New Proposals: Journal of Marxism and Interdisciplinary Inquiry
Vol. 3, No. 1 (October 2009) Pp. 42-60

Economic Growth And Social Inequality: Does The Trickle Down Effect Really Take Place

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ABSTRACT: This paper is an attempt to show that economic growth and social development do not always go hand in hand. Economic growth may increase inequality as well as reduce social development. Unless government comes up with a strong political will to solve these anomalies, the invisible hand of the market can not take the benefits of economic growth to all the people. India was taken as a case study for this paper as in this new millennium, the spectacular economic growth of India is a center of discussion of academics in recent years and it is also an example of the rising up of a developing country in the world's largest "democracy."

KEYWORDS: economic growth, social development, poverty, inequality

Introduction

India is "shining." It has the second highest growth rate after China in the world economy. Over most of the last 30 years, it maintained an average of more than six percent economic growth. According to the government estimates (NSSO), the poverty ratio is decreasing, but the absolute number of people below the poverty line has not increased. Researchers are skeptical of government's demands of decreasing the ratio of poverty for different reasons. It is also seen that since liberalization started in 1991, the inequality is steadily increasing. Can we then say that India is really shining?

Scholars are divided on the relationship between economic growth and social inequality.

The much-discussed Kuznets hypothesis (1955) states that economic growth and equality are related in a converse U-curve: at the early stages of economic growth, inequality increases; in the middle stages, inequality becomes stable; and in the final stages, inequality decreases along with economic growth. This means, inequality rises until countries reach "middle-income status."

Kaldor (1956) also thought that inequality in income distribution transfers wealth from the poor to the rich. Because the marginal savings rate of the rich is higher than that of the poor, wide gaps in income distribution will boost economic growth when the economic growth rate and savings rates are positively correlated.

Adelman and Morris (1973) and Chenery et al (1974) mostly supported Kuznets and Kaldor's hypothesis. Persson and Tabellini (1994) showed that there is a significant negative correlation between inequality and growth in democratic countries. And Atkinson (1995) has also proved that over the last 20 years, many European countries have experienced increases in income inequality and increasing numbers of people suffering from poverty and in social inclusion.

However, Bruno et al (1997) examine evidence concerning the relation between growth and distribution (equity), the effect of pro-growth policies on distribution, and the distribution on growth. They review a large volume of recent empirical research, including some of their own analyses. The results support several interesting conclusions. They did not support Kuznets that growth is initially associated with inequality. They showed that many countries that are recovering from economic crisis have experienced rapid economic growth as well as equitable distribution, and some transitory economies have experienced declining economic growth and worsening inequality. Solimano et al (2000) said that countries which have been most successful in reducing poverty are those that have grown the fastest. During the 1990s it was estimated that "growth elasticity of poverty" was between -2.0 to -3.0. However newer estimates suggest that the earlier correct growth elasticity of poverty is around -5.0. (Sharma 2008:11.) We will try to see the truth of the contesting demands in an Indian perspective.

Independent India

When Britain quit India in 1947, India's literacy rate was only 17 percent. Less than 10 percent of its population had access to safe drinking water, and between 1900 and 1950, its economic growth rate was a sluggish 0.8 percent. However, the condition of India's economy was completely different in the pre-colonial period. At the convocation of Oxford University in 2005, the Prime Minster of India, Dr. Monmohon Singh (2005), stated that "India's share of world income collapsed from 22.6 per cent in 1700, almost equal to Europe's share of 23.3 per cent at that time, to as low as 3.8 per cent in 1952." These figures are also supported by Swaminathan S. Anklesaria Aiyar (1997), consulting editor for the *Economic Times*, who said that in 1830, "India accounted for 17.6 percent of global industrial production against Britain's 9.5 percent, but by 1900 India's share was down to 1.7 percent against Britain's 18.5 percent."

After independence, India embarked upon a path that combined a mixed economy with a federal political structure and unitary bias. It was not a closed economy in the truest sense, but India intended to stand on its own feet after 200 years of shameful and disastrous colonialism. It embraced centralized planning, an import substitution industrial policy, state intervention in labour and financial markets, a large public sector, and business regulation.

Though most heavy industries and mining operations at that time were publicly owned, there were some big bourgeoisies who held significant influence over Indian economy, namely the Tata, Birla, Mafatlal, Schindia, and Goyenka families. They owned much of the manufacturing sector, including the production of automobiles, textiles, consumer durables, and capital goods. Any private company that wanted to open an industry in a province in India needed a license from the federal (central) government. Thus, this era was sarcastically termed the *license raj*. To protect both the public sector and the national bourgeoisies from foreign competitors, eighteen industries were reserved exclusively for the public sector. These industries included iron and steel, heavy plant and machinery, telecommunications and telecom equipment, minerals, oil, air transport services, and electricity generation and distribution. In addition, restrictions were placed on FDI equity shares. To serve these industries, some very good technical and management schools, such as the Indian Institute of Technology (IIT) and Indian Institute of Management (IIM) were also established after the independence.

To benefit the most disadvantaged citizens, reduce inequality, and eradicate poverty, the constitution asserts that provisions should be made to reserve a certain percentage (22.5 percent) of jobs in the public sector, seats in educational institutions, and various developmental programs for scheduled castes and tribes. In addition, many banks (fourteen in all) were nationalized in 1969, which also complemented India's path of socialistic development. In fact, in December of 1954, Parliament adopted a resolution that stated as one of its clauses, "The objective of economic policy should be a Socialistic Pattern of Society." And in 1976, by the 42nd amendment, three words were incorporated into the preamble to the constitution of India: Socialist, secular, and democratic.

Economic Planning

India took on its own economic planning in 1951, which culminated in a series of Five Year Plans. The First Five Year Plan (1951-56) emphasized the need for food production, whereas the Second Plan (1956-61) focused on the growth of heavy industries. The Third Plan was dedicated to defense, education, and agriculture. The Fourth through Seventh plans all stressed equality, employment, self-reliance, and family planning, although the development of information technology was also given priority in the Seventh Plan. The Eighth Plan emphasized modernization, and the Ninth Plan focussed on growth with social justice. The most recently concluded plan, the Tenth, focused on income and poverty, education (with special attention to literacy rates), health (which included the population growth rate, malnutrition, and anemia), the wellbeing of women and children (especially young girls), infrastructure, and the environment. The current Plan (2007-2012) seeks to improve education, literacy, employment, agriculture, and health in India. (Planning Commission of India, 1951-2008.)

