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Inclusive Growth and Rural Poverty in India: Policy Implications for the Eleventh Plan

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I

INTRODUCTION

The Approach Paper to the Eleventh Five-Year Plan (2007-12) has chosen 'faster and more inclusive growth' as its central theme. It recognised the need to make growth 'more inclusive' in terms of benefits of growth flowing to those sections of population, which have been bypassed by high rates of economic growth achieved in recent years. It has also been perceived that disparities among regions have been increasing steadily and the gains of the rapid growth have not reached all parts of the country in an equitable manner. Hence, for growth to be 'more inclusive', it is necessary that the benefits of rapid growth be shared by different sections of population and by all the regions of the country. At the present juncture of the economy's progress, it would be useful to investigate how far economic growth has been 'inclusive' and to what extent the benefits of growth have trickled down to the poor people and how the benefits have been shared by different regions of the country. Such an exercise would provide insights for appropriate policies needed for achieving the objective of 'faster and more inclusive growth'.

Evaluating the growth performance and the strength of the trickle-down process and inclusiveness of growth in agriculture experienced before the initiation of the Eleventh Five-Year Plan (2007-12), this paper examines the prospect of achieving the objective of 'faster and more inclusive growth', and suggests policy measures to achieve the objective. The paper first analyses the trend and inter-state variations in rural poverty, and then examines the trickle-down process and inclusiveness of growth, explaining the variations in rural poverty in terms of agricultural development and some other related variables. It then reviews the growth performance in agriculture, analyses the plan outlays and expenditure under agriculture and allied activities and rural development, and evaluates the prospect of achieving the targeted growth rate in agriculture and a desirable reduction in rural poverty.

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II

INCIDENCE AND REGIONAL VARIATIONS IN RURAL POVERTY

The incidence of rural poverty declined significantly during the period from the mid-1970s to the late-1980s, but increased again in the early-1990s. Rural poverty declined from 56.4 per cent in 1973-74 to 34.4 per cent in 1989-90 (Table 1). The trend was reversed thereafter as rural poverty increased to 35 per cent in 1990-91 and sharply to 44 per cent in 1992. Even though rural poverty declined again to 37.5 per cent in 1993-94, it remained higher compared in 1989-90 or 1990-91, the year just before the initiation of comprehensive economic reforms in 1991. Thus, rural poverty increased considerably immediately after the economic reforms, but the trend has been moderated thereafter. Rural poverty, based on mixed recall period (MRP) National Sample Survey (NSS) consumer expenditure data, declined from 27.1 per cent in 1999-2000 to 21.8 per cent in 2004-05; rural poverty based on uniform recall period (URP) NSS consumer expenditure data turned out to be 28.3 per cent in 2004-05.

TABLE 1. INCIDENCE OF RURAL POVERTY IN INDIA (HEAD-COUNT)

(*per cent*)

Year (1)	Rural poverty (2)
1972-73	-
1973-74	56.4
1977-78	53.1
1983	45.6
1986-87	38.3
1987-88	39.1
1988-89	-
1989-90	34.4
1990-91	35.0
1991	-
1992	44.0
1993-94	37.5
1999-2000 (MRP)	27.1
2004-05 (URP)	28.3
2004-05 (MRP)	21.8

Sources: Government of India (1993) as reported in Sen (1996); Government of India (2002); Government of India (2008a).

Notes: While the poverty estimates for 1999-2000 are based on mixed recall period (MRP) NSS consumer expenditure data, the estimates for all the years before 1999-00 are based on uniform recall period (URP) data and the estimates for 2004-05 are based on both MRP and URP.

State-wise data (Table 2) show that in most of the states (9 out of 15), the poverty ratios were significantly larger in 1993-94 than in the immediate pre-reform period (1990-91). A comparative study of the poverty estimates (based on MRP consumer expenditure data) between 1999-2000 and 2004-05, reveals that while eleven states (viz., Andhra Pradesh, Assam, Bihar, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal) were able to reduce the incidence of rural poverty, the remaining four states (viz., Gujarat, Haryana, Kerala and Rajasthan) experienced higher incidence of rural poverty in 2004-05.

