ABC of Poverty Alleviation

Ashutosh Varshney*

[This article appeared in India Today, September 19, 2005]

The National Rural Employment Bill has been unanimously passed in an otherwise unusually unruly Lok Sabha. Politicians of all stripes, vociferously fighting all kinds of battles, apparently find nothing wrong with what market-oriented economists dub utterly wasteful. A huge amount of money, these economists say, will simply go into the pockets of corrupt bureaucrats.

Have we not learned from the Garibi Hatao programs of the 1970s? Would the new government scheme not produce rural roads that get washed away when the rains come? Would it not produce half-dug irrigation channels that do not carry water from the canals to the field?

Instead of directly attacking poverty, most mainstream economists argue, we should allow the markets to lift the poor out of poverty. They point to China, which has achieved the greatest – and swiftest -- reduction in poverty ever seen in human history by relying on the markets, not on government programs, in the last two and a half decades.

For once, the much maligned politicians of India are right, and the mainstream economists wrong. One can think of four reasons why this is so.

First, it may be true that direct allocations for the poor, while politically attractive, do not attack poverty well, especially if 35-40 per cent of a country's population is below the poverty line, as it was during the Garibi Hatao era. But it should also be noted that Indian economy has been growing at 6 per cent annually for over two decades, whereas it grew at the so-called Hindu rate of growth of 3.5 percent annually until the late 1970s. Direct attacks on poverty fail if the growth rate is low, not if the growth rate is as high as 6 per cent per year. As for corruption, studies show ways of reducing it. Increasing accountability of bureaucracy in Rajasthan appears to be working quite well, whereas UP continues to be mired in its bad old ways.

Second, the example of China is wrong because Chinese economic growth has been led by labor-intensive manufacturing. India's growth has been services-led, especially by IT; manufacturing has lagged behind. In a society like ours with high levels of illiteracy, the IT sector can not employ the millions who are unable to read and count.

China made its masses literate and numerate by the 1970s. When it embraced the markets, its manufacturing of toys, shoes, shirts, calculators, and later computers, cars and cell phones could employ its poor masses. India ignored primary education, emphasizing higher education instead. For the foreseeable future, India can rely on its high technology sectors, not its labor-absorbing light manufacturing, to prosper. We have not given the poor enough capability to benefit from the markets. And compared to China, our growth has created very few jobs. Anywhere up to a fourth of our population is still below the poverty line. In China, that proportion is more or less down to single digits.

Third, in this day and age, when so many in India's cities can afford lifestyles comparable to the Western middle classes, there is something truly shocking about watching broken limbs, emaciated faces and begging children on our streets. This may well be a cliché, but it needs to be uttered loudly. Delhi, a city I have known well for three decades, has never been as rich as it is today, but the destitution witnessed on Delhi's streets continues to generate gloom.

Finally, there are two purely instrumental arguments mainstream economists ought to consider. If they want to see India as a world power, they should note that mass poverty and international power do not go together. Moreover, we may need markets for economic growth, but we also need inclusive polities. Markets do not necessarily build inclusive polities. A society where I can buy wireless internet access and do my business electronically in almost any town of India on a Reliance network, whereas nearly 800 million people have no knowledge of the internet, is heading towards a possible economic polarization, not inclusion.

India must eradicate mass poverty. Given India's literacy conditions, markets will do that only too slowly.

*The author teaches political economy of development at the University of Michigan, USA.