Economic Growth

India's GDP growth rate between 1951 and 1979 was an average of 3.7 percent (higher than most other Asian economies) until India made some changes to its industrial policies in 1980. During the "Nehru era" from 1951 to 1964 (named after the first prime minister of India, Pundit Jawaharlal Nehru, who masterminded India's economic planning), the average economic growth rate was a moderate 4.1 percent. At the same time, the economic growth rates of China and South Korea were 2.9 percent and 6.1 percent, respectively. (BalaKrishnan 2007.)

TABLE 1: Growth in Five-Year Plan Period (Planning Commission of India)

5-Year Plan	Growth rate	Comments
I -1951-56	3.60	
II- 1956-61	4.21	
III- 1961-66	2.72	1966-1968 annual plans.
IV- 1969-74	2.05	
V- 1975-79	4.83	1980 annual plan
VI- 1980-85	5.54	
VII- 1985-90	6.02	
VIII-1992-97	6.68	
IX-1997-02	5.35	

For a newly independent nation trying to stand on its own feet after 200 years of highly exploitative and destructive colonialism, a 3.7 percent growth rate for about 25 years is not bad at all. Unfortunately, the economy continued to slow down from the mid-sixties until the mid-seventies. A massive food crisis, an increase in oil prices, and political instability could be the reasons behind this slowing of India's economic growth. The economy began picking up again from 1975-76, but this was followed by a recession that lasted until 1980. However, from 1981-1991, India enjoyed an economic growth rate of 5.8 percent before it opened up its economy to foreign investment in 1991. According to Atul Kohil (2006), the reason for that ten-year growth spurt was that the government implemented several pro-business policies that abolished some significant constraints on the expansion of big business. The government also allowed businesses to enter certain sectors that were previously reserved only for the public sector, such as power generation. Furthermore, licensing restrictions were removed, and the Monopolies and Restrictive Trade Practices (MRTP) Act was virtually dissolved. In the financial sector, the government liberalized credit for big borrowers. Corporate taxes and import tariffs were reduced, and price controls were removed. Kohli termed this decade the "pro-business" period and the subsequent period (1991-present) the "pro-market" period.

However, T.N. Srinivasan (2006) did not agree with Kohli. He believed that the increased economic growth between 1980 and 1990 was a Latin-style, debt-led growth and was thus unsustainable right from the beginning, and this is why it ended in a macroeconomic and balance of payments crisis in 1991. While India's economy grew, it also experienced higher fiscal deficits and a worsening current account. From 1980 to 1991, India's domestic public debt increased steadily, from 36 percent to 56 percent of the GDP, while its external debt more than tripled to $70 billion. (Ghosh 2004).

In 1991, the current Prime Minister of India, Dr. Monmohon Singh, was the finance minister of India. He, under the leadership of Prime Minister PVS Narosima Rao, had started liberalizing India's economy in all major sectors, including industrial policy, trade and exchange rate policy, tax reforms, the public sector policy, and foreign investment policies. In other words, it was a pro-market economy. The measures taken resulted in a devaluation of India's currency, disinvestment, a dismantling of the Industrial Licensing regime, the allowance of foreign direct investment, and the abolition of the MRTP Act. In addition, the Indian tariff rates declined sharply in the 1990s from a weighted average of 72.5 percent in 1991-92 to 24.6 percent in 1996-97. Although the tariff went up slowly in the late nineties, it managed to reach 35.1 percent in 2001-02 (Balakrishnan 2004). Now, the weighted average of India's tariff rate is 14.5 percent (Wall Street Journal 2008:211-212). However, this is not the first time that India has liberalized its economy; in 1966, India experienced a severe macroeconomic crisis, went to the IMF and World Bank for assistance and under their conditions and advice, devalued the rupee, relaxed import restrictions and liberalized the economy. However, within 18 months this was all reversed and liberalization did not happen again until 1991.

Previously, the normal ceiling of foreign equity in any Indian industry was 40 percent, the rupee was not fully convertible, and foreigners could not own India's prime industries, such as steel, telecommunications, or oil and natural gas. Now, the policy allows for the automatic approval of FDI up to 51 percent of the equity in 34 high-priority, capital intensive, high-technology industries, provided that the foreign equity covers the foreign exchange involved in importing capital goods and that outflows on account of dividend payments are balanced by export earnings over a period of 7 years from the commencement of production (Bajpai and Sachs 2000). In subsequent years, the FDI equity share was increased to 74 percent in 1996, and, later, to 100 percent. The list of eighteen protected industries has dwindled to four: defense aircrafts and warships, atomic energy generation, railway transport, and the mining of coal, lignite, iron, manganese, chrome, gypsum, sulphur, gold, diamonds, copper, and zinc (Beena et al 2004).

The impact of the reforms after 1991 is controversial. The GDP growth rate was at 5.6 percent from 1991-2004 (Kohli 2006). Because this rate is virtually the same as it was from 1980-1990, it is safe to say that opening up the economy neither helped nor hurt its growth rate for at least up to 2003-04. (See Table 1.) However, the GDP growth rate from 2004-2007 was much higher at 8.7 percent (Government of India 2007c). That helped to achieve a 7.6 percent annual growth in the tenth Five Year Plan period. The studies of DeLong 2003, Srinivasan and Tendulkar 2003, Rodrik and Subramanian 2005, Basu and Maertens 2007, Sen 2007, Panagariya 2008 and Basu 2008a supported that growth did not increase much in a pro-market period except for the year 2004. However they differ on the pattern, causes, and sustainability of the growth periods of the 1980s and 90s. For example, in 1979-80, the Indian economy shrank by 5.2 percent (the worst year in the history of Independent India). So, 7.2 percent economic growth of the next fiscal year as well as the beginning of the pro-business policy of Mrs. Gandhi, 1980-81, is not very praiseworthy. The same could be said when there was only 1.3 percent growth rate in 1991-92, the beginning of the pro-market policy, followed by 5.15 growth rate in the fiscal year 1992-93. Majumdar (2008) very recently criticized the post-1991 liberalization period as characterized by an inherent source of instability in manufacturing and industrial growth and distinguished this from the 1980s. In fact, Basu 2008b rightly pointed out that the first spurt of growth occurred in 1975-76 and except for the worst economic year of Indian economy in 1979-80, the Indian economy never looked back after 1975. However, the objective of this paper is not an attempt to find the reasons, trend, and sustainability of the Indian growth pattern; it is something different: economic growth and its relations with inequality and poverty.