There are wide and increasing inter-state variations in rural poverty during 1972/73–2004/05. Table 2 shows that the coefficient of variations (CV) in rural poverty across major states has increased consistently from 27.2 per cent to 38.2 per cent during 1972/73–1983, and then declined consistently from 38.2 per cent to 33.6 per cent during 1983–1990/91. It has increased sharply to 59.0 per cent in 1999-2000, but declined to 53.7 per cent (MRP) and 46.5 per cent (URP) in 2004-05. Thus, while the inter-state disparity in rural poverty had been declining during 1983–1990/91 (pre-reform period), it showed an increasing trend during 1990/91–1999/2000 (post-reform period), but it moderated slightly in 2004-05.

TABLE 2. INTER-STATE VARIATIONS IN RURAL POVERTY

(head-count ratio)

State (1)	1972/73 (URP) (2)	1977/78 (URP) (3)	1983 (URP) (4)	1987/88 (URP) (5)	1990/91 (URP) (6)	1993/94 (URP) (7)	1999/2000 (MRP) (8)	2004/05 (URP) (9)	2004/05 (MRP) (10)
Andhra Pradesh	57.7	40.13	26.53	21.0	22.1	15.92	11.05	11.2	7.5
Assam	48.2	40.04	42.60	39.4	33.7	45.01	40.04	22.3	17.0
Bihar	55.8	52.25	64.37	53.9	46.3	58.21	44.3	42.1	32.9
Gujarat	43.9	38.02	29.80	28.6	21.6	22.18	13.17	19.1	13.9
Haryana	21.5	19.11	20.56	15.3	19.5	28.02	8.27	13.6	9.2
Karnataka	52.3	48.49	36.33	32.6	34.9	29.88	17.38	20.8	12.0
Kerala	57.8	43.1	39.03	29.5	30.3	25.76	9.38	13.2	9.6
Madhya Pradesh	61.4	57.03	48.9	42.0	42.4	40.64	37.06	36.9	29.8
Maharashtra	53.9	55.38	45.23	41.0	35.9	37.93	23.72	29.6	22.2
Orissa	71.0	63.23	67.53	58.7	36.5	49.72	48.01	46.8	39.8
Punjab	21.5	10.18	13.2	12.8	9.3	11.95	6.35	9.1	5.9
Rajasthan	47.5	29.24	33.5	33.3	25.9	26.46	13.74	18.7	14.3
Tamil Nadu	63.0	51.52	53.99	46.3	37.5	32.48	20.55	22.8	16.9
Uttar Pradesh	53.0	44.39	46.45	41.9	34.8	42.28	31.22	33.4	25.3
West Bengal	64.0	53.16	63.05	48.8	49.5	40.8	31.85	28.6	24.2
CV (per cent)	27.2	33.6	38.2	36.9	33.6	37.6	59.0	46.5	53.7

Sources: Government of India (1984) as reported in Malhotra (1997); Sen (1996); Government of India (2002); Government of India (2008a).

III

TRICKLE-DOWN PROCESS AND INCLUSIVE GROWTH

This section explains the variations in rural poverty in terms of agricultural development and some other selected variables, and examines the trickle-down process and the inclusiveness of growth in agriculture. Since the rural people derive their livelihood primarily from agriculture, their living conditions depend largely on agricultural performance. We have measured agricultural performance in terms of state domestic product in agriculture per head of rural population (SDPAR). An increase in SDPAR is likely to improve the living conditions of all sections of the rural population including the rural poor. The factors, which could influence the living conditions of the rural poor particularly, are identified by looking into the structure of rural poverty. Based on various rounds of NSS reports, agricultural labour households, and primarily cultivator households consisting largely of marginal and small farmers are identified as the rural poor. The 55th Round (1999-2000) of the NSS report revealed that 20.21 per cent of the households self-employed in agriculture, 29.66 per cent of the regular wage-earning workers and 40.98 per cent of the casual agricultural labourers were living in poverty in 1999-2000. These three categories of households together constituted 81.8 per cent of the poor households in rural India. While the self-employed rural households – agricultural and non-agricultural – experienced much lower levels of poverty than other rural households, rural labour households, both agricultural and non-agricultural, were the worse-off economic group in terms of extent and depth of poverty. Thus, agricultural labour households and the households self-employed in agriculture (largely the marginal and small farmers as per Agricultural Census) are unambiguously the major groups living below the poverty line. Naturally, the extent of rural poverty would be determined by the levels of living of these households.

