A Study on Role of Public Policies in Economic Growth

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INTRODUCTION

After three post independence decades of progress, the country's economy grew at 6 per cent a year For the Twelfth Five Year Plan (2012 to 2017), the Planning Commission is likely to set a realistic average growth target of 9 per cent, despite some early enthusiasm that made its chairman, Prime Minister, Manmohan Singh, suggesting a target of 10 per cent for the five-year period beginning April 2012. Planning commission deputy chairman, Monte Singh Ahluwalia stated in this respect that "A 9 per cent target is feasible and we can go till 9.5 per cent, but targeting 10 per cent growth is unrealistic."

Despite sustained high GDP growth in India, one worrying feature that could cause political instability and jeopardize the bullish forecast is the problem of poverty and growing income inequality. This will be one of the most formidable challenges confronting India over the next decade if it is to live up to its promise. Latest poverty estimates by World Bank suggest that, not only is India home to roughly one-third of all the poor in the world, it has a higher proportion of its population living on less than $ 2 a day than even sub-Saharan Africa. India has around 42 per cent of its population living below the new international poverty line of $ 1.25 a day. The number of Indian poor constitutes 33 per cent of the global poor, pegged at 1.4 billion people.

The revised estimates also suggest that the percentage of people living below $1.25 a day in decreased from 60 per cent in 1981 to 42 per cent in 2005. Even at a dollar day poverty declined from 42 per cent to 24 per cent over the same period. However, the number of poor people living under $1.25 a day has increased. This indicates that there are a large number of people living just above this line of deprivation (a dollar a day) and their numbers are not falling.

The pattern of growth across states has always remained as a subject of interest both to academics as well as policy makers. The existence of wide inter-regional variations in a vast country like India is well recognized. Regional disparity in India is now a matter of serious concern. Reducing such disparities is essential for the success of a federal structure. This has been really an important challenge in India.

Through public and directed private investment as well as various other interventions and public policies, balanced development across the regions was pursued during the first four decades of planning. But the role of government in the economic activities of the nation changed substantially since the initiation of economic reforms.

Economic reforms have been initiated at different levels across states. Most of the economic reforms have been pursued in the industrial sector, the spread and growth of which show considerable regional variations. In the post-reform period, due to deregulation, the degree of control of the central government declined in many sectors.

The private sector, which was controlled and contained in various ways, has since then been encouraged to play a more important role. Now, market forces, rather than government directions, decide the investment decisions like where to invest, what to produce, whom to sell to, and so on. Also, the role of private sector is becoming more important as compared to the public sector. In the changed economic scenario, it would be interesting to examine the economic performance of states in the post-reform period.

The primary focus of world economic attention for the past four decades has been on the ways to accelerate the growth rate of national income. Economists and politicians from all nations, rich and poor, capitalist, socialist and mixed, have worshipped at the shrine of economic growth. "Growthmanship" has become a way of life. Even governments can rise or fall if their economic growth performance ranks high or low on the global scorecard. The growth that has taken place has served mainly to benefit the few- the richest 20 per cent of the

population. The question of how inequality is generated and how it reproduces over time is really a billion dollar question. The patterns and determinants of changes in inequality are subject of perennial interest to economists and policy makers alike.

Moreover, it was argued by Atkinson that 'inequality is what economics should be all about'. Some of the greatest economists and philosophers of two centuries ago were bold and outspoken about the injustice of extreme inequality, nationally and internationally. Yet by almost every standard, global inequality has grown substantially since that period, just as national inequality has grown in most countries over the last two or three decades. So, there is a case today for more outspokenness about the ills and causes of inequality. Otherwise there will come a time when looking back at today's world human beings will wonder about how primitive we were that we tolerated all this.

The early literature on the evolution of income inequality over the process of development used to be dominated by Kuznets hypothesis. Using both the cross-country and time series data, Simon Kuznets found an inverted U-Shaped relation between income inequality and GNP per head. This hypothesis serves as a cornerstone of modernization school which tends to emphasize relative differences in the level of income or wealth as a key determinant of differences in the degree to which income is distributed equally within nations. Dependency theory offers a second major perspective in this area of research. Most of the dependency analysts seem to agree that the main cause of within-nation inequality is between-nation inequality.

