

# **Structural change, industrialization and poverty reduction: With special reference to India**

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# The basic premise of the study

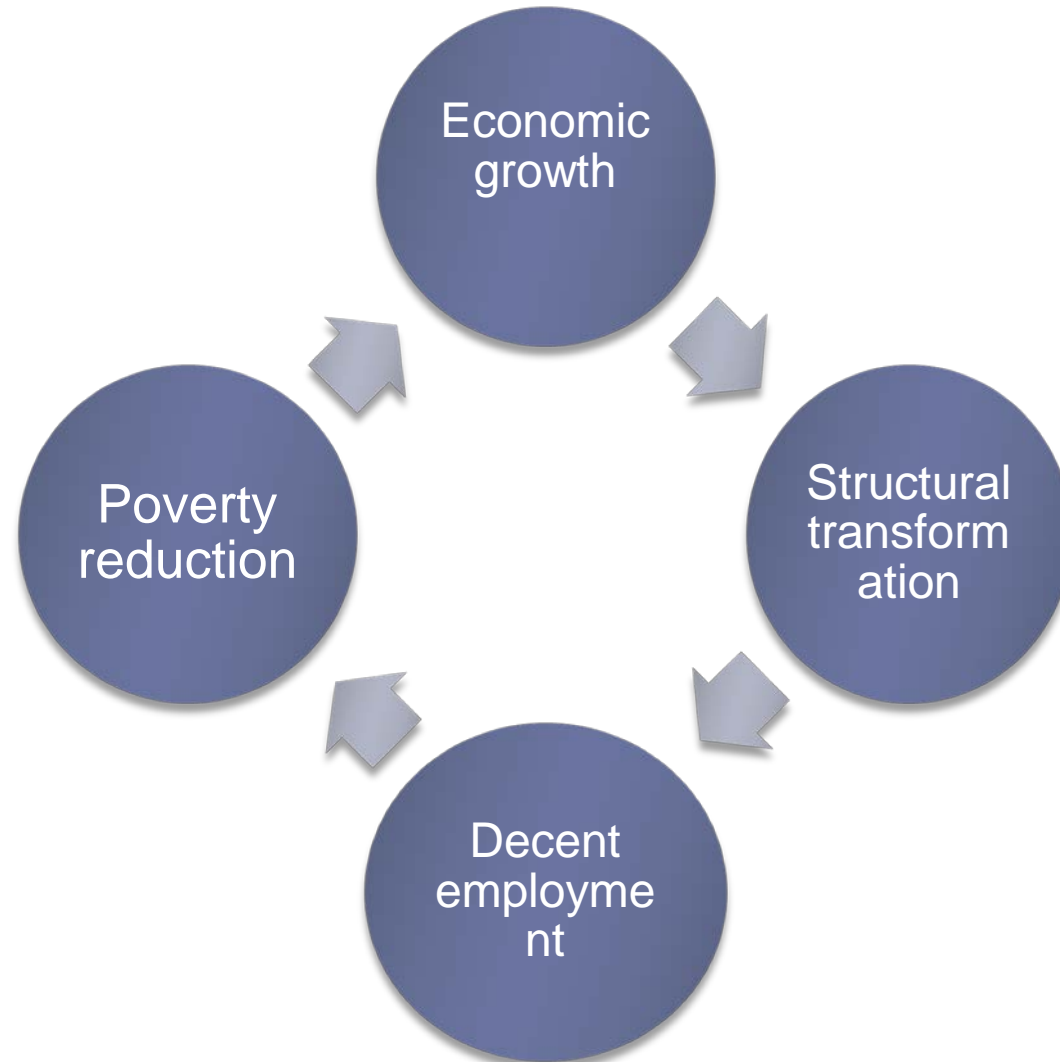
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- ▶ Different growth processes have different impacts on poverty reduction
- ▶ Increasing focus on growth processes to analyse the relationship between growth and poverty.
- ▶ Revival of structural economics.
- ▶ Key hypothesis: growth, with structural transformation ensures poverty reduction



# Economic growth, structural transformation and poverty reduction relationship: A virtuous circle

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# Structural transformation: from low to higher productivity sectors

