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Escaping Monetary Poverty

Is Economic Growth Effective Some Empirical Evidence from Contemporary India

Claudia CAPPA

Etudes courtes n° 7

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Escaping Monetary Poverty: Is Economic Growth Effective? Some Empirical Evidence from Contemporary India

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© iuéd, November 2003

CHF 12.00

GRADUATE INSTITUTE OF DEVELOPMENT STUDIES
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Acknowledgements

I wish to express my sincere gratitude to the Graduate Institute of Development Studies that kindly accepted to finance my stay at the University of Manchester and at the University of Amsterdam. I am specially indebted to Prof. Riccardo BOCCO for his most valuable support. In addition, I am grateful to Laura BARNETT and to Katelin MAHER for so heroically responding to the daunting challenge of editing and reviewing the first version of this paper. My thanks are also due to A.V. JOSE and to Oksana WOLFSON. Finally, I am grateful to Sophie LIÈVRE for her dear encouragement. The usual disclaimer applies.

Notice

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Introduction*

The new macro-economic policies undertaken ten years ago in India have now become the focus of intense debate. In a context characterised by severe development problems, the launch of these reforms was accompanied by an examination of their social implications, both in terms of reducing income inequalities and of dismantling endemic conditions of poverty.

India's economic history has been marked by an interventionist approach to the formulation of economic policies, as well as to the creation of institutional and legal measures to implement them. Indian leaders' dominant philosophy, which has been a source of inspiration since the early stages of Independence, was founded on the need to combine economic growth and social justice through the modernisation of the production system and a better redistribution of the economic power. J. Nehru wrote: "We have to remember that we cannot set aside the human factor. We do want more production, but more than that we want better human beings. . . . We want a plan of integrated economic growth of the economy, a plan in which the individual grows with his society. Our objective has to be economic democracy . . . , which means putting an end to the great differences between the rich and the poor, the people who have opportunities and those who have none or very little."¹ These priorities have since become the *leitmotif* of Indian planning, the country building its identity upon this two-pronged economic and moral requirement.

Nonetheless, if one assesses the policies adopted, it has to be recognised that, although the economic performance is encouraging, social objectives have only been partially satisfied. Over the past fifty years India has reduced the percentage of the population living below the poverty line from 50% to 26%, but the absolute number of indigents has increased noticeably, rising from 160 to 300 million.² With an average per capita income of \$453 per year (2000), India remains one of the poorest countries in the world. These strictly monetary figures are not the only proof of the country's lack of socio-economic success: India is classed as 124th in terms of human development (2000).³

In a climate overwhelmed for the last decade by what Christophe Jaffrelot has defined as an "esprit nouveau" of economic change, evaluating growth in terms of standard of living seems more problematic than ever,⁴ Even during this period of liberalisation of the national economy, the alleviation of poverty and improvement of national standards of living remain among the Indian government's most pressing

* This paper draws heavily on a discussion paper that I prepared for the International CERES Summer School 2003, Royal Tropical Institute, University of Amsterdam, 23–26 June 2003. For an overview, see Cappa, C., "Poverty and Globalisation in India: Sorting out the Issues", *Faces of Poverty*, Books of Proceedings, CERES, Amsterdam, 2003, pp. 452–73. A provisional draft of this paper has also been presented in a poster session at the international conference "Staying Poor: Chronic Poverty and Development Policy", Institute for Development Policy and Management, hosted by the Chronic Poverty Research Centre at the University of Manchester, 7–9 April 2003.

¹ Nehru, J., *Planning and Development: Speeches of Jawaharlal Nehru (1952–1956)*, Publications Division, Ministry of Information and Broadcasting, Government of India, New Delhi, 1956, pp. 5–6.

² Government of India, *Economic Survey: 2000-2001*, Economic Division, Ministry of Finance, New Delhi, 2001.

³ UNDP, *Human Development Report 2002*, Palgrave, New York, 2002, p. 192.

⁴ Jaffrelot, C., *L'Inde contemporaine de 1950 à nos jours*, Editions Fayard, Paris, 1997, p. 109.

priorities. One might accordingly conclude that the traditional development strategy launched by J. Nehru has undergone profound modifications not so much in terms of its declared objectives (economic growth, the fight against poverty), as in terms of the means used to reach those goals: economic independence has been abandoned in favour of a distinct opening towards the international sphere. We are thus observing a subtle transformation of the development paradigm that made the Indian economy so unique: the foundation of the new path to development is now growth combined with economic efficiency and competitiveness.⁵ Consequently, since the Indian authorities have chosen liberalism as the new means of stimulating growth, promoting development, and creating a major role for India in the international economy, further questions have been raised about the efficacy of this new policy in terms of social justice.

Short-term stabilisation measures and medium- and long-term restructuring programmes have noticeably improved the productive and financial performance of the Indian economic system. In particular, the structural changes seen in the productive framework have contributed to the improvement of India's comparative advantage, resulting in growth rates that are vastly superior to those from earlier periods. The country has gone from a growth rate of 3.5% between 1950 and 1980 to 5.5% between 1980 and 1990, finally reaching 6% in the last decade.⁶ This exponential increase in gross domestic product has gone hand in hand with a strong increase in the per capita GDP. The latter grew by 3.6% on average during the 1980s, and by 4.2% after 1991.⁷ This being said, the question is whether, in a context of economic liberalisation and openness to trade, this sustained growth has led to a decrease in the size of the poor population and to an reduction of income inequalities.

The relationship that links the expansion of the economy to its distribution represents one of the most controversial economic dilemmas. The neoclassical paradigm concludes that the existence of income disparities constitutes a means of capital accumulation, thus the basis of productive investments. In turn, this should produce increased growth rates, which lead to the gradual dismantling of monetary poverty. As a consequence, an alleviation of income inequalities will appear in the long term, via a progressive and balanced increase in growth rates. We are thus hypothetically within a tautological framework, linearly linking economic growth and social development. In reality, the impact of economic growth on the socio-economic system can vary greatly depending on the participative nature of the growth itself. In a sense, one could say that it is the qualitative aspect of the growth, more than its quantitative dimension, which plays a determining role in the distribution of the wealth produced. As economic expansion does not necessarily lead to redistributive justice, the question is thus one of determining the relationship between growth and equity.

