

...is the IMF necessary or not?  
Or, as Voltaire said about God,  
if it didn't exist, would it have  
been necessary to invent it?

# Does Growth Trickle Down?

Chetan Ghate

lems. During 2000-2008 one of these 'new' problems was the broadening of the definition of money till no one could tell you very precisely what money was.

The key elements in keeping this phenomenon on leash are the oversight of the financial infrastructure, in particular payments systems and the regulation and supervision of financial institutions. If this is done properly, there would be very few crises but, in case one does happen, crisis management and macro financial stability are also included in the term.

This is the beauty of it: depending on the circumstances, you can cite any portion of it to justify some policy action or, as used to be the case till 2008, non-action. The impact on the 'real' sector is of secondary importance. It has become a passive participant in the global economy. True economic power rests with the financial markets of the western hemisphere, not with the factory-owning countries of the rest of the world.

The big question therefore is the role of the IMF in the 21st century: what is this tiny Fund of money going to achieve when others have literally a thousand times more than it does? Can David lay Goliath low again?

The book does not even ask this question. Instead it reels out the received wisdom on the subject, namely, that everyone must agree to play by the rules. The many ideas emanating from the non-western hemisphere economies are noted for the sake of form.

The book doesn't, however, say who should make the rules. Joyce does acknowledge the fact that a lot of economic power has shifted to Asia and reiterates the need to acknowledge this by making suitable changes in the IMF's structure. Key to all this is the need to take power away from Europe.

But no one is ready to do that. The IMF remains a white man's club still. As long as it does not change that basic aspect, it will not be effective because it has lost its key weapon, namely, the ability to coerce. That power to coerce passed long ago to the markets that the IMF once so energetically and single-mindedly promoted as the only way to achieve economically efficient outcomes.

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India's tentative economic miracle faces many hurdles, but one of the chief difficulties is sustaining the political impetus for reform. This is rendered more difficult by the fact that growth has been unbalanced both across states and between urban and rural areas. Compared with other populous Asian nations, India's progress on poverty reduction looks dismal.<sup>1</sup> Understanding the cause of unbalanced growth, the factors that hasten or impede the convergence of regions, and the process by which growth trickles down, are important questions.

In *India Emerging: The Reality Checks*, Veena Jha addresses these questions. Her main conclusion is that while economic growth in India has trickled down in the post-reform period, it has trickled down slowly. An important message of the book is that there is little evidence that government policy has accelerated the process of the trickle

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## INDIA EMERGING: THE REALITY CHECKS

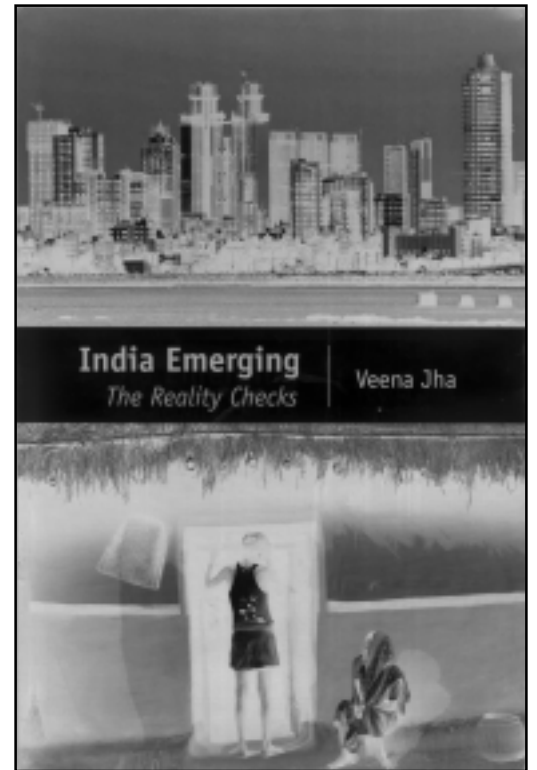
By Veena Jha

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pp. 374, ₹1095.00

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down to the informal sector and the poor. The attempt of this book is to suggest a host of policy initiatives—which she bases on detailed econometric work—to speed up this process. The limitations of empirical work on the Indian economy are well known. Poverty related variables—head count ratios, wages, and types of employment come from NSS household surveys. Aggregate income variables come from the NAS. The values of outputs, inputs, and employment in the formal manufacturing sector come from the ASI. A major problem with the NSS is the lack of longitudinal data. The limitations of ASI data are also serious: 60% of NDP and roughly 86% of employment are generated in the informal sector with the computation of informal sector data largely approximated. Notwithstanding this, the author should be commended for basing policy recommendations on detailed econometric work—with data in many cases collected from surveys conducted by the author—and not shooting from the hip.