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Primary

Manufacturing

Services

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# Prerequisites

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- ▶ **Promotion of agricultural productivity**
- ▶ **Shift in the structure of GDP vs employment**
- ▶ **Mutually reinforcing relationship between poverty reduction which also means equality in the process of process of growth**
- ▶ **Examples of now developed countries and East Asia**



# Globalisation and the challenges

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- ▶ **Globalisation and the weakening of the relationship between structural change in GDP vs structural change in employment**
  - ▶ Possibilities of agricultural imports
  - ▶ Changing technologies
- ▶ **Proliferation in services with stagnant or declining manufacturing sector.**



# The Indian Experience

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- ▶ Policy regimes and growth strategies matter.
- ▶ The growth-structural change-poverty relationship changed with policy regimes: state led ( protected) vs market led (globalised)
- ▶ Every strategy has its own challenges based on the idiosyncratic attributes of the host country. These need to be identified and addressed



# Policy regimes in India

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- ▶ **1950-1980: State led protected regime**
  - ▶ 1950-1968 growth phase : Import substitution with heavy industrialisation
  - ▶ 1968-1980: Growth with redistribution and self reliance
- ▶ **1980 onwards Market led with increasing liberalisation**
  - ▶ 1980-1990 Cautious reforms for growth with efficiency
  - ▶ 1990-2005 : Export oriented regime accelerated reforms for growth
  - ▶ 2005 onwards: accelerated reforms with inclusive growth





# Policy regimes, growth strategy and growth

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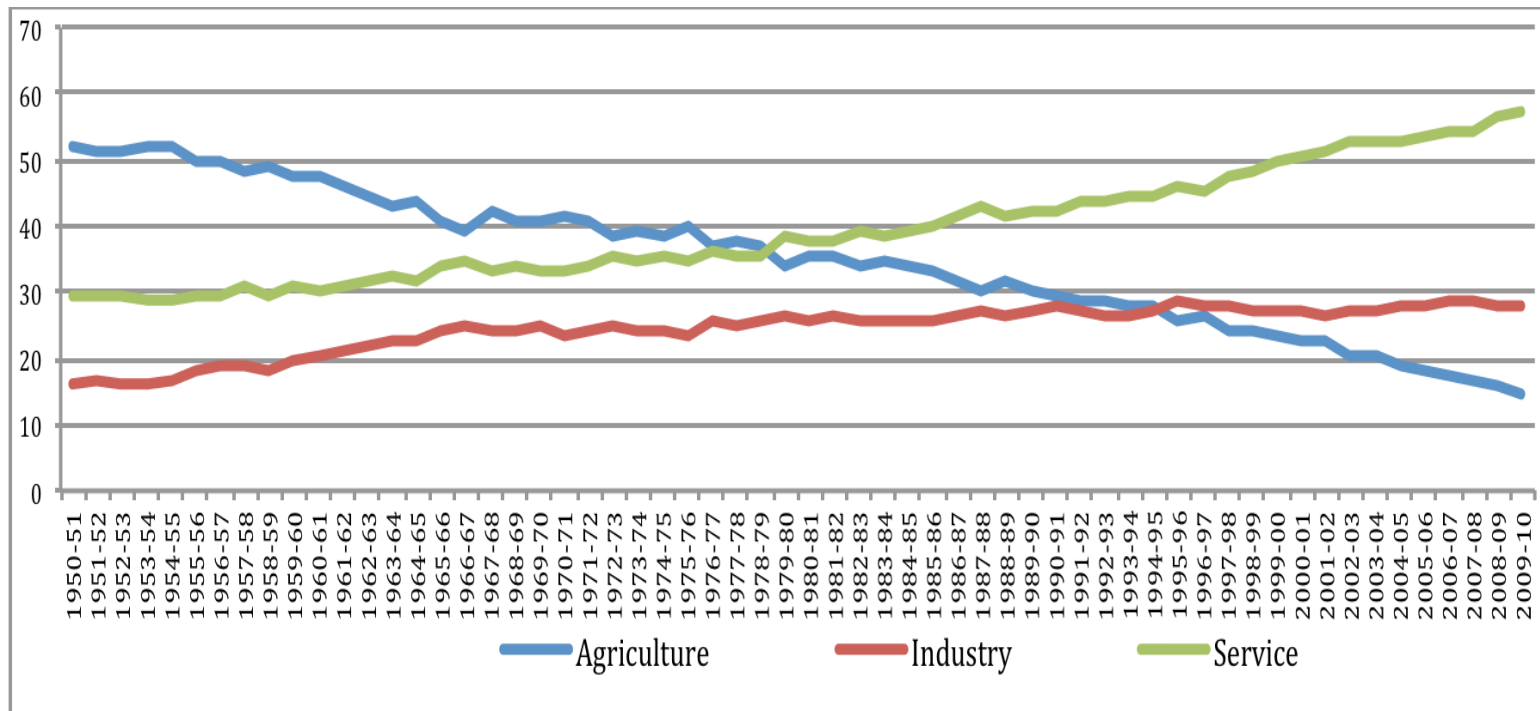
Years	Average annual growth rate (%)	Standard deviation
1950-51 to 1964-65	4.091	2.55
1965-66 to 1979-80	2.93	4.18
1980-81 to 1991-92	5.39	2.22
1992-93 to 2011-12	6.96	1.77
1991-92 to 2003-04	6.2	1.46
2004-05 to 2011-12	8.3	1.40