An example is needed to clearly illustrate the complexity of the causal relationships linking economic growth to poverty and inequality. Early twenty-first century India is revealing itself to be a case study of great heuristic value, both from a political economy and a sociological perspective. Indeed, since the launch of the New Economic Policy (NEP), much discourse has been generated on globalisation as being the new instrument of economic growth and social development. This is even more remarkable, given that the programme of reform adopted in 1991 in many ways

⁵ See: Harasty, C., "L'Inde entre polarisation sociale et libéralisation économique: un nouveau paradigme?", *Monde en développement*, vol. 25, 1997, p. 75.

⁶ Government of India, *Economic Survey...*, *op. cit.*

⁷ UNDP, *op. cit.*

represented a break with the history of the country, replacing former socialist principles with the new precepts of neo-liberal thinking. Moreover, these important macro-economic transformations were produced in a context of reduced government intervention in terms of economic subsidies and social policies, a fact which served to amplify the asymmetries of the national markets. Although social concerns have remained a major prerogative, the state's action strategies have undergone a radical transformation over the last twenty years. Indian governments have progressively renounced, *ipso facto*, all economic action aimed at using structural measures to dismantle chronic conditions of poverty at their roots. Thus, this is a case of an economic strategy that is still based on the conviction that an ever higher level of growth can be a principal means of improving living conditions in the long term.

Given the unique nature of the Indian development paradigm, the question of "equity of growth" will thus be studied in light of this country's experience. As suggested by Frédéric Landy, it remains to be seen what timeline to use in order to best observe the evolution of the economy and to examine the socio-economic impact of the liberal reforms.⁸ Since poverty and inequality are structural and cumulative problems, the temporal dimension of the analysis is particularly pertinent for evaluating the present state of the phenomena and for observing any potential trends in perspective. If statistics on the liberalisation process seem to bear witness to the overall existence of harmful short-term consequences for the majority of the population, it is about the medium and long term that experts' opinions diverge. The stakes are not only scientific, but political as well. The choice of timeframe has implications both for the adoption of economic policies and for the evaluation of their efficacy. As the process of reform of the Indian economy is already a decade old, a study of the changes that both poverty and inequality have undergone over these last years may fulfil the criteria for an evaluation of the long-term social impacts of liberalisation.

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The present study analyses the effects of liberalisation on poverty and inequality in contemporary India from a macro-economic perspective. It examines the coherence and the efficacy of new government strategies in regard to national objectives and highlights their impacts on the living standards of India's deprived population groups.

In order to tackle such a rich and complex theme, our work will be framed within three different levels of analysis. First, we will try to define the concepts of poverty and inequality, with the aim of clarifying certain tools of analysis that will permit us to insert this research into the conceptual framework of global macro-economic analysis. Special attention will be paid to the phenomenon of economic growth and the efficacy of international trade as an instrument to promote growth, fight poverty and reduce income disparities.

Next, we will analyse the socio-economic context of contemporary India. After a brief review of the reforms, we will examine the constraints and challenges posed by the liberalisation. To this end, we will put forward a brief empirical study. We will analyse the qualitative and quantitative evolution of growth rates in the Indian

⁸ Landy, F., "La libéralisation économique en Inde: inflexion ou rupture?", *Revue Tiers Monde*, vol. 42, no. 165, 2001, p. 12.

economy and, similarly, the evolution of rates of poverty and inequality. This step will allow us to observe the empirical relationships that exist between growth, poverty, and inequality. In particular, we will account for the impact of deregulation and for the opening the Indian economy on poverty and social equity, through an analysis of trends seen in the labour market, consumer expenditure, and income. The analysis will be set within a temporal framework covering the pre- and post-liberalisation process, namely, the period extending from 1951 to 2001. The study will conclude with a theoretical examination of the relationships between economic performance and social development.⁹

⁹ At this stage, some methodological and conceptual clarification is necessary. Although poverty and inequality are multidimensional phenomena, their study here will be mainly approached from an economic perspective. This analysis will be carried out by using traditional instruments of measurement, such as the head count ratio (HCR) and the Gini coefficient. Although exhaustive, the macro-economic approach adopted in this paper cannot underestimate the importance of micro-economic analyses and fieldwork to a global understanding of these phenomena. No economist worthy of the name can hide behind abstract statistics and thus ignore the reality of everyday life.

The Evolution of Poverty

The liberal thesis, according to which international trade is the engine of growth, is today found at the heart of macro-economic analysis. The intensification of trade and the deregulation of markets are considered the only, or at least the best, development strategy possible. Thus, for twenty years, different countries have engaged in a process of liberalisation, dismantling controls erected by governments to protect national production and to discipline internal markets. As C. Harasty remarks, the lessons that economists can draw from these different experiences with liberalisation are often ambiguous, even contradictory.¹⁰ If an analysis of the Brazilian economy presents us with the limits of the trickle-down hypothesis, the case of South East Asian countries reveals the existence of an entirely new relationship between economic growth, development, and social justice. The Asian miracle has not been accomplished through strategies of absolute liberalism, but rather through policies that contradict this approach.

India entered into the liberalisation era relatively late. After forty years of socialist-style planning, the option of deregulating the national economy was challenged due to the possible negative effects on the living conditions of the poor. The neo-liberal school explains that stabilisation measures can aggravate poverty in the short term and that unbalanced distributive impacts can emerge in the medium term. It is in the long term that reforms produce positive effects on the economy, through increased social mobility and more dynamic production. Particularly open policies supposedly have a positive effect on the labour market, creating new employment opportunities, lowering the cost of labour, allowing the establishment of multinational industries, and developing domestic consumption. In turn, a reduction in poverty levels, an improvement in the standard of living of the most disadvantaged, and a gradual easing of economic inequality will follow. Nonetheless, in India, there is a lively debate about the reforms, with an important stream of social science research raising serious doubts about them. The criticisms mainly deal with two points: the weakening of the national economy due to openness to trade flows, and the social costs flowing from the liberalisation of markets. As the growth rate of GDP rises, new concerns about the distributive consequences of the acceleration of economic growth emerge.

