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Economic Growth and Poverty Reduction in India

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Abstract: Poverty continues is a serious problem in India, with its impact on human welfare in the form of poor health, low levels of education and a poor quality of life. Unfortunately, about 33 per cent of India's population still lives in acute poverty (less than $1.25 per person per day). Thus, a careful analysis of the determinants of poverty and of various government policies that can help reduce poverty is very desirable.The role of economic growth in poverty reduction has also been supported by Deaton and Drèze (2001), Bhagwati (2001) and Datt and Ravallion (2002). Sen (1996) has strongly emphasised the need for higher government expenditure on social assistance to the poor, especially in provision of education, as the most important determinants of poverty reduction. Higher growth rates were associated with faster decline in poverty, partly because growth helped increase employment and real wages which contributed to poverty reduction. The increase in government social expenditure is also shown to have contributed significantly to poverty alleviation. However, it is also observe that higher GDP growth increased government revenues, which enabled the government to increase expenditure on the social sectors. Overall, this evidence suggests that for rapid reduction in poverty, sustaining high growth is the most crucial element. Growth is considered pro-poor if growthpromoting policies combine with policies that allow the poor to participate fully in the opportunities unleashed and so contribute to that growth. This includes policies to make labour markets work better, remove gender inequalities and increase financial inclusion.This paper empirically examines the relation between economic growth and poverty alleviation.
Keywords: Growth, poverty reduction, education, health, human development.

Introduction

Relation of Growth and Poverty Reduction

There is a close relationship between growth and poverty and inclusive growth is the key to effective poverty eradication. Indeed, economic growth is believed to be the most successful tool for poverty eradication in any region. Higher overall growth in the economy will generate more employment opportunities for the unemployed and will increase the income levels of those already employed. However, the poverty-reducing effects of higher growth may get neutralized if the increase in a state's income is restricted to groups which are already above poverty levels. In such a case, growth is often associated with increase in the levels of inequality. Various studies which aimed at establishing a link between economic growth and poverty reduction found an inverse relationship between the two. Datt and Ravallion's study, based on data from rural India for the period 1958–1994, found that higher wages and higher farm yield reduced absolute poverty, and with about the same elasticity. While higher wage rate implies higher income, higher farm yield represents improved efficiency and better technology. They also showed that the bulk of the gains to the poor were through rising average living standards rather than improved distribution. Further, the gains were not confined to those near the poverty line, but reached deeper.For reducing Poverty rapid growth works through two channels, First, it creates well-paid jobs and raises real wages, with increase income households are able to purchase and access education and health services. Second, rapid growth leads to growth in government revenues. In turn, enhanced revenues allow the expansion of social expenditures at faster pace. India's own experience testifies to the importance of this connection. India began with very low income and also grew very slowly for several decades. The result was relatively low level of per-capita expenditures on health, education and direct anti-poverty programs. Faster growth changed this. India could afford a universal rural employment guarantee scheme and near-universal public distribution system (PDS) that offers cereals at highly subsidized prices. Likewise, per-capita expenditures on education and health also rose rapidly. Growth and Poverty Reduction: Evidence There is more direct evidence of the connection between growth and poverty reduction, real per-capita income at 2004-05 prices between 1950-51 and 2013-14 with the beginning income normalized at 100. It shows that in the first

three decades ending in 1980-81, per-capita income rose from 100 to just 151. In the next two decades ending in 2000-01, the income went up to 295 and during the following thirteen years ending in 2013-14, it reached 598r.
High growth during 2004-05–2009-10 enabled accelerated poverty reduction. Compared with the previous decade, the rate of poverty reduction doubled, with the share of the population living below the poverty line falling from 37.2 percent in 2005 to 29.8 percent in 2010. Based on the NSS 68th round 8 , 2011-12 show a corresponding reduction in the poverty headcount ratio to 21.9 percent. Also, in terms of the number of poor, on average nearly 10 million rural poor crossed the poverty line annually as compared to 0.25 million people during 1993–2004. However, if the period of 2004 to 2012 is considered, nearly 15 million poor crossed the poverty line per year.

Improved health and education through growth

There is overwhelming evidence that higher incomes lead to a better quality of life, not least in terms of the Millennium Development Goals on health and education. Key research findings here include the following:
• Higher levels of income reduce infant mortality.India demonstrates the strength of this relationship: a 10 per cent increase in GDP is associated with a reduction in infant mortality of between five and seven per cent.
• Primary and secondary school enrolment rates are positively associated with higher levels of per capita income.
• Educational outcomes such as test scores and the rates at which children repeat a year's schooling or drop out of school are significantly affected by per capita income.
• There is usually less disease in wealthier countries. For example, the prevalence of HIV/AIDS is 3.2 per cent for the least developed countries, 1.8 per cent for low-income countries, 0.7 per cent for middle-income countries and 0.3 per cent for high-income countries.
• Life expectancy is clearly positively related to the level of per capita income, according to cross-country evidence.

