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Growth-Poverty Linkage and Income-Asset Relation in Regional Disparity: Evidence from Pakistan and India

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The purpose of this paper is to discuss the importance of incorporating asset holding and its distribution into the study of growth-equity relationship in the context of regional disparity. We have tried to discuss this issue by taking the Inclusive Growth Strategy (IGS) introduced by the Union Government of India in 2006.

Although it is too early to assess the impact of IGC at this stage, the followings are some of the important findings of our analysis.

First, the performance of the post-reform period is characterised by the higher economic growth and declining poverty ratio on one hand, and the increasing disparity in terms of consumption, income and asset holding on the other. Second, the magnitude of poverty and disparity is much more evident in asset holding, notably land, as compared with consumption and income, among economically and socially disadvantageous segments of rural communities. Third, if the inherent social inequality were overcome in the growth process, access to asset, notably land, has to be facilitated either by political process or through market transaction. In either case, the prospective is not yet bright.

The paper strongly advocates, among others, the necessity of incorporating income-asset relationship and structural aspects in discussing poverty and disparity issues in development.

Keywords: Growth-Poverty Linkage, Income-Asset Relationship, Inherent Social Inequality, Inclusive Growth Strategy, Land Market, Capital Gain, Land Reform, Rent-land Price Ratio, Gini-coefficient.

INTRODUCTION

The purpose of this paper is to discuss the importance of incorporating asset holding and its distribution into the study of growth-equity relationship in the context of regional disparity. We will try to discuss this issue by taking the Inclusive Growth Strategy (IGS) introduced by the Union Government of India in 2006. Although this is mainly due to the availability of relevant data in India, we believe we could derive many useful insights in considering the similar issues Pakistan faces today.

As has been well documented already, the term 'Inclusive Growth' was manifested in the Approach Paper to the 11th Five-Year Plan (2007–11) by the Union Government of India in 2006. Under the specific chapter on the inclusive growth, it says;

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"The strategy of inclusive growth proposed in this paper can command broad based support only if growth is seen to demonstrably bridge divides and avoid exclusion or marginalisation of large segments of our population. These divides manifest themselves in various forms: between the haves and the have-nots; between rural and urban areas; between the employed and the under/unemployed; between different states, districts and communities; and finally between genders." [India (2006)]. The key components of Inclusive Growth Strategy (hereafter IGS) can be listed as follows:

(1) stepping up investment in rural infrastructure and agriculture;
(2) increasing credit availability to farmers and offering them remunerative price for their crops;
(3) increasing rural employment, providing a unique social safety net in the shape of the National Rural Employment Guarantee Programme;
(4) increasing public spending on education and health care, including strengthening the mid-day meal programme and offering scholarships to the needy;
(5) investment in urban renewal and improving the quality of life for the urban poor;
(6) empowering scheduled castes, scheduled tribes, other backward classes, minorities, women and children socially, economically and educationally; and
(7) ensuring that, through public investment, the growth process spreads to backward regions and districts.

The idea behind IGS is not a new or a novel idea, as Hanumantha Rao points out. According to him, "it stands for 'equitable development' or 'growth with social justice,' which have always been the watchwords of development planning in India. [Hanumanta (2009)]. In fact, it was already expressed by Jawaharlal Nehru in his speech delivered on the eve of Independence, which was reviewed by A. K. Sen as follows.

"I recall the rousing speech that Jawaharlal Nehru gave on the eve of Independence, on August 14, 1947. If one considers the various things that he described as "tasks ahead", three commitments that come out quite clearly are, firstly, a focus on the practice of democracy and the guaranteeing of various freedoms of the citizens of India; secondly, the removal of the social inequality and backwardness that characterised British India; and thirdly, achieving economic progress, judged primarily in terms of how it affects conditions of the poor in India." [Sen (1997)]. According to A. K. Sen, India has been successful in achieving the first goal, but the performance of the second goal has been extremely poor. As for the third goal, the assessment was mixed. Although the GDP growth rate has been moderate around 3.5 percent (so-called Hindu rate of growth) due to excessive bureaucratic control, India has fared pretty well in diversifying her industrial structure towards a full-fledged economy.

In fact, unlike other developing countries, India's development performance was unique at least in two aspects. One is the very fact that India has assigned an equal weight both to growth and equity in the planning process right from the beginning. The other is that India decided to develop her economy by giving preference to the development of the capital good sector over the consumer good sector. As a result of this unique strategy, India could diversify her industrial structure much faster than other developing countries, many of which are still not successful in developing their industrial structures to he extent

India did. Development of heavy industry demanded the faster development of higher education. Even though this biased allocation of resources to higher education supported the growth of heavy industry and, later IT industry, the slow development of basic education was the cost of this unique development strategy of India. Also it has to be pointed out, that the development of heavy industry in India was achieved without much direct support from the agricultural sector. This is evidenced from the extremely low correlation coefficient between the growth rate of the industrial sector and that of the agricultural sector, albeit the overall GDP growth rate has been influenced substantially by the performance of the agricultural sector. [Hirashima (2008a)].

Indian economic policies had begun to shift gradually in the 1980s towards market economy, and finally in 1991, India declared the departure of the planned economy towards the Indian way of market economy. In his memorable Budget Speech delivered on July 24, 1991, the then Finance Minister Manmohan Singh expressed his expectation towards overcoming inherent social inequality. [India (1991)]. However, in spite of the much faster economic growth and the successful performance in poverty reduction achieved after the reform of 1991, the inherent social inequality and regional disparity have persisted.

The IGS declared in 2006 gives an impression that it is an Indian version of the Poverty Reduction Strategic Paper (PRSP) of the World Bank at a glance. However, it is beyond the PRSP in that it is broad based and explicitly incorporates the social and political dimensions of growth process, not just a strategy towards poverty reduction in economic terms.

GROWTH-POVERTY LINKAGE AND REGIONAL DISPARITY IN MAJOR INDIAN STATES

India has been successful in getting out of the low growth trap during the post reform period. As Table 1 shows, the growth rate of per capita Gross State Domestic Product (GSDP) increased from 3.1 percent during 1980-81–91-92 to 3.8 during 1993/94–99/00. The accelerated growth process had resulted in the continuous reduction of poverty ratio after the reform. The growth-poverty linkage is evident and it seems to support those who believe in the thesis of trickle-down effect of growth. However, this situation is complicated if we look at the inter-state performance. As demonstrated in the table, the major 15 states of India, representing 85 percent of population, can be classified into four groups: high-income, higher middle-income, lower middle-income and low-income state. There are several important features to be pointed out as follows.

First, during the two reference periods under comparison, the growth performance was impressive in particular the sates in the middle-income group except for Rajasthan.

Second, except for all the four states in the low-income group, all other states have improved the relative income position to the highest income of Punjab.

Third, except for the low-income states, income level of all other states has improved measured in terms of all India average. Yet, the ranking order in terms of per capita income level has remained unaffected, with the exception of Maharashtra, who improved the ranking from the third to the second.

Fourth, the growth performance in the post reform period shows the accelerated growth in all the middle-income states (except for Rajasthan) on one hand, and the decelerated growth of all other states (except for Gujarat) on the other.