If we analyse the economic history of India after Independence, we can observe a succession of different development stages that evolved according to trends in increased domestic production and average per capita income. After a radical restructuring of the economy (1947–55), the country entered into a period of moderate but stable growth under the impetus of industrialisation, and later the productive results of the Green Revolution. Beginning in the early 1980s, agriculture gradually lost its role as the driving force behind development, making way for secondary and tertiary sectors that progressively became the engine for significant economic growth. This process of modernisation and economic expansion accelerated in the early 1990s, stimulated by a radical reorganisation of production. This favoured the development of new markets. Indeed, in spite of a still largely state-controlled industrial structure, new activities are being substituted for traditional sectors of the economy. Some areas,

¹⁰ Harasty, C., *Équité sociale et croissance économique. Les effets de la libéralisation économique en Inde 1985–1995*, thèse de doctorat, EHESS, Paris, 1999, p. 2.

such as telecommunications and the chemical industry, are undergoing strong expansion thanks to the ability to import advanced technological commodities. Given that the return on investments (ROI) of these new industries is satisfying investors, the result is a trend towards the expansion of economic sectors specialised for high-intensity capital, and the concentration of growth in certain productive segments of the secondary and tertiary sectors.

The deregulation of internal markets and the sectoral transformation of the Indian economy, particularly rapid in the post-reform period, produced important changes in the labour market.¹¹ According to government forecasts, the abolition of quantitative restrictions on increasing business size, as well as the liberalisation of production, should have generated a diversification of the economy and an acceleration of growth rates. These two factors should have created new productive jobs for different categories of workers.¹² However, the empirical data seems to contradict the optimism of these predictions. Despite particularly high GDP growth rates, job creation rates have remained persistently stagnant. While the size of the working population rose by approximately 50 million between 1991 and 2001, the number of unemployed grew by 5 million in the same period, representing 5.5% of the working population.¹³ According to official statistics, the number of unemployed was 24 million in 1998 and 26.4 million in 2000.¹⁴ Other figures calculate 40 million unemployed at the end of the 1990s, representing 12% of the total working population.¹⁵ A significant discrepancy thus exists between official statistics and data put together by independent researchers. For example, looking at figures from the International Labour Organization (ILO), the number of chronic unemployed was 70 million in 1996, 85 million in 1999, and 92 million in 2000.¹⁶ Even if we only take official statistics into consideration, the situation is still disturbing. Despite a spectacular expansion rate for the economy, the growth of jobs, including unstable positions, stagnated at about 1.9% between 1987–88 and 1999–2000. The figures from 1993–94 to 1999–2000 are even more telling: while the population rose by 1.93% on average per year and the working population by 1.03%, the employment rate has risen by 0.98%.

If one analyses the employment situation in the formal sector, this state of affairs seems even more dramatic. The employment growth rate was 0.53% between 1994 and 2000, while it was 1.2% between 1983 and 1994. In particular, the growth rate was –0.03% in the public sector and 1.87% in the private sector (1.52% and 0.45% between 1989 and 1994). This rate fell from 1.44% in 1991 to –0.19% in 1999, and, according to

¹¹ The NSSO (National Sample Survey Organisation) has undertaken employment research on an annual basis since 1989–90. Previously, these surveys were carried out on a quinquennial basis. Different concepts of unemployment are used. A person who does not work, but who is looking for or is available for work for a period of over half of the 365 days of the year, is classified as unemployed in the “Usual Status” category. A person who does not work at least one hour during the base week is classified as unemployed in the “Weekly Status” category. The “Current Daily Status” relates to day-workers. By work, we mean any activity undertaken for wages, monetary or family profit.

¹² The working population is composed of all those who have a job and who are genuinely seeking one. This ratio is determined on the basis of the size of the population, the population’s division among sex and age groups, and the participation rate of these groups. According to official estimates, the working population in India currently stands at 423.4 million (2000).

¹³ Government of India, *Economic Survey...*, *op. cit.*

¹⁴ *Ibid.*

¹⁵ These calculations are based on the number of job seekers under 35 years old registered in employment offices. Milbert, L., “Politiques sociales et pauvreté”, *Ellipses*, 2001, p. 118.

¹⁶ These statistics group together the unemployed and those sufficiently under-employed to be considered chronically unemployed. ILO, *World Labour Report 2002*, Geneva, 2002.

estimates, stood at -1.7% in 2000¹⁷. The growth of employment in the formal economy has thus become strongly dependent on the employment expansion rate in the private sector. The liberalisation process has particularly affected certain sectors, such as ceramics and textiles. By contrast, the construction, transport, communications, chemical, and banking sectors have registered an increase in number of employees. The agricultural sector, which has always represented the principle source of employment in this traditionally rural country, has seen a progressive decrease in employees since the economic changes of the 1990s. The number of people working in agriculture fell by 9.5% in the public sector and by 3.2% in the private sector between 1991 and 2000. The employment growth rate, which was 1.51% between 1983 and 1994, became negative between 1994 and 2000 (-0.34%) for the first time in history.¹⁸ The combined result of these trends is serious: liberalisation has failed in its goal of expanding employment.

Table 1
Growth Rates of Total Population, Working Population, and Employment
(Average per Year in %, 1972–2000)

Year	Rate of Population Growth	Rate of Working Population Growth (Usual Status)	Rate of Employment Growth (Usual Status)
1972–73 and 1977–78	2.27	2.94	2.73
1977–78 and 1983	2.19	2.04	2.17
1983 and 1987–88	2.14	1.74	1.54
1987–88 and 1993–94	2.10	2.29	2.43
1993–94 and 1999–2000	1.93	1.03	0.98

Source: Government of India, *Economic Survey: 2000–2001*, Economic Division, Ministry of Finance, New Delhi, 2001.