Growth drives human development

Economic growth is not just associated with reducing poverty. There is also clear evidence for a positive link between economic growth and broader measures of human development. Economic growth is not fundamentally about materialism. Nobel laureate Amartya Sen has described economic growth as a crucial means for expanding the substantive freedoms that people value. These freedoms are strongly associated with improvements in general living standards, such as greater opportunities for people to become healthier, eat better and live longer.17 Growth generates virtuous circles of prosperity and opportunity. Strong growth and employment opportunities improve incentives for families to invest in education by sending their children to school. This may lead to the emergence of a strong and growing group of entrepreneurs, which will generate pressure for improved governance. Strong economic growth therefore advances human development, which, in turn, promotes economic growth. Equally, weak economic growth implies vicious circles in which poor human development contributes to economic decline, leading to further deterioration in human development. For many countries, achieving the Millennium Development Goals will require breaking out of vicious circles to enter virtuous circles. The link between economic growth and human development operates through two channels. First, there is the 'macro' link whereby growth increases a country's tax base and therefore makes it possible for the government to spend more on the key public services of health and education. Growth is essential if governments are going to be able to continue to provide public services, which directly benefit the poor. Although aid may provide initial support, increasing public expenditure in developing countries must ultimately be financed by collecting greater tax revenues. Given the generally low levels of tax revenue collection in developing countries, this can only be achieved in the long-run by strong and sustained growth. The second channel between growth and human development is a 'micro' link, whereby growth raises the incomes of poor people and thereby increases their ability to pay for activities and goods that improve their health and education. In general, a growing economy tends to provide greater job opportunities. These lead in turn to increased demand for education as people expect higher returns for them and their children from the investment of time and money in acquiring skills. The link works equally in the opposite direction. Increased government spending on health and education tends to boost growth in the future, and households reap the benefits from increased investments in health and education through higher future incomes. This generates a virtuous circle of development.

High Growth in India Helps Eradicate Poverty: Report

The Financial Express, April 17, 2011

Rapid growth in economies has helped millions of people escape the dungeons of poverty and based on current economic projections, the world is on track to reduce the number of extremely poor people by half, the World Bank and IMF said in a report. Two-thirds of developing countries are on track or close to meeting key targets for tackling extreme poverty and hunger, the World Bank and IMF report Global Monitoring Report 2011: Improving the Odds of Achieving the MDGs, said. On current trends, and despite the recent global economic crisis, developing countries are on track to reach the global target of cutting income poverty in half by 2015, thanks in large part to rapid growth in India, it added. Giving statistics, the report said the number of people living on less than US$1.25 a day is projected to be 883 million in 2015, compared to 1.4 billion in 2005 and 1.8 billion in 1990. Regarding India, the report said in 1990 as many as 51.3 percent of Indian population was living on less than US$1.25 a day, which got reduced to 41.6 percent in 2005 and is expected to further decline to 22.4 percent in 2015. Commenting on the findings, World Bank director of development prospects Hans Timmer said, Reaching the MDGs is a significant achievement for developing countries. But there is still much to do in reducing poverty and improving health outcomes even in the successful countries. Hugh Bredenkamp, deputy director of the IMFs strategy, policy, and review department, added that advanced economies need to do their part to secure the global recovery, by repairing and reforming their financial systems and tackling their fiscal imbalances. The report calls for measures to support access to trade finance and trade facilitation to connect vulnerable low income countries, landlocked economies and lagging regions to regional and international markets.

Research Methodology

This research paper tries to summaries the relation of economic growth and poverty reduction and how the pro poor growth help in poverty eradication. The relevant secondary data is collected through various sources such as websites, Economic survey, books and journals.

Conclusion

The core finding is that economic growth is the most critical factor in alleviating poverty. The poor usually are not left behind in the growth process but share in the gains that result from growth. The analysis shows that growth is indeed the most crucial element in the fight against poverty by creating increased output and government revenues, increased employment, and higher wages. Government social expenditure on education, health, and welfare, etc. also helps in reducing poverty, but even a well-meaning and pro-poor government can increase social expenditure only with the help of increased tax revenue generated by high growth rates. Thus, in the final analysis, growth should be the paramount concern of government. The links between economic growth and poverty have led to a focus on what is termed pro-poor growth, that is, growth that raises the incomes of the poor. In a virtuous circle of causation, poverty reduction is also good for growth.

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