Table 1

State GDP per Capita, Growth Rate, Employment Elasticity, and Poverty Ratio in Major Indian States: 1980-81–2004-05

State	GSDP per Capita All India=100)		GSDP per Capita, Punjab=100		Growth Rate(%):GSDP per Capita		Emp. Elasticity	Poverty Ratio (Headcount, %)		
	1980-81–1982-83	1998-99–2000-01	1980-81–1982/83	1998-99–2000–01	1980-81–1991-92	1992-93–2004-05	1993-94–1999-00	1983	1993-94	2004-05
High Income States										
Punjab	165.8	157.3	100	100	3.4	2.7	0.43	14.3	11.7	10
Haryana	140.5	144.6	84.7	91.9	4	3.5	0.42	21.9	28.3	13.6
Maharashtra	131.9	155.7	79.5	99	3.8	3.3	0.22	45.9	37.9	30
Gujarat	130.3	139.2	78.6	88.5	2.8	3.7	0.32	28.9	22.2	19.4
Higher Middle Income States										
Tamil Nadu	101.7	130.2	61.3	82.6	4	4.1	0.05	54.8	32.9	22.7
Karnataka	94.5	119	57	75.6	3.5	5.6	0.19	36.3	30.1	20
Himachal Pradesh	106.4	111.3	64.2	70.8	3.5	4.7	0.05	17	30.4	10.9
Lower Middle Income States										
Kerala	102.3	107.2	61.7	68.1	2.5	4.7	0.01	39.6	25.4	13.2
Andhra Pradesh	94	100.8	56.7	64.1	2	4.7	0.07	26.8	15.9	10.8
West Bengal	88.3	98.4	53.3	62.5	2.6	5.6	0.06	63.6	41.2	28.5
Rajasthan	79.4	89.5	47.9	56.9	3.8	2.9	0.1	35	26.4	19
Low Income States										
Orissa	73.2	65	44.2	35	2.8	2.7	0.26	68.5	49.8	46.9
Uttar Pradesh	71	59.4	42.8	37.9	2.6	1.8	0.19	47.8	43.1	33.9
Madhya Pradesh	68.9	58.5	41.5	37.2	2.1	1.9	0.27	49	39.2	35.8
Bihar	40.5	35.1	24.4	22.3	2.3	2.2	0.35	64.7	56.6	42.2
All India	100	100			3.1	3.8	0.16	48.5	37.2	28.7

Source: Compiled and rearranged from Hirashima (2008a, Table 12.3), Birthal (2009, Table 1) and Himanshu (2007, Table 1).

Fifth, in spite of the different performance in terms of growth rate, the poverty ratio in all states had been reduced, albeit the difference in magnitude.

Sixth, although the growth-poverty linkage is proved to have a trickle-down effect, the regional disparity has not been improved, as we will see soon. The situation surrounding all the four low-income states in terms of growth rate, level of per capita income and the extent of poverty are serious, where 346 million people or roughly 1/3 of the total population reside.

The performance during the post reform period demonstrates the positive linkage between income growth and poverty. At the same time, however, it raises new question in development, namely the increasing disparity in terms of consumption, income and asset holding position. We are going to examine this dilemma in the following sections.

THE STRUCTURE OF SOCIAL INEQUALITY IN RURAL INDIA

The figures in Table 1 show the mean value of each state in terms of growth rate, in which no distinction is made between agriculture and non-agriculture, and between occupational groups as well as social groups.

If we are serious about the issue of poverty and social inequality in the context of IGS, we have to start recognising the simple socio-economic structure of rural India, which is often ignored in economic analysis. The most striking feature in village communities in India, compared with the Japanese villages, for example, is the co-existence of farm households and non-farm households, and moreover, these two occupational groups are socially distinctive under the social hierarchy system based on the Hindu *Varna* System. To be more specific, traditionally they were integrated part of the socio-economic unit of production through *Jajmani* System (*Seyp* system in Pakistan Punjab). [Weiser (1936); Eglar (1960)] Under the system, the non-farm households used to supply agricultural labour, agricultural implements and other social services in order to support production and livelihood of the farm households. They used to receive the customary determined wages in kind. This customary arrangement has served as a traditional form of social safety net based on the social division of labour, together with endogamy called *Jati* (*Biradari* in Pakistan). However, the important point not to be missed is that the non-farm households have been segregated in terms of status hierarchy system; most of them were born artisans and labourers, and mostly landless in village communities. Even though the *Jajmani* System has been rapidly fading out from the contemporary rural India, the socially inferior position of the non-farm households has not been changed basically even after the acquisition of farmland and other assets by them.

The inferior social position of the non-farm households in the traditional sense is now identified as scheduled caste (SC), scheduled tribe (ST) and a substantial part of OBC (Other Backward Classes: Muslims are categorised in OBC). ‘Other’ in social group represents the higher Caste Hindu. In the recent National Sample Survey (NSS) data, for example, NSS 59th Round, the total households in rural India are classified into two ways; occupational group and social group. The former is divided into two as ‘Cultivator’ and ‘Non-cultivator,’ and the ‘Non-Cultivator’ is further classified as ‘Agricultural Labour’, ‘Artisan’ and ‘Other.’ The social group is classified as SC, ST, OBC and ‘Other.’ The proportion of rural people in each sub-group is shown in Table 3.

With this new classification, some of the non-farm households traditionally defined are merged into the category of 'Cultivator,' if they 'operate' own and leased-in land more than 0.002 hectares. By the same token, there is a possibility that some of the farm households with traditional social status who lost land are now classified as either 'Agricultural Labour' or 'Other' in the 'Non-cultivator' category. From the objective of this paper, this new classification has four problems. First, the importance of private ownership of land cannot be identifies with the inclusion of leased in land. Second, the exact extent of those who have been handicapped socially has becomes obscure. Third, concept of 'landlessness' has become obscure as well. Under this classification, artisans, for instance, who cultivate leased-in land of more than 0.002 hectares are now categorised as 'Cultivator', even though they do not own any farmland at all. Likewise, those who own homestead land more than 0.002 hectares are now labeled as 'Cultivator.' Fourth, a comparative analysis became difficult between the state of 1991 and 2002, for the OBC and 'Other' in 2002 were not separately classified in 1991. Admitting that it has become difficult to rigorously examine the state of poverty and social inequality in rural India, it is still possible to discuss the magnitude of the problem by examining the income and asset holding position of the households under the category of 'Non-cultivator' in occupational group, and the SC, ST and OBC in social group.

INCOME-ASSET RELATION AND REGIONAL DISPARITY

In the past, few studies analysed the socio-economic position of non-farm households as an independent economic unit in a village community. Overwhelming majority of studies on agriculture has focused on the economics of farm households. However, if the issue were poverty reduction, this approach would crowd out about 40 percent (in Pakistan 50 percent) of the relatively poor rural residents. As we will see soon, the difference between farm-households and non-farm households is most conspicuous in terms of asset holding position, particularly land, than the level of consumption and income.