Source: Own calculations based on Central Statistical Organisation, Ministry of Statistical Planning and Implementation, India database

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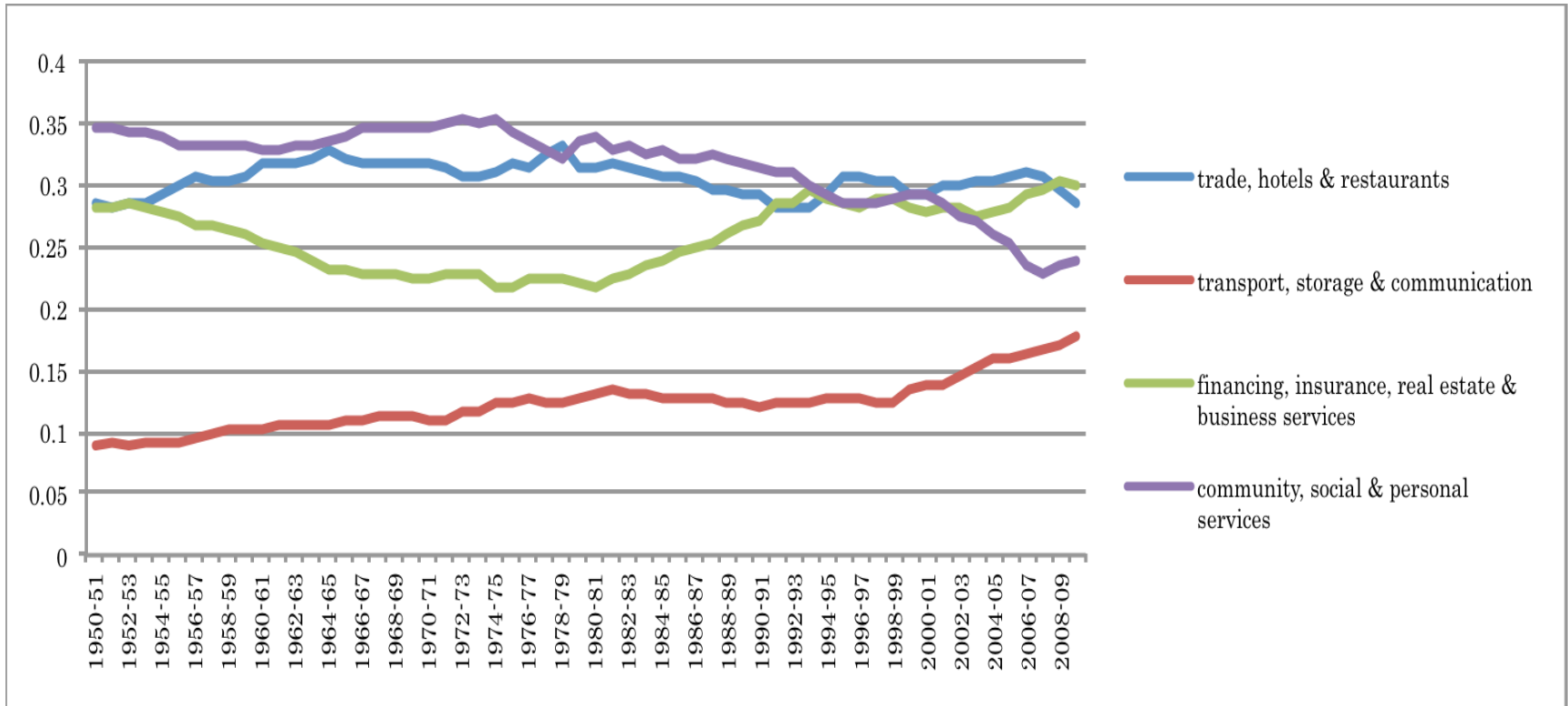