At this stage, some commentary on methodology is needed. Because of the structural complexity of the labour market in developing countries, it is generally very difficult to apply any clear concepts to the subject of employment. According to traditional definition, those who have no job but are actively looking for work are considered unemployed. This concept, as well as that of employment, is not very pertinent when dealing with poor countries for a variety of reasons. First, there are generally more people available to work than actually working. Also, most people who work are under-employed. As a result, the unemployment rate frequently minimises under-employment by a significant amount. This means that the real indicator of employment conditions in developing countries is not the unemployment rate, given that this rate applies only to the formal economy, but is rather underemployment, which remains difficult to measure. Finally, it is often impossible to define exactly what employment means when multiple jobs, informal, part-time, and family work are widespread. Official statistics can only measure labour in the formal sector with any certainty. In India, this sector groups together businesses declared under the framework of the 1948 law on factories, and those that employ more than twenty workers. In 1999 the number of people employed in the formal sector was 28.11 million, 19.41 million of whom worked in public structures, and 8.7 million in the private sector. This number represents approximately 7% of all workers. The rest are employed within the informal economy, for which no reliable figures are available.

¹⁷ Government of India, *Economic Survey...*, *op. cit.*

¹⁸ *Ibid.*

Any attempted study of the labour market in India that resorts to traditional tools of analysis will thus come up against the reality of an informal sector that employs the majority of the population. This said, while remaining cautious, we must be allowed to think that liberalisation created an expansion of the informal sector, an increase in precarious work, and as a result, a weakening of employment. Formal employment is not increasing, thus it is the informal sector that is taking in the millions of additional workers. This is an ancient trend, but it was accentuated after liberalisation because of the transformations occurred in the production system. Indeed, as stated by C. Harasty: "Stabilisation measures slow down economic growth in the short term This slowdown is particularly acute in the modern industrial sector because of that sector's great dependence on imports, which are the first victims of stabilisation. The slowdown of activity in the formal sector then slows job creation, which in turn accelerates the growth of jobs in the informal sector. Similarly, the slowdown of production in the formal sector depresses demand for service goods produced in the informal sector."¹⁹

As for the qualitative evolution of employment, official statistics show an increase (between 1977 and 1997) in the percentage of precarious workers (day-workers) that has varied between 1.4% for female city workers (explained by an increase in informal work) and 11% for males in rural areas (due to the increase in underemployment). The increase in *per diem* employment has affected the weakest categories of the Indian population, such as artisans, agricultural workers, and unskilled workers. Thus, although liberalisation has not exacerbated unemployment on a global level, it has not been able to stop the trend towards a segmentation of the labour market.

We are thus at the heart of the problem, given that employment is one of the principal determinants of poverty.²⁰ If we analyse long-term statistics on this phenomenon in both rural and urban settings, it must be recognised that independent India has passed through a number of different stages. According to NSSO data, the country went through a long phase of moderate economic growth accompanied by a considerable reduction in poverty rates beginning in the mid-1960s. Between 1953–54 and 1983, the proportion of poor in urban centres went from 53.2% to 39.2%, and from 65% to 52% in rural settings. Particularly, between 1973 and 1983, although per capita GDP grew on average by about 2% per year, the poverty rate declined by 10.1%.²¹

The launch of the reforms marked the end of this period of relative linearity and the beginning of a more controversial economic phase. An initial analysis of official statistics appears to indicate a considerable reduction in the proportion of the population living below the poverty line. Coefficient H,²² in constant decline since Independence, continued to fall, except in some periods, such as the 1991–92 economic

¹⁹ Harasty, C., *Équité sociale et croissance économique...*, *op. cit.*, p. 207. Author's translation.

²⁰ Every five years the Indian government, through the NSSO, leads inquiries into the consumer spending of Indian households based on a statistical sample of approximately 121,000/158,000 families. According to the NSSO definition, these expenditures include spending on goods and services by households for domestic consumption in monetary terms, thus excluding homeless people and spending for purposes of production. Currently, the official poverty line used in national statistics is based on a minimal level of consumer spending of 49.09 rupees per month in rural areas and 56.04 in urban zones, at 1973–74 prices. Such incomes are deemed necessary in order to obtain 2400 calories per day in the country and 2100 in the city. This method of quantifying consumer spending is based on strict biological survival, thus excluding health-, education-, or housing-related expenses from the equation.

²¹ Government of India, *Economic Survey...*, *op. cit.*

²² Coefficient H (Head Count Ratio, HCR) measures the percentage of population living below the poverty line.

crisis (HCR = 44.2%). The coefficient went from 54% in 1973-74 to 35.9% in 1995. According to the last official inquiry, it stood at 26.1% (1999–2000).²³ Nonetheless, this figure is contested because of the changes introduced to the system of computation of data.²⁴ If we could take this percentage as being accurate, the results obtained in the fight against poverty would be astonishing.²⁵

Table 2
Variation in Poverty Ratios
(1957–1999)

Year	Rural Setting	Urban Setting
1957–63	–6.63	–2.92
1964–90	–14.23	–11.43
1991–99	–2.21	–4.18

Source: Author's estimations on NSSO data.

While national wealth grew, absolute poverty seems to have fallen between 1986 and 2000. The numbers show that the elasticity of poverty in relation to the growth of the economy between 1987–88 and 1999–2000 was on average negative over the entire period. In particular, a 1% increase in the GDP generated a 1.9% decrease in poverty.²⁶ Nonetheless, the rate of decline of HCR slowed alarmingly (in urban as well as rural areas) because of an increased level of inequality and the demographic growth. The economic growth thus seems to have favoured households just below the poverty line. No linear relationship appears to link the marked expansion of the economy in the post-reform period with the reduction in poverty. In this respect, the figures from 1983 to 1993 are telling. In spite of a 3% increase in per capita GDP, HCR decreased by about 9.9%. In relation to the previous timeframe (1973–83), we can thus see that different rates of per capita GDP (2% and 3% respectively) correspond with almost equivalent

²³ Government of India, *Economic Survey...*, *op. cit.*

²⁴ Any poverty estimate poses both conceptual and analytical problems: problems of choosing between measurement tools and problems of interpreting the resulting statistics. This is even more significant when one considers the unique context of the Indian Union. Major difficulties in the use of the official statistics appeared after methods of measuring poverty in India evolved. At the last official inquiry, the 55th Round (1999–2000), traditional systems of computation of data were modified, such that it is now difficult to compare statistics across time. Four major changes have been introduced: inquiries into consumer spending and employment/unemployment rates are now carried out on two different samples; the basket of goods for consumer spending has been expanded; now only one reference period of 365 days is used for consumer spending on “non-frequent” goods (education, health services, consumer durables, clothes, etc.); information is collected from two alternative reference periods of 7 and 30 days for “frequent” goods (education, etc.). These changes have resulted in a drastic decrease in the poverty ratio.

