"Inequality in India could be much more efficiently reduced through reforms that shrink the costly system of transfers, increase the role of markets in resource allocation, expand infrastructure investments, and improve the delivery of education and health care."

India's Inequality: An Uneasy Reconciliation With Economic Growth

ROBERTO ZAGHA

Numerous studies have shown inequality rising across the globe in recent decades. Analyses by economists Branko Milanovic and (in *Current History*) Uri Dadush and Kemal Derviş, as well as a number of World Bank studies and a recent comprehensive report by the Organization for Economic Cooperation and Development, have documented stagnation at lower levels of income and accumulation of an increasing share of wealth and income at higher levels in many advanced and developing countries.

Inequality On the Rise
Seventh in a series

The relative roles that globalization, technological progress, and government investments in education, health, and social programs play in rising inequality remain controversial. But the rise is well recognized, as are concerns about the consequences for fairness and social mobility at both country and global levels.

That said, it is important to bear in mind, paraphrasing Leo Tolstoy, that while all equitable societies may be alike, each unequal society is unequal in its own way. What, then, are the distinctive features of India's inequality? Has inequality of incomes worsened there as it has in other nations? And what would be the best way to address the challenge? These questions are best addressed with the understanding that the Indian government has sought to pursue social goals, including reduced inequality, without sufficient appreciation for the capacity of economic growth to help meet such challenges.

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THE POVERTY CHALLENGE

Before the Industrial Revolution started circa 1750, the numerous kingdoms and principalities that two centuries later would become India made up one of the richest regions in the world. The region's civilization and wealth attracted explorers, traders, invaders, and colonizers. Its economy accounted for one-fourth of the global economy.

Two centuries of colonization significantly changed this picture. India emerged at independence in 1947 with a per capita income of $180 (measured in US dollars of 2000), one of the poorest countries on earth, with a secularly stagnant economy that accounted for less than 5 percent of global GDP. In his autobiography written in the 1930s, Jawaharlal Nehru described India as "a servile state, with its splendid strength caged up, hardly daring to breathe freely, governed by strangers from afar; her people poor beyond compare; short-lived and incapable of resisting disease and epidemic; illiteracy rampant; vast areas devoid of all sanitary or medical provision; unemployment on a prodigious scale, both among the middle classes and the masses."

When sworn in as the first prime minister of independent India in 1947, Nehru called for the "ending of poverty and ignorance and disease and inequality of opportunity." Even though Nehru's and Mahatma Gandhi's visions regarding the meaning of poverty and inequality and how to address them were dissimilar, both men identified progress on these fronts as a central goal. Technological catch-up, rapid industrialization, and poverty reduction were major themes in the writings of India's founding fathers, and had already appeared in the economic platform of the Congress Party in the 1930s.

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When it came to the means of reaching such objectives, Nehru saw the state as the main agent pushing toward more rapid development, taking the "commanding heights" of the economy. In the first four decades following independence, a number of policy resolutions and regulations expanded the public sector's role and extended government controls over economic activities, particularly in industry and finance. The share of the country's GDP generated in the public sector increased persistently, while a web of mutually reinforcing controls increased government's influence over resource allocation in the private sector.

The tide turned when the liberalization of the economy started in the 1980s and accelerated significantly in the 1990s. Over the past two decades, significant reforms have liberalized India's foreign exchange regime and financial sector while deregulating industry and international trade. As a result, India has successfully emerged out of the secularly low "Hindu rate of growth," becoming more integrated in the global economy and experiencing over the past decade a rise in annual growth rates.

Still, India's poverty, infrastructure, and social challenges, while much reduced in relation to what they were at the time of independence, remain dramatic. The country has the largest number of poor people in the world: 350 million, well above the number of poor in Africa. And it faces development challenges affecting poor and non-poor alike: high and widespread malnutrition; low retention rates and learning outcomes in primary schools (even as India is reaching universal primary education); high child and maternal mortality; and limited access to clean water (no Indian city has access to water 24 hours a day, 7 days a week), sanitation, and infrastructure.

The government needs to change its philosophy of assistance to one of enabling.

