Reducing Inequality: Learning lessons for the post-2015 agenda - India case study

Executive Summary

ERF & Save the Children UK

Introduction

Rising inequality has emerged as one of the most important problems confronting societies across the world. Within the Asian region, South Asia has experienced rapid increases in income/consumption inequality during the recent period of its rapid growth. This is quite evident in case of India, the largest economy in the region with over a billion people.

This study attempts to arrive at a holistic understanding of inequalities in India and how it affects children, recognise the factors that create and affect the inequalities, and suggest strategies to rectify the problem.

Inequalities in India are observed in terms of income, health, education and other dimensions of human development as well as between the states, rural and urban areas and different social groups. Besides economic factors, there are certain sociological factors that affect inequalities in India. This report considers the two most prevalent social inequalities: caste and gender. This study attempts to cover the changes in the various parameters over time, mainly from 1993-94 onwards till present to get a sense of the impact of the economic liberalisation programme that India embarked upon in the early 1990s.

Evidences of Inequality amongst Children

The latest Census data indicate that although there was an increase in the overall sex ratio from 933 in 2001 to 940 in 2011, the child sex ratio deteriorated. Among the states, the lowest child sex ratio has been observed in the states of Haryana (830), Punjab (846) and Jammu and Kashmir (859).

There is evidence to suggest that the poorer sections of India were actually further marginalised under the neoliberal economic regime of liberalisation introduced in India in the early 1990s. Poorer states like Bihar, Uttar Pradesh and Orissa witnessed only a marginal improvement in terms of per capita NSDP (Net State Domestic Product), whereas the richer states like Gujarat, Maharashtra, etc witnessed substantial rises. States that witnessed greater rise in per capita NSDP during the period 1993-94 to 2004-05 also witnessed higher rise in state-level Gini coefficients. This implies that the states that experienced more ‘growth’ actually had worsening inequalities. Within States, the rural-urban divide worsened. Urban consumption levels were double that of rural consumption levels. The social factor of caste plays a major role in determining household Monthly Per Capita Expenditure (MPCE) levels. The Social Category ‘Others” had higher MPCEs across both rural and urban sectors in India compared to the other categories, viz. the Scheduled Castes (SC), Scheduled Tribes (ST) and Other backward Classes (OBC).

Per capita Calorie intake figures for 2009-10 reveal that national average for per capita Calorie intake for the rural region in 2009-10 was 2020 Cal while that for the urban region was 1946 Cal. In both cases, the minimum Calorie requirement (2400Cal in the rural regions and 2100Cal in the urban regions) was not met in any state in India in 2009-10. Tamil Nadu was the only state that witnessed rise in Calorie intake between 1993-93 and 2009-10. Rise in consumption expenditures in both rural and urban regions did not witness commensurate rise in food expenditures, in both rural and urban regions. This suggests that rising costs of other essential commodities or services like health and education forced the population to lower the proportion of food expenditure, thereby lowering Calorie intake.

In India increased inequality is observed in terms of health indicators as well. In 2011, Crude Birth Rate (CBR) has been higher (23.3) in rural areas as compared to urban areas (17.6). Also, high levels of sectoral differences in terms of rural-urban divide exist in Infant Mortality Rates (IMR). The IMR has been very high in rural areas (48 per 1000 live births) as compared to urban areas (29) in 2011. Among the social groups, infant mortality rates substantially declined for the SC category over the period 1992-93 and 2005-06, although they are still higher than for other social groups. The IMR is lower for the STs compared to the SC category.

One of the big challenges for children over 5 years of age in India is the problem of child labour. Child labour is higher in rural regions than urban regions across time. NSSO data also reveal high caste bias in incidence of child labour as well. Children belonging to Scheduled Castes or Scheduled Tribes are more likely to be engaged in 'gainful economic activities' than children belonging to the Social Category 'Others'. There is a large section of the population belonging to age group 5-14, who are counted as Nowhere Children (NWC), thus called as they are neither counted as Child labourers, nor are enrolled in any schools. It is often argued that this section should be counted as part of child labour as more often than not, they are engaged in some form of work.

