Between India Shining and India Drowning

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India Shining Narrative

- By the end of the 1970s, India had acquired a reputation as one of the most protected and heavily regulated economies in the world
- Starting in the mid-1970s and then later on in the 1980s, a few tentative steps were taken to liberalize the regulatory regime
- More extensive reforms followed in 1991 such as de-licensing, trade liberalization

India Shining Narrative

- The growth rate of gross domestic product (GDP), which had stayed around 3.5 % per annum for twenty years prior to 1980, shot up to about 5 % in the 1980s (1980 to 1989), and increased further in the 1990s (1990 to 1999) to 6 %
- It reached as high as 9 % before financial crisis, before coming down to 5-6 % again
- Growth has been stable relative to the pre-reform period
- The proportion of the population below the poverty line (1.08 a day in 1993 PPP USD) declined from about 44.5 % in 1984 to 27.5 % in 2004

Growth Rates of GDP, 1950-2004

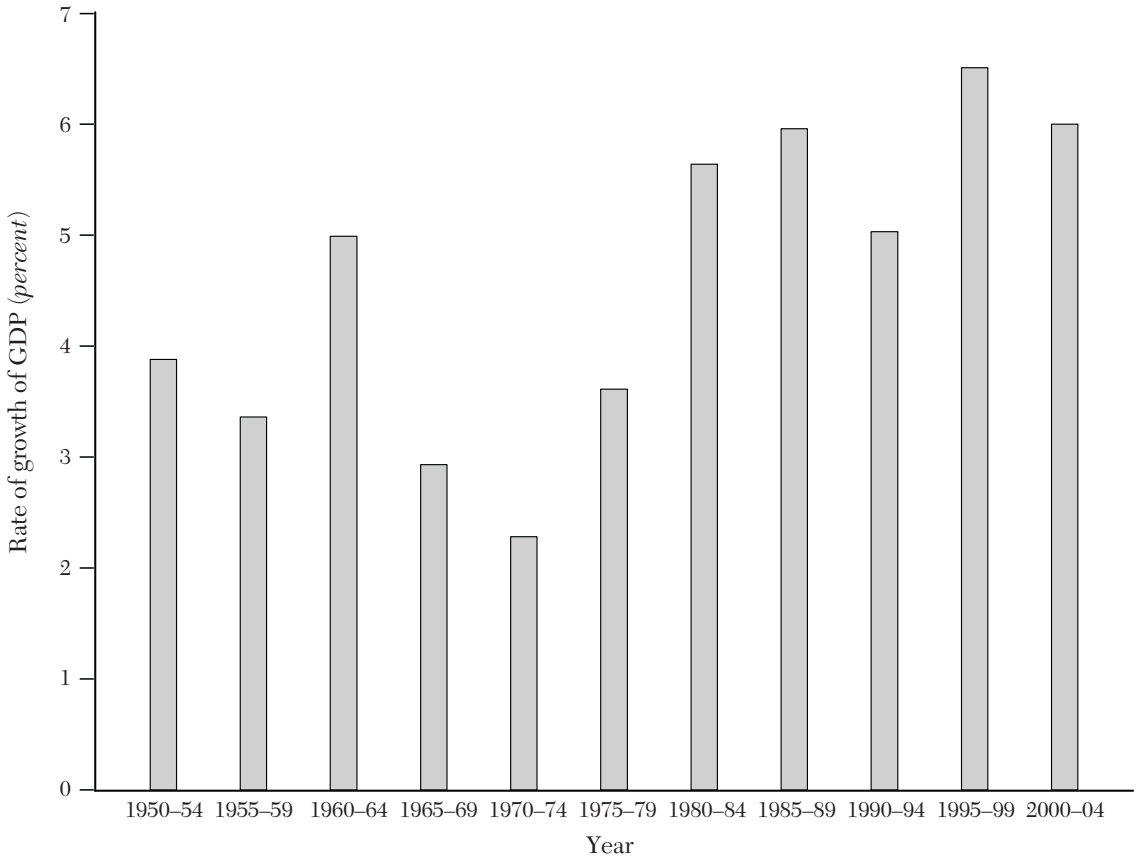


Figure 1. Growth in GDP, 1950–2004

Source: Authors' calculations using National Accounts Statistics.