Road and power infrastructure remain poor. Inadequate road connectivity and limited availability of power are important reasons for low agriculture productivity. One-third of India has no access to modern energy sources; the other two-thirds must deal with chronic power cuts, which disproportionately affect medium- and small-scale enterprises' ability to expand employment. Two blackouts in July 2012 affected 600 million people, paralyzing India's major cities and making clear the vulnerability of the country's energy systems and the extent of human costs. Meanwhile, 600 million Indians lack access to modern toilet facilities, a serious health hazard, particularly for women.

Gender gaps persist and, notwithstanding progressive legislation and innovative affirmative action programs, India ranks among the worst-performing countries on gender issues. This fact was dramatically highlighted in December 2012, when the gang rape of a student brought to Indian elites' attention the police's insensitivity toward gender issues, the lack of awareness of the political class, and an initially unsympathetic government response.

India's economic and social challenges have been made all the more complex by a caste system built over centuries. By clarifying every individual's place in society, the system facilitates social order. However, by excluding or marginalizing large segments of the population, it makes it difficult to create a shared sense of public purpose, the basis for providing public goods.

Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty, a 2011 book by the Massachusetts Institute of Technology's Esther Duflo and Abhijit Banerjee, documents the persistence of these social structures and how they complicate the provision of public services. The authors cite the case of Gram Vikas, a nongovernmental organization that works to provide water and sewerage in backward rural areas of Orissa, a state on the eastern shores of India that, although rich in mineral resources, remains one of the country's poorest. As in most of India, access to clean water and sanitation in Orissa is limited to a privileged few.

Gram Vikas's experience shows that water and sanitation are social, not just technical or financial, issues. The NGO invests to connect every household to a water and sanitation system. But many villages for years refused these investments because high-caste households would have had to share the "same" sewer system with and drink the "same" water as low-caste "untouchable" households. In schools, material resources and teachers' focus and attention discriminate against lower-caste students. Recent research by the World Bank's Karla Hoff shows that the consequences on cognitive development are severe. Low-caste students perform much better in tests in which their caste identity is not revealed.

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In short, for those who read in today's press enthusiastic reports on "emerging India" or "shining India" and the prowess of India's technological advances, literary ascendancy, industrial companies, billionaires, and scientists, it is important to realize that while this is indicative of what India can achieve, it is for now relevant to a small proportion of India's 1.2 billion population.

LEGAL AMBITIONS

At independence in 1947, India's founding fathers were aware that reducing inequality and poverty and creating a just and fair society would require radically changing Indian society. The drafting of a constitution was entrusted to a committee chaired by B.R. Ambedkar, then India's first law minister. Less known outside India than Nehru or Gandhi, Ambedkar was in fact one of the most remarkable and influential figures in the making of modern India. A member of India's lowest class, the 14th child of an untouchable couple, Ambedkar overcame deprivation and prejudice (for example, though he was allowed to attend school, he was not permitted to sit inside the classroom or to touch the water from which other students drank), and eventually was educated at Columbia University and the London School of Economics. A PhD in economics as well as a lawyer, he wrote prolifically on economics, law, sociology, and anthropology.

The Indian constitution drafted by Ambedkar and adopted by a constituent assembly in 1949 sought to recreate India's society, no less. It has been described as "first and foremost a social document," in which the right to equality is one of the chief guarantees, as is a prohibition of discrimination on the grounds of religion, race, caste, sex, or place of birth. The constitution set in motion dynamic changes that are still unfolding and working their way through the society and the economy.

But making it a legal obligation of the state to reduce inequality has clashed with the country's economic and social realities. Establishing an official obligation is not sufficient to reduce poverty and address social prejudice. The economy must grow to generate the opportunities and the resources for needed social programs and, at least as important, to empower economically underprivileged groups. Society's values and norms need to evolve to become more accepting of caste, ethnic, gender, and religious diversity. And just as important as granting rights is ensuring they are delivered. Many promises have been made that have not yet been fulfilled. Legal obligations to reduce inequality cannot substitute for rapid economic growth, societal commitment, and an efficient government.

To be sure, the legalistic approach, which retains considerable support to this day, can provide an avenue for citizens to compel a state captured by privilege to respond to public demands. India's is an unlikely democracy that has nonetheless survived perhaps because democratic institutions provide the structure holding together a country divided by caste, language, ethnicity, and religion. Enacted obligations and legal protections also help create a common ground on which elites can agree.