The factors that could influence the living conditions of these households are (i) average size of the marginal and small operational holdings (SMSH), (ii) real wage rate (RWAL), and (iii) usual status unemployment rate in rural area (UNR) as an index of rural employment opportunities. While state domestic product in agriculture per head of rural population (SDPAR) is considered the general factor, the average size of the marginal and small operational holdings (SMSH), real wage rate for male agricultural labourers (RWAL) and the usual status unemployment rate (UNR) are considered as the specific factors influencing rural poverty. Rural poverty (RPOV) is likely to vary inversely with SDPAR, SMSH and RWAL, but directly with UNR.

Since agricultural performance measured by SDPAR can affect rural poverty through its effect on income and wage employment in crop production as well as in off-farm activities associated with crop production, inclusion of both sets of variables in a single equation is likely to create multi-collinearity problem. To avoid this problem, we have examined the effects of the above factors on rural poverty by estimating two equations – the first involving SDPAR, and the second involving SMSH, RWAL and UNR as the explanatory variables. The equations, estimated by OLS method with pooled state-wise data corresponding to seven quinquennial NSS Rounds (1972-73, 1977-78, 1983, 1987-88, 1993-94, 1999-2000 and 2004-05) are:

$$\underset{(20.94)}{RPOV = 56.87} - \underset{(-8.438)^{*}}{0.0208\ SDPAR}; \quad R^2 = 0.409 \qquad \text{....(1)}$$

$$\underset{(15.86)}{RPOV = 83.86} - \underset{(-4.472)^{*}}{26.57\ SMSH} - \underset{(-11.392)^{*}}{6.52\ RWAL} + \underset{(1.672)^{**}}{0.622\ UNR}; \quad R^2 = 0.619 \qquad \text{....(2)}$$

Notes: Figures in parentheses are t-values. * and ** indicate significance at 1 per cent and 5 per cent levels, respectively. Number of observations (N)=105.

The negative coefficient on SDPAR suggests that improved agricultural performance (measured as an increase in SDPAR) has been associated with reductions in rural poverty, asserting that the benefits of growth in agriculture have trickled down to the rural poor, and in that sense, growth has been inclusive, to an extent. However, the results obtained by estimating equation (1) with individual year's data reveal that the strength of the trickle-down process and the inclusiveness of growth in agriculture have been limited and are weakening with time. The estimated results are:

1972-73: RPOV = 84.32 – 0.043 SDPAR; R^2 = 0.666
(12.39) (-5.091)*

1977-78: RPOV = 74.01 – 0.034 SDPAR; R^2 = 0.564
(9.28) (-4.101)*

1983: RPOV = 69.21 – 0.029 SDPAR; R^2 = 0.476
(8.15) (-3.436)*

1987-88: RPOV = 52.34 – 0.0184 SDPAR; R^2 = 0.423
(8.93) (-3.086)*

1993-94: RPOV = 48.36 – 0.0136 SDPAR; R^2 = 0.399
(8.62) (-2.937)*

1999-2000: RPOV = 39.79 – 0.0135 SDPAR; R^2 = 0.375
(6.15) (-2.794)*

2004-05: RPOV = 36.32 – 0.0101 SDPAR; R^2 = 0.333
(6.96) (-2.550)**

Notes: Figures in parentheses are t-values. * and ** indicate significance at 1 and 5 per cent levels, respectively. N = 15 in all the equations.

Although rural poverty is found to be inversely associated with agricultural production per head of rural population in all the years, the strength of the relationship (measured by the absolute value of the coefficient on SDPAR) and the explanatory power of the equation (measured by R^2) appear to have declined considerably over time. The absolute value of the coefficient on SDPAR has declined consistently from 0.043 in 1972-73 to 0.0101 in 2004-05, and the estimated value of R^2 has declined from 0.666 to 0.333. The low and declining values of the coefficient on SDPAR are an indication that the trickle-down process and the inclusiveness of agricultural growth process have been limited and are weakening with time. Naturally, growth in agricultural production alone will not bring about a substantial reduction in the incidence of rural poverty. Hence, to achieve some measure of inclusiveness of growth in agriculture in the Eleventh Plan, rural development programmes that directly or indirectly influence the living conditions of the rural poor should be given greater importance.