In education, Gross Enrollment Ratio (GER) and Gender parity Index (GPI) show improvements over time, even for SC and ST children. However, school dropout rates continue to remain very high, especially in the elementary and secondary levels. Dropout rates at the elementary level for girls (65.2%) were higher than that of boys (58.2%) in 2009-10. Moreover, the dropout rates were found to be much higher for the disadvantaged classes (SC and ST categories).

Rural-urban inequalities exist within the country with regard to access to safe drinking water and improved sanitation facilities. According to the latest Census figures (2011), more than half (65%) of urban India gets water within their homes while, only 35% of the rural population gets drinking water in their homes; again 69% of households in rural areas are without any sanitation facilities compared to the 19% in urban areas.

Understanding the Determinants of Inequality

While there were many deep-rooted forms of economic and social inequalities in India well before the process of economic liberalisation, the latter has certainly exacerbated the problem.

While India witnessed rapid output growth especially from 2003-04 onwards, it was not manifested in rapidly growing employment in productive sectors or in the expansion of decent work. Income generating opportunities have been getting severely limited for both rural and urban households, whether headed by males or females. More than half of all India's workers remain self-employed and there has been significant rise in casualisation of the workforce in both rural and urban sectors. All casual and self-employed, and a significant proportion of regular workers, are unsupported by any form of social security.

At the same time, the fact of having employed parents does not seem to have been guarantee against inequalising economic and social development outcomes for children even in households with any kind of employment, because of the inequities in the labour market. Unorganised sector employment accounts for the overwhelmingly dominant share (more than 94 per cent) of all workers. However, its share of national income has been falling sharply even through the recent period of rapid economic growth. As a result, the per-employee NDP of the organised and unorganised sectors have diverged dramatically, which accelerates sharply from 1999-2000 onwards. Within the organised sector, the inequalities are evidenced by the fact that while there has been stagnation in organised sector real wages per worker on the one hand, there has been a dramatic increase in non-wage salaries and incomes accruing to persons earning profits, rents and financial incomes on the other. The trend in real wage stagnation in organised manufacturing can be considered indicative of what has happened to the incomes of a large category of households dependent on casual, irregular and informal work in agriculture and non-agriculture.

These labour market inequalities have worsened under deflationary macroeconomic policies pursued by the government. In post-liberalisation India, while central government expenditure as a proportion of GDP has shown a clear declining trend, state governments' expenditure to GDP ratio has stagnated, except for a brief duration in the early 2000s. Share of developmental expenditures as proportion of total expenditure showed a decline for both Central and State Governments until 2004-05 after which there was a slight rise. However, they are still lower than the level of the early 1990s.

This expenditure squeeze was partly because the period of high growth was not sufficiently exploited to generate fiscal resources for the necessary expansion in public spending. While there was improvement in the tax-to-GDP ratio on account of increased corporate tax collections and the service tax mobilisation, it was not because of increase in tax rates, but due to the fact that the corporate sector has been increasing its share of national income.

Further, the huge amount of speculative foreign capital inflow owing to liberalised financial markets and open capital markets have meant that the central bank's tasks of managing the real exchange rate of the rupee at a competitive level, while controlling inflation simultaneously, have been made extremely difficult. The accumulation of official reserves far in excess of the current account deficit has been contributing to pressures on the Reserve Bank of India (RBI) to adopt inflation-targeting policies. The resultant high interest rates together with the pressure to lower fiscal and revenue deficits under the FBRM Act have had significant deflationary impacts on the economy. The major brunt has been on public expenditures for capital formation. Moreover, government expenditures in developmental activities as percentage of total expenditures have gone down substantially since the early 1990s.

The systematic withdrawal of the State from social welfare activities has thoroughly undermined the previous progress towards universal access and has resulted in increased inequality and exclusion.