India: A New Economic Model?

Percent Share of Manufacturing Value Added in GDP 2000 and 2005

	GDP Share 2000	GDP Share 2005
India	14.3	14.1
China	32.1	34.1
Malaysia	32.6	32.2
Thailand	33.6	36.1
Vietnam	18.6	22.5
Industrialized Economies	17.6	16.8
Developing Economies	20.5	21.7

Source: UNIDO (2009) database

The extent to which legal approaches influence outcomes is, however, controversial. For example, the 2005 Right to Information Act has been widely applauded. It has helped bring more transparency to an unresponsive bureaucracy. It has also helped bring into the open cases of corruption at the higher levels of government. It has not, though, created a spirit of public service in the bureaucracy, which considers serving the public a favor rather than an obligation.

Meanwhile, there is ample evidence that the 2005 National Rural Employment Guarantee Act, which guarantees a minimum number of days of work to the population below the poverty line, suffers from considerable leakages. Many citizens cannot gain access to the days of work for which they are eligible. Likewise, the 2010 Right to Education Act (which six decades later imple-

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ments provisions of the constitution) obligates the state to provide schooling. But it also has generated apprehension because it could force the closure of low-cost private schools in slums and rural poor areas that do not meet quality standards established by the act on matters such as class size, physical facilities, and teachers' salaries.

Such shortcomings have not deterred activists' enthusiasm for enlarging citizens' rights to address India's social and economic inequalities, and the legalistic approach has found support among Congress Party leaders. The National Advisory Council, under the stewardship of Congress Party President Sonia Gandhi, has been instrumental in drafting rights legislation, most recently the Right to Food Act, which remains under active discussion.