The importance of asset approach towards poverty reduction strategy or rural development, in fact, is based on our village survey conducted in Pakistan Punjab in 1972. As is clearly shown in Table 5, the difference between *Zamindar* (farm) households and *Kammee* (non-farm) households is most conspicuous not in terms of income per household, but asset holding per household. In fact, the table shows that while the average income per household of *Lohar* (blacksmith), for instance, was 25.5 percent of the income of owner farmer, asset holding was only 3.9 percent. This should also be compared with tenant farmer, where the share was 48.4 percent and 6.9 percent respectively. This finding raised two sets of question to be examined. One is the socio-economic position of non-farm household in village community, and the other is the income-asset relationship between farm-household and non-farm household. Since the main asset being land, the question was to examine the differential of growth rate between income and land value between the two socio-economic groups in rural Pakistan. As discussed elsewhere already, our follow-up study on the land market behaviour in Pakistan confirmed that the land price has been increasing much faster than the gross produce since the land market was born in the mid-19th century up to the present time. Therefore, the rate of return of investment in land has been declining below

the interest rate of the bank loan. Higher land price than the discounted value of rent as against the traditional definition of rent-land price relationship can be explained by several factors. First, the most important factor on the supply side is the increasing scarcity value of land whose extensive margin is limited. Second, demand side has been historically influenced by the higher productivity of the non-agricultural sector in the region, by the need of maintaining extended family, endogamy (*Jati*), power and prestige of landed elites, and by their excess liquidity in the form of accumulated rental income with fewer investment outlet elsewhere. Third, price inelastic demand for land was resulted in the formation of landlordism during the British period and for them the land was regarded as an alternative form of saving, rather than the investment seeking for justifiable return. Under this circumstance, access to the land market for landless and near landless rural population has become remote. [Hirashima (1978, 2008b)].

The importance of income-asset relationship in studying poverty and regional disparity has begun to be recognised in India gradually in recent years. It was Vaidyanathan who for the first time pointed out the importance of asset by using the National Sample Survey (NSS) data from 1961 to 1981. [Vaidyanathan (1990)] Subramanian and Jayaraj extended the reference period up to 2002 and examined the issue in more detail. [Subramanian and Jayaraj (2006)]. However, both studies had to confine their analysis on the consumption-asset relationship, instead of income-asset relationship, since the National Sample Survey Organisation (NSSO) did not collect data on household income. Therefore, the income-asset relationship has to be examined at the micro-level study. In this connection, we have two important village studies; one by Vikas for India, and the other by Kurosaki for Pakistan. Both studies clearly demonstrate the importance of incorporating asset aspect into the study of poverty and social inequality in addition to income analysis. [Vikas (2009); Kurosaki (2006)].

Let us see the change in the state of disparity in terms of consumption, total asset, and land at the state level. From the Figures and Table 8, two important issues emerge. One is the fact that, while the disparity situation in consumption, total asset and land was improved during the pre-reform period, it was aggravated during the post-reform period. The other is the fact that the disparity is observed much more in total asset and land than consumption. Since the poverty line is expressed in terms of income level calculated on the basis of consumption expenditure, it can be interpreted as proxy for income. In this context, Kurosaki confirms the growing consumption disparity during the post-reform period, and we also highlight the linkage between the growing disparity of land ownership and non-agricultural growth during the post-reform period. [Kurosaki (2009); Hirashima and Kubo (forthcoming)].

With respect to the factors accountable for the direction of change in disparity situation before and after the reform, we could not be conclusive with the available data at hand. Nevertheless, we would like to suggest that the answer lies in the differential growth rate between agriculture and non-agriculture during the reference period. In more concrete terms, the growth rate of agriculture during the post-reform period was decelerated substantially in most states. (Table 2). Although this observation has to be verified more rigorously in the future study, it could be hypothesised that, while the higher growth of agriculture has an effect of mitigating the growing regional disparity, the rapid growth of non-agriculture has an effect to intensify the disparity situation in general. The recent study by Birthal, *et al*. shows the evidence of disparity enhancing effect of non-agricultural growth. [Birthal, *et al.* (2010)].

Table 2

State-wise Growth Rate of Net State Domestic Product of Agriculture and Non-agriculture: 1980-2000

	Agriculture		Non-agriculture	
	1980-81–1992-93	1993-94–1999-00	1980-81–1992-93	1993-94–1999-00
High Income States				
Punjab	2.2	0.95	2.34	2.72
Haryana	1.72	0.87	3	3.33
Maharashtra	1.78	5.23	2.85	2.78
Gujarat	1.17	1.02	333	3.56
Higher Middle Income States				
Tamil Nadu	2.02	0.54	2.31	3.21
Karnataka	1.83	1.75	2.71	3.89
Himachal Pradesh	1.28	–0.02	1.91	3.68
Lower Middle Income States				
Kerala	1.25	0.83	1.59	2.76
Andhra Pradesh	1.24	0.65	2.99	2.97
West Bengal	1.92	1.74	1.84	3.52
Rajasthan	2.41	2.11	3.18	4.01
Low Income States				
Orissa	–0.38	–0.99	1.94	2.94
Uttar Pradesh	1.19	1.29	2.37	2.17
Madhya Pradesh	1.49	1.08	1.77	3.42
Bihar	–0.07	0.26	2.22	2.74

Source: Calculated from the data in NSSO via Indiastat.com.
Figures for 1980-81 and 1992-93 are in 1980-81 prices, and Figures for 1993-94 and 1999-2000 are in 1993-94 prices. For Orissa and Punjab, the figures in the row labelled 1992-93 is for 1990-91.

Let us now look into the structural aspect of growing disparity in terms of asset holding. Table 3 shows the break down of rural households into occupational group and social group. It is shown that the ratio between 'Cultivator' households and 'Non-cultivator' households in rural India was 60:40 in 2002. ST and OBC show the similar pattern with 'Other', but the proportion of 'Non-cultivator' households was more in the case of SC. Since the relationship between occupational group and social group has become so complicated, it does not allow any simple answer to meet both ends.

Table 3

Classification of Rural Households by Social and Occupational Group, India 2002

	ST	SC	OBC	Other	All India
Cultivator	69.3	46.7	61.3	64.2	59.7
Non-cultivator	30.7	53.3	38.7	35.8	40.3
Agr. Labourer	15.4	26.4	11.6	8.3	14.4
Artisan	1.9	7.2	6.4	3.2	5.2
Other	13.5	19.8	20.7	24.3	20.7
All India	100	100	100	100	100

Source: Compiled from NSS 59th Round, Household Assets Holding, Indebtedness, Current Borrowings and Repayments of Social Groups in India, 2006.

Table 4 shows the structure of asset in rural India. It is shown that in all cases, land is by far the important asset in rural India and its importance increases along with the size of ownership. The table shows also that the almost 90 percent of total assets are held in the form of land, building and livestock. In other words, all other forms of assets together were just 10 percent in 2002; percentage of shares and deposits, etc. was 1.6 only. Moreover, this basic structure of asset holdings was almost the same in 1991.

Table 4

Component of Assets in 2002: Occupational and Social Groups in Rural India

(%)	Land	Building	Livestock	Total
Cultivator	68.1	20.1	2.3	90.5
Non-cultivator	38.2	41.4	1.3	80.9
ST	61.3	23.8	4.5	89.6
SC	54.4	31.6	2.5	88.5
OBC	62.2	24.4	2.3	88.9
Other	66.6	20.7	1.6	88.9
India	63.2	23.5	2.1	88.8

Source: Calculated from NSS 59th Round, 2006, Household Assets Holdings, Indebtedness, Current Borrowings and Repayments of Social Groups in India.