# Growth and structural change in value added: Industrial stagnation after the mid 1960s



Source: Own calculations based on Central Statistical Organisation, Ministry of Statistical Planning and Implementation, India database

# Policy regime and patterns of growth in services : Acceleration in dynamic services post liberalisation

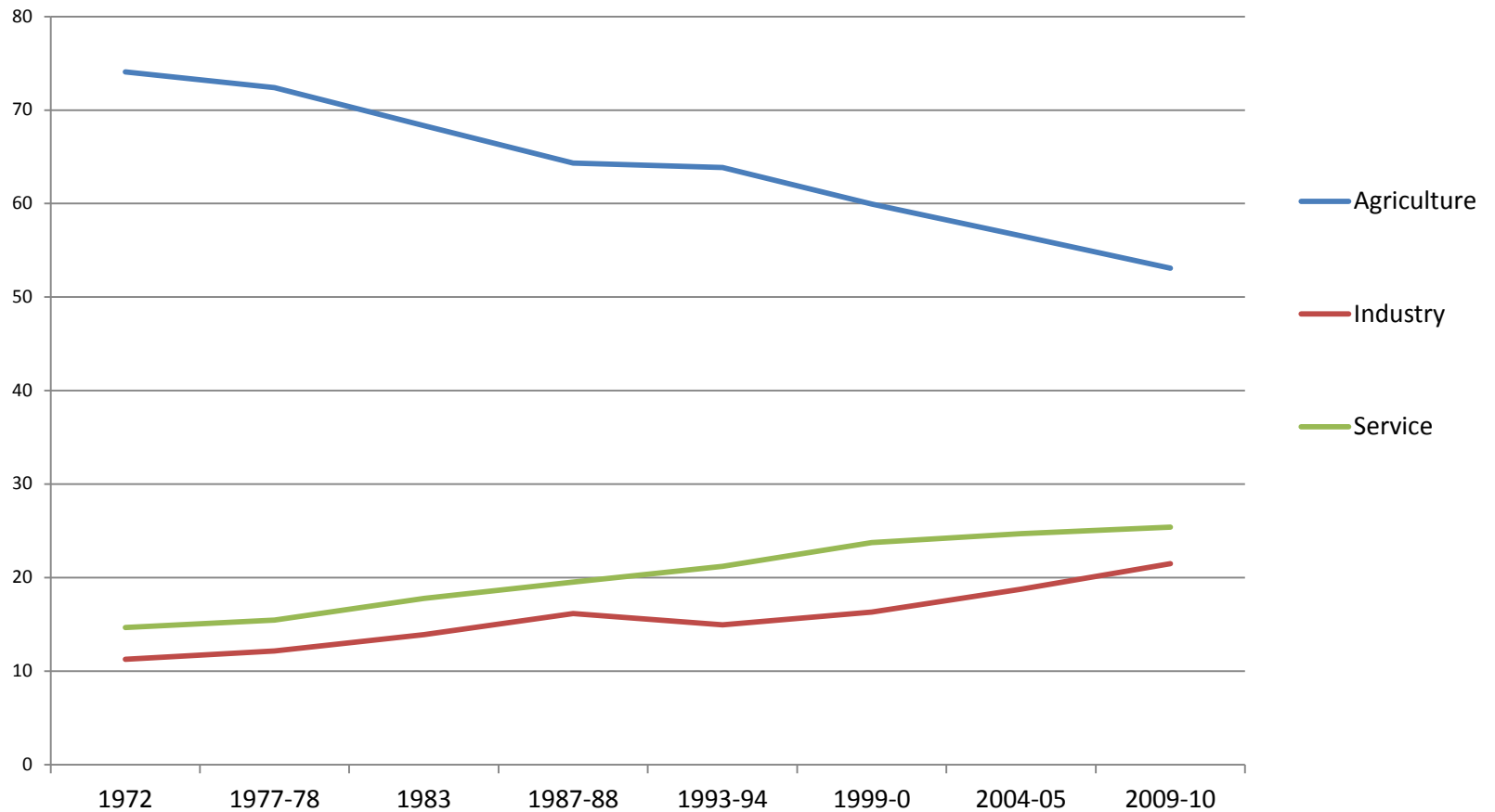