²⁵ Despite their supposedly scientific nature, statistics open themselves up to conceptual disputes and technical disagreements, as well as political manipulation. Indeed, the choice of measurement tools often reveals the politics at play. Their use allows one to come to distinct conclusions that serve to legitimise different intervention strategies. Moreover, the results of statistical calculations can vary widely and even contradict each other, even when the data location criteria are similar. This is all the more significant when one recognises that identical numbers can lead to differing interpretations, and the tools of measurement used to locate data can convey specific conceptualisations of the phenomena under investigation. On the whole, these considerations should lead us to be cautious when reading and using statistics, particularly when taking into account the approximations involved.

²⁶ Harasty, C., “Effets différenciés de la libéralisation des échanges sur le niveau de vie, du national au régional”, *De la mondialisation au développement local en Inde*, Landy, F., Chaudhuri, B., Editions CNRS, Paris, 2002, p. 46.

poverty reduction rates (10.1% and 9.9% respectively).²⁷ This trend became more marked after 1993. Figures from 1998 show that, although per capita GDP increased by 4.5% a year, the poverty coefficient reached 42%.

Table 3
Trends in Poverty and GDP
(1973–1999)

Year	GDP Growth Rate	HCR
1973–83	2.0%	-10.1%
1983–93	3.0%	-9.9%
1993–99	6.8%	-2.5%

Source: Author's estimations on NSSO data.

According to A.S. Bhalla, changes in the agricultural sector seem to have played a decisive role in the slackening of poverty reduction rates.²⁸ Given the proportion of the Indian population living in rural areas, the concentration of poor families' spending on foodstuffs, and the proportion of agricultural labourers within the total rural population, the impact of the reforms on poverty greatly depends on changes in the agricultural sector. In particular, the poverty ratio demonstrates a rate of elasticity that is strongly linked to agricultural production. It may turn out that, despite a significant increase in national GDP, poverty increases as much in rural as in urban areas because of a decrease in agricultural growth. Thus, for example, between 1989 and 1999 the growth rate for cereal production was 2.35% per year, although it had reached 3.72% in the previous decade. As a result, the growth rate of wages for agricultural labour underwent a similar slowdown, going from 4.68% in 1981–91 to 2.04% in 1991–99.²⁹ In low-income households the fluctuating price of cereals, a basic food source for the poor, played an important role in the reduction of real wages over the last decade.³⁰ Variations in the availability of primary products and in prices are mainly the result of new government production and investment subsidisation policies. These policies favour already intensely exploited areas, inducing a feeble increase in productivity.

Far from a virtuous circle of growth, we instead see widespread aggravation of economic vulnerability. This trend seems destined to worsen as the effects of the reforms spread throughout all economic sectors. Thus, for example, the opening of agricultural markets to foreign competition is likely to benefit large rice and cotton producers who currently sell their products on domestic markets at lower prices than on international markets. As a result, the regions that cultivate these goods (South-Western and Western India, respectively) will be favoured to the detriment of other regions whose production is likely to be affected by the open market. If the increase in price of these products is not accompanied by a wage increase, the growth of intra-regional disparities will bring with it a decrease in the purchasing power of agricultural workers. In a country as large as India, an increase in agricultural exports risks entailing negative price effects on domestic markets and aggravating poverty

²⁷ Bhalla, A.S., *Growth and Poverty in India: Myth and Reality*, UNWIDER, Helsinki, 2001, p. 7.

²⁸ *Ibid.*

²⁹ Government of India, *Economic Survey...*, *op. cit.*

³⁰ The effects are much less pronounced in the formal sector because wages are partly indexed.

rates. Any increase in exports that is not accompanied by a corresponding increase in production reduces the availability of foodstuffs and diminishes household purchasing power.

Labour market trends, the structural distribution of production, public investment in the economy, as well as state spending on social and human development, all influence the elasticity of the rate of poverty in relation to the growth of the economy, in India as elsewhere. In other words, growth has shown itself incapable of producing any positive effect on the reduction of poverty on its own. Thus, for example, any form of economic expansion that is not accompanied by job creation loses all distributive potential. The expansion of the economy can only be translated into a reduction in poverty rates if it is capable of generating a job creation process for the poor, as well as an improvement in their income levels. Two further conditions vital to the success of any anti-poverty strategy are an increase in the production of essential goods and effective access to these goods by the poor.

Current Trends in Income Inequality

India is considered by economists to be a fairly egalitarian country. Statistics developed by the UNDP demonstrate that, in terms of distribution of consumption expenditure, the relationship between the richest 20% and the poorest 20% of the population was 5.7 between 1987 and 1998. This ratio is well below those of many Latin American countries (Honduras, Nicaragua, Brazil) and African countries (Sierra Leone, Central African Republic, South Africa), where it can be up to four times as high.³¹

Over the forty years that followed Independence, India's economic history has been characterised by a certain stability in the level of income inequalities. Between 1953–54 and 1960–61, income disparities increased. Thereafter, this gap decreased slightly into the early 1980s, both in rural and urban areas. Thus, for example, if one compares the incomes of the richest 20% with the poorest 20% of the population between 1964–65 and 1975–76, one can see that the interquintile ratio fell from 47.5% to 46.6% and 7.5% to 6.9% respectively.³²

Table 4
Gini Coefficient Trends
(In %, 1957–1999)

Year	Rural Setting	Urban Setting
1957–63	–4.73	–0.6
1964–90	–0.73	–0.95
1991–99	+2.40	+2.17

Source: Author's development of data from JHA, R., *Reducing Poverty and Inequality in India: Has Liberalisation Helped?*, Working Paper, no. 204, UNWIDER, Helsinki, 2000.