This higher economic growth rate is associated with the turnaround of India's manufacturing sector in 2002-03, as well as with India's sustained savings and investment. The average industrial growth rate has risen to more than 8 percent each year since then (Nagraj 2008). It is also crucial to mention that this period marks the first time India saw a growth in manufacture since the liberalization efforts began.

Although capital formation did not alter much between the 1980s and the 1990s, there were significant changes in one sector: Investment. As public investment declined in the 1990s, the gap was filled by private investments (Kohli 2006).

Now we will examine India's achievements and failure since 1980, when India adopted a pro-business policy and then, in 1991, changed this policy into a more open, pro-market policy. Both these periods saw dramatic economic growth that was surpassed only by China in the world economy. Authors have come up with countless titles to describe India's enormous growth in these periods: Shining India, Propelling India, India Arriving, India-Emerging Power, India Globalizing, India Unbound, etc. But what about the other India, the Bharat? Does this massive and consistent economic growth trickle down to the majority of India's people? This paper is an attempt to find the answer.

Dimensions Of Indian Inequality: Unemployment

The official unemployment rate of India is always under-reported because of work sharing, underemployment, the dominance of the primary sector, and the fact that most Indians (93 percent) work in the unorganized sector (Sengupta 2007). The present data is based on a survey of unemployment that was performed by the National Sample Survey Organizations (NSSO).

Table 2 shows that although unemployment declined between 1983 and 1994, it increased again in subsequent years. From 1983 to 1993, the average growth rate of employment was 2.61 percent; between 1993 and 2005, it was only 1.87 percent. During the same periods, the labour force grew at the rates of 2.28 percent and 2.09 percent, respectively (Government of India 2007b). Therefore, we can see that the unemployment rate increased during the latter period, which coincides with India's economic liberalization period. Clearly, the reform did not help the growth of employment rates.

TABLE 2: Unemployment Rate in India (in per cent)

YEAR	All India	Rural	Urban
1983	9.22	8.85	10.55
1993-94	6.06	5.61	7.46
1999-00	7.31	7.16	7.74
2004-05	8.38	8.28	8.28

The economic boom has done little to provide the unskilled workers who make up the majority of India's workforce with real jobs. Most Indians (67 percent) work in agriculture. Another 13 percent work in the manufacturing sector, and the remaining 20 percent work in the service sector. Unemployment among agricultural households has risen from 9.5 percent in 1993-94 to 15.3 percent in 2004-05. Moreover, we have seen that in the new millennium, there has been an overall rise in rural unemployment (Mukhopadhayay and Rajaraman 2007).

The growth of employment in India's manufacturing sector was not influenced by the reforms of the 1980s and 1990s. Employment in manufacturing remained constant at around 12-13 percent of the workforce during those periods (Nagaraj 2003). As Professor Dipak Majumdar said,

> Real growth and jobs have come in the tertiary sector, such as IT, and large scale, export-oriented manufacturing. Indeed, India's manufacturing sector has a decidedly split personality. Smaller firms specialize in the niche market of low-quality products geared to low-income consumers. Larger firms concentrate on higher quality, higher-income consumer markets including exports. The middle is missing in India's labor markets. Larger firms also invest in machines and technology to boost productivity rather than hire and train employees whom they may have to dismiss when the economy takes a turn for the worse. The major reason for India's missing middle is the lack of development of labor intensive industries—midsize firms that make use of less-skilled labor. [Majumdar 2008.]

It may be true that there is growth in the service sector, particularly in Information Technology and Business Process Outsourcing (BPO), but these provide only 1.3 million jobs out of a working population of 400 million (Mishra 2006).

Poverty

A third of India's population lives below the International Absolute Poverty Line, meaning that 360 million Indians live on less than a dollar a day. Furthermore, 80 percent of India's population lives below the International Relative Poverty Line, living on less than $2 a day. The recent report on the National Commission for Enterprises in the Unorganized Sector by Arjun Sengupta (2007) also supported this data. According to his findings, 77 percent of India's population, or 836 million people, have a per capita consumption expenditure of less than or equal to Rs. 20 per day (roughly $2.2 in purchasing power parity terms).

Table 3 shows the trend of the rate of poverty in India using the survey of different rounds (30-Day Uniform Reference Periods) by the NSSO from 1973 to 2005, which are based on the national poverty line (monthly per capita consumption expenditure below Rs. 356.35 for rural areas and Rs. 538.60 for urban areas). It shows that although the percentage of people below the poverty line has declined, the absolute number that is living in these conditions has not changed much at all. In fact, during the period of economic reforms and liberalization, urban poverty rates declined, but rural poverty rates did not. (Acharya 2006). According to the Planning Commission of India, the rural poverty rate declined from about two-thirds of the rural population in the 1950s to about one-third of the rural population by the end of the 1990s. The lower decline in poverty rates during the past decade (as compared with the 1970s and 1980s) coincides with India's liberalizing economic policies that neglected rural investment and resulted in slower agricultural growth. (Government of India 2005). NSSO data also suggests that the rate of decline in poverty had somewhat slowed down between 1993 and 2005, when there was an intense opening of the economy (Bardham 2007). Sen and Himanshu 2004 also showed that after a methodological adjustment to food consumption, the 1990s proved to be a lost decade when it comes to the reduction of poverty rates.