Per Capita GDP, 1950-2005

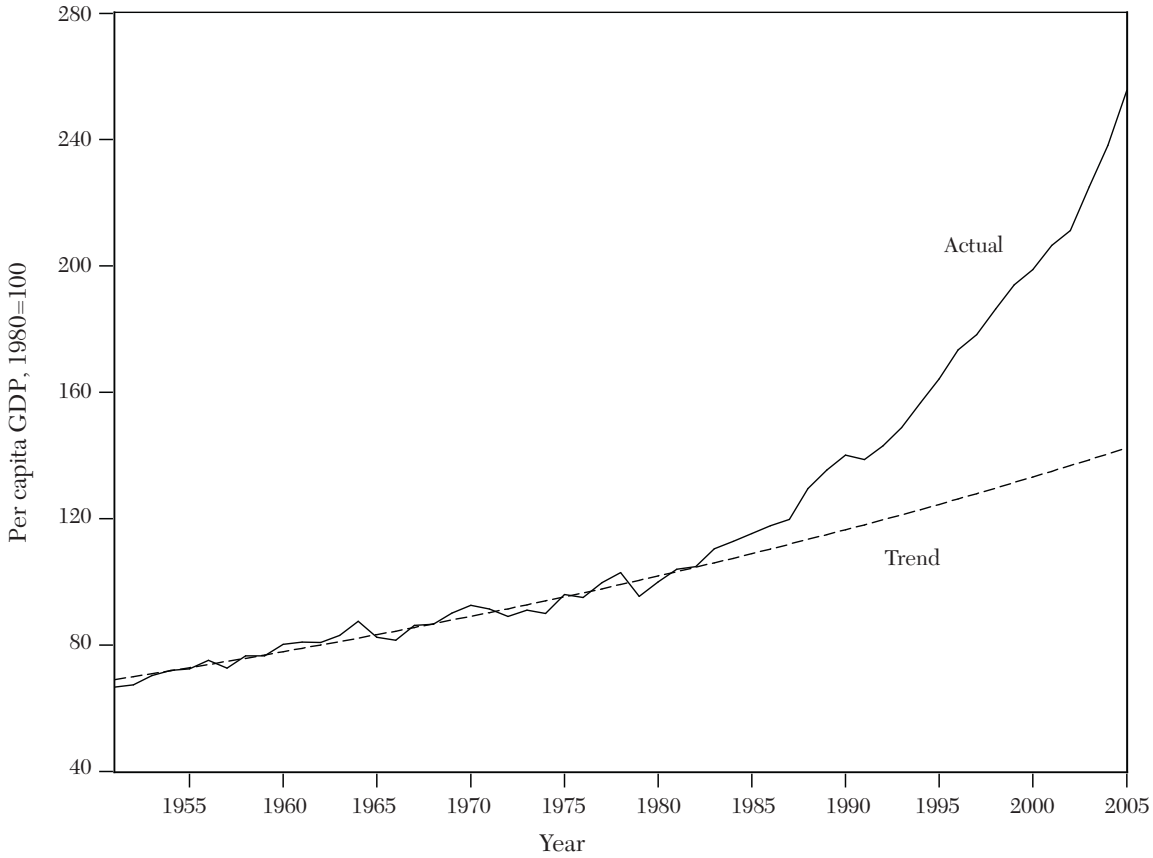


Figure 2. Growth Acceleration in GDP since the 1980s

Source: Authors' calculations using National Accounts Statistics.