The book is divided into seven chapters (including the conclusion) which are further divided into three parts.



In examining the role of ICT (information and communication technology) and its potential role in poverty reduction, the author characterizes ICT as a general purpose technology (GPT). The internet is a good example of a GPT. GPTs are therefore technologies that have much scope for improvement and eventually come to be widely used (Helpman, 1998).<sup>2</sup>

While this perspective on poverty reduction is new, the takeaway from the econometric analysis is limited. A good example is the kind of regression equation used on p. 47. This equation has many problems (endogeneity, omitted variable bias, etc.) as do many of the other regression equations in the book. Based on this equation, the author shows that the 'e-readiness' of a state can have a large effect on poverty reduction. At best, the results are indicative. What the author doesn't mention is that a host of other mechanisms could lead to the opposite outcome. For instance, one mechanism on GPTs and growth formalized in the literature suggests that if GPTs—and therefore a faster pace of R&D leads to a faster rate of capital obsolescence (through Schumpeter's process of creative destruction), this will create a decline in the capital stock per efficiency unit of labour large enough to offset the increased rate of technological process com-

ing from the rise in innovative activity induced by the GPT, *leading to a decline in per-capita income*. The effect of GPTs on growth and poverty reduction is therefore more nuanced. This highlights another basic problem with the volume: the econometric work is not linked strictly to formal models. Having said this, this chapter reviews many useful policy recommendations assessing the impact of the role of IT and ITES sectors as engines of growth and poverty reduction. Amongst these, the point made by the author—that IT and ITES have large employment multipliers in the informal sector—and can therefore have a significant role in poverty reduction—is made forcefully and convincingly. This mechanism is worthy of more theoretical investigation.

The chapter which addresses the role of inter-state migration and its effect on growth-convergence and poverty reduction is the book's best chapter. The existing literature on regional convergence in India, however, has been largely constrained to the analysis of inter-state differences in India. A remarkable finding in this literature is that within India differences in per-capita incomes are comparable to cross country differences. This is surprising given that there are no political barriers to migration, approximately free trade, and a common set of federal institutions, policies and governance. That such differences could persist over time is in stark contradiction to the standard competitive model that motivates the extensive literature on absolute beta-convergence across regions. In contrast, it points to the potential relevance of trade barriers, transport costs and conglomeration effects as emphasized in the economic geography literature. Section IV of the chapter is particularly useful as it finds some preliminary evidence that inter-state migration has yielded a reduction in poverty. In some recent work that two co-authors and I have done on this issue, we find that the rate of beta-convergence in India is slow suggesting that migration has had little effect on convergence of per-capita incomes across districts in India.<sup>3</sup> More empirical work is required to resolve this issue.

The author goes on to examine the impact of trickle down growth through the informal sector. Given that most of India's poor derive their livelihood from the informal sector, it is not surprising that poverty has declined slowly in India. The question that arises is why the formal sector does not expand at the expense of the informal sector to absorb a growing part of the labour force. The author addresses this pragmatically: es-

tablish linkages between informal and formal institutions that would help upgrade informal systems gradually. The author also suggests a host of policy initiatives to facilitate the trickling down of growth, and notes that growth has trickled down to the informal sector as shown by the increase in the share of self-employed in the overall informal economy. Trickle down growth has however been limited as the average employment per household is less than what is required to alleviate poverty. Survey results conducted by the author (of almost 500 respondents) suggest that trickle down in the 2000-2007 high growth phase was much higher than the comparatively lower growth phase of 1994-2000.