Finally, it is important to consider at least two things: First, the composition of the NSSO's consumption basket was prepared in 1973, and its composition hardly includes any expenditure on health or education. At present, after adding minimum expenditure on health and education, the adjusted poverty ratio should be 35.83 percent. (Dev and Ravi 2008). Second, the consumer price index of the food component understates the rate of food price inflation. This understatement could be because the overall weight of the food in the CPI is too high (the data are from 1983), and so the food prices fell relative to non-food prices. In short, it has been calculated that there could be another underestimation of 1.75 percentage points in this poverty ratio. (Deaton 2008).

TABLE 3: Poverty in India (According to National Poverty Line) Source: Prepared from the data of different rounds of NSSO.

Year	Poverty Rate (%)	No. of Persons (in million)	Absolute no. of Poverty Reduction/ per year (%)
1973-74	54.9	321.3	4
1977-78	51.3	328.9	- 0.59
1983	44.93	324.34	0.31
1987-88	38.9	307	1.25
1993-94	36.02	324.55	-0.70
1999-2000	26.1	262	3.4 (not comparable)
2004-05	28.27	315.48	-0.8

Economic Inequality:

The share of income/consumption of India's richest 20 percent is 45.3 percent of the country's national income/consumption, whereas the poorest 20 percent consume only 8.1 percent of the country's national income/consumption (UNDP 2008).

If we examine the Gini coefficient of India, we will see that from 1951 to 1973, inequality was in decline. Then, it remained a stable trend until 1992, after which it began to rise again.

The Gini coefficient proves that India's average economic growth rate of 6 percent since 1980 has not served to reduce inequality in India; in fact, during the liberalization period (1991-present), inequality increased. According to a UN development report, inequality in India has grown faster in the last 15 years than it had in the previous fifty. (Halliman 2006.)

We should also keep in mind that the above figures reflect consumption inequality, not income inequality. In most countries, consumption inequality is lower than income inequality because the rich save more than the poor. Surveys of occasional alternative sources collect data on wealth. The Gini index for asset distribution inequality in 2002 was 63 (out of 100) in rural India, and 66 in urban India, while the corresponding figures for China were 39 and 47, respectively. These data do not include ownership of human capital. (Bardhan 2006.)

Table 5 shows that whereas there was a slight decline in rural inequality from 1983-94 (in the pro-business period), inequality in rural India increased from 1993-2005 (in the pro-market period). Inequality in urban India increased during both these periods, though the increase was sharper from 1993 to 2005. The rate of increase in urban inequality is also higher than that of rural inequality during the post-liberalization period. According to a report by the Asian Development Bank (2007), the Gini Coefficient of average real wages of urban full-time employees in India went up from 0.38 in 1983 to 0.47 in 2004. Deaton and Dreze 2002 also showed that regional disparities, inequality within states (especially within urban areas), and inequalities between urban and rural areas have increased.

Table 6 reflects economic openness and its relationship with inter-provincial and rural-urban inequality. It shows that as the economy opens, inequality in both these areas widens. A study by K.V. Ramaswamy (2007) also pointed out that regional disparity has increased from 36.6 (coefficient of variation) from 1993-1994 to 128 from 1999-2004.

In both the rural and urban sectors, inequality was higher in the post-reform period. Since the Gini coefficient for the urban sector is always higher than that for the rural sector, and since rapid economic growth implies a shift in population from the rural to the urban sector, the reform process was accompanied by an increase in overall inequality. This rise in inequality is the result of a shift in the distribution of income from wages to profits, a drop in the rate of labour absorption, and rapid growth of the service sector. (Jha 2000).

TABLE 4: Economic Inequality (Sahn 2006)

Year	Gini
1951	35.6
1973	29.2
1983	31.5
1990	29.7
1992	32.0
2000	35.0
2005	36.8

TABLE 5. Inequalities in Rural and Urban India (Dev and Ravi 2007)

	Year			Changes	
	1983	1993-94	2004-05	1983-94	1993-2005
Rural	30.79	28.55	30.45	-0.68	0.60
Urban	34.06	34.31	37.51	0.01	0.85

TABLE 6: Economic Openness and Inequality (Inter-provincial and Rural-Urban) Source: Gajwani, Kanbar and Zhang 2006.

Year	Inter-province	Rural-Urban	Openness
1978	12.3	37.5	2.7
1984	11.5	61.4	5.2
1991	13.9	71.1	11.1
2003	19.0	67.6	38.2

Moreover, when it comes to inequality among the general population (even among the richest), India's population experiences more inequality than the USA and China. In India, 53 billionaires hold 31 percent of the national income. This is 4 times higher than the global average. In comparison, 42 billionaires hold 3 percent of the national income in China, and 469 billionaires hold 11 percent of the national income in the United States. (Anandabzar Patrika 2008).

TABLE 7: HDI Trend

Year	1975	1980	1985	1990	1995	2000	2005
HDI	0.419	0.450	0.487	0.521	0.551	0.578	0.619

Source: UNDP. Human Development Report: 2007-08

TABLE 8: Components of HDI

Life expectancy at birth (years)	Adult literacy rate (%)	Combined Gross Enrolment Ratio (%)	GDP per capita (PPP US $)
63.7	61.0	63.8	3,452

Source: UNDP. Human Development Report: 2007-08

TABLE 9: Health Indicators

Infant mortality rate / 1000 live births	56
Maternal mortality rate / 100, 000 live births	450
Probability at birth of not surviving to age 40	16.8
Physicians / 100,000 people	60
Per capita expenditure on health (PPP US $)	91
Public Health Expenditure per cent of GDP	0.9
Private health expenditure per cent of GDP	4.1

Source: UNDP. Human Development Report: 2007-08

TABLE 10: Drinking Water, Sanitation, and Nutritional Status

Population Using Improved Sanitation	33%
Population Using Improved Water source)	86%
Children Under Weight for Age (under Age 5)	47%
Children Under Height For age (under Age 5)	51%
Infants with Low Birth Weight	30%
Undernourished People	20%

Source: UNDP. Human Development Report: 2007-08

Gender Inequality

When discussing gender inequality, it is imperative to know about India's gender ratio, which is one of the worst in the world. India's sex ratio is 1.08, while the world average is 1.02. In other words, there are about 40 million females who are missing from the Indian population (UNICEF 2007). Some 7,000 girls go unborn in India each day, according to a recent UN Children's Fund report (Johnson 2007). Every year, up to 500,000 female fetuses are aborted in India (Sheth 2006) and it is disturbing to see that the sex ratio only continues to decrease: 1981(1.04), 1991(1.06), and 2001(1.08) (Government of India).

