

# India : A Study of Poverty And Prosperity During Post-Reform Period

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## ABSTRACT

The growth effect, which is beneficial for poverty reduction, seems to have gone up in the post reform period. The adverse inequality effect also fell in magnitude in the second period compared to the first. States with a greater beneficial growth effect in the second period relative to the first, also show a fall in the magnitude of an adverse population shift effect in the urban areas, i.e. a relatively less rise in the incidence of urban poverty caused by rural-urban migration. States where economic reforms were initiated performed better than the rest in terms of the effects mentioned above. Though reforms might have impacted factors representing agglomeration economies of scale, which in turn possibly led to divergence across states in terms of economic growth (per capita SDP), convergence seems to have taken place in terms of the growth/mean effect on poverty in the post-reform period compared to the eighties.

**Keywords:** Reform, Growth Effect, Inequality Effect, Population Shift Effect, Poverty.

## I. INTRODUCTION

“The government’s work should be to listen to the poor, to work for the poor, and live for the poor”, said the Prime Minister in his first speech in the 16<sup>th</sup> Lok Sabha. This was just a day after the President said in his address at the joint session of Parliament that “my government will not be satisfied with mere ‘poverty alleviation’ and commits itself to the goal of ‘poverty elimination’”.

The mandate for the PM is being seen above all, as a mandate for development – development which is inclusive and which leads to empowerment of the poor and downtrodden.

So, how has India done on poverty alleviation in the last few years? Are there regional differences in the pattern of poverty alleviation? Is rapid economic growth a prerequisite for poverty alleviation? Which

states in India have been most successful at bringing people out of poverty?

Swaniti Initiative, a development consulting firm which works with legislators, has tried to answer some of these questions. Their analysis on poverty and growth throws up results which are interesting and thought provoking. Some of the highlights are presented below.

## II. REVIEW OF LITERATURE

However, if economic growth is accompanied by a decline in inequality, the poor benefit more than the non-poor – the situation is described in the literature as pro-poor growth (Kakwani, Prakash and Son, 2000; Kakwani and Pernia, 2000). Even when inequality rises, observed poverty may still decline if the growth effect predominates over the inequality effect, that is,

the extent of fall in poverty due to growth is larger than the rise in poverty due to a rise in inequality.

Availability of infrastructure, which is a strong determinant of industrial productivity and competitiveness on the one hand and occupation, mobility and earnings of the population on the other, also varies significantly across states (Mitra, 1997). Decomposing the change in the poverty index into a growth and distribution effect was initiated by Kakwani and Subbarao (1990) and Jain and Tendulkar (1990) while quite a few alternative decomposition methods have been developed subsequently, for example, by Datt and Ravallion (1992), Kakwani (2000) and Mazumdar and Son (2002).

### III. OBJECTIVE OF THE STUDY

The basic objective of the present study is to analyze the impact of population growth on poverty in India.

### IV. DATA SOURCES AND METHODOLOGY

In the present study, we estimate the following equation to decompose the change in the incidence of poverty in terms of mean effect, inequality effect and

the effect due to population shift from rural to urban areas, in fifteen major Indian states individually, and at the all-India level for the two sub-periods 2004-05 and 2011-2012. Data are collected from various secondary sources. An average and percentage method is used to analyze the data.

## V. DISCUSSION AND RESULTS

Between 2004-05 and 2011-12, most states did well at poverty alleviation. Nineteen out of the 28 states managed a reduction in poverty by 10 percentage points or more. In other words, 19 states managed to pull out more than 10% of their total population out of poverty. 12 of them achieved a reduction greater than 15 percentage points.

### 5.1 The curious case of the north-east states

While the rest of the country was seeing a reduction in poverty, some of the north-east states actually saw a rise in poverty in this period. This is particularly surprising, as most of these states had a significant rise in per-capita incomes, as shown below (Per-capita NDP for both years is at 2004-05 prices).

**Table 1.** Poverty Rate in India

State	2004-05		2011-12		Decline in Poverty (% points)
	Per-capita NDP (Rs)	Poverty HCR (%)	Per-capita NDP (Rs)	Poverty HCR (%)	
Nagaland	30441	9	41522	18.9	-9.9
Mizoram	24662	15.3	39253.7	20.4	-5.1
Meghalaya	24086	16.1	38944	11.9	4.2
Arunachal Pradesh	26610	31.1	38130	34.7	-3.6
Assam	16782	34.4	22956	32	2.4
Manipur	18640	38	24327	36.9	1.1
Tripura	24394	40.6	40411	14.1	26.5

**Source:** <http://jigyasa.swaniti.in/>, Planning Commission

Tripura is a notable exception which bucked this trend. It saw a massive increase in per-capita NDP in this period, and a sharp jump in poverty rates. From having the highest burden of poverty in 2004-05, it had the 2<sup>nd</sup> lowest poverty rate in 2011-12 among the seven north-east states.