Comparison with East Asia

- Savings rate has improved but not as high
- Not driven by manufacturing exports, or massive inflows of FDI
- Growth of the service sector has led the charge
- Share of agriculture in the total labour force has declined very slowly
- In absolute numbers agricultural labour force has increased since the 1980s3

India Drowning Narrative - Poverty

- A significant fraction of the population still lives in abject poverty
- Based on new purchasing power poverty norms released by the World Bank, at the poverty rate of 1.25 USD (2005 PPP) a day, the poor as a share of the total population went down from 59.8 % in 1981 to 41.6 % in 2005
- The decrease in the proportion of population below twice the poverty line is very modest.
- Even in 2004, this proportion was as high as 0.8

Poverty - Per Capita Expenditure, 1983 and 2004

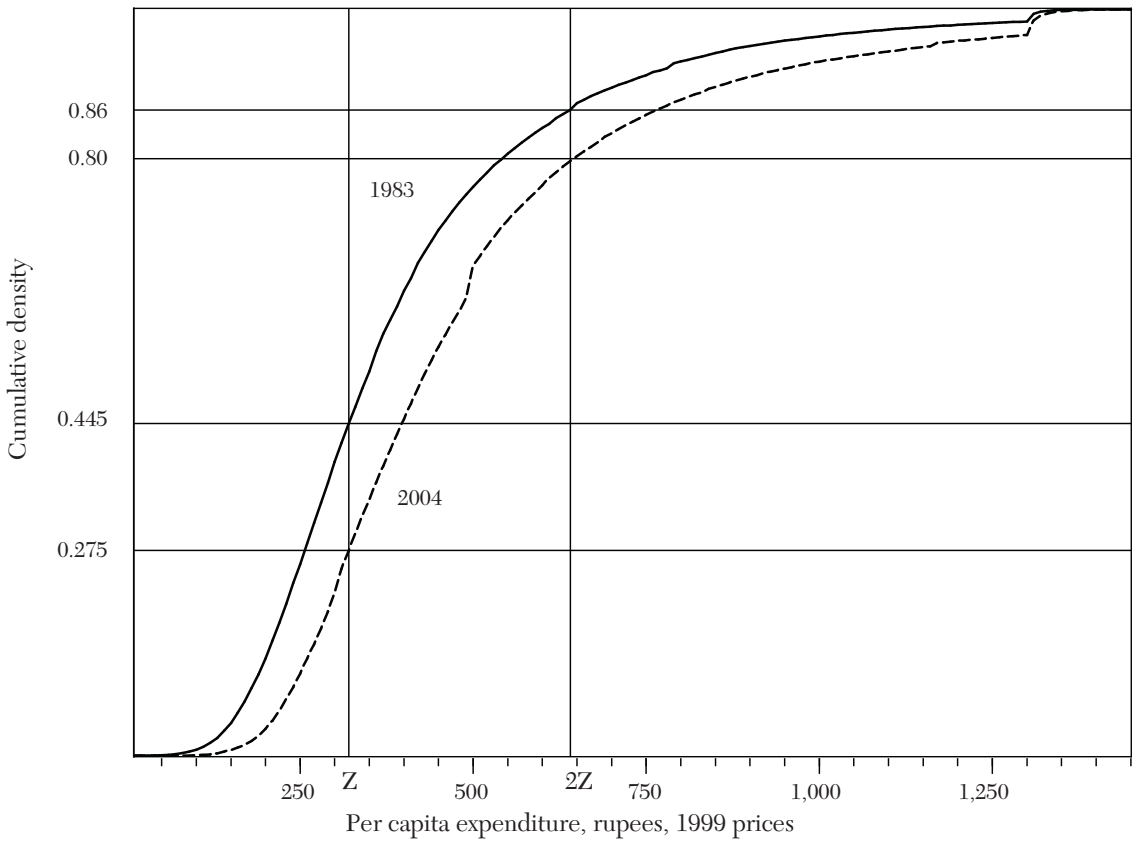


Figure 13. Distribution of Consumer Expenditure

Source: Authors' calculations using NSS data.