After 1991, in spite of indisputable economic performances in terms of global and per capita GDP growth, inequalities started to rise. NSSO statistics, developed as indicators by R. Jha, show that inequalities in consumer spending increased appreciably between 1987 and 1997.³³ The Gini coefficient reached much higher levels than in the previous economic period (1981–87), for example registering an increase of 2.4% in rural areas and 2.17% in urban areas. By contrast, figures from 1999 seem to show a slight decrease in these equality gaps, particularly in rural zones. However, the level of inequality in urban areas still remains higher than in 1987–88. The period of reform was thus marked by an inversion of trends in terms of growth rates in urban and rural inequalities, both having undergone an average increase in relative and absolute terms.

³¹ UNDP, *op. cit.*, pp. 196–97.

³² Bhalla, A.S., *Uneven Development in the Third World: A Study of China and India*, Saint Martin's Press, New York, 1995, p. 165.

³³ Jha, R., *Reducing Poverty and Inequality in India: Has Liberalisation Helped?*, Working Paper, no. 204, UNWIDER, Helsinki, 2000.

As highlighted by C. Harasty, the impact of the reforms on inequalities appears to greatly depend on the scale chosen as a basis for analysis.³⁴ If national figures seem to demonstrate a slight increase in inequalities, strong disparities appear once the economic situation in individual states is taken into consideration. Indeed, the extreme diversity of growth rates and the structural concentration of production in certain sectors led to differing degrees of inequality within each region. Moreover, the aggregate figures do not change substantially when certain segments of the population's income increase, while others see their financial means stagnate or fall. This finding has perfect application to the situation in India. The aggregate figures on spending are telling. In 1986–87, adjusted average real spending was approximately 40 rupees per month, while in 1999 this figure reached 75 rupees.³⁵ Similarly, average per capita income increased by approximately 65% over the same period.³⁶ Although the average standard of living increased (particularly in urban areas) and poverty declined, income and spending inequalities grew between 1987 and 1999. This suggests an unequal allocation of this increase among different income groups.

Turning from aggregate data to an analysis of the urban population by income bracket, one notes uneven trends in the standard of living among the different deciles. In particular, the four poorest deciles' share of total consumer spending fell between 1987–88 and 1999, while the highest decile's share grew.³⁷ If it is true that, in absolute terms, spending levels made progress among the lower classes, in relative terms these levels deteriorated. In urban areas spending inequalities grew appreciably between the richest 10% of the population, who saw their standard of living increase faster than the average population, and the poorest 50% of the population. In rural areas, the situation varies depending on the temporal scope of analysis.

A tendency towards the polarisation of Indian society is also reflected in spending trends. Once the Mahalanobis model of mass spending and supply distribution was abandoned, the market for sophisticated and luxury goods has gradually become the driving force behind national production. This gradual process of supply change fulfilled the consumption requirements of the wealthiest levels of Indian society by providing them with increased purchasing power, with a demand curve reflecting rising consumption standards of durable goods. As the poorest households continue to focus their spending on essential products (namely, cereals), the wealthy classes turn more and more towards the consumption of sophisticated goods. This trend becomes clearer as one climbs the social ladder: according to 1998 figures, 4% of households have a telephone, 6% have a refrigerator, and 10% regularly buy soap, cooking oil, and tea.³⁸ In particular, the three highest income brackets saw their share of spending appreciably increase and diversify, while the situation is stagnating and even deteriorating among lower levels.

In terms of income, particular attention must be devoted to changes in remuneration of factors of production. According to the Central Statistical Organisation's (CSO) figures, there has been a gradual increase in profits expressed as a percentage of total GDP, although the remuneration rate for labour underwent a significant decline in relative terms beginning in 1991. The cost of labour continues to grow, although at different rates corresponding to various activities. These trends are

³⁴ Harasty, C., "Effets différenciés de la libéralisation...", *op. cit.*

³⁵ Adjusted average real consumption represents the average level of per capita consumer spending per month, deflated according to the consumer price index and the Gini ratio.

³⁶ Government of India, *Economic Survey...*, *op. cit.*

³⁷ Harasty, C., "Effets différenciés de la libéralisation...", *op. cit.*, p. 49.

³⁸ Harasty, C., *Équité sociale et croissance économique...*, *op. cit.*, p. 247.

clear in the formal sector: while civil servant wages are stagnating, remuneration of business executives in the private sector is rising rapidly.³⁹ This phenomenon of deepening income inequalities is all the more serious given that the distributive effects of inflation have heightened trends towards an increase in economic disparities. If, on the one hand, the rise in prices has favoured capital as a factor of production, on the other, that increase has affected the poorest and weakest segments of the population by distributing purchasing power in favour of the wealthiest classes. Inflation has had a greater effect on the prices of primary goods, which rose by 3.0% in 2000–2001. Notably, the price of foodstuffs rose by 3.1% in 2000–2001.⁴⁰ Thus, inflation has had a regressive distributive effect.

While the Congress's model of socialism proved to be incapable of generating a more even distribution of income, wealth, productive assets, and economic opportunities, liberalisation seems to have erased any of Independent India's modest results in terms of equitable distribution. A.S. Bhalla comments that, "although a shift from planning to a free market system may lead to greater efficiency and higher growth, it tends to raise income inequalities and create social unrest. Under the imperfect market functioning that prevails in the Indian economy some inefficiencies of allocation would continue despite a shift away from planning and controls."⁴¹ S.A.R. Bilgrami summarises the outcome of the reforms, saying that "on one hand, at the bottom are the expanding vulnerable sections deprived of most of the benefits and facilities of our plans and hence [remaining] outside the mainstream of economic activities. On the other hand, are a few affluent at the top, actively participating in pure development efforts and squeezing all possible benefits".⁴² Contrary to any theory of trickle-down effect, an assessment of the reforms is disappointing: according to Kurien, only 5 to 10% of the population benefited from liberalisation⁴³. The economic picture that emerges is one of a trend towards the definition of two large economic macro-categories of consumers: the poor on one hand, and a growing and dynamic wealthy class on the other.