Source: Own calculations based on Central Statistical Organisation, Ministry of Statistical Planning and Implementation, India

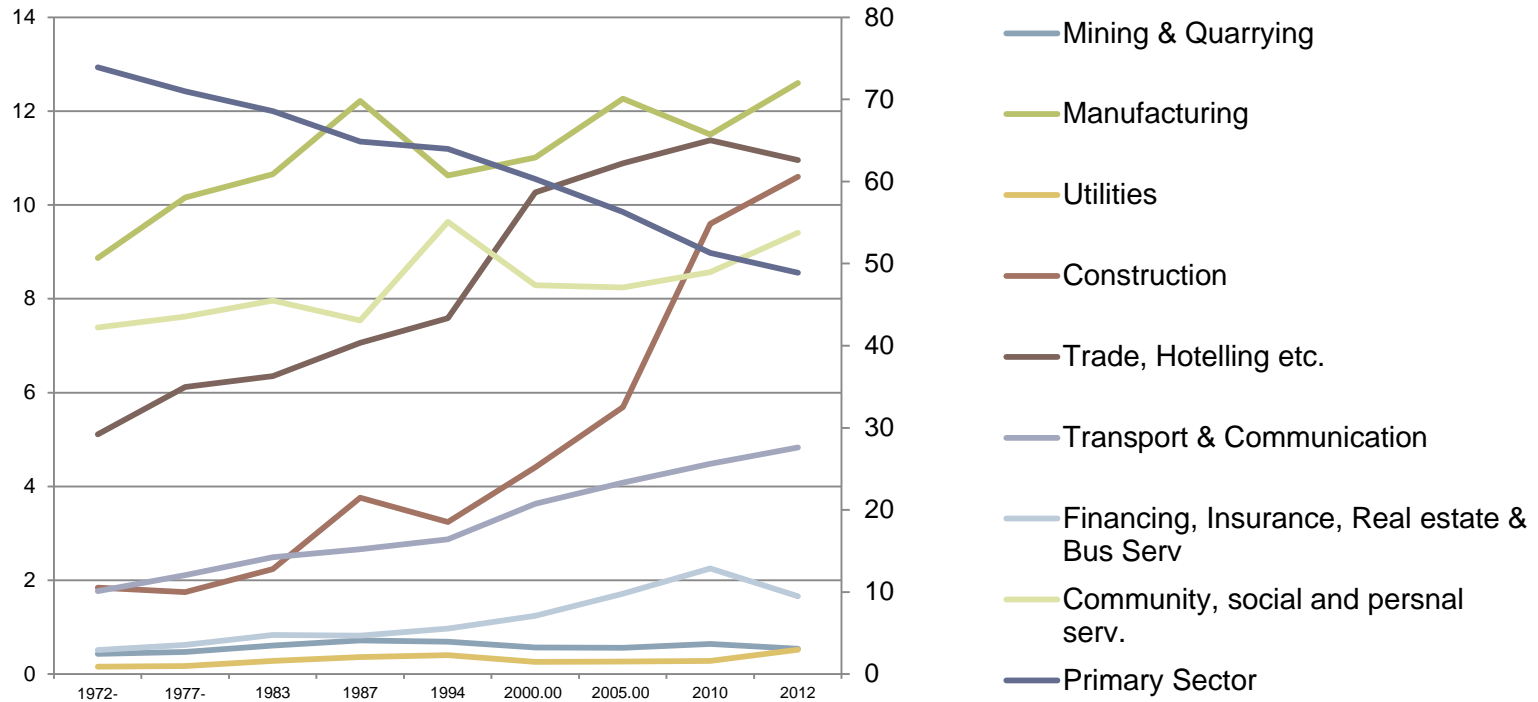


# Employment Patterns: Slowly changing

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# Increasing employment in Baumolian stagnant sectors



