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To Grow or not to grow? Economic growth vs. Reduction of Relative Poverty?

What does India need? Growing in the right direction.

The debate about Economic growth, development and the reduction of inequality has been a never-ending economic issue looming across several developing economies, including India. Those who advocate growth over the 'Reduction of Inequality' will argue that consistent Economic growth will itself lead to higher standards of living and better income levels which would reduce the level of relative inequality. However, what people and the general population often fail to realise is that relative inequality will always exist. The more the growth occurs, the more the relative poverty will exist. It's a cyclical process. People can never be on an equal level of income as no one can be identical to another person. And nor can they be identically productive. No one can have an exactly congruent skill set to another individual. Everyone is unique. And thus, the income levels will always be different. But the problem we need to tackle is how to reduce poverty levels as an economy grows, as this is what impacts society the most.

In India, economic growth has been consistent. Since 2005, India's GDP growth rate has hovered from 5% to about 8 % and is expected to remain at around 7% during the next financial year FY 18-19 (RBI Data, 2018). India has been able to retain its Economic growth pace despite occasional Economic shocks such as the Demonetization 2016, GST reforms (April 2017), and other taxation reforms. Investment and capital flow continue due to the confidence and certainty that investors bestow upon India compared to other countries. According to an economic survey tabled in the parliament, India is expected to regain its position as the world's fastest growing major economy in the coming financial year (Press Trust of India, April 5th 2018). Overall as an economy despite certain reforms, India seems to be performing in a rather stable manner and is expected to continue as a stable economy.

However, one thing that remains a problem is the poverty levels and the overall non-monetary state of the economy. GDP and economic growth are extremely poor indicators about the actual state of the society. An economy could be growing and performing really well but it is not essential that it develops. Growth is necessary for the overall economic development but it is not an essential tool to enable development. Growth might simply occur due to an increase in the overall output of an economy, and a rise in the price level might reflect an increase in the nominal value of the national output. Even though the real GDP gives us a better image of the economy, it doesn't necessarily reflect development. Real GDP takes into account the price level but still doesn't indicate the standards of living. And an increase in the national output could simply be influenced by a rise in the production of demerit goods such as cigarettes or weapons or an increase in the output of luxury goods. But does this benefit society as a whole or does it create further problems? It tells us very little.

Growth is a very simplistic determinant of the state of society. Secondly, the development of an economy depends on various factors such as the level of education, healthcare, job opportunities, crime rate, freedom of economic and social choice, and in turn influencing the overall life satisfaction. The accessibility and availability of these factors also determine the state of society. And when there is a lack of availability of these factors or an inefficiency in the operation of these factors in an economy, there is an indication that the economy has an unequal distribution of income because it is through these features that the income can be redistributed and thereby benefitting society as a whole and reducing the poverty levels. When there is a more educated, healthier population, the country effectively becomes more productive and at times, more innovative in producing better cost-effective goods and services. This leads to a more work-capable population and leads to better incomes and thereby, reducing the gap between the rich and the poor and in turn reducing the relative poverty.

The real picture of poverty in India is extremely dark and at times, frightening. Despite being one of the top five fastest growing economies in the world, India performs extremely poorly in terms of the Human Development Index and the Gini Coefficient, both indicating a high level of inequality. And the increasing growth rate has had very little or almost negligible impact on the inequality levels and in some cases, has even made it worst. In 2017, at a time of an economic growth of around 5-6%, India had the highest level of Inequality in 92 years (Biswas).

Famous economist and the 1998 noble prize winner in Economics for his immense work in the field of Welfare Economics, Amartya Sen has often outlined that India's main problems lie in the lack of addressing to the needs of the people, especially the poor and lower classes of society (Sen and Drèze).

By looking at these arguments, India's GDP growth has led to an improvement primarily for the rich as statistics have also shown.

In a research conducted by economists Thomas Piketty and Lucas Chancel, the following conclusion was made for a 35-year period in the Indian Economy;

"Over the 1980-2015 period, the situation has reversed; the top 0.1% of earners captured a higher share of total growth than the bottom 50% (12% vs. 11%), while the top 1% received a higher share of total growth than the middle 40% (29% vs. 23%)" (Piketty and Chancel, 2017).

This simply re-ascertains the point that as India is growing, the rich are becoming richer and the poor are becoming poorer. And this undoubtedly would lead to intense problems for Indian society as a whole.

With high levels of inequality, as the economy grows, the more unequal the income distribution will be. Thus, there is no actual improvement in the standards of living.

With growth, price levels do also tend to increase (inflation). This happens due to the basic economic phenomena of the interaction of demand and supply – overall aggregate (total cumulative) demand expands faster than the aggregate supply, causing supply constraints and in turn causing firms to push up prices which effectively leads to inflation. And this rise in the aggregate demand is often largely influenced by the rich and the middle class who have the greater ability to influence their spending patterns and expenditures. Also, growth tends to increase income levels due to increased demand for labour in the formal organized labour sector which increases the ability of workers to spend more freely.

In contrast, the situation for the poor who are often working in the informal unorganized sector is worsened, often making it more difficult for the poor to buy essential goods as the purchasing power of money falls resulting from very little change to their real value of income and earnings i.e. The same value of money is buying a smaller basket of goods. In the long run, as this inequality level becomes deeper, social agitation could rise to lead to a higher level of crime and social unrest. The productivity of workers on fixed incomes could fall and certain workers would lack the skill-set to perform in a growing economy.

All this could further disease society and intensify levels of relative poverty, leading to problems such as health issues, famine, malnutrition etc., in the long run. Thus, for an economy with a stable growth rate like India, and looking at the current economic situation, a reduction in the levels of inequality and a reduction in the poverty levels is quintessential for a smooth, long-run development of the nation.

India and the political system needs to implement policies which would effectively nudge the society to move towards a society of less poverty, less environmental destruction and less unemployment. And one such measure pointed out by Nobel Laureate Muhammad Yunus is to issue social licenses. This means that any license issued to a business is a social business license (Yunus). Thereby, businesses and corporations would be forced to perform a social responsibility/deed at every point stage of production. This itself is an indication that India is in immense need of social-based moves and activities rather than growth or monetary improvements.

In addition, the techniques used to reduce levels of inequality such as redistribution of income by increasing public expenditure in the form of increased investments on education, healthcare, and infrastructure itself leads to further long-term growth and development.

Investment in education and health care would improve the levels of productivity and the general awareness of social and work-related tasks, which would itself lead to economic growth. Thus, by tackling the problem of inequality, you are effectively tackling several issues leading to an overall social and economic well-being in India.

India needs to grow, without a doubt. It must grow but grow in the right direction. Growth fuelled by a decrease in relative poverty would lead to a sustainable longer-term growth pattern. And when it grows in the right, sustainable direction, the economy would surely develop.

And thus, for the overall holistic betterment of the Indian Society, there needs to be more focus on the reduction of inequality. Former World Bank Economist Joseph Stiglitz in a speech put forward a strong argument that “The main problem with society and politics is that we need to give less voice to the money groups and more voice to the ordinary citizen” (Ashcroft).

And this is what India needs to focus upon.

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