The author notes that increasing economic growth has been accompanied by a decreasing gender development record for India. In 2010 for instance, India ranked 139 out of 182 nations in terms of human development, but in gender development, it was ranked an abysmally low 139 out of 155. After reviewing a host of causal mechanisms relating economic growth to gender parity, some very preliminary regression analysis suggests that while social indicators have been 'sticky upwards' and less sensitive to growth, labour force participation rates, and education and literacy rates have responded more strongly. Maternal mortality however has shown little response to economic growth suggesting the importance of socio-economic biases. The policy conclusion is that while gender inequality has shown some sensitivity to higher growth, education and special vocational training have a particularly strong impact on the income and poverty impact of women. These should be forcefully targeted by government policy.

Part III contains a chapter each on the possible effect of philanthropy on trickle-down growth and the role of governance and public policy on trickle down growth.

There is a somewhat novel approach in the policy reform discussions on the Indian economy. The author notes that estimates of total philanthropic contributions in India range roughly between 6% of GDP to 1% of GDP, notwithstanding severe data limitations, and that systematic data on philanthropy has not been collected. The nature of the voluntary sector in India is also one of collaboration with the government (rather than competition), with budget allocations made in plan documents to assist the voluntary sector. The author also emphasizes that a greater part of the public services for the poor is still provided by the state. The author reviews various models of philanthropy in India (individual, religious, diasporic, and

corporate). It would have been helpful to see some comparative analysis of the models, to assess their relative efficacy. In assessing whether trickle down is accelerated via philanthropy, the author undertakes some preliminary regression analysis, and finds that higher levels of philanthropy in Indian states leads to higher trickle down, with the effects of philanthropy on trickle down being larger in low income states. These results create a focal point for policy: understanding philanthropic infrastructure, with its legal and regulatory framework, and building new capacity (better data sets).

While there is a large body of literature on governance issues on the subject, the author focuses on those surrounding major anti-poverty schemes, consistent with the overall objective of the book. In some ways, India has always been at the forefront of experimentation. At the national level, the government has recognized that human development outcomes leave much to be desired. While this recognition is not new, it has been given urgency because of increasing inequality and socio-political instability arising from rapid economic growth. What is under-discussed in this chapter is the role that PPP (private-public partnerships) can play in public service delivery in areas of health and education, possibly involving more complex partnerships between the public sector, NGOs, and for-profit private providers. Within the context of democratic politics, it is important that value creation as opposed to rent-seeking is seen as a feasible route to electoral success, as this provides the fruits of growth to a large number of voters.

The author concludes by providing summary arguments to the main discussion points of the book distinguishing between how growth can trickle down, how growth can trickle up, and how both the process of trickle down and trickle up can be assisted.

Bottom Line: While the book is novel in its singular focus on government policy and its success in facilitating trickle down growth, the policy conclusions are somewhat tentative given the preliminary nature of the statistical analysis, and the fact that formal models are not being tested. However, a major asset of the book is that the author lists a lot of her data and survey questions at the back of each chapter. The Indian inter-state perspective is also very strong. Some areas featured in the volume are also new in the reform discussion (such as Chapter 1 on GPTs and Chapter 5 on philanthropy) which suggest avenues for further research. All things considered, the author should be congratulated for perform-

ing yeoman service in assembling a large amount of empirical evidence in basing policy conclusions, and at the same time, bolstering her arguments using a voluminous literature on growth and poverty in India in a clear and concise way.

### References

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### Footnotes

<sup>1</sup> In 2005 PPP dollars, India's headcount ratio (HCR) in 1983-84 (rural) was 57.78% compared to 81.24% in China (rural) and 65.20% in Indonesia (rural). In 2004-2005, India's rural HCR was 43.83%, compared to 26.11% in China, and 24.01 in Indonesia.

<sup>2</sup> Oddly, the author misses this key reference on general purpose technologies in the references cited at the back of the chapter.

<sup>3</sup> In Das, Ghate, and Robertson (2013), we show that geographical remoteness, along with other factors related to public infrastructure, such as electrification, the extent of irrigation, and the degree of urbanization, can account for some of the variance in incomes and growth rates seen across Indian districts. Since many of these variables are related to public infrastructure investment, they are also suggestive of an important role for public policy in securing a more even distribution of the gains from economic growth.