Table 5

Income and Asset of Zamindars and Kammees in Four Villages in Rural Punjab in Pakistan, 1971-72

	Income per Household (Rs)	Index: Owner Farmer = 100	Asset per Household (Rs)	Index: Owner Farmer = 100
Landlords with Self-Cultivation (N=25)	7,758	125	160,638	130.5
Landlords without Self-Cultivation (N=24)	3,922	63	83,684	68
Owner Farmers (N=68)	6,206	100	123,157	100
Owner-cum-Tenant Farmers (N=61)	6,829	110	123,181	100
Tenant Farmers (N=55)	3,001	48.4	8,475	6.9
Isai (Christian, N=26)	3,025	48.7	2,922	2.4
Kumhar (Potter, N=16)	1,632	26.3	3,813	3.1
Julaha (Weaver, N=16)	1,691	27.2	2,451	2
Nai (Barber, N=11)	1,828	29.5	4,544	3.7
Mochi (Shoe maker, N=11)	1,617	26.1	3,170	2.6
Tarkhan (Carpenter, N=6)	1,461	21.5	6,875	5.6
Lohar (Blacksmith, N=6)	1,582	25.5	4,751	3.5
Teli (Oil Extracter, N=5)	1,132	18.2	1,737	1.4
Qasai (Bucher, N=3)	1,227	19.8	2,032	1.6
Moulvi (Priest, N=2)	2,574	41.5	4,473	3.6

Source: Village Survey (Extracted and compiled from Hirashima, 1978).
Note: Income = gross earnings less gross cost, plus family labour cost and depreciation.
Asset = present value of land, buildings, livestock, machinerie and implements.

Table 6 shows the distribution of average value of asset (AVA) in the case of occupational group. Three things are clear at a glance.

First, there are substantial variations in AVA across the states, and it is not in the order of SGDP per capita.

Table 6

State-wise Average Value of Asset (AVA) in Rural India: Occupational Group, 2002

(Value: Rs 1000, other: %)

	All India	Cultivator	Cultivator=100	Non-Cultivator	Agr. Labour	Artisan	Other
High Income States							
Punjab	340	391	1462=100	18	7	10	24
Haryana	269	287	1070=100	20	8	6	34
Maharashtra	95	104	388=100	22	12	14	35
Gujarat	123	128	478=100	28	16	26	36
Higher Middle Income States							
Tamil Nadu	68	89	331=100	31	17	21	44
Karnataka	93	97	362=100	26	19	30	35
Himachal Pradesh	181	151	564=100	41	8	20	49
Lower Middle Income States							
Kerala	192	209	778=100	34	15	22	37
Andhra Pradesh	51	61	226=100	25	19	28	38
West Bengal	57	57	211=100	36	17	31	47
Rajasthan	135	111	413=100	48	23	30	60
Low Income States							
Orissa	37	32	120=100	50	22	75	68
Uttar Pradesh	124	107	400=100	30	13	22	41
Madhya Pradesh	89	85	317=100	26	17	22	42
Bihar	77	79	294=100	24	13	26	39
All India	100	100	373=100	27	14	23	41

Source: Calculated from NSS 59th Round, (a).

Second, the difference between 'Cultivator' households and 'Non-cultivator' households is obvious, and among 'Non-cultivator' households, AVA is the highest in 'Other.' Although 'Non-cultivator' households are multi-occupational in general, the households in 'Other' category contain those who are engaged in non-agricultural higher income jobs.

Third, in all states asset disparity measured in terms of Gini-coefficient was more among 'Non-cultivator' households than 'Cultivator' households.

Table 7 shows the similar theme from the point of view of social group. Here also the difference in terms of AVA between 'Other', namely higher Caste Hindu households, and ST/SC households is obvious, but not so conspicuous between 'Other' and OBC. This is because OBC contains many owner farmers with land. From these tables, it is evident that the asset holding position distinguishes rural residents much more than consumption and income, and this is one of the basic causes of disparity in rural India.

Table 7

State-wise Average Value of Asset (AVA) in Rural India: Social Group, 2002

(Value: Rs 1000, other: %)

	All India	Other	Other=100	ST	SC	OBC
High Income States						
Punjab	340	402	1727=100	9	12	31
Haryana	269	292	1254=100	48	14	44
Maharashtra	95	83	357=100	29	35	72
Gujarat	123	120	515=100	32	29	62
Higher Middle Income States						
Tamil Nadu	68	125	536=100	25	15	39
Karnataka	93	83	358=100	45	32	64
Himachal Pradesh	181	139	599=100	63	43	80
Lower Middle Income States						
Kerala	192	165	709=100	15	21	67
Andhra Pradesh	51	58	248=100	25	28	53
West Bengal	57	40	172=100	51	70	107
Rajasthan	135	104	449=100	45	42	103
Low Income States						
Orissa	37	38	163=100	35	34	78
Uttar Pradesh	124	130	557=100	49	28	61
Madhya Pradesh	89	80	393=100	34	32	67
Bihar	77	91	390=100	39	21	51
All India	100	100	430=100	32	28	62

Source: Calculated from NSS 59th Round (a) (b).

As far as the variation of AVA (or land value to the greatest extent) at the state level is concerned, there are several factors to note. In addition to the general factors accountable for the high land price as discussed already, the region specific factors are important. The higher AVA of Punjab and Haryana can be explained by the high productivity of agriculture and emerging industrial base. Massive influx of remittance from abroad would be the powerful explanatory factor for Kerala. Tourism attraction would be the important factor for hill station such as HP and J&K. The traditional value attached to land may be one of the explanatory variables for UP and Rajasthan. These regional variations of AVA suggest the importance of identifying comparative advantages of each region and trying to develop these region specific advantages in the context of regional development so that the regional disparity could be minimised.

Table 8

Transition of Inequality in Consumption, Land and Total Asset in Rural India: 1982-2004-05

	Consumption Gini			Land Gini		Total Asset Gini		
	1983	1993-94	2004-05	1993-94	2004-05	1982	1992-93	2002-03
High Income States								
Punjab	0.292	0.281	0.295	0.775	0.805	0.652	0.569	0.612
Haryana	0.285	0.314	0.34	0.721	0.78	0.559	0.528	0.612
Maharashtra	0.291	0.259	0.283	0.581	0.619	0.633	0.605	0.579
Gujarat	0.268	0.24	0.273	0.726	0.745	0.584	0.538	0.595
Higher Middle Income States								
Tamil Nadu	0.367	0.312	0.322	0.828	0.856	0.667	0.651	0.631
Karnataka	0.308	0.27	0.265	0.683	0.722	0.622	0.548	0.555
Himachal Pradesh	na	0.284	0.311	0.541	0.537	na	0.458	0.493
Lower Middle Income States								
Kerala	0.32	0.301	0.383	0.818	0.646	0.605	0.543	0.55
Andhra Pradesh	0.297	0.29	0.294	0.671	0.805	0.661	0.642	0.618
West Bengal	0.3	0.254	0.274	0.698	0.714	0.608	0.562	0.571
Rajasthan	0.347	0.265	0.251	0.562	0.624	0.526	0.54	0.511
Low Income States								
Orissa	0.27	0.246	0.285	0.66	0.689	0.603	0.551	0.578
Uttar Pradesh	0.291	0.264	0.286	0.629	0.654	0.575	0.553	0.563
Madhya Pradesh	0.28	0.307	0.312	0.712	0.732	0.589	0.601	0.618
Bihar	0.266	0.228	0.217	0.69	0.7	0.633	0.607	0.577

Source: Computed from data in Himanshu (2007) for Consumption, in Subramanian and Jayaraj (2006) for Totak Asset and in NSSO (1997) and NSSO (2006) for land.