Similarly, the silent revolution sweeping across the Indian economy seems to have reinforced traditional and well-established inter-state inequality. The roots of regional disparities date back to well before Indian Independence and have persisted over time. Nonetheless, an examination of the evolution of these inequality trends over the last few decades proves interesting. In particular, we can see the acceleration of an alarming tendency towards a concentration of poverty in the poorest states, and the consequent regionalisation of the phenomenon. Thus, according to the National Planning Commission, the states of Bihar and Uttar Pradesh have contributed to 120% of the total increase in poverty in rural areas. In contrast, Kerala appreciably reduced the size of its poor population between 1960 and 2000. Over the same period, Orissa's economic and human development indicators weakened rapidly.⁴⁴ In terms of inequalities in the distribution of consumer spending, the situation is more complex. While spending is rising in South and Eastern India, it stagnates in the West, and is falling in the North.⁴⁵ Thus, although wealth is growing and poverty falling at the

³⁹ Government of India, *Economic Survey...*, *op. cit.*

⁴⁰ *Ibid.*

⁴¹ Bhalla, A.S., *Uneven Development in the Third World...*, *op. cit.*, p. 57.

⁴² Bilgrami, S.A.R., "Economic Reforms and the Poor", *Economic Development Opportunities through Liberalisation*, Das, D.K. (ed.), Deep & Deep Publications, New Delhi, 1998, p. 70.

⁴³ Kurien, C.T., quoted in Harasty, C., *Équité sociale et croissance économique...*, *op. cit.*, p. 260.

⁴⁴ Government of India, *Economic Survey...*, *op. cit.*

⁴⁵ *Ibid.*

national level, the effects of liberalisation at the local level are more complex and disturbing. The statistics show that we are observing the emergence of a new form of polarisation of growth in a few micro-regions (Maharashtra, Delhi, etc.), particularly those with highly specialised production, while poverty swells all around. Inequalities are becoming even more glaring in most states (Uttar Pradesh, Punjab, etc.), while in others they are diminishing (Gujarat, Andhra Pradesh). The divide between the two social classes is thus mirrored between states, and, more locally, between regions. The result is the vivid fragmentation of an economic territory into parcels at different levels of development. In a political context where regional and sub-regional divisions fall along ethno-linguistic lines, such an imbalance has the potential, today more than ever, to become a powerful instrument for sectarian mobilisation.

Table 5
Poverty Rate Trends in Six Indian States
(1973–2000)

State	Rural Zone			Urban Zone			Total		
	1973–74	1993–94	1999–2000	1973–74	1993–94	1999–2000	1973–74	1993–94	1999–2000
Andhra P.	48.41	15.92	11.05	50.61	38.33	26.63	48.86	22.19	15.77
Bihar	62.99	58.21	44.30	52.96	34.50	32.91	61.91	54.96	42.60
Kerala	59.19	25.76	9.38	62.74	24.55	20.27	59.79	25.43	12.72
Gujarat	46.35	22.18	13.17	52.57	27.89	15.59	48.15	24.21	14.07
Punjab	28.21	11.95	6.35	27.96	11.35	5.75	28.15	11.77	6.16
Uttar P.	56.53	42.28	31.22	60.09	35.39	30.89	57.07	40.85	31.15

Source: Government of India, *op. cit.*

Moreover, the most significant disparities in terms of standard of living are emerging between rural and urban settings. Today economic growth is concentrated in large urban centres. Indeed, cities have become the driving force behind the expansion of the economy and, as such, are the new temples of Indian liberalisation. Despite its long rural history, India has an enormous urban population. Although the percentage of people living in cities remains low (30% in 2001), over the last decade the country has seen a gradual acceleration of urbanisation. According to estimates from the last census (2001), the number of inhabitants in urban centres rose from 217 million in 1991 to more than 300 million in 2001. In relative terms, this represents a 7% rise in the urban population.⁴⁶ While the urbanisation phenomenon continues to grow slowly in absolute terms, the contribution of Indian cities to the expansion of national revenue has increased radically. Just after Independence, urban centres, which represented about 17.3% of the total population, were contributing to 29% of GDP creation (1951). This number rose to 47% in 1981, finally reaching 60% in 2000.⁴⁷ These figures are even more impressive considering that economic expansion and the build-up of increases in productivity went hand in hand with the modernisation of systems of production and a gradual diversification of the supply of goods and services. We are thus observing the emergence of a form of polarisation of growth in large cities, while in rural areas the growth rate remains strongly dependent on fluctuations in the agricultural sector.

⁴⁶ Government of India, *Census of India 2001*, Indian Administrative Service, New Delhi, 2001.

⁴⁷ Milbert, I., "Les villes indiennes au cœur de la libéralisation de l'économie", *Revue Tiers Monde*, vol. 42, no. 165, 2001, p. 175.

Liberalisation thus seems to have favoured certain geographic areas and socio-economic categories. Workers in the non-agricultural rural sector and informal workers in urban areas seem to be those who have suffered the most from the liberalisation of the economy. By contrast, civil servants and business executives, already well protected by legislation and a system of wage indexing, have benefited the most from the growth of the economy. As stated by S.A.R. Bilgrami, “the success [of the reforms] has been selective. The trends reveal that they have entered into those areas which have a strong economic base and avoided those which are traditionally and economically backwards. Exports, imports, trade, banking and finance, selected industries ... are the most favourable areas where reform measures have demonstrated miracles. On the contrary, agriculture, unorganised sector, social services, salaries and artisan class, small trades and business class, art and culture are the areas where the echo of reforms has not yet reached. In the former areas, prosperity flourishes and hence, following the market-ethics, reform-measures appear standing side by side. In the latter case poverty concentrates and hence the market disciplines do not permit them to interfere. This trend gives an impression that as if these untouched areas do not exist and if they exist they do not matter. If the improvement of efficiency and growth is the motive of economic reforms then why do they reach the developed areas first and why not those areas where the efficiency is least?”⁴⁸