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### Book News

*Aligning Economic and Social Goals in Emerging Economies: Employment and Social Protection in Brazil, China, India and South Africa* edited by Gerry Rodgers documents and compares the experiences in the four countries, and highlights four challenges faced by all of them: building good labour institutions, finding the right balance between social protection and job creation, and dealing with inequality. Institute for Human Development and Academic Foundation, New Delhi, 2013, pp. 176, ₹895.00

# Assessing the Deepening Problem

A.R. Vasavi

If there is any one specific condition that belies the hype of the success of the new economy in India, then it is that of the state of food security. As data and several reports indicate, there are now extant and deepening forms of malnutrition, starvation, and deprivation indicating that there are gross problems in the most essential aspects of the national economy and society. While assessments of the levels of poverty and of the promulgation of the National Food Security Act have become prey to our complex politics, Amitava Mukherjee's comprehensive study provides data and details highlighting the persistence of problems and the growth of new forms of food insecurity that emanate from layered structures of inequities.

The book is rich in details from all the Asian countries, including that from Kazakhstan, and provides an insightful overview of the conditions, policies, and trends

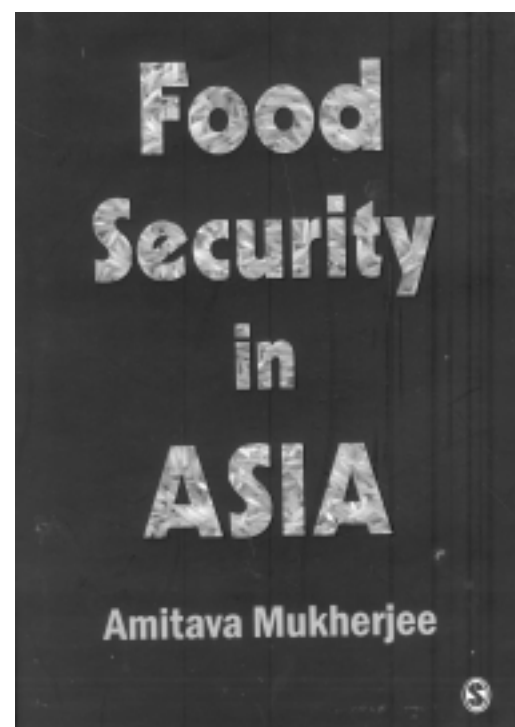
### FOOD SECURITY IN ASIA

By Amitava Mukherjee

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in these countries with additional details and case studies from India. All of these combine to make us understand why food insecurity in the South Asian countries of India, Afghanistan, Bangladesh, Indonesia, Nepal, and Pakistan account for the largest proportion of malnourished persons in the world. Although reproduced in several documents and reports, the data from the FAO on undernourishment continues to shock: 'At the end of 2002, there were 583 million people in Asia who did not meet the nutritional requirement and about 545 million people still undernourished, comprising 65 percent of the world's underfed' (p. 10). Mukherjee takes such data and unpacks it to show us where, how and why such problems in the adequate provisioning of food are produced and reproduced.

Going beyond our simplistic popular understanding of food insecurity, Mukherjee details how definitions of food security itself have changed—shifting from that of assessing only quantity to that of quality and the overall contexts of food deprivation including that from macro contexts to that of micro conditions and structures. Although his definitions and differences between the con-



cepts of food security from that of the rights based approach to food are inadequate, Mukherjee provides a comparative perspective of a range of economic and food provisioning policies in the Asian countries that seek to address food security. In a comprehensive overview, Mukherjee identifies and details the varied causative factors that are responsible for food insecurity in various South Asian countries. These include: penurious household conditions, land degradation and declining productivity, disasters, violence and war, racism, risks and shocks, and the role of markets including speculation. Details and differences about the different types of risks and shocks are central to our understanding of how food deprivation results: while idiosyncratic risks and shocks refer to those risks and shocks experienced by individual households, covariate risks and shocks are those experienced by many households in the same locality.

Key structures pertinent to food security include forms of agricultural production, governance and policy structures, and public provisioning strategies. Included in such an analysis is the endorsement of Amartya Sen's emphasis on the problem or lack of entitlement as accounting for food deprivation. While much of these are pertinent for India, the author's observation about the presence of the Integrated Child Development Scheme (ICDS) in India, which was estab-