The estimated results of equation (2) show that the specific factors together explain about 62 per cent variations in rural poverty. The factors are also significant individually. Since land is the most important income generating asset of the primarily cultivator poor households (viz., the marginal and small farmers), the incidence of rural poverty is expected to vary inversely with the average size of their operational holdings. This is established by a statistically significant negative coefficient on SMSH. Moreover, the high value of the coefficient on this variable suggests that a small increase in the average size of these holdings would reduce the incidence of rural poverty substantially. Naturally, rural poverty can be reduced through effective implementation of redistributive land reforms in favour of the marginal and small operational holdings. Moreover, provisioning of institutional credit and agricultural inputs at subsidised rates for the marginal and small farmers, which would help them to use high-yielding variety technology and achieve higher productivity, could be an effective policy measure for reducing rural poverty. The negative coefficient on RWAL and the positive coefficient on UNR suggest that rural poverty can be reduced by ensuring employment to the landless agricultural labourers at wages sufficient to satisfy their basic needs (Ghosh, 2008). However, employment generation has to be accompanied by proportionate increase in labour productivity. Relatively low value of the coefficient on UNR may be construed to be an indication that employment generation programmes that have been launched in rural India have not possibly had substantial effect on rural poverty. Labour absorption in agriculture with no significant improvement in agricultural productivity may not yield a substantial and sustainable reduction in rural poverty.

Bhalla (1987) reported that labour productivity did not increase proportionately with the increase in labour absorption in agriculture during 1972/73–1983/84. Bhalla (2007) argued that the additional employment generated during 1993/94–2004/05 has been of poor quality and low productivity, as the additional employment has been associated with slowing down in agricultural production and yield growth rates. Naturally, to reduce poverty and achieve some measure of inclusiveness in the process of agricultural growth, the productivity of the existing employment needs to be increased and the new jobs must be productive ones. She also argued, "…an effective way to reduce rural poverty in India could be to accelerate the shift of workers from relatively lower productivity agriculture to more productive employment in the non-farm sector" (Bhalla 2007, p. 39). However, evidence shows that although the contribution of agriculture and allied activities to gross domestic product (GDP) has come down to 17 per cent in 2008-09, there has been no proportionate shift of workers from agriculture to non-agriculture. More than 60 per cent of total workers still derive their livelihood from agriculture.

The period 1972/73–2004/05 also witnessed a declining trend in the growth rate of employment in rural areas. The growth rate of rural employment, which was 2.32 per cent during 1972/73–1977/78, declined to 1.8 per cent during 1983–1993/94, and further to 1.32 per cent during 1999/2000–2004/05. Consequently, despite increasing non-farm employment opportunities in rural area, rural unemployment increased from 0.46 per cent of the labour force in 1972-73 to 1.2 per cent in 1993-94, and further to 2.5 per cent in 2004-05. Hence, in order to make the growth process in the rural area ‘more inclusive’ and ‘poverty reducing’, the government should focus on more employment that is productive.

The above analysis offers insights for policy measures required for achieving the objective of ‘more inclusive growth’ and a desirable reduction in rural poverty. It depends crucially on agricultural growth performance, generation of productive employment with wage rate sufficient to meet the basic needs of the poor and redistributive land reforms. We analyse the prospect of achieving the objective of ‘faster and more inclusive growth’ during the Eleventh Plan period, looking into the agricultural growth performance, trend in investment and capital formation in agriculture, and the plan outlays and expenditure under agriculture and allied activities and rural development.