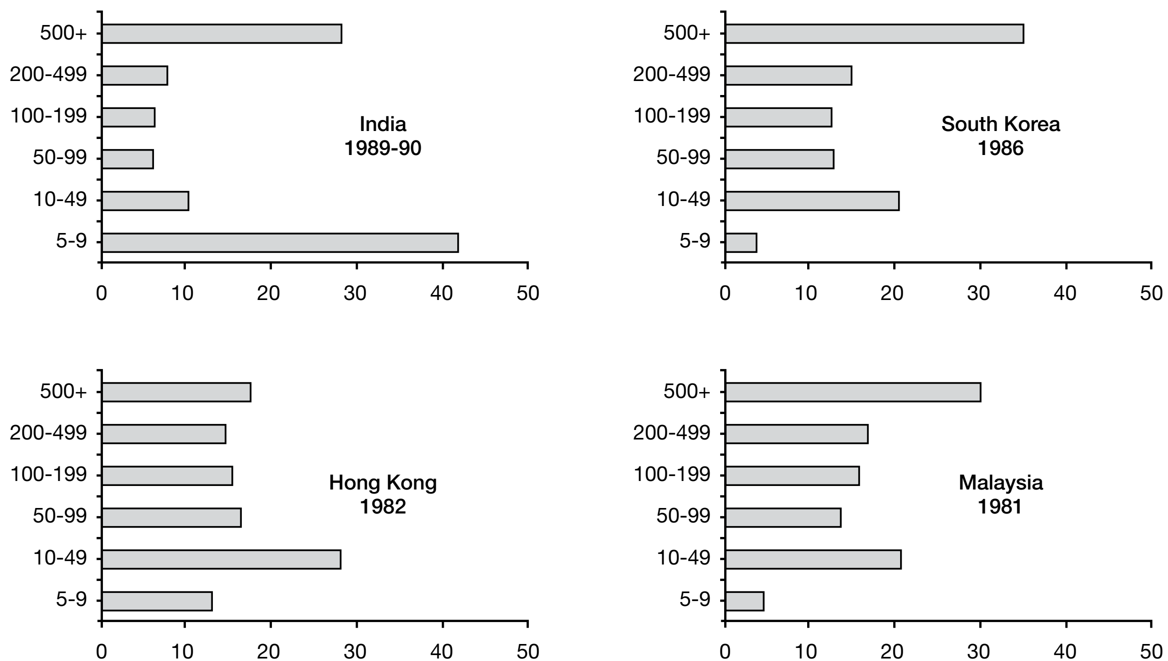
BIG PLANS

The need to take actions to put the economy on a high growth trajectory to improve living standards has taken a long time to be accepted. This is most evident in the Five Year Plans, which play an important role in India's policy making. These plans outline policies and allocate resources for public investments to achieve the country's economic and social goals. The chairman of the planning commission is the prime minister, and the deputy chairman—effectively the minister of planning—has historically been powerful and influential. The National Development Council, which includes the chief ministers of all states, reviews and approves the plans, which are also discussed by the parliament. The plans hence capture how India sees its economic and social realities and how it goes about change and reform.

A focus on social goals and concern with the concentration of incomes rather than their growth are evident in the "Resolution of the Government of India," which in 1950 established the planning commission. The commission's work is defined as centering on the reduction of inequality without reference to economic growth. Indeed, skepticism about growth has deeply influenced Indian economic policy making.

The first Five Year Plan (1951–56) launched a number of initiatives and policies to stimulate industry and agriculture. It also planned invest-

India's "Missing Middle"
(India compared with South Korea, Hong Kong, Malaysia)



Y axis: size of firms; X axis: percentage distribution of employment
Source: Dipak Mazumdar (2009)

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ments at levels that would allow a doubling of per capita incomes in 27 years. More ambitious targets were considered but rejected because they would have required, for a period of 10 to 15 years, reductions in consumption to levels that the commission considered unacceptably low.

However, the point was missed that doubling per capita incomes in 27 years meant a per capita growth rate of 2.2 percent, implying that India would take several centuries to catch up with per capita incomes in advanced economies whose secular growth rate is around 2 percent, and that the reduction of poverty would be exceedingly slow. The second Five Year Plan, after careful review of the experience of the first plan, proposed a marginally more ambitious target of 2.5 percent—still implying catch-up with advanced economies in a matter of centuries rather than decades.

Who benefited from even that modest growth, and how it translated into improvements in living standards, raised considerable concern, however. In 1960 Nehru appointed a committee under the chairmanship of Prasanta Chandra Mahalanobis, a world-renowned economist and statistician, to "review the changes in the levels of living in the first and second Five Year Plans; to study trends in the distribution of income and wealth; and to ascertain the extent to which the operation of the economic system has contributed to the concentration of wealth and means of production."

The economy must grow to empower economically underprivileged groups.

The committee, which submitted its report in 1964, concluded that the planning process had led to industrial and financial concentration, aided "monopolistic growth," and contributed to the concentration of incomes. It also recommended that the government establish mechanisms for the collection and analysis of household data, the better to assess living standards and their evolution.

In parallel, another working group of eminent economists was constituted to assess the extent of poverty in the country. Based on a nationally desirable level of consumption expenditure, the group defined India's poverty line (itself based on a diet prescribed by nutrition experts) and, in a 1962 report, found that "half the population lives in abject poverty." This report set a trend and a methodology for defining the poverty line (to this day, India's is based on a minimum calorie intake) ahead of other developing countries and also ahead of industrialized nations.

Since then, measurements of poverty have become part of the statistics systematically produced in India at regular intervals, and the measurements attract considerable attention and discussion in the parliament and the media. The 1962 report also started a practice in which the government periodically appoints working groups of economists to review the methodology underlying measurements of poverty, and the results.

A RECENT EMBRACE

It was only in the Third Plan (1961–66) that a first attempt was made systematically to link economic growth to improvements in living standards. As a result of work by Pitambar Pant, a close adviser to Nehru, the Third Plan sought to adopt a multi-decade perspective on the economy, link short-term policy decisions to long-term income and living-standards targets, and, for the first time, explicitly recognize a trade-off between short-term redistribution and long-term growth. In a well-known paper, Pant drew pointed attention to the abject poverty in which the bulk of Indians lived, but ruled out redistribution of wealth and income as a response. The solution to India's mass poverty, he argued, had to rely on an acceleration of growth sustained for decades.