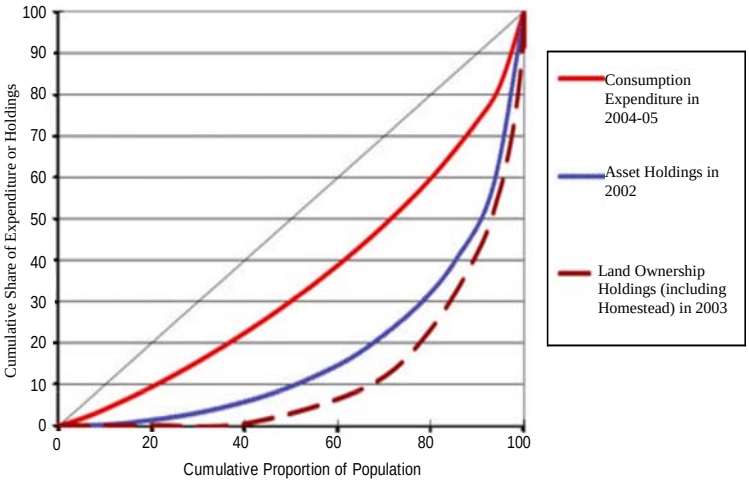
Table 9

Indebtedness and Debt-Asset Ratio in Rural India, 2002

	Average Asset Holding (Rs)	Average Amount of Debt (Rs)	Debt-Asset Ratio
Cultivator Households	372,632	9,261	2.49
Non-cultivator Households	107,230	4,991	4.65
All Rural India	265,606	7,539	2.84

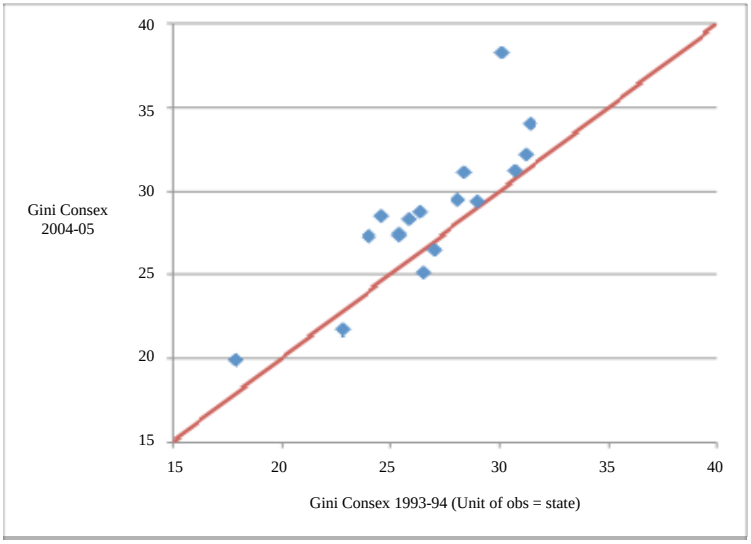
Source: NSS 59th Round, Report No. 500, Table 3.5.1, 2005.

Fig. 1. Lorenz Curves for Consumption, Total Asset and Lan



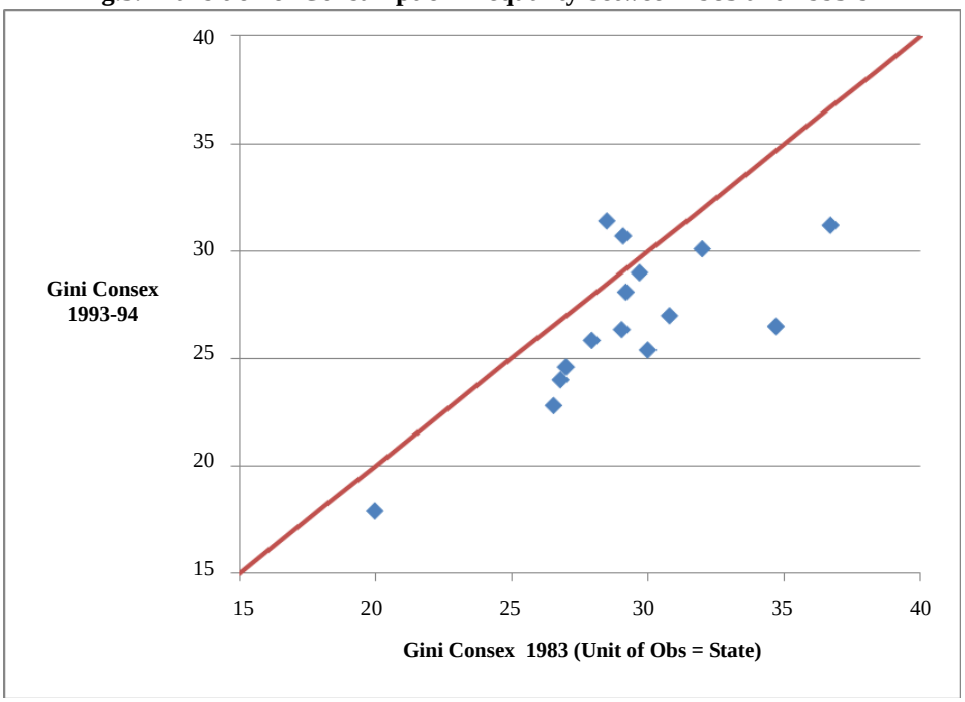
Source: Computed from data in NSSO (2005) and NSSO (2006a, 2006b).

Fig. 2. Transition of Consumption Inequality between 1993-94 and 2004-05 in 15 States of India



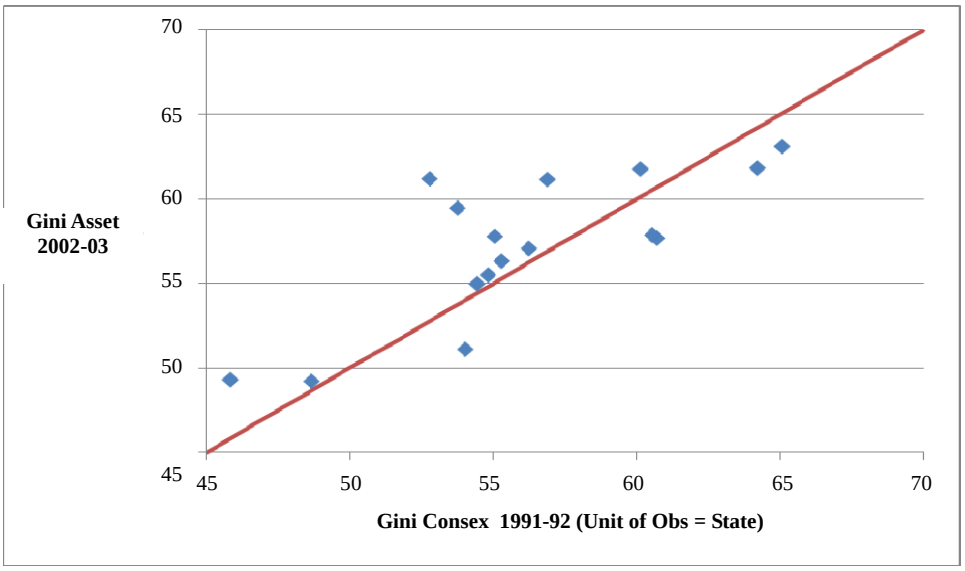
Source: Drawn from data in Table 2.