There is as yet no consensus throughout the economics profession on the relationship between income inequality and growth. Economic theory does not predict unambiguously the direction of dependence of inequality on economic growth. However, this direction and scale of dependence is very important for policy decision and evaluation. If inequality does not change systematically with growth, only then government can stop worrying about inequality and devote all efforts to promote aggregate growth, because it would benefit all segments of economy. But in reality countries face trade-off between reducing inequality and improving growth performance. There is also a possibility of virtuous circle in which growth leads to lower inequality, with lower inequality in turn leading to faster growth. But it is not the rate of growth or stages of economic development but the kinds of economic growth that affect inequality.

It follows from the aforesaid discussion that there is legitimate role for public policy in the promotion of fairness and in the pursuit of equity. Particularly, public action should aim to expand the opportunities of those who in the absence of policy interventions have the least resources, voices and capabilities.

Making growth more pro-poor really requires a combination of more growth, a more proper pattern of growth and reduction in the antecedent inequalities that limit the prospects for poor people to share in the opportunities unleashed in a growing economy. The right policy prescription is to combine policies that promote economic growth and policies that redistribute income in favor of poor. But these two types of policies are likely to be contradictory; hence the choice of policy is reduced to the question of right mix.

III.   NEED OF THE STUDY

A principle motivation for inequality measurement is normative, to guide policy. Thus, if it can be shown that inequality has been increasing, many would argue that there is an immediate need for doing something about it.

Despite the extent of writing on measurement of inequality, little has been said about why inequality should be measured. Kaplow examined this question by advancing two claims, first, regarding normative measures of inequality and second, regarding descriptive measures of inequality. The author suggested that there is little need to measure inequality for normative purposes. Although inequality is an aspect of overall social welfare, it is best to measure welfare directly; measuring inequality requires additional effort and yields no return. On the other hand, regarding descriptive measures of inequality, used in regressions relating inequality with growth measurement is quite necessary.

The most widely explored normative measure of inequality is Atkinson's Index. His Index of inequality is a number between zero and one that indicate the percentage of actual income that can be discarded while leaving total welfare unchanged if the remaining income were distributed equally. Many measures of inequality including some of the earliest and most widely used ones like Gini coefficient are understood as primarily descriptive. There are at least two potential uses for descriptive measures of inequality as explanatory variable and as dependent variable in understanding economic relationship. But what counts as a good measure depends on the economic theory and empirical facts in particular contexts and not necessarily on the properties and axioms that have generally been proposed for measures of inequality.

IV.   OBJECTIVES OF THE STUDY

The main objective of the present study is to examine the links among Economic Growth, Income Inequality and Poverty. In the light of main objective specific objectives of the study are as follows:
1. To analyze the role of public policies in economic growth.

2. To examine the extent and changes in income inequality across States and over time.
3. To examine the relationship between changes in inequality and growth in relation to individual States.
4. To analyze the extent and changes in the poverty across States and over time.
5. To examine the relationship between changes in income inequality and poverty in relation to individual States.
6. To suggest an optimum mix of alternative policies for promoting pro-poor growth.

V. HYPOTHESIS OF THE STUDY
Keeping in view of the objectives, the whole study is based on the following hypotheses:
1. The patterns of income across states have exhibited deep rooted disparities.
2. The extent and changes in income inequality across states have shown a random behavior.
3. Small (positive or negative) changes in the level of inequality lead to greater (positive or negative) changes in growth rate.
4. States differ in varying degree in relation to poverty reduction over time.
5. There exists a strong positive relation between income inequality and poverty.
6. There exists an optimum mix of alternative policies for promoting pro-poor growth.

VI. REVIEW LITERATURE
Costanza et al (1995) point out two important areas in the definition of this relationship. One is that individual choices need to be emphasized in order to ensure a sustainable economy and that education as to the environmental consequences of such choices needs to be undertaken both for the sake of socio-economic sustainability and environmental preservation and enhancement (Costanza et. al. 1995:242). Both of these outcomes are products of the participatory nature of the data collection phase of an SIA. Costanza also postulates a differing tax structure from that currently in place for both individuals and corporations, one which would result in higher taxes for some. These tax disincentives could potentially be offset with a series of credits offered for desirable behaviors vis-à-vis the environment.