Thus there was, for the first time, an explicit recognition that the achievement of India's social goals—including reduced inequality—could not be seen in isolation from economic growth. Yet Nehru's death in 1964 and a series of other challenges (including conflict with China and devastating droughts) prevented this idea from gaining momentum. The Fourth Plan, partly reflecting Prime Minister Indira Gandhi's need for support from leftist parties, emphasized antipoverty programs and redistributive measures, which were expanded in subsequent plan periods.

It is only since the Tenth Plan (2002–07), with its more ambitious targets for per capita growth (over 5 percent), that the Five Year Plans have made economic growth a central policy objective. Only in the past decade has the government's focus shifted from reducing inequality and poverty to "inclusive growth."

India's embrace of growth is hence relatively recent, and it is far from complete. There are, to be sure, good reasons to mistrust growth as the sole instrument of social justice, and good reasons

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to be alert to the concentration of wealth and income. Still, one of the most notable consequences of India's public and political debate on policy making has been disproportionate attention paid to preventing enrichment in relation to the creation of opportunities.

One explanation for this could be that economic growth has not resolved India's pervasive rationing of public services. Partly because of a lack of public sector commitment to service, the government's provision of public transportation, water and sanitation, power, and high-quality education and health care, for example, is severely rationed and essentially unavailable to a large share of the population. Thus economic growth, despite its impressive record over the past decade, is not perceived as a response to shortages that most immediately affect palpable day-to-day life for millions of poor people.

Another explanation is that the structure of India's economy, partly because of the rationing of public services, does not work for the poor as well as it does for the higher income groups. In particular, while the "license Raj" (the elaborate system of licenses and red tape imposed on Indians wanting to start or operate businesses) was eliminated in some parts of the economy, it remains alive and well in other parts where the regulation and constriction of market activities most directly influence opportunities for low-income groups. In addition, growth has opened possibilities for enrichment to groups well connected to the state. These developments have provided grounds for skepticism among Indians about growth's ability to help the country achieve ambitious social objectives.

GAUGING THE PROBLEM

Two statistics are commonly used to describe the evolution of inequality and poverty: Gini coefficients and the incidence of poverty. Gini coefficients are numbers between 0 (when every person in society has the same income) and 1 (when one person has all the income and everyone else has zero income). Countries in Latin America with unequal distributions, such as Brazil and Chile, typically have Gini coefficients above 0.5. Egalitarian societies such as Norway and Sweden have Gini coefficients around 0.25. The United States saw its Gini coefficient rise from 0.40 in 1967 to 0.47 in 2011.

The Gini coefficient is a static measure, however. An economy in which the lower income groups see their incomes rise by, for example, 5 percent, and the higher income groups see their incomes rise by 10 percent, will see higher inequality and hence an increase in the Gini in relation to an economy in which all incomes see zero growth. For the lower income groups, a rise in incomes even if smaller than that for higher incomes (hence implying deterioration of the Gini coefficient) would appear socially preferable to stagnation across income levels. But this cannot be captured by the Gini coefficient.

India's Gini coefficient, according to the World Bank, declined between 1977 and 1993—from 0.37 to 0.31—and rose to 0.33 in 2005. Two issues should be kept in mind when one thinks of India's Gini. The first is that the coefficient should have risen faster (meaning a sharper deterioration in the distribution of income) at a time when incomes have been rising rapidly. In the case of China, for example, the Gini coefficient increased from around 0.36 in 1996 to 0.42 in 2005.

The reason inequality should have grown is very simple. The process of economic growth entails the movement of labor from low productivity activities (typically agriculture) to higher productivity activities (typically urban). But this movement takes place over time; that is, some people see their income rise ahead of others'. For example, labor productivity in urban areas in developing economies is typically six to eight times higher than in rural areas. As workers migrate to urban areas and their incomes rise, the Gini coefficient increases. Against this background, the slow rise of the coefficient for India is surprising. It could be a result of the country's slow urbanization and, relatedly, the small role that manufacturing plays in the economy.

It could also reflect the fact, and this is the second point to keep in mind, that India's Gini coefficients are calculated on the basis of the distribution of consumption (as a proxy for income) rather than income itself. Calculations by Banerjee and Thomas Piketty in a 2003 paper using income tax returns revealed a much more rapid concentration of income at the higher levels of the distribution during the three decades of growth acceleration. (Following the publication of that paper, the government discontinued the release of the data that allowed Banerjee and Piketty's exercise.)