India's rural maternal mortality rate is among the worlds highest. From a global perspective, India accounts for 19 percent of all live births and 27 percent of all maternal deaths. Its maternal mortality rate, at 410 per 100,000 live births, is almost 100 times the levels found in the west (Rizvi 2007).

According to the 2007 Gender Gap Report by the World Economic Forum, India ranked 114th among a total of 128 countries (Hausmann et al 2007). Its overall gender equality is 59.4 percent, which is determined on the basis of its rank in different parities such as Economic (122), Education (116), Health and Survival (126), and Political (21).

A study by Menon and Rodgers (2006) indicated that increasing openness to trade is associated with a widening of the wage gap between genders in India's concentrated manufacturing industries. Female workers in India have weaker bargaining power and a lower workplace status and are thus less able to negotiate for favourable working conditions and higher pay. It is a situation that places them in a vulnerable position as firms compete in the global marketplace.

Ironically, all this is happening in a country whose first Prime Minister, Pundit Jawaharlal Nehru, said, "You can tell a condition of a nation by looking at the status of its women" (Coonrod 1998).

Educational Inequality:

According to the 2001 census, the literacy rate of India was 65 percent, reflecting a three and a half fold increase in the last 50 years. The projected literacy rate for the next census is 80 percent. However, India's educational inequality (56) is one of the worst in the world.

This is not only much higher than the US's (13), but also significantly higher than China's (37), most Latin American countries' (for instance, Brazil's is 39), and many African countries' (Bardhan 2006). It makes it harder for many to absorb shocks in industrial labour markets, since education and training could provide some means of flexibility in adapting labour market changes, where most new jobs are created only in skill intensive manufacturing and service sectors like IT and BPO.

Other Social Indicators:

Tables 7 to 10 use data about India's performance on different social indicators, which are referred to in the following discussion. Table 11 is a comparison of some selected socio-economic indicators between India and seven other countries of the global south. Out of these countries, four are from South Asia, including India.

The first indicator of the selected socio-economic indicators is the Infant Mortality Rate per 1000 live births. In this, India ranks 6th (56), which is at par with Bangladesh (54) and Nepal (56), better than Pakistan (79), and lagging behind China (23), Brazil (31), Sri Lanka (12), and Indonesia (28).

The second indicator is the Maternal Mortality Rate per 1000 live births. Again, India ranks 6th. Its performance (450) is worse than China's (45), Brazil's (110), Sri Lanka's (58), and Pakistan's (320). It is close to Indonesia's (420), but better than Bangladesh (570) and Nepal (830).

Although India ranks 4th when it comes to Access to an Improved Water Source with 86 percent of its population having such access, it has done very well when compared to China (77 percent), Bangladesh (74 percent), Nepal (79 percent), and Indonesia (77 percent). It also ranks very close to the top 3 countries, which all have access rates that lie somewhere between 90-91 percent.

Life Expectancy at Birth is the next indicator. India (63.7) ranked 6th out of the 8 countries that were compared. This rate is hardly better than that of Bangladesh (63.1) and Nepal (62.6), and it is worse than those found in all other countries, including Pakistan (64.6).

When it comes to its national poverty line, India is above Pakistan, Bangladesh and Nepal, but according to the international poverty line ($1 per day), India is only just above Bangladesh and is actually below Pakistan and Nepal.

As far as adult literacy rates in South Asian countries go, India ranks 5th. The three adjacent countries, Pakistan (49.9), Bangladesh (47.5), and Nepal (48.6) are trailing behind India, but the other four countries are well ahead of India with literacy rates of around 90 percent each.

Summary

In many ways, India appears to be on top of the world. It has maintained an impressive average annual growth rate of more than 6 percent for the last 30 years, it boasts the 4th largest economy in the world according to US $ Purchasing Power Parity (PPP), and its economy has doubled in size since 1999 and tripled since the launch of its economic reform in 1991. It ranks 3rd when it comes to producing engineering graduates (just behind China and the United States), and it is the home of world-class technical, management, and scientific institutions such as IITs, IIMs, and IIS, and major companies such as Tata, Reliance, Bharat Forge, BHEL, ONGC, Ranbaxy, Infosys, Wipro, Bharati, Satyam, ICICI, and HDFC. One hundred Indian companies have a market capitalization of $1 billion US dollars, 1000 Indian companies have received foreign institutional investment, 125 Fortune 500 companies have R & D bases in India, and 390 Fortune

TABLE 11: Comparison with Some Other Countries

Country	IMR	MMR	Access to improved water source	Life Expectancy	Poverty: National Poverty Line/ $1 per day	Literacy	HDI Rank
India	56 (6th)	450 (6th)	86 (4th)	63.7 (6th)	28.3/34.3	61 (5th)	127 (5th)
China	23	45	77	72.5	4.6/9.9	90.9	81
Brazil	31	110	90	71.7	21.5/7.5	88.6	70
Sri Lanka	12	58	79	71.6	25/5.6	90.7	99
Pakistan	79	320	91	64.6	32.6/17	49.9	136
Bangladesh	54	570	74	63.1	49.8/41.3	47.5	140
Nepal	56	830	90	62.6	30.9/24.1	48.6	142
Indonesia	28	420	77	69.7	27.1/7.5	90.4	107

Source: UNDP. Human Development Report: 2007-08

500 companies have outsourced their software development to India (Das 2006). Of the world's richest people, 27 percent are Indian (Iyer 2008), and with 53 billionaires, India has the highest number of billionaires in Asia (Aajkal 2008). And when it comes to its consumer base, India is seeing enormous expansion. There are five to six million telephone connections every month as well as phenomenal growth in home ownership rates. Domestic consumption is one of the pillars of economic growth, and with only 2 percent of the world economy, India contributes 5 percent of the world's economic growth. It has a $275.5 billion foreign exchange reserve (Chandra 2008) and with 1 million out of 2.5 million elected representatives sitting on village councils being female (Siddiqui 2007), it would also appear that India is closing its gender inequality gap.

