

India: Higher growth in the 1990s

But how much impact on poverty?

Martin Ravallion

Pre-1990s growth did reduce poverty

- Long-run elasticity of the incidence of poverty to private consumption per capita (NAS) of about -1.
- And even higher for the depth and severity of poverty
 - those well below the poverty line have benefited from growth, as well as those near the line.

But did we see acceleration in the 1990s, with the higher growth?

- Some argue that poverty fell far more rapidly in the 1990s than previously (Surjit Bhalla).
- Others argue that poverty reduction has stalled, and that the poverty rate may even have risen (Abhijit Sen).
- Signs of rising inequality in the 1990s, within and between states.

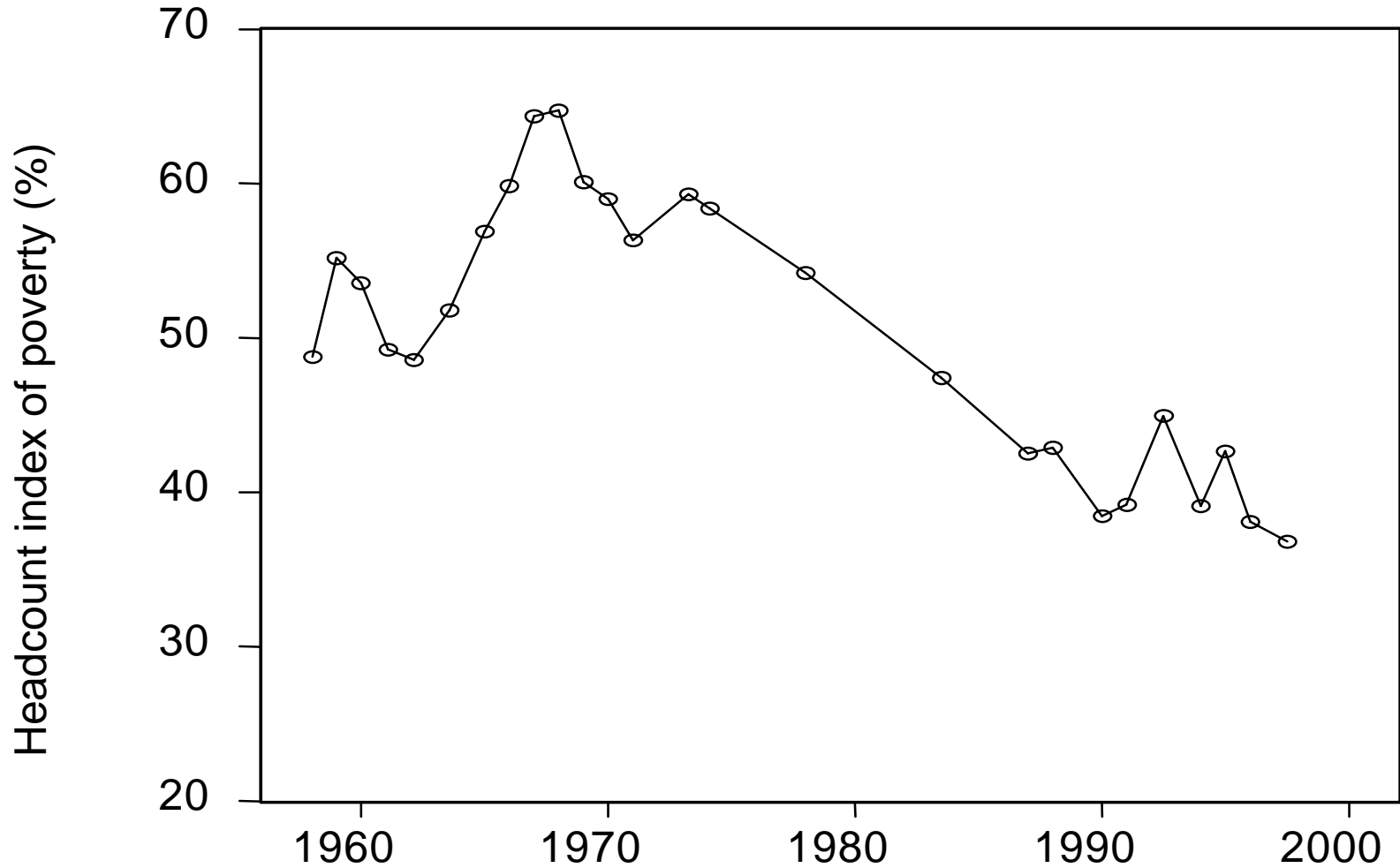
<u>Gini index:</u>	1993/94	1999/00
	0.27	0.30
	(0.29)*	(0.33)*