Fig.3. Transition of Consumption Inequality between 1983 and 1993-94



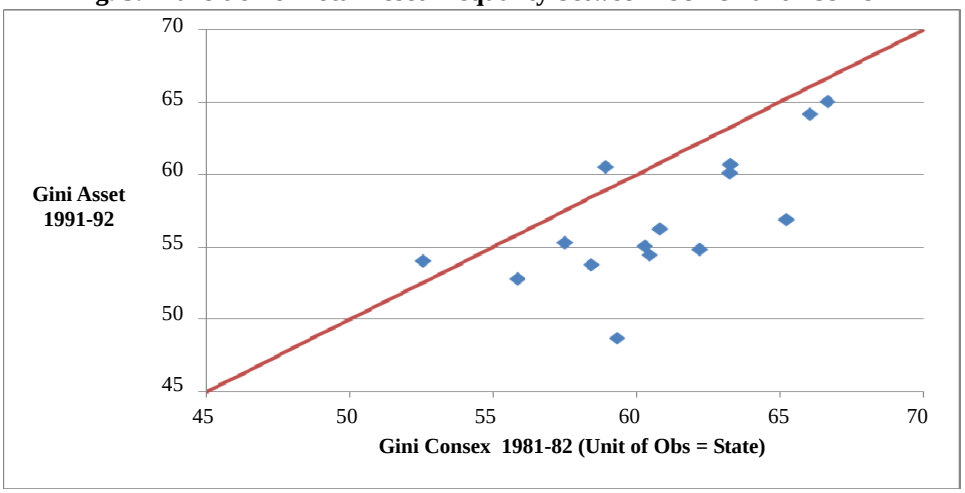
Source: Same as Figure 2.

Fig. 4. Transition of Total Asset Inequality between 1991-92 and 2002-03 in 15 States of India



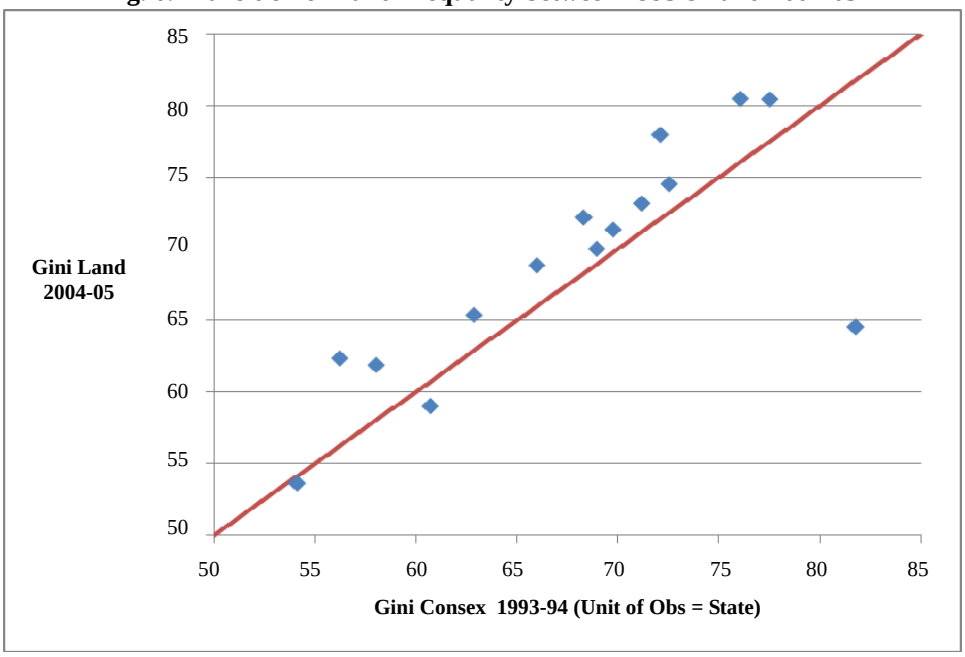
Source: Same as Figure 2.

Fig. 5. Transition of Total Asset Inequality between 1981-82 and 1991-92



Source: Same as Figure 2.

Fig. 6. Transition of Land Inequality between 1993-94 and 2004-05



Source: Same as Figure 2.

ACCESSIBILITY TO LAND OWNERSHIP: A PATHWAY TO SOCIAL EQUALITY

We have so far examined the asset distribution and its relation to consumption, income and poverty. We have come to know that the social inequality is reflected more in terms of asset holding position than the level of consumption and income. Also we could see that land has been by far the most important asset than any other assets in rural India.

Land is not a man-made resource. Therefore, its availability is limited, which is different from man-made assets, such as machineries and buildings, and also from other factors of production such as capital and labour. However, the most decisive factor that demarcates land from other assets is its nature of depreciation. While all other assets depreciate their values over time, land value does not depreciate in a normal circumstance. In many cases, its value appreciates more than its utility value, particularly during the high economic growth period. Because of this characteristic, land is the most important collateral and hedge against risk and uncertainty, in addition to the symbol of prestige and power in rural society. It is quite unfortunate in history that the command over land and its associated underground resources has determined social status, political power and economic wellbeing. Then the issue of overcoming social inequality in its important part is the accessibility to land ownership.

1. Land Reform: A Political Solution

The arguments in this regard are divided sharply. One school of thoughts advocates the important role of land reform, while the other school expects the role to be played by land market and other land related policies other than land reform. However, there seems to be confusion with respect to the definitional difference between land reform and other land polices among researchers.

We do not intend to examine here the history of land reform experience in India, but make a few comments on the debate in the context of IGS. [Appu (1996)]. Those who take the former position strongly support the positive effects land reforms in West Bengal and Kerala have had on improving the socio-economic position of the socially discriminated segment of rural population such as SC, ST and Muslim. [Rawal (2001); Banerjee (1999)]. However, it is important to bear in mind that the experiences of the two states clearly demonstrate the political nature of land reform. In fact, land reform is a non-market solution, whose character as well as its degree of implementation is decisively determined by the social character of the political force in power. [Hirashima (1978)]. In this way, land reform is a political process and thus should not be regarded as if it were one of the ‘development programmes’ of the government. This point is evident in the post-war land reform in Japan, which was introduced by the occupied Allied Forces under the ‘state of unconditional surrender’. The main objective was to terminate the root cause of Japanese military, namely the poverty of rural Japan. The successful implementation was attributable to the prevailing condition of landlordism. In fact, the landlords had lost interest in holding land after a series of tenancy disputes and the discriminately pricing system against landlords on the eve of land reform in 1946. [Hirashima (1982)]. Most recent evidence in India is seen by the decision of the Bihar Government, who refused to accept the recommendations drafted by the Land Reform Committee established by the very government. [Bandyopadyay (2009)].