Yet, India slipped from an HDI rank of 115 out of 162 countries in 2001 to 128th out of 177 countries in 2007-08. Its HDI rank is 4 above Myanmar, 29 below Sri Lanka, 77 below Cuba, and 20 below Syria (UNDP 2008). Its per capita GDP is just slightly higher than that of sub-Saharan Africa, and it is the home of half the world's destitute and illiterate people. According to the global hunger index of the International Food Policy Research Institute, India ranked 94 among 118 countries; the ranking for child malnutrition is even worse than that, 117, with only Bangladesh at the bottom-most rank. A third of its population lives below the national poverty line, and both income and consumption inequality rates continue to increase, with its income inequality being one of the highest in the world. Malnutrition affects half of the children in India. Over 2 million Indian children die annually, accounting for one out of five child deaths worldwide (Mishra 2006). A fifth of its population is undernourished, and its infant mortality rate is even higher than that of Bangladesh. India has one of the highest percentages of anemic pregnant women in the world (World Bank 2007) and its maternal mortality rate is much higher than Pakistan's. It has only 60 doctors per 100,000 people, while China has 106, Cuba has 591, and Pakistan has 74. In addition, only 33 percent of India's population uses proper sanitation (see Table 10). Between 1993 and 2003, 100,000 farmers committed suicide (Bajoria 2007). About 40-50 million girls are missing from the population (Saunders 2008; Sen 1992), and its educational inequality is one of the worst in the world. In 1991, 26 percent of the rural households were in debt; by 2003 that rate jumped to nearly 50 percent (Hallinan 2006). And next to seven other South Asian countries, India ranked either 5th or 6th on selected socioeconomic indicators (see Table 11).

So Why, Then, "India Is Shining"?

As was said earlier, there seems to be two Indias: one is India, and the other is Bharat. In the following discussion of land ownership patterns, jobless growth and casualization, and the role of government and public expenditure, I attempt to shed light on why this is.

Agricultural Labour and Land Ownership

Seventy percent of Indian population lives in villages. The most rapid poverty reduction occurred from the late 1960s to the late 1980s due to green revolution led agriculture growth and strong policy support for agriculture. After the reforms, during 1991-2005 agriculture GDP grew at 2.7 percent a year compared to 2.9 percent a year between 1980-1990. In recent years, the growth of agriculture GDP came down to 2 percent (Fan and Gulati 2008).

The rural households that depend on agricultural and other labour account for more than fifty percent of the poor according to the official poverty line. The growth rate of real daily earnings was 2.5 percent per year between 1983-2005. The rate of growth (3.3 percent) was higher during 1983-1993 than that of the next decade, 1993-2004 (2.3 percent) (Eswaran et al). It proves that liberalization did not help the rural poor. Liberalization caused growth mainly in skill-intensive, export-oriented manufacturing and service sectors, as we have mentioned earlier. Agricultural wages (for a given level of productivity) are inversely related to the labour-to-land ratio that, in turn, depends on the capacity of non-agricultural sectors to pull labour from agriculture. In India, the reduction of the labour force in agriculture has been nothing like what was witnessed in East Asia. The contribution of agriculture to the GDP has been falling dramatically, but the percentage of population depending on agriculture has been falling extremely slowly.

The production rate of food grain since India started its first 5-year plan, from 1950-51 to 2006-07 averaged 2.5 percent compared to average annual growth rate of population which was 2.1 percent during this period. However, the rate of growth of food grains decreased to 1.2 percent during 1990-2007, which is lower than the annual average growth rate of population during the same period, which was 1.9 percent (Government of India 2007a:156).

Moreover, in the first decade of liberalization, (between 1990-91 and 2000-01), the cost of agriculture grew by 114.4 percent, but output prices rose only by 100.2 percent (Patil 2008).

The other important aspect is the pattern of land ownership in India. More than 10 percent of people in rural India do not own any type of land, including homestead land; more than 40 percent do not own any land other than homestead land; and close to a third (31.12 percent) do not own any land other than homestead non-cultivable land (Rawal 2008). In fact, only 17.11 percent of the people in rural India own some sort of cultivable land. The Gini Coefficient of land distribution in rural India was 0.74 in 2003, while the corresponding figure in China was 0.49 in 2002 (Bardhan 2007).

The implication of land ownership is huge. Research shows that children's nutritional status is higher if the household owns at least a small piece of land even if that household has the same measurable income as a landless household (Kumar 1977).

Half of the farmer households were indebted in rural India. It is also true that institutional credit for agriculture has increased from Rs. 1,865 *crore* (10 million) in 1971-72 to Rs. 2,03,296 *crore* in 2006-07, but a significant number of farmer households in India have not been able to borrow from the formal institutional system: 87 percent of marginal farmers and 69 percent of the small farmers had no loans from the formal institutional agencies. And about one-third of the increase in credit flow to agriculture between 2006-2007 was on account of the increase in indirect finance like financing new forms of commercial, export-oriented and capital–intensive agriculture (Patil 2008).

Jobless Growth and Casualization of Workforce

The average growth rate of employment in India before 1980 was 2 percent, while the country's GDP growth rate was, on average, less than 4 percent. Although India has been experiencing an economic growth rate of 7-8 percent in recent years, its regular employment growth rate has hardly exceeded 1 percent. This higher GDP growth is not the result of employment expansion, but rather a higher output per worker, the mechanization of labour, and longer hours of work. According to official statistics, between 1991 and 2004 employment rates fell in the organized public sector, and the organized private sector hardly compensated for this loss. The whole organized sector accounts for less than one-tenth of the labour force (Bhaduri 2008).