* no allowance for urban-rural cost-of living differences

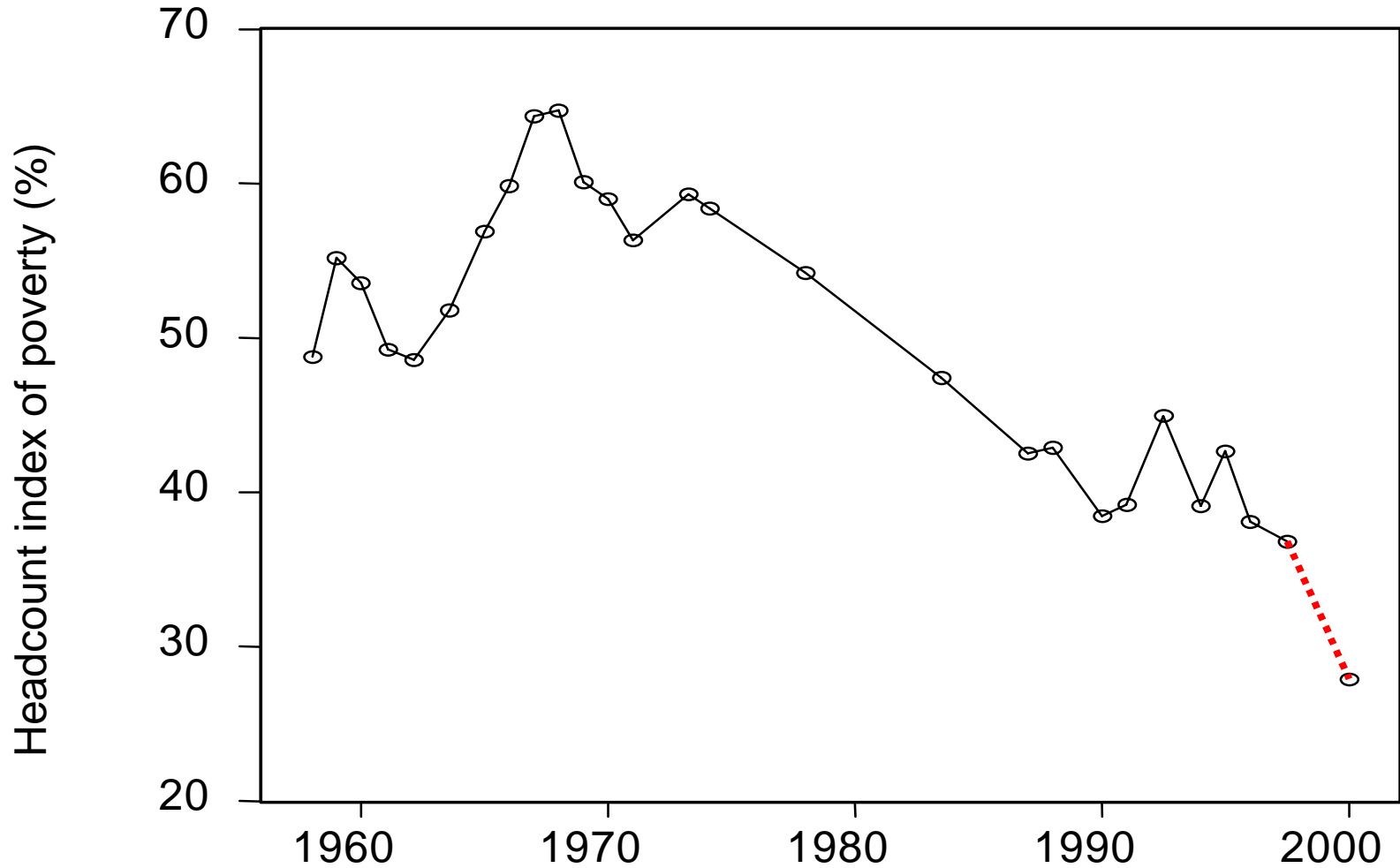
Measuring poverty in India

- Consumer Expenditure Surveys conducted by the National Sample Survey (NSS) Organization.
- Population-weighted averages of the poverty measures for urban and rural areas of 14 major states of India.
- Urban and rural poverty lines developed originally by India's Planning Commission (1979)
- Updated using state specific urban and rural deflators.

Poverty incidence in India



Poverty incidence in India



The debate prior to release of the 1999-00 data

- A number of observers concluded that India's economic reforms were leaving the poor behind, though their counterfactual was unclear.
- Others assumed the reforms had reduced poverty and concluded that the data were at fault
- Higher growth rate from NAS than NSS mean fuelled data concerns.

Surveys vs national accounts

- Some have preferred to base their poverty measures on the national accounts, assuming that the surveys get inequality right (Bhalla, Sala-i-Martin)
- However, there is no basis for believing that this gives more accurate estimates.
- Indeed, there are reasons to suspect that this method overstates the rate of poverty reduction
- Even if we believe the NAS, survey under-reporting is unlikely to be distribution-neutral.

The debate after release of the 1999-00 data

- Yes, sharp reduction in measured poverty
- However, the design of the NSS changed in 1999-00
- And the changes in survey design cast doubt on the comparability of the resulting poverty estimates with those from earlier rounds.

The controversial 55th round

- 30-day recall for all consumption prior to 1999-00.
- In the 1999-00, food obtained by both 7-day and 30-day recall for the same set of households,
- with the columns appearing side-by-side on the same page of the questionnaire.
- Spending on low-frequency nonfood items — about 1/5 — obtained using one-year recall.
- Ambiguous implications for poverty measures.

Poverty falling or not in the 1990s?
Depends on how you interpret 55th round

- Convergence in food consumption numbers, but are they closer to 7-day recall or 30 day recall?
- 30-day: sharp fall in poverty (10 % points)
- 7-day (using experimental rounds): small increase in poverty rate.
- Angus Deaton's method: closer to 30 day result. (More to follow.)

*Can we explain the sharp reduction
in poverty in 1999-00?*

Is the sharp reduction in poverty indicated by the 1999-00 NSS consistent with what we know about the determinants of poverty in India, and how they have changed in the 1990s?