Thus, the cumulative effects of inequality are being reinforced at the same time as a growing disparity in standards of living is emerging. Through the dissemination of new elitist models of consumption, growing inequalities and the emergence of an economic dualism at the core of the social structure may serve to aggravate the divide between the ambitions of the masses and the real opportunities that they are granted – leading to the potential for increased social conflict. The emergence and consolidation of a relatively large and growing middle class necessitates a deeper analysis of the social impacts of liberalisation. New and potentially problematic class dynamics may appear in the medium and long term. As highlighted by G. Heuzé, while the poor are more numerous but less demanding than ten years ago, the new wealthy classes have become more demanding but less responsible towards the nation.⁴⁹ Their political, economic, and symbolic power is growing. Their attitude towards the masses has become one of contempt, opening the possibility for conflict. The role that this new “bourgeoisie” will play in the Indian socio-economic scene is still hard to foresee. However, according to G. Heuzé, an increase in conflict between the social classes is emerging. Thus, if, throughout its history, India had to deal with caste antagonisms, the India of the twenty-first century seems destined to face the challenge of class rivalry.

⁴⁸ Bilgrami, S.A.R., *op. cit.*, p. 71.

⁴⁹ Heuzé, G., “Les conséquences sociales de la libéralisation en Inde”, *Revue Tiers Monde*, vol. 42, no. 165, 2001, p. 58.

Conclusions

Participation in the global economy is now seen as inevitable for all economic contexts. How countries participate, however, remains open. Therefore, the policy challenge lies not in trying to avoid globalisation, but in improving its impacts on poverty and inequality. This potentiality includes mediating interaction between national and global markets in a way that promotes both pro-growth and social development policies.

In India, the evolutions of poverty and inequality over this last decade represent an object of discord. Admittedly, not everything can be ascribed to the liberalisation process. The impact of the reforms on poverty largely depends on certain structural conditions in the economy, such as market dynamism and the financial and productive frameworks. However, in India, changes in the economic system are so far-reaching that they justify an exploration of the idea of a qualitative and quantitative evolution of poverty and inequality due to the liberalisation process.

After four decades of modest economic growth, India entered a period of significant economic expansion after the launch of liberal reforms. The exponential rise in GDP went hand in hand with strong growth of per capita GDP, an average fall in inflation rates, a rise in exports, and an improvement in the terms of trade. The economic reforms served to increase the efficiency of the industrial and service sectors and to push the economy onto a path of higher growth. However, the positive results of liberalisation do not seem to have eliminated the contradictions of a system that is clearly expanding, but still incapable of closing the gap between economic results and the needs of the people. If the large increase in GDP has been accompanied by a discreet reduction in the poverty coefficient, after 1993, economic growth has been significantly stronger than the decline in poverty rates. This suggests that (1) the incomes/consumption patterns of the poor do not grow one to one with increases in average income/consumption; (2) the rapid economic growth experienced by the Indian economy during the last ten years has primarily benefited the "borderline poor", to say the groups living just below the poverty line.

While the Head Count Ratio has fallen, the same cannot be said of the measurement of inequalities. The increase in spending and average income levels has gone hand in hand with an aggravation of inequalities, particularly in urban areas. This suggests an uneven apportionment of the rise in living standards among different groups. Thus, contemporary India demonstrates that the correlation between economic growth and overall improvement in living conditions is neither certain nor a matter of logical consequence. On the contrary, this correlation may be structured along conflicting dialectics. This is all the more significant as we observe a trend towards the devaluation of social questions in favour of macro-economic and financial evaluations. While the benefits of the reforms have become the subject of ceaseless propaganda, their social, political and long-term economic price has not been properly accounted for in a global assessment; an assessment of which nobody yet knows the full importance.

While the macro-economic performances obtained to date are significant, the spectacular growth in the Indian economy appears to demonstrate features of what

A.S. Bhalla has defined as an unbalanced macro-economic process.⁵⁰ This imbalance first appears in production: economic growth and investments concentrate in certain limited sectors of industry and services, such as telecommunications. Then the growing disparities appear in different parts of the country: the growth of the Indian economy is concentrated in urban areas and in some states. Finally, we see the emergence of a kind of dualism in the allocation of spending and income among social classes. The standard of living increases, but not for everyone: benefiting the classes at the top of the socio-economic ladder more and faster, while the poor see their living conditions stagnate and even fall. The results observed on the national macro-economic level are thus more favourable than those observed on a more decentralised level. Consequently, the Indian example can confirm that the efficiency of growth as a tool in the fight against poverty and inequality is questionable. Even spectacular economic performances will not necessarily have widespread effects through all levels of society.

An analysis of current changes in India thus confirms, in many ways, G. Myrdal's thesis that automatic internal mechanisms of stabilisation cannot exist, either within an economic system or in its interactions with the social environment. In India as elsewhere, that which is essential to the development of a real policy to fight poverty and inequality does not lie in an *a priori* prescription of new normative theories, but rather in ensuring that economic and social conditions allow as many as possible to take part in development strategies, and allow underprivileged social categories to reinforce their negotiation capacity. This means recognising the role and the importance of institutions in the definition of dynamics of change and in the establishment of any economic development policy.

In conclusion, we have highlighted the features of a two-sided phenomenon created by a liberalisation process that, far from favouring the simultaneous pursuits of important national priorities, risks creating opposing forces of economic performance and social objectives. While poverty and inequality persist, the need to reconcile economic development with a certain form of social justice remains essential, even at the price of a lower than maximal rate of growth. The means by which liberal India can achieve this formidable long-term challenge remains a large question mark. Certainly, today the country is confronted with six major goals: to ensure a more balanced composition of growth, to reform redistributive mechanisms, to increase the efficiency of social policy, to multiply investments in human capital, and to guarantee collective participation in means of production and spending, all the while avoiding a too rapid rise in prices and a weakening of the state's financial equilibrium.

The future of more than a thousand million Indians depends on it.

⁵⁰ Bhalla, A.S., *Uneven Development in the Third World...*, *op. cit.*

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