## 5.2 Rich states have done better at poverty alleviation than in the past

Is there a correlation between economic growth and poverty reduction? The Table 2 below analyses the

performance of the 7 richest states in terms of per-capita NDP in 2004-05.

- ✓ Some of these rich states like Goa, Gujarat and Maharashtra had very high poverty rates.
- ✓ Others like Punjab, Haryana, Kerala and Himachal Pradesh had high per capita income as well as low poverty rates in 2004-05.

**Table 2.** Poverty Rank among Some Select States of India, 2004-05 and 2011-12

State	2004-05			% Growth Rate per-capita (CAGR) between 2004-05 & 2011-12	2011-12		
	Rank on per-capita NDP	Poverty HCR (%)	Rank on Poverty Reduction		Rank on per-capita NDP	Poverty HCR (%)	Rank on Poverty Reduction
Goa	1	25	9	5.6%	1	5.1	1
Haryana	2	24.1	8	7.5%	3	11.2	8
Maharashtra	3	38.1	21	9.7%	2	17.4	15
Himachal Pradesh	4	22.9	7	5.9%	8	8.1	3
Punjab	5	20.9	6	5.0%	10	8.3	5
Gujarat	6	31.8	14	8.7%	4	16.6	14
Kerala	7	19.7	5	7.7%	7	7.1	2

**Source:** <http://jigyasa.swaniti.in/>, Planning Commission

Table 2 reveals that all of these states did much better in poverty reduction in the 7 years period between 2004 and 2011, a period in which they continued to grow at high rates.

Goa now has the highest per-capita NDP and the lowest poverty rate. Himachal Pradesh, Kerala, Punjab

and Maharashtra have also improved their rank on poverty HCR in 2011-12 over 2004-05.

Gujarat, despite high economic growth, continues to have a sizeable proportion of its population below the poverty line.

### 5.3 BIMAROU States – Still a Mountain to Climb

The BIMAROU (Bihar, Madhya Pradesh, Rajasthan, Odisha, Uttar Pradesh) states are known for their poor socio-economic indicators, especially the extremely high poverty periods. Between 2004-05 and 2011-12, most of these states did considerably well in poverty alleviation (see table below).

However, despite these achievements, they are still ranked pretty low in 2011-12, indicating the need to do much more to catch up with the rest of the country.

**Table 3.** Poverty Rank among BIMAROU States of India, 2004-05 and 2011-12

State	2004-05		2011-12	
	Poverty HCR (%)	Rank on Poverty Reduction	Poverty HCR (%)	Rank on Poverty Reduction
Odisha	57.2	28	32.6	23
Bihar	54.4	27	33.7	24
Rajasthan	34.4	18	14.7	13
Madhya Pradesh	48.6	25	31.7	21
Uttar Pradesh	40.9	23	29.4	20

**Source:** <http://jigyasa.swaniti.in/>, Planning Commission

There does seem to be a correlation between economic growth and poverty reduction in most states. The top 5 growing states between 2004-05 and 2011-12 – Sikkim, Uttarakhand, Bihar, Maharashtra and Tamil Nadu – all saw an improvement in their poverty ranks in the period.

However, states with relatively modest growth rates, such as Tripura have also done remarkably well at lifting people out of poverty.

beneficial growth/mean effect on poverty increased in magnitude in most of the states in the post-reform period relative to the pre-reform period and more importantly, its variation across states dropped considerably. This is possibly because of good governance in the rapidly growing and reforming states, and the demonstration effect of this in the slowly growing states.

The deleterious effect of inequality on poverty also shows a declining tendency in several states in the post-reform phase compared to its previous period. The population shift effect, which showed a tendency of raising urban poverty, also fell in magnitude in the second period compared to the first, across states. And states with greater beneficial growth effects in the second period relative to the first also show lower adverse population shift effects in the urban areas, that is a relatively less rise in the incidence of urban poverty caused by rural-urban migration.

## VI. CONCLUSION

Economic reforms have been pursued at different levels across states, and this seems to have enhanced the inter-state variations in economic growth. Economic growth is largely dependent on industrial productivity, which in turn is a function of agglomeration economies. Economic reforms seem to have generated an effect on factors, which broadly fall into this class of agglomeration economies, and hence, economic growth across states has shown divergence instead of convergence. But, interestingly, the

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