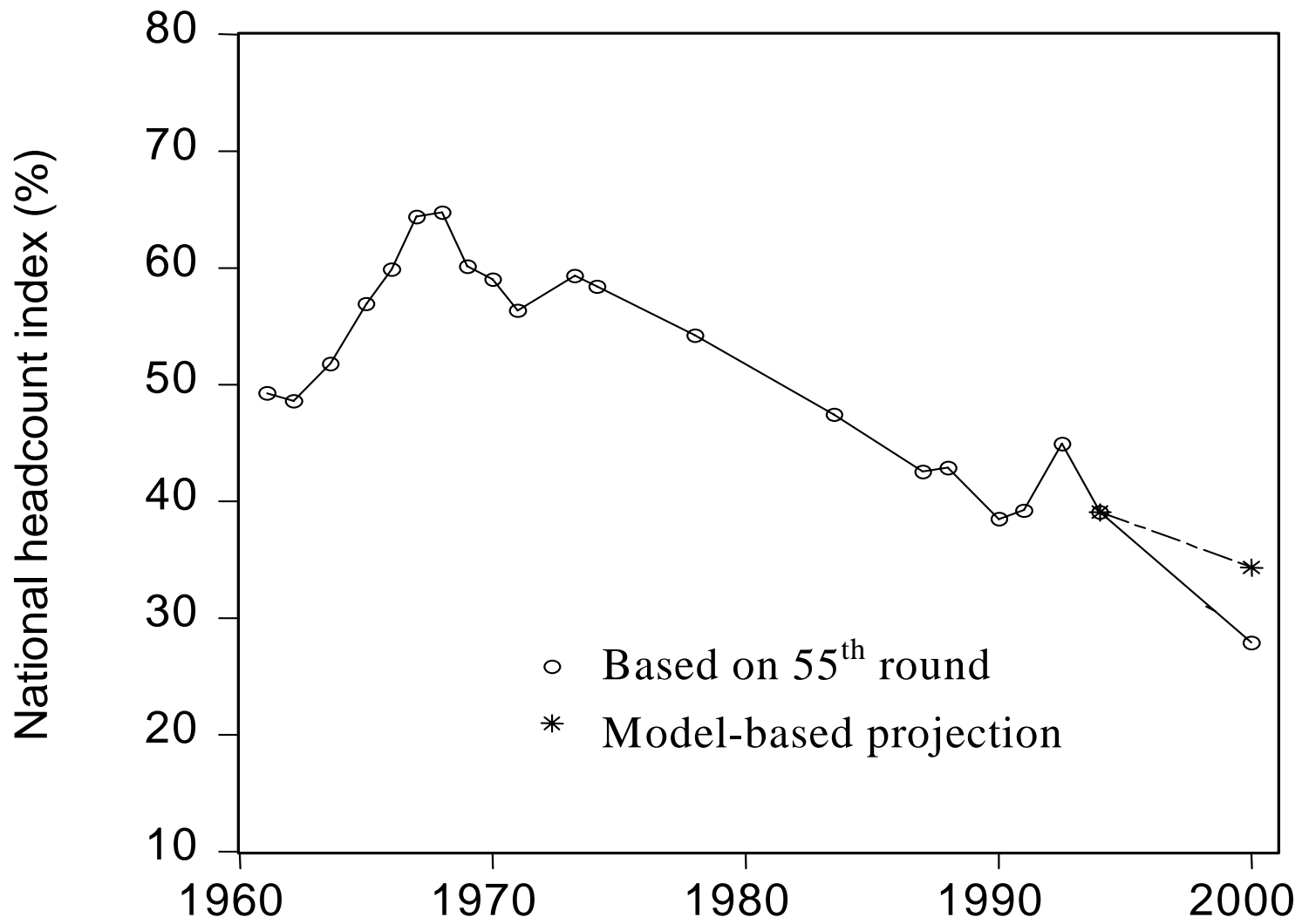
Econometric model of poverty in India

Log headcount index of poverty in state i at date t
regressed on:

- real non-agricultural product per head
- average farm productivity
- state development spending
- inflation rate
- dummy variables for states
- state-specific trends.

Is the sharp drop in poverty in 1999-00 consistent with this model?

- Using the actual values of the explanatory variables from 1993-94 to 1999-00, we estimate how far the poverty level should have dropped by 1999-00, if the historical relationships between these variables had continued to hold.
- This predicts that the poverty rate fell from 39% in 1993-94 to 34% in 1999-00.
- This is on track with historical trend but lower than expected given the aggregate growth.
- So this does not suggest any acceleration.