India Drowning - Social Indices

- Only five countries outside Africa (Afghanistan, Bhutan, Pakistan, Papua New Guinea and Yemen) have a lower youth female literacy rate than India (World Development Indicators 2011)
- Only four countries (Afghanistan, Cambodia, Haiti, Myanmar and Pakistan) do worse than India in child mortality rate; only three have lower levels of access to improved sanitation (Bolivia, Cambodia and Haiti); and none have a higher proportion of underweight children.
- Almost any composite index of these and related indicators of health, education and nutrition would place India very close to the bottom in a ranking of all countries outside Africa.

Social Indices: South Asian Neighbours

- India has grown much richer than Bangladesh in the last twenty years
- Per capita income was estimated to be 60 % higher in India than in Bangladesh in 1990, and 98 % higher (about double) in 2010.
- But during the same period, Bangladesh has overtaken India in terms of a wide range of basic social indicators: life expectancy, child survival, fertility rates, immunisation rates, and even some (not all) schooling indicators
- Two tables from a recent article by Dreze and Sen give a good summary of India's relative position within South Asia in the period that is supposed to be India's period of take off

INDIA'S SLIPPING SOCIAL REPORT CARD IN THE NEIGHBOURHOOD

South Asia: Selected Indicators (1990 and latest)

		SOUTH ASIA						
		INDIA	BANGLADESH	BHUTAN	NEPAL	PAKISTAN	SRI LANKA	CHINA
GNI per capita (PPP, current int. $)	1990*	877	543	1,280	513	1,210	1,420	813
	2010	3,560	1,800	4,950	1,200	2,780	4,980	7,570
Life expectancy at birth (years)	1990	58	54	52	54	61	69	68
	2010	64	67	67	67	67	74	73
Infant mortality rate (per 1,000 live births)	1990*	81	99	96	97	96	26	38
	2010	48	38	44	41	70	14	16
Under-5 mortality rate	1990*	115	143	139	141	124	32	48
	2010	63	48	56	50	87	17	18
Maternal Mortality Ratio	1990	570	870	940	870	490	91	110
	2008	230	340	200	380	260	39	38
Total fertility rate (children per woman)	1990*	3.9	4.5	5.7	5.2	6.0	2.5	2.3
	2009	2.7	2.3	2.5	2.8	3.5	2.3	1.6
Access to improved sanitation (%)	1990	18	39	-	11	28	70	41
	2008	31	53	65	31	45	91	55
Infant immunisation (DPT, %)	1990*	59	64	88	44	48	86	95
	2008*	66	94	96	82	80	98	96
Infant immunisation (measles, %)	1990*	47	62	87	57	50	78	95
	2008*	71	98	97	80	82	97	94
Mean years of schooling	1990	3.0	2.9	-	2.0	2.3	6.9	4.9
	2010	4.4	4.8	-	3.2	4.9	8.2	7.6
Female literacy rate, age 15-24 years (%)	1991[a]	49	38	-	33	-	93	91
	2009[b]	74	77	68	77	61	99	99
Proportion (%) of underweight children	1990[c]	59.5	61.5	34	-	39	29	13
	2007[d]	43.5	41.3	12	38.8	-	21.6	4.5

* Three-year average centred on the reference year (e.g. 1989-91 average when the reference year is 1990). [a] 1990 for China; the Sri Lanka figure is an interpolation between 1981 and 2001 figures. [b] 2006 for India, 2005 for Bhutan, 2008 for Pakistan and Sri Lanka, 2009 for other countries (latest World Bank estimates). [c] 1988 for Bhutan, 1991 for Pakistan, 1987 for Sri Lanka. [d] 2005 for China, 2006 for India and Nepal, 2007 for Bangladesh, 2008 for Bhutan, 2009 for Sri Lanka (latest World Bank estimates).

Sources: Mean years of schooling and life expectancy from *Human Development Report 2010*, online (http://hdr.undp.org); other indicators from *World Development Indicators*, online (www.data.worldbank.org). Some of the country-specific figures for 1990 are subject to a significant margin of error; the focus is best kept on broad patterns rather than exact numbers.