2. Land Market: An Economic Solution

Those who belong to the latter school prefer to introduce land policies other than land reform, such as tenancy reform, consolidation of holdings, and the introduction of ‘market assisted land reform’, which implies the provision of fund with subsidised interest rate in order to facilitate the purchase of land in the land market. [Baksh (2006)].

The land policies of this kind are different from land reform in that they are not aiming at land redistribution. Tenancy reform is for improving and stabilising the contractual status of tenants. It does not interfere the distribution of land ownership. In this sense this is an employment and income enhancing policy. Likewise, consolidation of holding is a measure to improve efficiency of land use by consolidating the subdivided and fragmented plots of land. Again, this is nothing to do with land redistribution, and also with socially deprived landless segment of rural India. Zamindri abolition has been one of the most successfully implemented policies in rural India. However, here again, the main purpose was to terminate the entitlement of *Zamindars* to portion the land revenue collected by them without accompanying the appropriation of their land ownership. This should be regarded as a revenue reform rather than land policy.

'Market friendly land reform,' advocated by the believers of market economy, is a policy to facilitate land transfer through the normal market channels by assisting small and marginal peasants in terms of providing loan with subsidised interest rate. [Baksh (2006); IFAD (2000)]. However, one should know more about the land market behaviour before one can be optimistic about the effectiveness of this approach to overcome poverty and social inequality.

As we have referred earlier, the land price has been increasing much faster than the rent in Pakistan and India since the land began to be transacted in land market in the undivided Punjab. As a result, the rate of return to investment in land expressed in terms of rent-land price (R/LP) ratio has been declining persistently over time since the mid-19th century. [Hirashima (1978, 2008b)]. The divergence between the growth rate of land price and rent have been observed in the United State and Japan as well. [Stephen Clark, *et al.* (1993); Merchal (1979); Hirashima (2008b)]. This historical evidence suggests that it would be difficult for the low-income residents to buy land with the loan whose interest rate is kept higher than the rate of return on land investment.

Attempts at studying the land market behaviour have begun only in recent years in India based on the micro-level survey. [Delinnger (2007); Rawal (2008)]. However, none of them has inquired the sources of income of the buyers of land, as well as the land price actually transacted.

Generally speaking, it is presumed that if the buyers are large farmers from the higher caste Hindus, for instance, and the sellers are small and marginal farmers, the Gini-coefficient of land holding would be increasing and the social structure would not be affected. However, if the buyers are from the 'non-cultivator' or less privileged social groups such as SC, ST and Muslim, and the sellers are from the socially superior large farmers /landlords of higher caste origin, it would lead to the situation where both social inequality and distribution of land be improved. Unfortunately this is observed only in W. Bengal at the moment. [Rawal (2009)]. However, even in this case, question was not asked how the buyers could finance the purchase of land. However, this study raises one important point in that the enforcement of Land Ceiling Act has discouraged the landed class to keep on holding land under the expected increase in risk and uncertainty of being a 'rent-receiver'. [Rawal (2009)]. This finding was supported by the case of Japan as we have introduced earlier. Moreover, in our most recent study on land transactions in the market suggests, in general, that the SC in the social group and 'Agricultural Labourers' in the occupational group are unlikely to be a buyer in the land market, except for the

states where land reform was rigorously enforced. There the buyers were often SC, Muslims and agricultural labourers. We found out also that in the states where the non-agriculture sectors has been growing faster, not only agricultural labourers, but also farm households found it difficult to participate in the land market as buyers. This is due to the higher land price, which is the reflection of the higher productivity of the non-agricultural sectors in the region. These findings would suggest that the direction of market transaction has been towards increasing disparity. This is consistent with the argument set forth in our previous section on the growth-poverty linkage, where poverty was being reduced by the high economic growth, but the income and asset disparities increased. Although much should be studied in this area, the study clearly shows also that the number of land transaction in the land market is extremely small and limited. [Hirashima and Kubo (forthcoming)].

The arguments introduced so far on the issue of land redistribution seem to suggest that the magnitude of change through the land market is extremely limited, and that one should not be too simplistic about the possibility of introducing land reform as one might expect, at least in the short-run.

CONCLUDING DISCUSSION

In this paper, we focused our attention to the important role of asset in discussing the issue of poverty, social inequality and regional disparity in the process of growth. Although it is too early to assess the impact of IGC at this stage, it gives the impression that, with the consistency and continuation of IGS, the pathway towards this novel objective will be opened. Based on our analysis so far made in this paper, let us summarise the major findings and then discuss some areas of policy concern.

First, the performance of the post-reform period is characterised by the higher economic growth and declining poverty ratio on one hand, and the increasing disparity in terms of consumption, income and asset holding on the other.

Second, the disparity at household as well as regional level is much more evident in asset holding, notably land, as compared with consumption and income.

Third, the root cause of social inequality in rural India is inherent in social structure based on the social hierarchy system / Hindu *Varna* system. Statistically, the majority of them are in the category of ‘Non-Cultivator’ in the occupational group and ST, SC and the substantial portion of OBC in the social group.

Fourth, the disparity between ‘Cultivator’ and ‘Non-Cultivator’ in the occupational group, and between ‘Other’ (higher Caste Hindu) and ST, SC and OBC is distinctive much more in terms of total asset, in particular land ownership than consumption and income.

Fifth, it has become clear that the access to total asset, in particular land is one of the key determinants to overcome social inequality inherent in rural India and Pakistan. In this connection, the prospect is not bright at least in the short-run. Too simplistic assertion for radical land reform is persisted on one hand, and the too high hurdle for the landless and near landless rural households to cross over to reach the prevalent land market is a hard reality on the other.

Based on these findings, our reflection on the future direction of IGS can be set forth in the following way.

First, judging from the post-reform performance in terms of growth-poverty linkage, growth is proved to be a necessary condition, may not be a sufficient one, for poverty reduction. In this connection, a faster growth of agriculture with enhanced investment in infrastructure, advocated in the IGS, should be rigorously pursuit. This policy orientation is justified by the disparity-reducing agricultural growth in the 1980s on one hand and the disparity-enhancing non-agricultural growth in the 1990s on the other. However, this evidence should not lead to the argument of discouraging the growth rate of non-agriculture. What seems to be important is to identify and manage the development of disparity-enhancing investment, such as unconditional development of private tube-well, or of private school at early stage of education. [Tsujita (2009)].

Second, for the purpose of overcoming inherent social inequality in the process of growth, most effective means is the introduction of land reform. However, as discussed already, its effectiveness depends upon the strong political will and the prevailing socio-economic structure in rural society. If the solution is sought within the framework of market economy, total household income should grow fast enough to be able to access to land market in due course of time. In this process, the key factors are two, among others. One is to encourage the diversification of total household income, for which the provision of high quality education, particularly in the field of technical education is crucial. [Chadha (1993); Kijima and Lanjouw (2005); Birthal, *et al.* (2010); Kurosaki (2009, 2010); Sawada and Lokshin (2009)]. The other is the strong policy intervention to manage growing land price not accrue to productive investment, but to other factors, notably capital gains. With this intervention, the future income-asset relationship could become friendlier to the landless and near landless rural population.