# Share of structural change has been declining: Rodrik Methodology

	1972-73 to 1977- 78	1977-78 to 1983- 84	1983 to 1987- 88	1993-94 to 1999- 00	1999-00 to 2004- 05	2004-05 to 2009- 10
<b>ROG-within effect</b>	8.609	3.330	2.500	30.138	9.687	47.975
<b>ROG-structural change</b>	3.359	7.242	7.490	9.257	5.017	2.845
<b>ROG-total productivity</b>	11.967	10.571	9.990	39.394	14.704	50.819
<b>Rodrik Share of structural change</b>	<b>28.065</b>	<b>68.504</b>	<b>74.974</b>	<b>23.497</b>	<b>34.120</b>	<b>5.598</b>
<b>Share of within effects</b>	<b>71.935</b>	<b>31.496</b>	<b>25.026</b>	<b>76.503</b>	<b>65.880</b>	<b>94.402</b>



# Decomposition analysis: quality of employment has not improved: Shapley decomposition

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Year	Contribution of capital-labour ratio (%)	Contribution of changes in TFP (%)	Contribution of changes in Employment rate (%)	Contribution of changes in labour force (%)	Contributions of Inter-sectoral Shifts (%)	Total
1973-1983	95.01	-53.28	-1.13	8.25	51.15	100
1983-1994	186.96	-119.33	-0.09	0.10	32.37	100
1994-2005	56.61	11.35	-0.91	0.90	32.05	100
2005-2012	57.77	45.39	0.13	-19.20	15.92	100

Source: Author's estimates based on NSS surveys

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# Quality of employment: Wage vs other forms of employment

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Years	Self-employed	Regular/wage Salaried	Casual labour
1993-94	50.77	16.03	33.09
1999-00	55.98	16.13	27.88
2004-05	51.89	16.39	31.71
2009-10	53.22	16.76	30.03