Source: Dreze and Sen, Outlook Magazine, 2011

MIRROR, MIRROR... HOW INDIA RANKS IN SOUTH ASIA

INDIA'S RANK AMONG SIX SOUTH ASIAN COUNTRIES (TOP = 1, BOTTOM = 6)

	IN 1990	AROUND 2009
GNI per capita	4	3
Life expectancy	3	6
Infant mortality rate	2	5
Under-5 mortality rate	2	5
Maternal mortality ratio	3	3
Total fertility rate	2	4
Access to improved sanitation	4-5[a]	5-6[a]
Child immunisation (DPT)	4	6
Child immunisation (Measles)	6	6
Mean years of schooling	2-3[a]	4-5[a]
Female literacy rate, age 15-24	2-3[a]	4
Proportion of underweight children	4-5[a]	6

[a] Ambiguous rank due to missing data for Bhutan (or Nepal, in the case of "underweight children"). Source: See Table 1. The six countries considered here are Bangladesh, Bhutan, India, Nepal, Pakistan and Sri Lanka.

Source: Dreze and Sen, Outlook Magazine, 2011

Beyond the Shining vs Drowning Narrative

- A recent paper by Kaivan Munshi and Mark Rosenzweig (AER 2006) has shown that low caste girls are more likely get an english medium education due to liberalization, at a higher rate than girls from higher castes, and boys from similar castes
- Robert Jensen (QJE 2012) has shown that working in the BPO sector has led to significant changes in young women's social attitudes, e.g., ideal age of marriage, number of children, balance of decisionmaking power by gender within the household

Beyond the Shining vs Drowning Narrative

- Another paper (Lahiri et al, AEJ 2012) shows that the wage gap between high and backward castes have gone down from 36 % in 1984 to 21 % in 2010
- Small scale entrepreneurship has flourished among lower castes
- Mobile phones have reduced information barriers for the poor, as shown by Jensen's (QJE 2007) well known study of fishermen in Kerala

Beyond the Shining and Drowning Narrative

- Growth creates opportunities, and potential for mobility
- The aspirational India
- Growth creates a basis for all round developemnt by generating more public revenue (whcih is roughly more than four times as much today compared to 1990)

Beyond the Shining and Drowning Narrative

- However, one cannot passively rely on trickle down
- Otherwise, you have an enclave economy, like the gated communities in affluent urban areas in India
- Public expenditure on health, education, infrastrucutre, direct transfers to the poor, improving institutions (e.g., legal, law and order) and cut down corporate welfare or subsidies to the rich (e.g., fuel)

Beyond the Shining and Drowning Narrative

- There are three Indias, the shining one, and aspirational one, and the abject poor who not only have not benefitted much, but their livelihoods are under threat
- Can ignore the third one only at your own peril
- Eventually growth will lead to skilled resource constraint
- More immediately, the need for land (and energy) will to conflict that will short circuit the growth process
- Talk about two issues briefly
  - Maoist or Naxalite moevement
  - Land Acquisition controversy