The conclusions we can draw are that India remains less unequal than most developing countries, that India's inequality is likely increasing faster than indicated by calculations based on con-

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sumption surveys, and that one should not conclude this is a negative development. The reality is more nuanced.

DRAWING THE LINE

Turning to the incidence of poverty—that is, the number of people in the population consuming less than the poverty line—this obviously depends on where the poverty line is set. In some countries the poverty line changes regularly to reflect changes in living standards. In India, it is set at around 60 cents of an American dollar per day. The World Bank uses $1.25 in purchasing power parity (PPP) terms. By this measure, about 350 million people are poor in India. Higher poverty lines would yield higher numbers.

Whatever poverty line is chosen, the incidence of poverty has clearly declined, from 66 percent in the late 1970s to 29 percent at present, according to World Bank data. Considerable disparity persists across states (northern and northeastern states are poorer, have grown more slowly until recently, and display higher levels of poverty incidence and lower social indicators) and between rural and urban areas (urban areas typically are better off than rural areas). But the trend is unquestionably toward lower incidence of poverty, particularly since the 1980s, when growth rates in India started to accelerate.

Establishing an official obligation is not sufficient to reduce poverty.

Civil activists periodically challenge the notion that poverty has declined. There have been accusations of mishandling of data in the press and in the parliament. And considerable energy has gone into contesting official statistics. The poverty numbers, however, are based on household data that the National Statistical Office carefully collects and checks. In my judgment there is no reason to dispute the data. Changes in methodology that have occurred from time to time have been transparently documented and discussed. The one lament one could have regarding the household survey data is that unit record data are not publicly available.

While the incidence of poverty in India has declined gradually but persistently and significantly over the past three decades as growth accelerated, it is also evident that the impact of growth on poverty reduction has been smaller in India than it has been in other countries. India's "growth elasticity of poverty reduction," which measures the percent decline in poverty for a 1 percent increase in the growth rate, has been below that experienced in other countries.

At a poverty line of $1 per day in 2005 PPP terms, India's growth elasticity is minus 0.4, half the elasticity estimated for China, and much below Brazil's minus 4.3. Other countries have also experienced instances of high growth without poverty reduction, such as the United States in the four decades before the 2008 economic crisis; or Equatorial Guinea, where growth is based on rising levels of oil output whose spillovers on the domestic economy are minimal. In short, the growth elasticity of poverty reduction depends on how growth is generated and how it translates into employment opportunities.

STILL LAGGING

What can explain India's low growth elasticity of poverty reduction? There are at least five important reasons.

A key one is the availability and pricing of infrastructure services. It is important to correct a widespread view in policy circles, not only in India but also in many development agencies, including the World Bank, that infrastructure benefits the rich, while having a lesser impact on the poor. Few ideas are as misleading. There is ample evidence that low-income groups are willing to pay for infrastructure, and that infrastructure improves the living standards of the poor and is key for poverty reduction.

The availability of water and sewage facilities, roads to markets or schools, public transportation, and power is an important determinant of quality of life. The rich are able to make up for shortages in public provision. Tankers deliver water to their homes, and they can afford private transportation and captive electricity generators.

Conversely, the poor cannot offset failures in public services, and even in normal times they have to live with rationing. The evidence suggests the poor suffer considerably from the rationing of these services. For example, good-quality water and sanitation keep people from falling ill, and illness is a major reason for falling into poverty. In addition, good health enables better school performance for children. In short, infrastructure can help create a virtuous circle of well-being and opportunity.

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A second reason growth has been relatively slow to reduce poverty in India (also partly a result of infrastructure shortages) is that India has been unable to generate job opportunities in the manufacturing sector at the scale achieved by export-oriented East Asian countries. The table on page 139 shows the dramatically smaller role that manufacturing has played in India's development. Currently at 16 percent of GDP, India's manufacturing sector is half the size of China's, half of Korea's, and half of Japan's when Japan was at an earlier stage of development. In a labor-abundant economy such as India's, the growth of labor-intensive manufacturing is crucial to generate the employment from which opportunity and social mobility come about.