In the realm of food-based interventions in India, for instance, the neoliberal stance of reducing fiscal subsidies and the attendant move from a universal Public Distribution System (PDS) to a targeted system in the 1990s, has resulted in widespread exclusion of poor and needy households from the PDS. Moreover, the introduction of targeting has adversely affected its functioning and endangering the economic viability of the PDS network, leading to a situation where the delivery system itself has collapsed in several states. The revival of the PDS in some states in the last couple of years has positively impacted access to the PDS and food security situation in these states. However, in the official circles, the view that the public distribution scheme should be replaced with a system of coupons or cash transfers has been gaining ground. This can have severe implications in terms of increasing inequality in access to food, both across different segments of the population as well as across States.

In both health and education, government expenditure continues to be woefully inadequate. With respect to health expenditure, such a pattern of financing has resulted in a rise in household expenditure on health care as a proportion of total household consumption, at least until 2004-05, especially in rural areas. Low public financing and the resultant high out-of-pocket expenditures are the two major factors that affect equity in health financing and financial risk protection. In the area of education, even though there has been some increase in public spending as percentage of GDP in the last two decades, it continues to remain much below the target set by the Report of the Education Commission (1964-66) or even that set by the UPA-I government in the mid-2000s. Lack of adequate government spending on education has given rise to processes that have the potential to exacerbate inequality. Among various such processes, the significant ones relate to dilution of quality norms in education and increasing reliance on private education even for schooling. The increasing role of private institutions in education has constrained access, especially among the less well-off sections of the population.

Child Protection, which has traditionally been a neglected area, has witnessed some increase in Central government expenditure with the initiation of the Integrated Child Protection Scheme (ICPS). However, even at present the budget allocated remains much below that required for fulfilling the objectives of the scheme.

One of the positive moves in the period of liberalisation has been the initiation of the employment guarantee programme, MGNREGA. Studies show that MGNREGA, where successful, has helped to reduce both economic and social inequalities. Increased spending in the initial period resulted in a sizeable rise in the number of rural households getting work under MGNREGA. However, with the economic crisis hitting India, Central government funding for the programme has reduced drastically. As a result, the enormous potential that MGNERGA has in lowering inequalities is still to be realised.

Policy Recommendations

While mapping of inequalities are necessary, understanding inequality outcomes necessitate an immediate focus on process indicators.

Macroeconomic policies have a direct link to development and reduction of inequalities, and must be designed to encourage employment creation directly and indirectly.

Some of the fiscal policy choices that reduce inequalities are the following:

- The low level of capital expenditure has to be increased significantly to create domestic productive and infrastructural capacities.
- In particular, public investments in agriculture, agricultural research and rural infrastructure have to be increased significantly.
- Public expenditure in the social sectors has to increase substantially to increase both availability and access to basic public goods and services.
- Tax exemptions for capital gains should be removed, both from the point of view of reducing income and asset inequalities and for increasing revenue mobilisation domestically. This would also make the tax structure significantly more progressive.

There is a need to remove the deflationary bias of monetary policies by moving away from a single-minded focus on interest rate management and including financial policies that reduce vulnerability to crisis. This would involve:

- directed credit and other ways such as guarantees for encouraging banks to lend to more employment-generating sectors
- a focus on financial inclusion of small producers in informal activities;
- creation of specific packages for sectors such as agriculture and small-scale enterprises.
- creation of specific packages for regions identified as priority areas for addressing regional disparity issues; etc.
- Dynamic management of capital flows to reduce the possibility of financial booms and busts and to ensure that current account deficits are financed with stable and non-debt creating forms of foreign capital inflows.

Education

- Increase public funding on to at least 6 per cent of GDP and the Union government should shoulder the major part of the responsibility of garnering resources to finance RTE Act.

Health

- Increase public funding to at least 3 per cent of GDP and universalise basic health services.
- Spending on ICDS needs to be increased and the AWWs and AWHs need to be paid adequate remuneration and their employment regularised.
- Bring in measures to regulate the private medical sector.

The Public Distribution System

- Expand and revamp universal PDS. Cash transfers must be **additions** to public provision, not **substitutes**.

- Improve domestic food supply through measures like remunerative crop prices, credit to small farmers, etc.

Water and Sanitation

- Investment should be prioritised in a sense that the regions that are lagging behind the most should be targeted first.

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