature dealing with growth and income distribution is fairly diversified as it includes theoretical issues, country experiences and econometric modeling of process which are related with growth poverty and income distribution.

We find significant and growing theoretical literature points towards the possibility of negative relationship between inequality and economic growth [ Piketty 1999, Kuznet 1955 and Williamson 1965 ] are key studies in inverted U hypothesis. According to inverted U hypothesis during the initial stages of economic development, growth of income raises income inequality but reduces it in later stage. The existence of U type relationship in the Indian context has been explored by Mathur and his studies has by and large supported by Kuznet and Williamson thesis. In China too income inequality followed a 'U' shaped pattern over the last 50 years with the turnaround point located around mid 1980's [Giovanni Andre Kornia, Tony Addison and Sampsa Kiske ]. In Srilanka, Bangladesh, Pakistan the inequality trend followed a typical though less pronounced U shaped pattern [ Banuri 1997, Oshima 1998 ]

If we look at the literature on economic growth in Cambridge as well as neo classical tradition we find the Growth models emphasize on equilibrium growth or steady state and therefore do not directly deal with effect of growth on income distribution. How ever once the economy is off the steady path and adjustment take place to get the economy back on the path it clearly appear that growth and equitable distribution have a conflicting relationship.

#### ECONOMIC INEQUALITY : A GLOBAL CONCERN

A key reason to study income distribution is a belief that people suffer as a result of inequalities in the distribution of income, consumption , and other resources. If our primary concern is with the well-being of individual children, women and men, then what matters is each person's access to resources.

Looking at the historical perspective of Inequality we found that Adam Smith made some powerful comments about inequality and its origins . He commented“ Where ever there is great property there is great inequality for one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the of many”. Smith emphasized the way such inequality led to the need for government to maintain law and order.

Classical economist Marshall also took a lead in 1920 to the problem of distribution. According to him” The affluence of the rich excites the indignation of the poor, who are often both driven by want and prompted to envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner of the valuable property can sleep at night in security. The acquisition of valuable and extensive property, therefore, necessary requires the establishment of civil government”. Marshall [1920] had considerably shifted the focus and frame of economic analysis. Marshall emphasized of distribution and made the title and theme of Book VI as “Distribution of the National Income.

In 1951 UN report on Measures of Economic Development of Underdeveloped Countries made much of the need for Land Reform. The expert committee included two subsequent Nobel Prize – winning economists, Arthur Lewis and TW Schultz. The report maintained the emphasis on how the land was owned and how it was used, not on how it was acquired. According to report “In many under –developed countries, the cultivators of the soil are exploited mercilessly by a landlord class, which perform no useful social function. This class strives to secure itself the major part of any increase in agricultural yields and is thus a milestone around the necks of the peasants, discouraging them from making improvements in agriculture and in any case, leaving them too little income from which they might save to invest in the land. In such countries land reform abolishing the landlord class is a urgent pre-requisite of agricultural progress.”

In the 1970s, income distribution within countries was again brought into focus with International Labour organization's World Employment Programme. The first of the international labor organization country mission, led by Dudley Seers to Columbia in 1970, made income distribution the centre of its analysis [ILO 1970]. This led in 1974 to the joint World Bank – IDS study on “ Redistribution with Growth” generalizing strategies for linking growth with redistribution and providing case studies of experience in India, Cuba, Tanzania, Srilanka, South Korea and Taiwan. It should be noted that, until recently the World Bank also did little on income distribution as is brought out in its history namely “ THE WORLD BANK- ITS FIRST HALF CENTURY” Karpur [1997] ,the major exception was during the presidency of Robert Mc Namara who raised issue of income distribution. It is therefore significant and welcome that the World Bank's World development Report of 2006 focused so clearly on income distribution World Bank [2006] .

In 1969, the Pearson Commission issued its report, “Partners in Development” the first sentence of which emphasized the importance of global income distribution. It goes like “The widening gap between the developed and the developing countries has become a central issue of our countries has become a central issue of our times” Pearson [1969].

## ECONOMIC REFORMS AND ECONOMIC INEQUALITY IN INDIA: AN ONGOING DEBATE

Recently Giovanni Andrea Cornia, Tony Addison and Sampa Kiski examine changes in domestic income inequality based on the relevant literature and econometric analysis of inequality trends of seventy three countries. They argue that with the exception of Latin America and part of Sub Saharan Africa a move towards lower inequality was observed in the most developed and developing countries during 1950s, 1960s and most of the 1970s, but the early 1980s saw this trend being halted or reversed in many countries.

Among various countries we find that in the OECD region the distribution of both net and gross incomes started to become more skewed in early 1980s as well as in the Anglo – Saxon countries which were first to embrace neo – liberal policies. The Scandinavian countries and the Netherlands had lower level of inequality. Japan also experienced a turnaround in its inequality trend in 1980s and 1990s. [cornia and danziger; 1997]. The most striking inequality reversal observed on the introduction of market reforms in former socialist countries. Inequality has also risen during the last 20 years in South East & East Asian Economies [Jomo 2000]

### INDIA AND ECONOMIC INEQUALITY :

The Indian economy has grown steadily over the last two decades however its growth is uneven when comparing different social groups, economic groups geographical regions and rural urban areas.

A 2007 report by the state run National Commission for Enterprises in the Unorganized Sector ( NCEUS ) found that 77 % of Indians or 836 million people lived on less than Rs 20 per day with most working in informal labor sector, with no job or no social security living in abject poverty In addition India has highest malnutrition among children ( under the age of three 46 % in year 2007 ) than any other country in the world.