One of the distinctive features of India's manufacturing is its "missing middle." That is, the size distribution of firms is U-shaped rather than the inverted U observed in most countries. The implication is that India has large numbers of small firms, mostly in the informal sector, and large firms. But medium-scale businesses, which in other developing nations account for the bulk of employment, are "missing." (See the graphs on page 140, which provide an international comparison of the distribution of firm sizes in the 1980s.)

The impact of growth on poverty has been much less than in other countries.

Large enterprises can overcome insufficient access to infrastructure, available land, power, water, and other public services—through, for example, captive power or water treatment plants. And small, informal enterprises depend less on infrastructure. The relative dearth of mid-sized businesses has much to do with India's failure to develop an export-oriented low-skill-intensive manufacturing sector able to provide more employment and pull the economy ahead.

A third reason for the low growth elasticity of poverty reduction in India has to do with access to high-quality health and education services. Surprisingly, at a lower level of income, Bangladesh has been able to exceed India's performance across a large number of social indicators, including gender indicators. India's elite schools—at the primary, secondary, and tertiary level—rank among the best in the world. And its hospitals have become a world destination for treatment of a wide range of ailments. But India has not been able to create a quality system of education or health care to which the majority of the population has access.

This is not for lack of resources allocated to these challenges. It is mostly the result of poor design of public programs, and poor delivery. Recent writings by the Indian economist Arvind Virmani have shown, for example, how futile it is to address India's severe child malnutrition problem by expanding food intake, when malnutrition in fact results from public health issues. Similar design and delivery problems are pervasive in a wide range of social programs.

Urbanization is a fourth reason. Cities play a special role in the process of development. They are the locus where modern activities develop, absorbing excess labor from rural areas. Unless they can play this role effectively, growth will suffer and, equally important, the impact of growth on employment and labor incomes will be limited. About 300 million people live in India's urban areas, and that population will double in 20 years. About 100 million of the 300 million urban population live in slums deprived of the most basic necessities. In cities such as Mumbai, about 60 percent of the population live in slums.

One of the main causes of this is the price of land, which is as expensive in Mumbai, Delhi, or Bangalore as it is in New York or London. The ratio of rental price to incomes is hence one of the highest, possibly the highest in the world. The high prices have resulted from a number of ill-conceived regulations on the use of urban land. High prices force the expansion of slums, and insufficient basic urban infrastructure has slowed cities' ability to generate employment and raise productivity.

A fifth reason for the resilience of poverty is the vast amount of resources allocated to social programs of questionable effectiveness. The focus on redistribution rather than growth is probably one of the forces behind the all-pervasive proliferation of subsidies in India: for fertilizer, fuels, grains, sugar, power, water, and irrigation, to name just a few. In a white paper presented to the parliament in the 1990s, the cost of these subsidies was estimated at 6 percent of GDP, and it has probably increased since.

At least as serious as the fiscal and economic costs of these subsidies is the resulting underinvestment in key areas of the economy. Consumers' willingness to pay for services is not translated into financial resources that can fund

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investments and expansion of public services. The power sector is the most visible and well-studied case, but the same problems exist for a variety of public services that are crucial for India's economic growth.

FOCUS ON GROWTH

Since India's independence, reduction of poverty and inequality has been one of the nation's central objectives. It has been pursued through legal commitments of the state to a vast system of transfers, the underpricing of key infrastructure services, and costly controls over economic activities. Seeking to reduce poverty through direct rather than indirect means has not been effective.

As a consequence, India on the one hand has grown at rates below what would have been possible with policies and investments more focused on economic growth. On the other hand, the impact of economic growth on poverty has been much less than what has been the case in other countries. In particular, India's social development has lagged what has been accomplished even in nations with lower levels of income.

Inequality in India could be much more efficiently reduced through reforms that shrink the costly system of transfers, increase the role of markets in resource allocation, expand infrastructure investments, and improve the delivery of education and health care. Above all, the government needs to change its philosophy of assistance to one of enabling.

This is a tall agenda, but one that is achievable. India has been able to change expectations regarding economic growth. Indicative of this, a recent decline in growth rates to 6 percent (which would have been a remarkable achievement 10 or 20 years ago) is considered a failure of public policy by the political establishment, the media, and the emerging middle class. Now India needs to undertake reforms that will not only lift growth rates, but also improve their social impact. ■

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