All of this caused employment rates to deteriorate, which is reflected in the substantial decline in employment elasticity from 0.41 from 1983-1994 to 0.15 from 1999-2000 (Sharma 2006). The reasons behind this deceleration in employment rates include both policy and technological changes in the production process over the last several years. The deceleration in employment growth has been accompanied by a rise in the number of informal workers. Over the years, organized sector employment has grown more slowly than total employment. Organized sector employment grew at a rate of 1.20 percent per annum from 1983-1994, but this rate fell to 0.53 percent between 1994 and 2000 (Sharma 2006) during the era of liberalization. In addition to there being a large number of new jobs created in the unorganized sector, many retrenched workers also found refuge within this sector (Sharma 2006). Now, more than a third of the Indian workforce is made up of casual or contractual workers, and this number is only increasing. There are about 260 millions self-employed workers in India and this is the fastest growing group in the high economic growth period. Thirty years ago, in 1977, only 27.2 percent of the workers in India were casual or contractual. However, the 1980s saw some significant changes that resulted in an increase in the casual and contractual workforce. For example, the textile mills in Ahmedabad and Gujarat dissolved thousands of jobs in the 1980s when textile production was transferred to the decentralized power loom industry, where almost all employment is informal. The same sort of thing was also seen in the engineering and pharmaceutical industries. And even today, large firms such as Maruti Udyog, BPL, Johnson & Johnson, TELCO, and Hindustan Lever are outsourcing more and more labour to home-based employees (McCartney 2006). Furthermore, it is women who are primarily affected by the rising trend of subcontracted and casual labour because they are often the ones who are pressured to take on work in the home so that they can earn an income while still attending to all of their domestic duties, which only serves to widen an already significant gap in India's gender equality.

The Role of Government and Public Investment:

The first breakaway from the stagnant economic growth rate of 3.7 percent occurred in 1975-76, when India saw an unprecedented GDP growth rate of 9 percent. Its savings and investment rates had risen sharply from the late 1960s to the late 1970s. One of the reasons for this was the nationalization of banks in 1969, with the state-owned banks being forced to open any new branches in remote areas of India. In 1969, the number of branches of commercial banks in India was 9,051 and it rose to 38,047 by 1981. The start of the Unit Trust in 1964 was also a key factor in boosting the national savings rate, which, in turn, was the first impetus for rapid growth (Basu 2008b).

Without government intervention, it is impossible to have egalitarian growth. It is natural for market-driven growth to only occur in certain areas, which may be determined either by geography or sector. The increase in products and/or services in those areas either create a demand for domestic consumption or for export.

So where is the market? It can be found in the upper 20-25 percent of India's population (around 300 million people, which is similar in size to the US market, bigger than the European market, and almost 10 times larger than the Canadian market), and in the international market. Whereas most of India's population is concerned with buying food, the upper class spends its money on luxury goods such as brand-name garments, consumer durables, cars, and luxury food items. On the international front, companies purchase software, hire English speaking customer service representatives to serve international customers, and outsource their manufacturing to India (and other developing countries) to take advantage of cheap, skilled labour and thereby gain a competitive advantage.

In the first decade of liberalization (the 1990s), 40 percent of India's FDI inflows took the form of mergers and acquisitions (McCartney 2006). As a result, there was not as much spillover as would be expected in the case of Greenfield investments. After liberalization, growth was restricted to a relatively narrow band of industries, namely software, textile, and auto. A large portion of the FDI flows into skill intensive and value-added service industries, particularly financial services and information technology. Service, computer software, and hardware industries together account for 35.49 percent of the total FDI in India between 2000 and 2007 (India Brand Equity Foundation 2008).

Although India's software industry is experiencing enormous growth, it has not yet been able to generate significant linkages with the rest of the Indian economy. The textile industry, which is the largest industry after agriculture, has managed to create some such linkages, but the availability of local inputs makes it almost entirely self-sufficient, so these linkages are not dynamic, rendering them largely inefficient. Furthermore, 80 percent of the jobs in the textile industry have been outsourced to the informal sector (McCartney 2006). However, the third growing industry, the automotive, does have both backward and forward linkages.

Indian industries are largely concentrated among these three manufacturing sectors in three clustered regions: the National Capital Region (NCR), Mumbai-Pune, and Chennai-Bangalore. If we examine the geographical locations of these industries, we see that the IT industry is mostly located in three cities—Hyderabad and Bangalore (in the south), and Kolkata (in the east); the textile industry is mostly located in the west, particularly in Gujarat; and the auto industry is concentrated in the south and the NCR. Such trends are to be expected in a market-driven economy where firms seek linkages through profit, cheap labour, and infrastructure. However, 70 percent of Indian people who live in villages do not enjoy the fruits of such development. Quite simply, the market does not take care of the very people who drive it.

Instead, it is the government's responsibility to create jobs, build infrastructure (both social and physical), and link India's labourers to the growth of the country. Unfortunately, the government consistently neglects rural development, which has led to a steep rise in unemployment in rural India, particularly among agricultural labourers, who have an unemployment rate of 15.3 percent and indebtedness of nearly 50 percent, up from 26 percent in 1991 (Hallinan 2006). In addition to this, it should be noted that half of the rural population is self-employed, whereas 40 percent of the urban population is self-employed (Government of India 2006).

We have already discussed that the lower decline in poverty seen in the last decade (as compared with the 1970s and 1980s) coincides with India's liberalizing economic policies, which neglected rural investment and resulted in slower agricultural growth. Public investment in agriculture grew three times faster in the 1970s than it did in the 1960s. It then slowed down between 1980 and 1990 (Thorat and Fan 2007). Throughout the 1980s, there was a sharp decline in investments in areas that are critical for agricultural growth, namely irrigation and drainage, soil conservation, water management systems, and rural roads (Ahluwalia 2002). Chandrasekhar and Ghosh (2006) also support this assertion and add that central (federal) government policies created resource problems for the state (provincial) governments in various ways, resulting in cutbacks on crucial development expenditure. We also see that rural unemployment increased in the post-reform period (Mukhopadhyay and Rajaraman 2007) and after the mid-1990s, food grain production failed to keep pace with population growth. In fact, per capita cereal production has declined by 17 kg and pulses by 3 kg in the last decade alone (Chand 2007).