India's Maoist Movement

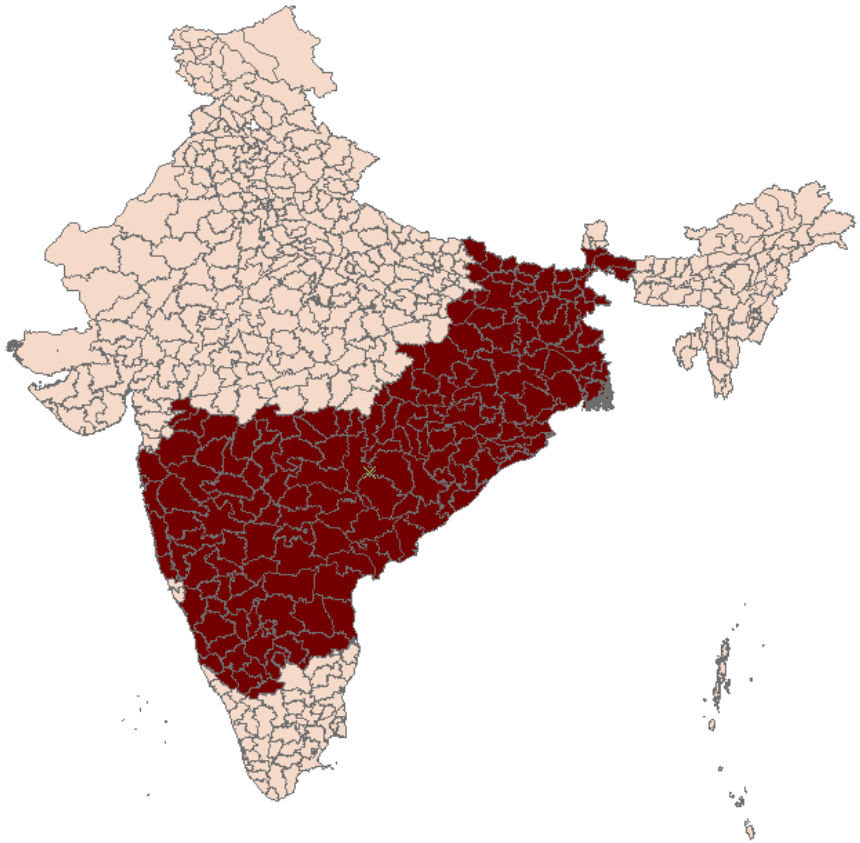
- Economic inequality is often referred to as the main driver of India's Maoist (or, Naxalite) movement
  - *Borooah, 2008; Planning Commission, 2008*
- A one slide history:
  - Named after peasant uprising against landlords in small West Bengal village of "Naxalbari".
    - Movement attracted support from various communist groups who aim to overthrow the Indian government
    - Merger of key groups into a single outfit in 2003: Communist Party of India - Maoist (CPI-Maoist).
    - Guerilla war with stated aim of protecting tribal and low-caste groups against abuse
    - Strong recent growth of the conflict against a background of economic liberalisation
    - app. 5,000 casualties in the last 6 years

A Dataset on Naxalite Violence

- South Asia Terrorism Portal (SATP): event timelines
  - Annual casualty data (2005-2010)
  - Per type: Civilian, Maoist, Security Forces
- Sample of 8 affected states: Andhra Pradesh, Bihar, Chhattisgarh, Jharkhand, Karnataka, Maharashtra, Orissa, West Bengal
- Kharif season rainfall at district level from Indian Meteorological department (2004-2010).
- Missing observations (or border changes): some district mergers
- Mineral production value (Bauxite, Iron, Coal)
- Population below the poverty line
- Panel of 167 (merged) district, 6 years (2005-2010)