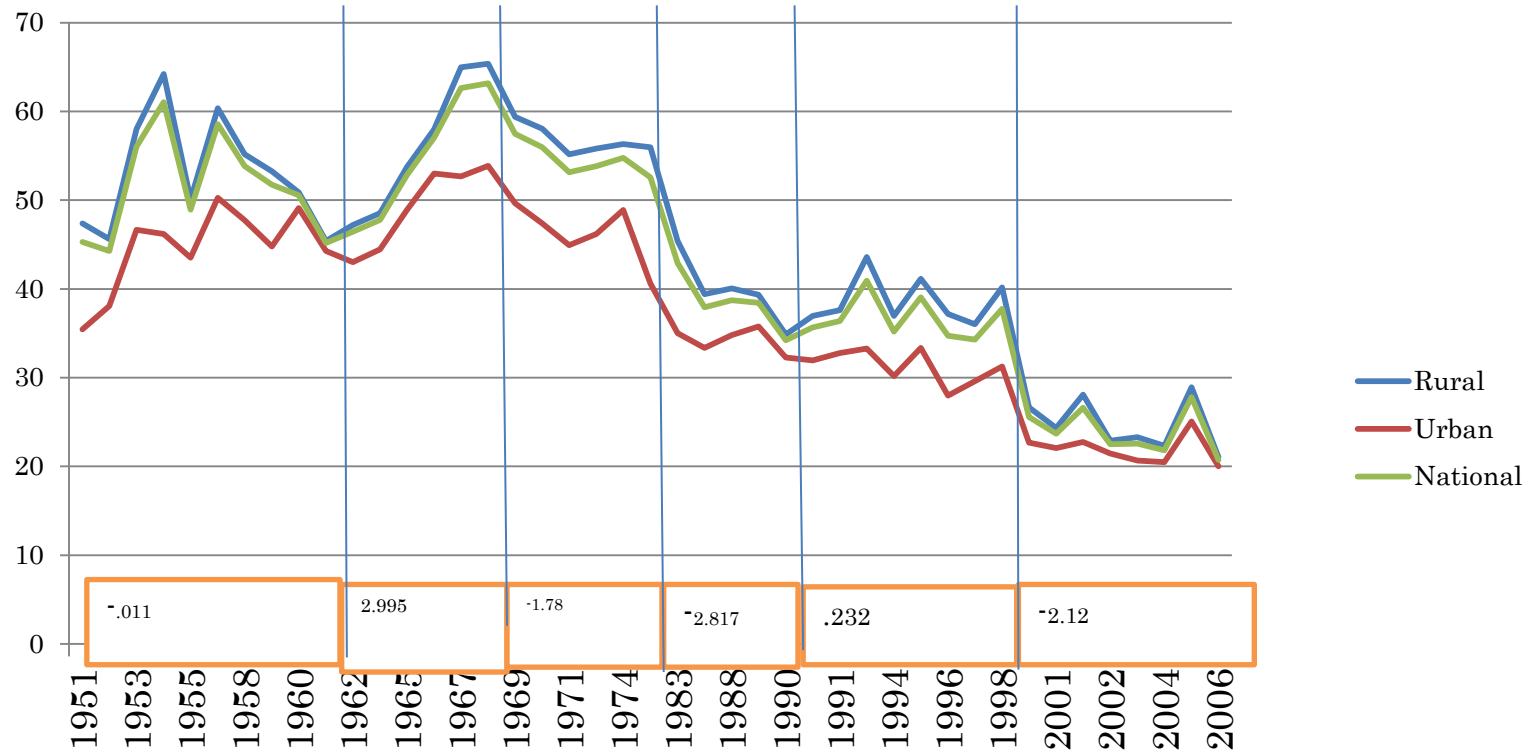


# Quality of employment: Informality

	2004-05				2009-10			
	Rural		Urban		rural		Urban	
	Male	female	Male	female	Male	female	male	female
Agriculture	90.4	97.2	86.8	94.9	90.6	95.0	88.3	97.7
non-agriculture	78.1	77.1	73.7	63.5	73.0	64.1	68.3	60.1
Overall	79.2	86.4	73.9	65.4	74.2	74.4	68.5	61.6
Total	81.6		72.2		74.2		67.3	

Source: NSS report on Informal sector and employment conditions, 2011

# Poverty declined since the mid 1960s but the rate slowed down in the post 1990 high growth phase



# Poverty rates are declining, inequalities increasing

Year	Head count			Poverty gap			Squared Poverty Gap			Gini coefficient	
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban
1973-74	56.4	49	54.9	16.56	13.64	15.95	6.81	5.26	6.48	0.27	0.301
1983-84	45.7	40.8	44.5	12.32	10.61	11.96	4.78	4.07	4.61	0.3	0.33
1993-94	37.3	32.4	36	8.45	7.88	8.3	2.78	2.82	2.79	0.28	0.34
2009-10	33.8	20.9	29.8								
2011-12#	25.7	13.7	21.9								



# Regression results

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- ▶ **Urban poverty: Economic growth rate and distributional packages**
- ▶ **Rural poverty: Industrialisation**



# Concluding remark 1

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- ▶ **The broader national development strategy and economic policies to implement it are critical in determining the incentives and constraints for economic actors and shaping economic outcomes.**
- ▶ **Therefore the performance of a country in achieving growth, structural transformation and poverty reduction needs to be analysed within an overall context of these economic institutions.**



## Concluding remark 2

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- ▶ **There is no simple or uniform recipe of success.**
- ▶ **If policy makers choose the right strategy based on their own competitive and comparative advantages, envision successfully the challenges inherent in the national strategy adopted for growth, and design appropriate implementation policies to preempt them, they are more likely to succeed in achieving the objective of poverty reduction.**



## Concluding remark 3

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- ▶ **Appropriate state interventions based on country specific attributes are critical for the process of structural transformation and poverty reduction.**



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**THANK YOU**

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