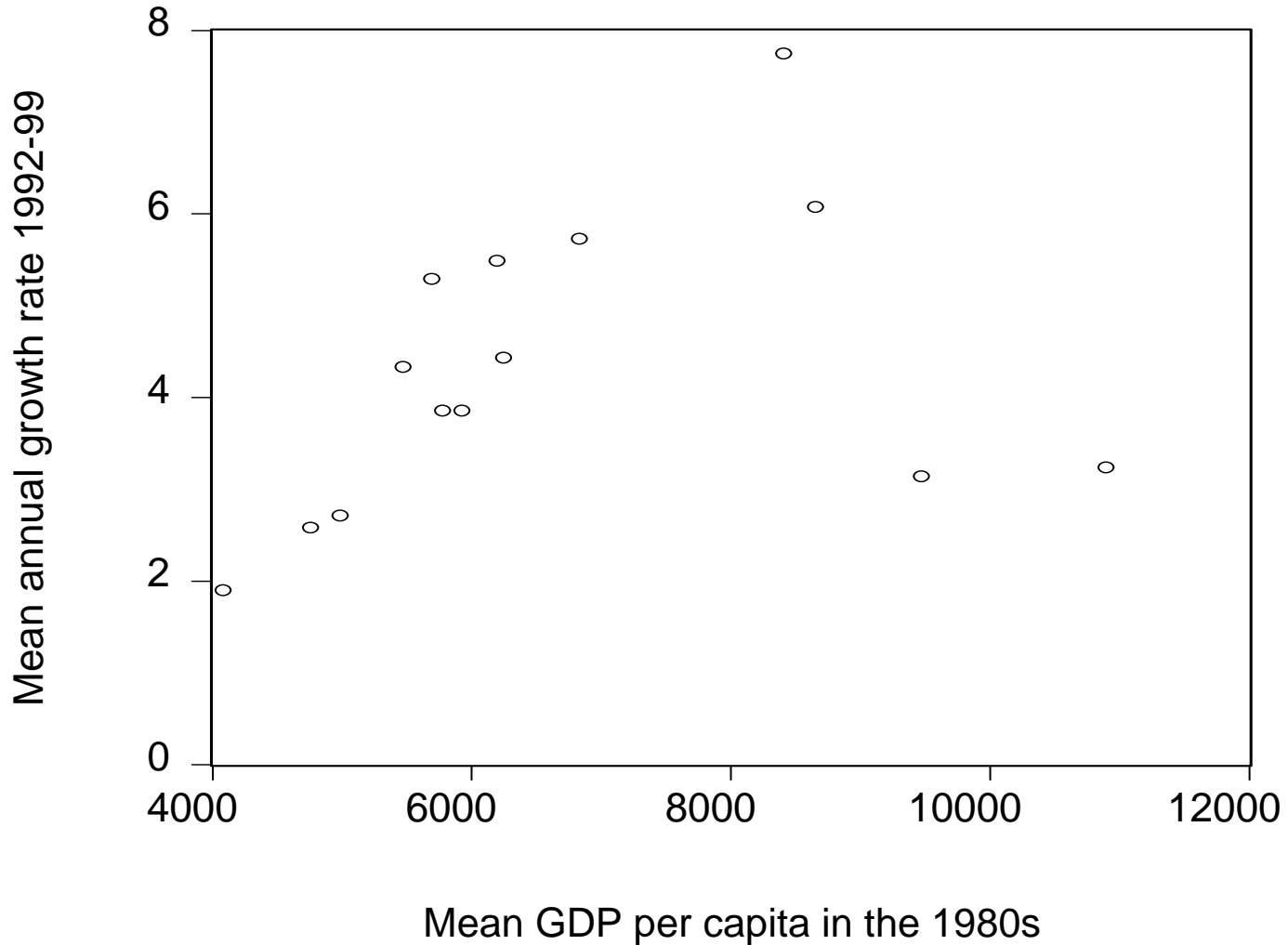
Even larger discrepancies for some states

- Bihar is the biggest puzzle.
- Model predicts that the rural poverty rate in Bihar increased slightly
 - here the model is reflecting the state's relatively weak agricultural and non-farm growth
 - and low non-farm growth elasticity given poor initial conditions in human and physical resources.
- However, the 55th round estimates imply that the rural poverty rate in Bihar has been falling at 2.5 percentage points per year, from 64% in 1993-94 to 49% in 1999-00.

Is the pattern of growth in the 1990s the answer?