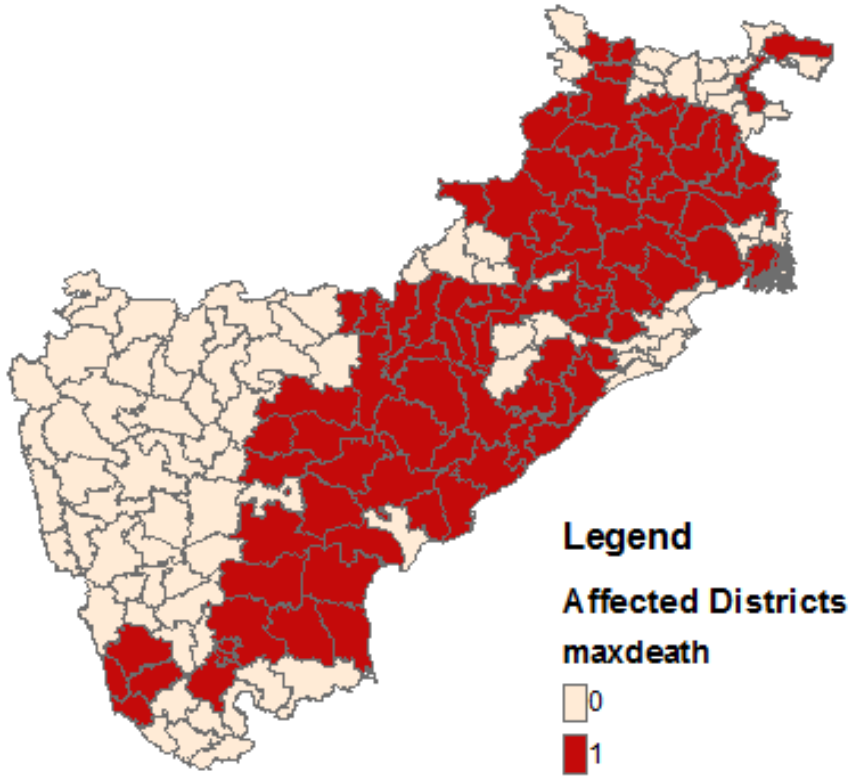
Selected States

Figure: **Districts Included in Data Set**



Geographical distribution of Naxalite violence

Figure: **Districts with Naxlite-related casualties (2005-2010)**



How different are Naxalite districts?

Characteristics of Naxalite Districts

	At least one death (2005-2010)	No casualties (selected states)	p-value (1)-(2)	No casualties (India)	p-value (1)-(3)
	(1)	(2)		(3)	
Population below poverty line (%)	40	38		27	
	(2.2)	(2.5)	0.62	(0.8)	0.00
Literacy rate (%)	58	65		65	
	(1)	(1)	0.00	(0.6)	0.00
Scheduled Tribe Population (%)	19.6	8.9		14.2	
	(2.3)	(1.1)	0.00	(1.2)	0.04
Scheduled Caste Population (%)	15.2	15.0		14.0	
	(0.1)	(0.1)	0.84	(0.1)	0.29
Mineral Value Measure (Log +1)	2.8	1.0			
	(0.4)	(0.3)	0.00		
Forest cover (%)	26.0	13.4			
	(2.1)	(1.9)	0.00		
Average rainfall (mm, 2004-2010)	1078	1028			
	(57)	(71)	0.57		
Population density (pop/km^2)	457	382		593	
	(49)	(33)	0.21	(83)	0.02
Number of observations	83	84		490	

Mining activity and the Naxalite conflict

- Predictor of Naxalite activity
- Multiple explanations:
  - Financing Naxalite activity (feasibility)
    - *Sristava (2009); Economist (25 Feb 2010)*
  - Rent extraction as a goal in itself (greed)
  - Displacement of tribal population and pollution (grievances)
    - *Planning Commission (2008)*

Inequality and the Naxalite conflict

- Social dimension of inequality could be more important than the purely economic dimension:
  - Naxalite districts have a higher ST share and lower literacy
  - Naxalite districts do not have a higher SC share or a larger BPL population
- Insignificance of poverty (within selected states) is striking:
  - The analysis cannot determine the direction of the causality
  - "conflict causes poverty" and "poverty causes conflict"
    - Both would lead to a negative relationship
- Headcount ratio at the district-level does not capture within-district inequality
  - ST share and literacy may be better at capturing the extent to which the communities that are vulnerable to conflict are disadvantaged

Implications

- Naxalite districts have a natural environment that facilitates conflict:
  - Forest cover
  - Mineral resource wealth
- Poverty (at the district level) does not appear to drive the conflict
- Still, India's Naxalite districts are disadvantaged in several dimensions:
  - District level measure of poverty may not capture the extent to which the affected communities are marginalized
  - Underdevelopment could have deep (colonial) roots

The Land Acquisition Debate

- Even as parts of the global economy is becoming "weightless" in developing countries such as India and China, industrial development has been weighed down by land scarcity
- In very land scarce environments, land price will be high
- This will dampen the incentive to acquire land for industry, but unless some distortions are present, there is no inefficiency involved

Models of Industrialization

- Perhaps this is why models of industrialization (e.g., Solow, Lewis) did not pay much attention to land but more on capital accumulation and surplus labour
- The premise is industry offers a much higher expected return than agriculture, and so buying and selling of land would be smoothly mediated through the market
- It is true that political forces vitiated the atmosphere and interfered with the buying and selling of land that is normally expected to be mediated through the market.
- But even then, what was the basis of the reluctance (resistance) to sell the land that necessitated coercive acquisition?