The so-called growth elasticity of poverty reduction is much higher in China than in India because the same one percent growth rate reduces poverty in India by much less than it does in China (Bhardhan 2007). Datt and Ravallion (2002) pointed out in their comparison of Indian provinces that the growth elasticity of poverty depends on the initial distribution of land and human capital. This elasticity is low in high-growth states such as Maharashtra and Karnataka, and high in states such as Kerala and West Bengal (Topalova 2007). In China, land reform was part of the national liberation movement, and it was successfully implemented across the country; in India, this responsibility was left in the hands of the provincial governments, and so in 80 percent of the country, it was neglected.

In 2002, India had 58 million tons of food grains rather than the 16.8 million tons that was the usual amount for buffer stocks (Government of India 2002). Although this may sound promising, high rents must be paid for the warehouses needed to store this grain. And yet, 20 percent of India's population is undernourished (see table 9), and a significant portion of its population starves because it does not even have the purchasing power to buy food grains at subsidized prices through the Public Distributional System (PDS). The inefficiency and corruption of the PDS only serves to further exacerbate the problem. Of course, the market did not have any responsibility to feed these people. In addition, financial liberalization after 1991 severely damaged the formal system of institutional credit in rural India. In doing so, it represented a clear and explicit reversal of the policy of social and development banking and contributed in no small way to the extreme deprivation and distress of India's rural poor.

The balance between the public and private expenditure on health care in India is one of the most skewed in the world (Ninan 2008). India spends less than one percent of its GDP on health care. The State is gradually shedding its responsibilities and encouraging the privatization of health care. How can India expect most of its citizens to be able to afford private health care when 93 percent of its population works in the informal sector, and 80 percent of its population lives on less than $2 a day? And the government is gradually abdicating its responsibility in providing health care in favour of private hospitals in tier two and tier three towns by giving them tax concessions to set up.

When it comes to education, India dedicates less than 3 percent of its GDP on education for center and state together (Government of India 2008). In the current Five Year Plan, there has been a significant increase in the allocation of funds to education, but more priority is given to post-secondary and technical programs than to primary education. This elitist shift is a stark example of India's neo-liberal economic policy. Moreover, most of this money goes towards salaries and administrative costs, not program development. In addition to that, there was an increasing number of private institutions at every level of schooling, which are not affordable to the vast majority of Indian populations.

At the same time, it had undertaken some social development programs to fulfill its rhetoric of "inclusive growth" and by the pressure of civil society and left-leaning political parties. But careful analysis of those programs indicated that there was a wide gap between the government's promises and good will and the performance. Faulty planning, insufficient allocation of funds, institutionalized corruption, inefficiency, and lack of accountability are some of the reasons of failure of these programs. The name of those programs sometimes changed or merged into one large program. Some of the current public programs are: Integrated Child Development Scheme (ICDS), Public Distribution System (PDS), Rural Employment Programmes, and Bharat Nirman.

Conversely, in East Asia, where the story of industrialization was a success, all countries spend a very high percentage of their GDPs on health, education and social security, and they have steadily increased their public expenditure on social services since the 1980s.

Finally, it is worth mentioning that poverty, illiteracy, and morbidity in India are associated with the social identities of its people. In India, one's level of education is an important determinant of poverty. The country's three lowest orders are the Scheduled Castes (SC), Scheduled Tribes (ST), and Muslims, followed by the Other Backward Classes (OBC) (Sengupta 2007).

Economic growth is needed for social development, but growth and social development are not always positively related. The political will of the government and its redistributive justice are necessary for the egalitarian social development of all citizens, which is discussed by Sen (1983). He cites such examples as Brazil, Mexico, and South Korea, whose per capita GDPs are much higher than those of Sri Lanka and China; however, in terms of social development indicators, Sri Lanka and China are much further ahead than the other three countries. In fact, after the reform of 1978 in China, the growth in life expectancy and the reduction of infant mortality rates have slowed down.

In addition to those already mentioned in this essay, studies by Chen and Ravallion (2000), Deaton and Dreze (2002), Wade (2004), and Biswas and

Sindzinngre (2006) found that economic growth is not always related to reduced poverty or inequality. Rather, it can impoverish more people and widen gaps of inequality. Even Nobel laureate Michael Spence stated that inequality often rises in the presence of growth (Bhalla 2007).

The state of India with its neo-liberal policies supports corporate-led industrialization that includes deregulation, rewriting labour laws in favour of corporations as well as privatization of public industries, the heath care system, and education. According to Amit Bhaduri (2008),

> An unbridled market whose rules are fixed by the corporations aided by state power shapes the process. The ideology of progress through dispossession of the poor, preached relentlessly by the united power of rich, the middle class and the corporations fix colonize directly the poor, and indirectly it has began to colonize our minds.

It is not the 'invisible hand of the market' and the neo-liberal agenda, always speaking of privatization, that can eradicate poverty, establish food security, ensure universal access to health care, education, and affordable housing and reduce equality. It is the government that can provide its citizens with all these by empowering themselves through political will and economic policies such as employment generation programs, land reform, extending credit to the poor, crop insurance, rural roads, rural housing, rural water supply, rural electrification, universalizing primary education, comprehensive health care system, and labour welfare.

Acknowledgements

First of all, I would like express my deep gratitude to Prof. Sharit Bhowmik, Dean of Management and Labour Studies of Tata Institute of Social Sciences, India, who was my teacher and Ph.D. supervisor for his encouragement and selection of a right name for this paper. I also would like to express my sincere thanks to the two reviewers of my paper for their valuable comments, to the editorial board including Dr. Charles Menzeis and Kenneth Campbell. Finally I would like to acknowledge my deep indebtedness to Ms. Geneve Champous of Writing and Learning Services, Grant MacEwan College for her meticulous editing of my draft and to Grant MacEwan College.

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