Although there are claims that inequality has decreased in post liberalization era, careful analysis of data shows that these views are unsubstantiated ([Pathapratimpal & Jayanti Ghosh ] Further they mentioned that 50th ( 1993 – 94 ) and 55th ( 1999 – 2000 ) NSS data reveal that inequality in rural & urban India has increased in post reform period. The reasons are stagnation in employment generation, low employment elasticity in most of the sectors including agriculture and low employment generation in organized sectors.

This argument has also been supported by other economist. Surjeet Bhalla in his article “Why inequality in India is not dropping” he concluded that inequality in India is not only been worsening , but worsening sharply. He remarked the pattern of real inequality in India is a large decline between 1951 to 1983 and further 1983 to 2005, the pattern is 'V' shaped, a small 5 % decline in inequality between 1983 to 1994 and corresponding equal increase over the next decade. He observed the inequality in India has not changed in past 25 years. He believes that there is supposed to be Kuznets curve effect in developing countries. (Surjeet Bhalla; Business Standard ,2008 )

Nobel Laureates Michael Spence believes that Inequality often rises in the growth process if it is happening in China it is happening in India . Leipziger Spence, Financial Times, May 14 2007 ). The same idea is argued by Dweep Channa, he is of view that India's income distribution as compare to China is less unequal but rising fast. He drew data from WIID ( World Income Inequality Data base ) and argued that growth is necessary for reduction in poverty but in India this growth has brought millions out of poverty but it also had made many worse off.

Arguing on the same line Chetan Ahya ( Executive Director, Moganstanle ) also believes that due to globalization and rise of capitalism inequality in India has widened. According to him “We believe the rise in inequality, when absolute poverty levels are still very high possessing major political change. Although recent data are not available, the World Bank gauges the income /consumption inequality ( as measured by Gini Index increased to 30.5 % in 2004 from 27.7 % in 1994 in rural areas and 37.6% in 2004 from 33.3 in 1994 in urban areas.

Raghbendra Jha also argued that in both rural urban sector at all India level was higher post reform than it was at the time of crisis. Since the Gini co-efficient for the urban sector is always higher than rural sector and since rapid economic growth of 1990 implies a shift in a locus of growth from rural to urban sector the reform process was accompanied by an increase in overall inequality. This rise in inequality is the result of a shift in distribution of income from wages to profit, a drop in rate of labor absorption, and rapid growth of FIRE ( FIANANCIAL INSURANCE BANKING AND REAL ESTATE ).

The seriousness of the issue of inequality becomes more valid when we find that minister of Panchayati Raj Mani Shanker argued in a speech at CII meet that policy is hijacked by a small elite. He emphasized that nearly 700 million Indians are either not in market or barely in market, then the impact of economic reforms process makes virtually no difference to their lives. Similar has been the views of Patmaik and Chandrashekhar ( 1997 ) Ghosh (1991) and others were critical of economic Reforms, because of their adverse affects on the living standards of poor.



#### ECONOMIC REFORMS AND ECONOMIC INEQUALITY IN INDIA: AN ONGOING DEBATE

---

Angus Deaton, Jean Dreze have , mentioned clearly three aspects of rising economic inequality in the nineties in India. According to them evidence of inequality found in divergence in per capita consumption across state, increase in rural – urban inequalities at all India level in almost most individual state and rising inequality within state ( EPW Sept 7, 2002 ) Dreze and Sen ( 1995 ) had also shown, the performance of India in terms of non- income indicators ( such as education health ) has not been satisfactory. With published data available from 65th round 2004 -05 ) of NSS analysis over the period 1983 – 2005 shows unambiguously that in spite of higher overall growth inequality has increased significantly in the post reform period and seems to have slowed down the rate of poverty reduction ( Mahendra Dev and Ravi 2007 ). The poverty level (measured in terms of income – earning capabilities ) has increased on the whole with rural poverty increasing much more than urban poverty ( Dev Mahendra, 2000 ) . He has also examined regional disparities in pre and post reform period and suggested decentralized governance and a measure to reduce regional disparities and enhancing inclusive growth ( Dev Mahendra 2006 ).

Economists and Government have certainly shown concern on increased regional disparity but some have argued to study one individual state and its problem because there certainly exist difference in performance across state but the reasons for poor and good performance differ. The reason can be economic, social, socio-economic, socio political ( Ahluwalia S Montek 2000 ) Regional social disparity also calls for concern. Social development in general and of backward regions is studied by Rama Shankar Singh ( Sing S. Rama, 2003 ) .

Hence Regional disparity can be corrected through social inclusion ( CJ Punnathara 2007 ). World Bank in its country overview 2006, has pointed out that the reforms process initiated in 1990s was accompanied by visible increase in income inequality between urban and rural, between forward and backward states and also between skilled and unskilled workers and as development process has become more pronounced the disparities are set to worsen.



**Mala Sharma**

# Publish Research Article International Level Multidisciplinary Research Journal For All Subjects

Dear Sir/Mam,

We invite unpublished research paper.Summary of Research Project,Theses,Books and Books Review of publication,you will be pleased to know that our journals are

## Associated and Indexed,India

- ★ International Scientific Journal Consortium Scientific
- ★ OPEN J-GATE

## Associated and Indexed,USA

- DOAJ
- EBSCO
- Crossref DOI
- Index Copernicus
- Publication Index
- Academic Journal Database
- Contemporary Research Index
- Academic Paper Databse
- Digital Journals Database
- Current Index to Scholarly Journals
- Elite Scientific Journal Archive
- Directory Of Academic Resources
- Scholar Journal Index
- Recent Science Index
- Scientific Resources Database

Review Of Research Journal  
258/34 Raviwar Peth Solapur-413005,Maharashtra  
Contact-9595359435  
E-Mail-ayisrj@yahoo.in/ayisrj2011@gmail.com  
Website : www.isrj.net