A Simple Supply-Demand Story

- Such a resistance to selling land can emerge even without the presence of hold out.
- Land is valuable as an asset, and this value is higher in the absence of well functioning capital, insurance markets & social safety nets
  - Many view the income from land (or opportunity to consume crops grown) as a form of valuable security against various risks of high inflation or economic recession.
  - Others may value land as it can serve as collateral for bank loans.
  - It is also a secure form of holding wealth, and provides some insurance value, as well as old-age support to its owners.
  - Farmers have developed special skills in farming which are of no use in other occupations.
  - Other reasons: land as a source of social status, prestige or ancestral identity

Field Interviews

- From our field interviews we were told:
  - A large chunk of cash was not very useful to them because they do not have the skills and temperament to invest it profitably in non-agricultural uses.
  - Second, even if theoretically the money can earn a higher return in the bank compared to agriculture, they are worried that inflation would eat into their savings, and interest rates could go down.
  - Third, agriculture has the big advantage of offering them the guarantee of subsistence.
  - Fourth, they are worried that a lump sum received from selling land might be frittered away by themselves or family members (the "son buying a motorcycle" was a phrase often heard), leaving nothing for emergencies or provision for old-age.

Implications

- Therefore, land scarcity is accentuated by other market frictions
- **Implication 1**: true price of land is much higher than what would be dictated by a simple calculation of availability and current market prices.
- This has nothing to do with the relative profitability of industry or agriculture or the physical scarcity of land.
- Rather, it is driven by the absence of good insurance mechanisms and financial instruments, and low levels of human capital, all of which make switching to alternative occupations costly.

Implications

- Survey results as well as field interviews sugges that it is the poorer farmers who are most reluctant to sell
- Personal characteristics of landowners were correlated with their decisions whether to accept the offered compensation.
- Households for whom agriculture played a larger role in income, or those with a larger fraction of adult members who were workers, were less likely to accept.

Implications

- This points to the role of income security as an important consideration, and the role of complementarity of land with farming skills.
- This sounds somewhat paradoxical because one expects that cash strapped poorer farmers would rather sell land immeditely if offered higher prices.
- In contrast, the reservation price is lower for richer farmers, who tend to be more educated and exposed to the world outside agriculture, especially the younger generation
- They felt that agriculture was not profitable and industry was the way of the future.

Implications

- **Implication 2**: the distribution of land is important in determining the average reservation price of land. If there is a substantial group of small and poor farmers are reluctant to sell, then the price that would be needed to acquire land for industry would be much higher.
- Therefore, in the context of West Bengal, the success in implementing limited land reform may have, ironically enough, created a distribution of land that makes industrialisation more difficult.

Vicious Circle

- As a result of these forces, the economy appears to be stuck in a vicious circle.
  - Because of poverty and low levels of human capital, farmers have a high reservation price for land as their alternative earning options are limited.
  - The resulting scarcity of land is a major constraint on industrialisation, thereby keeping productivity in alternative occupations low, and keeping the economy at a low level equilibrium.

Concluding remarks

- Policies targeted at marginalized rural communities:
  - Rural infrastructure: Roads , Electrification , Irrigation, Telecom, Housing
  - Social Security: NREGA, Public Distribution System
  - Proposals for a new mining royalty regime (relevant for tribal areas)
- Challenge:
  - Weak institutions hamper delivery
  - local population does not trust the state
- Greater decentralization and empowerment of local governments?

Some General Concluding Observations

- Trickle down not enough
- Trickle up can be good for both equity and growth
- Expenditure on health and education not a waste but an investment
- Property rights protection does not have to be a right wing slogan
- Main sufferers are the poorest sections
- Reforms cannot work on the foundation of coercion