Table 3 presents data on the performance of the states in agricultural growth during the pre- and post-reform periods. The growth rate in net state domestic product originating from agriculture (NSDPA) has declined significantly in all the major states except Andhra Pradesh, Gujarat and Orissa in the post-reform period (1991/92–2006/07) relative to the pre-reform period (1981/82–1990/91). At the all India level, the growth rate of GDP from agriculture has declined from 3.13 per cent in the pre-reform period to 2.76 per cent in the post-reform period. However, the coefficient of variations (CV) in the growth of NSDPA has increased substantially

TABLE 3. AGRICULTURAL GROWTH PERFORMANCE

(*per cent*)

State	Annual growth rate in NSDPA at 1993-94 prices	
	1981/82 – 1990/91	1991/92 – 2006/07
(1)	(2)	(3)
Andhra Pradesh	1.73	2.78
Assam	2.38	1.06
Bihar	2.85	2.02
Gujarat	-1.01	3.89
Haryana	4.62	2.03
Karnatataka	2.13	1.48
Kerala	3.30	-0.90
Madhya Pradesh	3.47	1.06
Maharashtra	4.34	1.85
Orissa	0.75	0.77
Punjab	4.86	2.25
Rajasthan	3.90	2.43
Tamil Nadu	3.03	0.23
Uttar Pradesh	2.91	2.42
West Bengal	6.06	2.93
India	3.13	2.76
CV (per cent)	57.52	67.61

Sources: EPW Research Foundation (2003); Government of India (2008b).

Notes: NSDPA= Net state domestic product originating from agriculture at 1993-94 prices. For India, the growth rate pertains to gross domestic product originating from agriculture.

during the post-reform period relative to the pre-reform one. Thus, slowing down of agricultural growth has been associated with increasing regional disparities in growth in the post-reform period.

The slowed down process has been continuing during the Eleventh Plan (2007-12). At the all-India level, the annual growth rate of GDP from agriculture and allied activities, although increased from 2.3 per cent during the tenth plan (2002-07) to 4.9 per cent in 2007-08, declined significantly to 1.6 per cent in 2008-09. It may be noted that the targeted rate of growth in GDP from agriculture could not be achieved during the ninth and tenth plan period. The realised annual average rate of growth of GDP originating from agriculture and allied activities was 2.1 per cent and 2.3 per cent against the targeted rate of 3.9 per cent and 4.0 per cent during the Ninth and Tenth plan, respectively.

One of the important strategies for ‘faster and more inclusive growth’ in the eleventh plan is revival of agricultural growth and raising it to a targeted rate of 4 per cent per annum during the plan period. However, at the time when growth in agriculture has been slowing down, adequate effort on the part of the government to reverse the trend seems to be lacking. The share of gross capital formation (GCF) in agriculture and allied sectors in total GCF in the economy has declined from 11.7 per cent in 2001-02 to 7.2 per cent in 2006-07 and further to 6.7 per cent in 2007-08. While the public sector GCF in agriculture and allied sectors has declined from 8.1 per cent in 2006-07 to 7.6 per cent in 2007-08, the private sector GCF has declined from 6.9 per cent to 6.4 per cent. Moreover, total public and private investment in agriculture and allied sectors remained constant at 2.3 per cent of GDP during 2005/06–2007/08; while the public investment in agriculture and allied sectors remained constant at 0.6 per cent of GDP, the private investment remained constant at 1.7 per cent during the period (Government of India, 2009).

Analysing the trend in investment and capital formation in agriculture and the growth performance in agriculture in the Ninth and Tenth Plans and the first two years of the Eleventh Plan, one may be sceptic about the possibility of achieving the targeted 4 per cent rate of growth in agriculture during the eleventh plan. Moreover, given the limited and weakening strength of the trickle-down process, the observed low rate of growth in agriculture is unlikely to bring about a significant reduction in rural poverty. Under this condition, effective implementation of various poverty alleviation programmes is necessary for a desirable reduction in rural poverty.