- The 1990s pattern of growth does not seem to have been particularly pro-poor
 - Continuing divergence
 - Lagging rural sector
 - Diverse impacts of non-farm growth on poverty
 - Weak initial conditions for pro-poor growth in many lagging states

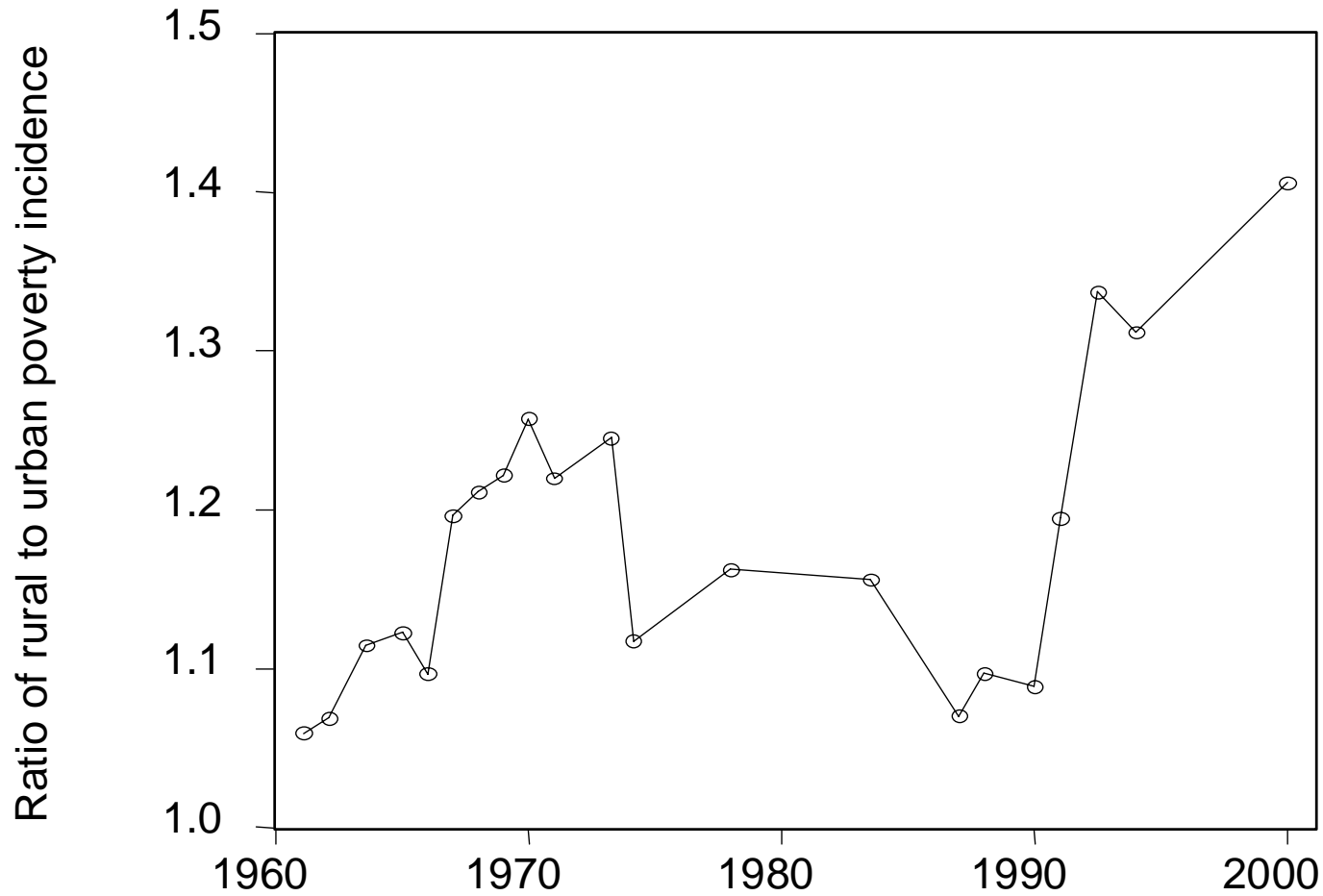
Divergence amongst most states in the 1990s