Jacobzone et al. (2010). This study offers an empirical analysis of the relationship between regulatory policy and governance to include economic and non-economic regulation, and covering regulation policies, regulatory institutions, regulatory procedures and regulatory tools. Mainly regression analysis is then used to assess the relationship between Regulatory Management System (RMS) and indicators of economic outcomes. The first dimension, Institution, Tool and Capacity Building, reflects the institutional framework and capacity to assess new regulations. The second dimension, Stock Oriented Strategies, Simplification‖, captures strategies aimed at administrative simplification, burden reduction and ex post review of regulations. Each country is assigned a rank based on each principal component score, and these ranks are used as indicators of RMS quality. The RMS quality dimensions are then used to estimate econometrically the impact of improvements in RMS on a variety of economic impact indicators, including total employment, employment in the business sector, business sector GDP, and business sector labour productivity. While the regression analysis is constrained by the small sample size and lack of time series data, the results indicate a significant and positive impact on employment, GDP, and labour productivity in response to improvements in regulatory management systems.

Loayza et al. (2004). By contrast, this study provides an empirical estimate of the impact of regulatory policy on GDP growth and volatility in a large sample of developed and developing countries, using a cross country regression. Drawing on a range of data sources, a set of indicators is created capturing regulation of entry and exit, international trade, fiscal burden, contract enforcement, labour markets and financial markets. Each index measures the intensity of the regulation on a scale of 0 to 1. A composite index for the product market is constructed from the entry, trade, financial markets including bankruptcy, and contract enforcement indicators. In an extension to the basic specification, the regulation indices are interacted with a governance proxy variable, which is constructed from information on experts' perceptions on public accountability, absence of corruption, and rule of law in countries. Six data sources are used to construct the indices: the World Bank's Doing Business index, indices from the Fraser Institute and the Heritage Foundation on economic freedom, and databases relating to the labour market, corporate tax rates and international country risk. The sample covers up to 76 countries in the late 1990s.

Jalilian, Kirkpatrick and Parker (2007). The authors use the World Bank Governance Indicators data (Kauffman and Mastruzzi, 2005) to derive a measure of the quality of regulatory policy and governance. The governance indicators are: voice and accountability, political instability, government effectiveness, regulatory quality, rule of law, control of corruption. A regulatory quality index, which measures the regulatory burden on business, and a government effectiveness index, which measures the quality of public provision, competence of civil servants, and the credibility of government decisions, are used separately and in combination in regression analyses as measures of overall regulatory quality. Two methods of estimation are used to estimate the impact of regulation on economic growth. One is based on cross-section analysis, which measures directly any possible impact that regulation has on economic growth. The second is based on panel data, which uses a fixed effects

technique to estimate indirectly the growth contribution of regulation. This procedure produces consistent estimates even where annual data are not available for the regulation variable. The results show that the regulatory variables have the expected signs in terms of causation and are statistically significant in all cases. The results are consistent with the hypothesis that regulatory quality has a positive and causal impact on economic growth. However, in common with other single equation regression analyses, the results may be weakened by problems of reverse causation, where higher economic growth leads to better regulation.

Gorgens et al. (2003). This study uses cross-country regression analysis to estimate the impact of regulation using the Fraser Institute's Economic Freedom Index15 as the measure of regulatory burden. They suggest that a more heavily regulated economy might have economic growth on average lower by about 2% to 3% than less heavily regulated ones. The effect is mainly, however, in terms of comparisons between moderately and highly regulated regimes.

VII.   CONCLUSION

Indian economy is experiencing a high rate of growth and it is anticipated to grow at a higher rate in the near future. The impressive economic growth and the economic reform policies being vigorously followed have led many to fear that the high growth might be exclusionary in nature and be characterized by jobless growth, ruthless growth, voiceless growth, rootless growth, and the futureless growth. Clearly now India is recognized as an economy with a "stunning" but "jobless growth" and a "booming economy with growing gaps" where the spectacular successes made, have not been shared by all equally. The Planning Commission has also realized that economic growth has failed to be sufficiently inclusive.

According to the new World Bank's estimates on poverty, India has 456 million people, 41.6 per cent of its population, living below the new international poverty line of $1.25 per day. The World Bank further estimates that 33 per cent of the global poor now reside in India.

Moreover, India also has 828 million people, or 75.6 per cent of the population living below $2 a day, compared to 72.2 per cent for Sub-Saharan Africa. On the other hand, the Planning Commission of India uses its own criteria and has estimated that 27.5 per cent of the population was living below the poverty line. The source for this was the 61st round of the National Sample Survey (NSS) and the criterion used was monthly per capita consumption expenditure below Rs. 356.35 for rural areas and Rs. 538.60 for urban areas.

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