We have analysed the trend in public sector outlays and expenditure under agriculture and allied sectors and rural development to examine the possibility of a significant reduction in rural poverty through agricultural and rural development. The data presented in Table 4 show that the share of public sector outlays and expenditure under agriculture and allied sectors in total outlays and expenditure has declined over time. The plan outlays under agriculture and allied sectors declined from 4.9 per cent in the Ninth Plan to 3.9 per cent in the Tenth Plan and further to 3.7 per cent in the Eleventh Plan. Similarly, the share of actual expenditure under agriculture and allied sectors in total public sector expenditure has declined from 4.0 per cent in the Ninth Plan to 3.8 per cent in the Tenth Plan to 3.5 per cent in the first year (2007-08) and 2.6 per cent in the second year (2008-09) of the Eleventh Plan. The share of public sector outlays under rural development in total outlays has also declined from 8.5 per cent in the ninth plan to 8.3 per cent in the Eleventh Plan. Similarly, the share of public sector expenditure under rural development in total expenditure has declined from 6.0 per cent in the Ninth Plan to 5.6 per cent in the Tenth Plan. It has declined from 13.3 per cent in 2006-07 to 6.3 per cent in 2007-08 and 10.6 per cent in 2008-09. The reduced share of public sector outlays and expenditure under agriculture and allied activities and rural development may not be enough to achieve a desirable reduction in rural poverty during the Eleventh Plan.

TABLE 4. PUBLIC SECTOR OUTLAYS AND EXPENDITURE

(Rs. crore)

	Agriculture and allied activities		Rural development		Total	
Period (1)	Plan outlays (2)	Actual expenditure (3)	Plan outlays (4)	Actual expenditure (5)	Plan outlays (6)	Actual expenditure (7)
Ninth Plan (1997-2002)	37546 (4.9)	37239 (4.0)	73439 (8.5)	56427 (6.0)	859200	941041
Tenth Plan (2002-07)	58933 (3.9)	60702 (3.8)	121928 (8.0)	91362 (5.6)	1525639	1618460
Eleventh Plan (2007-12)	136381 (3.7)	NA	301069 (8.3)	NA	3644718	NA
2006-07	16163(BE) (3.7)	7623(AE) (6.1)	30711(BE) (7.0)	16532(AE) (13.3)	441285(BE)	124342(AE)
2007-08	19370(BE) (3.5)	18489(RE) (3.5)	32509(BE) (5.8)	33675(RE) (6.3)	559315(BE)	531594(RE)
2008-09	27274(BE) (3.1)	9969(RE) (2.6)	22906(BE) (2.6)	40965(RE) (10.6)	867828(BE)	388078(RE)
2009-10	10136(BE) (2.4)	NA	34854(BE) (8.4)	NA	415691(BE)	NA

Sources: Government of India (2008a, 2009).

Notes: Figures in parentheses are percentage to total. BE=Budget estimate; AE=Actual estimate; RE=Revised estimate; NA=Not available.

IV

SUMMARY AND POLICY CONCLUSIONS

Evaluating the growth performance and the strength of the trickle-down process and inclusiveness of growth in agriculture experienced before the initiation of the Eleventh Five-Year Plan (2007-12), the study has examined the prospect of achieving the objective of 'faster and more inclusive growth', and suggests policy measures to achieve the objective. The evidence shows that the incidence of and the regional variations in rural poverty increased significantly immediately after the economic reforms. The variations in rural poverty have been associated with the variations in agricultural performance and some other related variables. The benefits of growth in agriculture seem to have trickled down to the rural poor, but the strength of the trickle-down process and the inclusiveness of growth have been limited and are weakening with time. The results indicate that growth in agriculture has not been translated into substantial reduction in rural poverty, suggesting that a desirable reduction in rural poverty, relying solely on growth in agriculture, would take an inordinately long time. Rural poverty can be reduced by increasing productive employment at real wages sufficient to meet the basic needs, and by increasing the average size of the marginal and small operational holdings through redistributive land reforms. To make the growth process ‘more inclusive’, appropriate programmes should be adopted to generate more employment that is productive. Expansion of productive employment through various employment generating schemes in the farm and non-farm sectors in rural areas could play a significant role in reducing rural poverty substantially.

The findings of a shortfall in the actual rate of growth in agriculture from the targeted rate in the ninth and tenth plans and poor growth performance in the second year of the eleventh plan, lead us to argue that the targeted 4 per cent annual rate of growth in agriculture during the eleventh plan may not be realised. Moreover, given the weakening strength of the trickle-down process and low rate of growth in agriculture, the reduced share of plan outlays and expenditure under agriculture and allied activities and rural development may be inadequate for achieving ‘more inclusive growth’ and a desirable reduction in rural poverty.

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