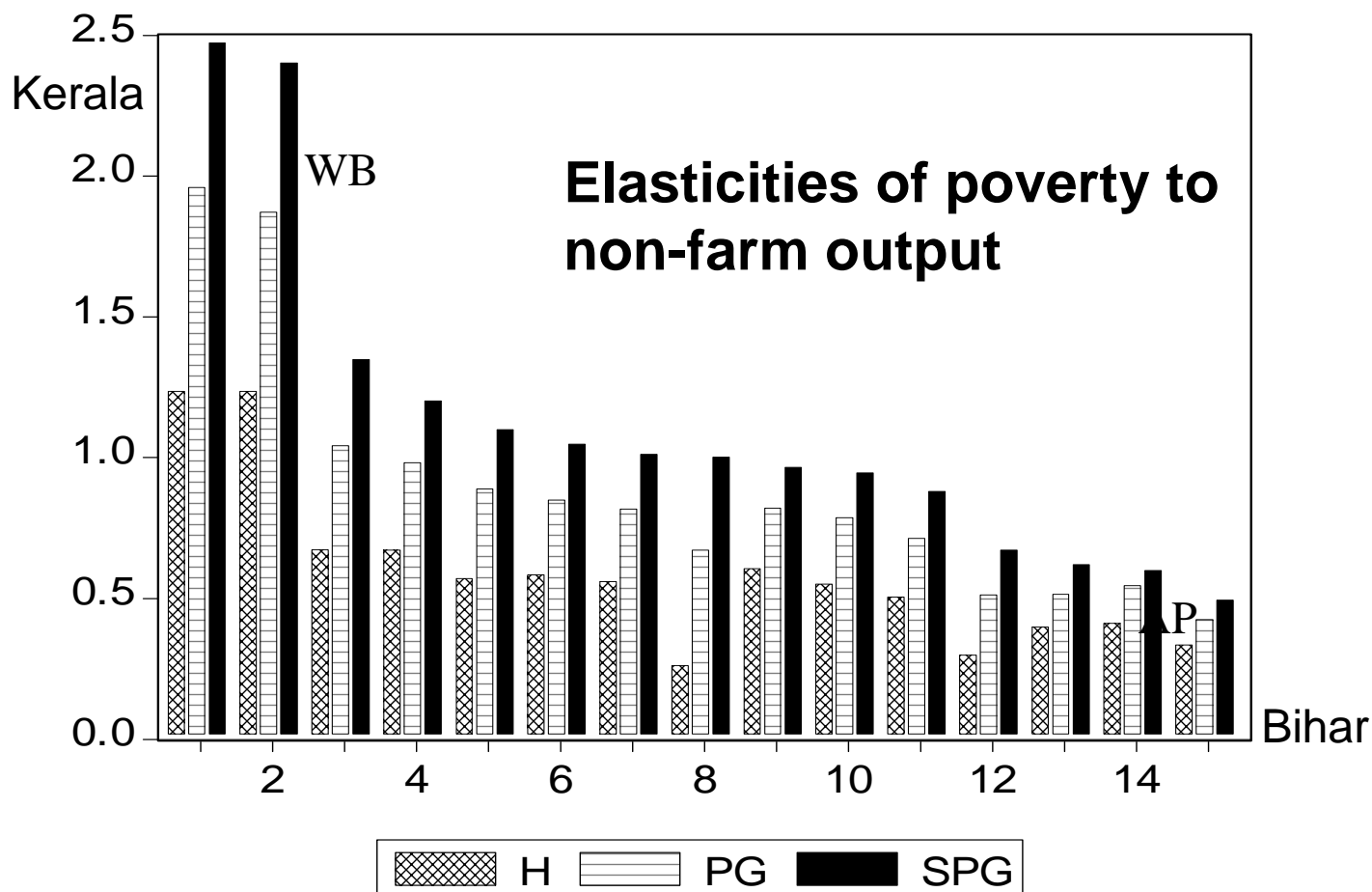
Rural sector lagging

- The importance of rural economic growth, and agricultural growth in particular, to poverty reduction in India has long been recognized.
- Agriculture as a whole has lagged the non-agricultural sector in the 1990s.
- While India's aggregate GDP grew at a rate of 6.7 percent per annum over the period 1993-94 to 1999-00, agriculture and allied services grew at only 3.2 percent per annum.
- Continuing declines in rural non-farm rural employment during 1990s, although not rapid.

Rising rural-to-urban poverty



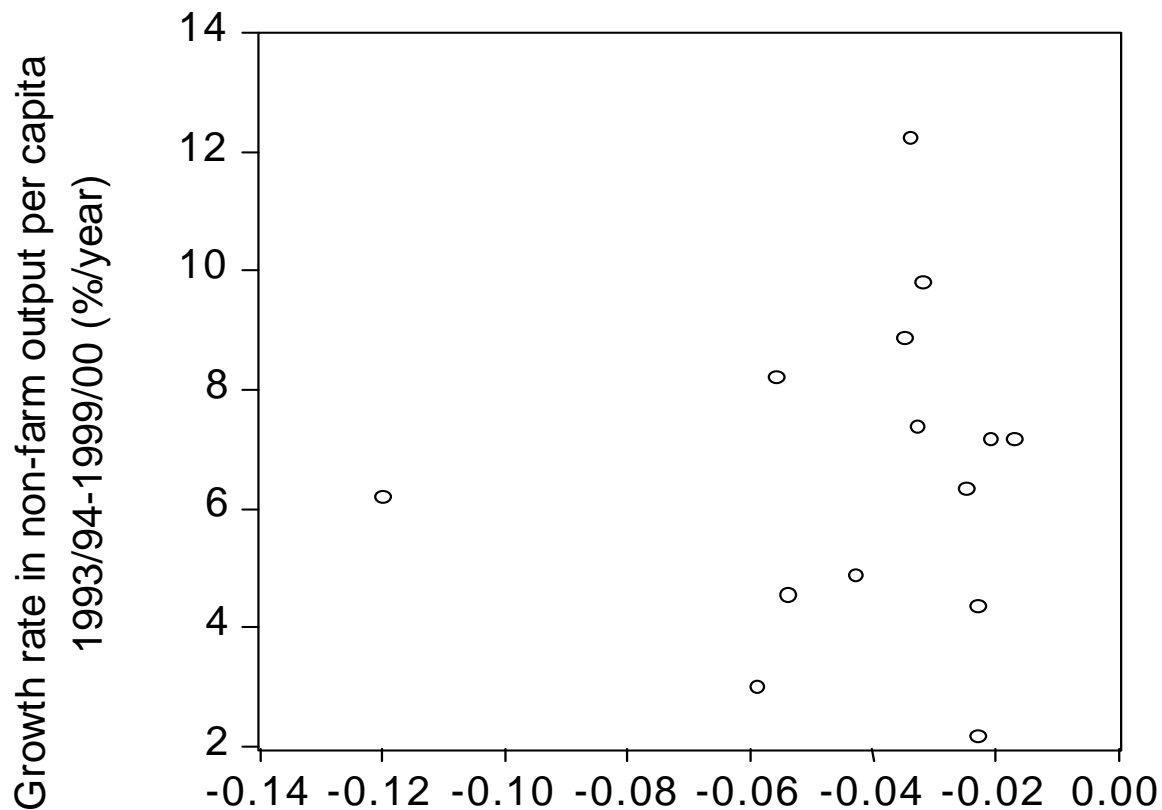
Diverse impacts of non-farm growth



*These differences in elasticities
reflect initial conditions*

- Low farm productivity, low rural living standards relative to urban areas and poor basic education all inhibited the prospects of the poor participating in growth of India's non-farm sector.
- Rural and human resource development appear to be strongly synergistic with poverty reduction through an expanding non-farm economy.

Non-farm growth did not happen where it would have had the most impact on poverty



Weighted elasticity of poverty to non-farm growth 1993/94

The pattern of growth has meant less poverty reduction than expected

- The poverty impact of higher aggregate growth in the 1990s has been dulled by its sectoral and geographic composition
- The growth has not been found where it would have the greatest impact on poverty
- A balanced growth process at same rate would have doubled the rate of poverty reduction.
- ***Could the same rate of growth have been achieved in a more pro-poor way?***