As long as asset, notably land remains as a powerful means to hedge against risk and uncertainty not only for the people below the poverty line, but also for the vulnerable population just above the poverty line, trend of total household income and asset price has to be monitored carefully. The challenging objective of IGS demands time and patience, but it is in the right track. Therefore, we would like to close this paper by quoting the Para 151 of the Budget Speech delivered by Manmohan Singh in July 24, 1991.

"I was born in a poor family in a chronically drought prone village which is now part of Pakistan. University scholarships and grants made it possible for me to go to college in India as well as in England. This country has honoured me by appointing me to some of the most important public offices of our sovereign Republic. This is a debt which I can never be able to fully repay. The best I can do is to pledge myself to serve our country with utmost sincerity and dedication. This I promise to the House. A Finance Minister has to be hard headed. This I shall endeavour to be.

I shall be firm when it comes to defending the interests of this nation. But I promise that in dealing with the people of India I shall be soft hearted. I shall not in any way renege on our nation's firm and irrevocable commitment to the pursuit of equity and social justice. I shall never forget that ultimately all economic processes are meant to serve the interests of our people. It is only through a commitment to social justice and the pursuit of excellence that we can mobilise the collective will of our people for development, to give it a high moral purpose and to keep alive the spirit of national solidarity. The massive social and economic reforms needed to remove the scourge of poverty, ignorance and disease can succeed only if backed by a spirit of high idealism, self sacrifice and dedication". [Manmohan Singh (1991)].

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Comments

I am extremely grateful to the Pakistan Society of Development Economists (PSDE) for inviting me to participate in their annual meeting and discuss a very interesting paper, delivered by an old friend of Pakistan.

According to the author, objective of the paper is to highlight the importance of including asset holding and its distribution into the study of growth poverty-linkage and inherent social inequality in rural Pakistan and India. Subject of the study, given the high incidence of poverty and concentration of poor in south Asia, is not only of interest to the academia but also to the policy planners. I would like to compliment Professor Hirashima Shigomochi for his in depth analysis of the issues, thoughtful articulation of his arguments and excellent presentation.

The motivation for the study seems to have been provided by the Inclusive Growth Strategy (IGS), introduced by the Union Government of India in 2006. The principal components of IGS were:

- Step up investment in rural infrastructure and agriculture;
- Increase credit availability to farmers and offer them remunerative prices for their crops;
- Increase rural employment, providing a unique social safety net in the shape of National Rural Employment Guarantee programme;
- Increase public spending on education and health care including strengthening the mid day meal programme and offering scholarship to the needy;
- Invest in urban renewal, improving quality of life for the urban poor;
- Socially, economically and educationally empower Scheduled Castes (SC), Scheduled Tribes (ST), other backward classes (OBC), minorities, women children and others;
- Ensure that through public investment the growth process spreads to backward regions and districts.

The inclusive growth is equated here with equitable development or growth with social justice. I am glad to note that the IGS approach is based on growth, which I believe to be a necessary condition for the development process. I wish Professor Hirashima Shigomochi had used some space in the paper to highlight the steps taken by the Indian government to implement the IGS as well.

Professor Hirashima in his paper recalls the speech of Mr Jawaharlal Nehru, on the eve of Independence in August 1947. According to A. K. Sen, Mr Nehru had succinctly highlighted/outlined the three “tasks ahead”:

- Practice of democracy and guaranteeing of various freedoms of the citizens of India;
- Removal of social inequality; and
- Achieving economic progress.

Professor Hirashima, relying on the observations of Nobel Laureate, A. K. Sen, leads us to believe that India has been quite successful in achieving the first tasks i. e practicing of democracy, moderately successful in achieving economic growth but has fared poorly in removing social inequality. Professor Hirashima also notes that India has done well to strike a balance between growth and equity, and giving priority to the development of capital goods sector over consumer goods, unlike many other developing countries. India is now better placed, compared to Pakistan, to diversify its industrial structure. Development of heavy industry, inter alia, led to the development of higher education but slow development of basic education in India. However, the 1980s saw the shift in economic policies towards market economy and 1991 was witness to departure of the planned economy towards market based economy. The post 1991 period is characterised by high economic growth and reduction in the poverty but also persistence of social inequality.

Growth Poverty Linkage in Major Indian States

In the post reform period India has successfully emerged from the situation of low growth, averaging 3.1 percent per year in 1981-92 to record average growth rate of 3.8 percent during 1994-2000. This acceleration in the growth has been accompanied with poverty reduction, supporting the trickle down effect of growth thesis. It is to be noted however that this progress has not been uniform across various states. Generally states with relatively higher incomes achieved modest growth while those in the middle income groups achieved impressive growth rates. Moreover, save the low income states, 4 in all and accounting for 33 percent of the population, other states improved their relative income position as well. Another important feature of the inter state comparison is the deceleration experienced in the growth rates, in 8 of the 15 states covered in the analysis. Taken together these account for 53 percent of the total Indian population. Three of these states (not 2 as mentioned in paper) belong to the high income category, one to the low middle income category and all four of the low income group. An interesting feature of the states experiencing deceleration in growth is the dominance of agriculture in their economy (except Maharashtra). All the states have also experienced structural transformation of their economy as relative shares of agriculture have declined overtime.

All the states in the wake of economic reforms have made impressive progress in poverty reduction; overall poverty ratio fell from 44.5 percent in 1983 to 26 percent in 1999-00, impressive achievement indeed. However, inter state disparity has aggravated. The situation in all low income states, also witnessing deceleration in their growth rate, having lower per capita incomes and higher incidence of poverty is serious. Accounting for 33 percent of the total population these states are predominantly agricultural, having much higher proportion of labour engaged in agricultural pursuits than the national average and also depending more on agriculture for GDP. But interestingly Gini coefficients of their rural assets distribution are less than the national average. An interesting question emerging in the context of these low income states is the impressive reduction in poverty in spite of deceleration in the growth rates. At the same time the growth rate in agriculture has been characterised by instability. Rapid industrialisation, urbanisation, remittances and land reforms, Professor Hirashima points out, have helped in poverty reduction efforts.

Agriculture remains an important sector of the Indian economy, notwithstanding sharp decline in its share of GDP, from 37.2 percent in 1980-82 to 21.3 percent in 2003-05; as a preponderant source of employment for 58.2 percent of the labour in 2001. This however, also reflects lower productivity of agricultural labour and sector at large. This also applies to Pakistan where share of agriculture in GDP in 2009 has declined to 21.8 percent while 44.65 percent of employed labour force is engaged therein (*Pakistan Economic Survey 2008-09*). Looking at the lower than industrial growth rate in agriculture and its instability, had agriculture's performance been stable, not marred by instability and comparable to industrial sector, the results in terms of poverty reduction would have been much better. An important question then is how to reduce instability and improve sustainability in growth rate of agriculture. To the students of development economics, this is an important challenge that warrants examination. We in Pakistan have also suffered from the poor and erratic performance of agriculture, growth rate in agriculture during 2001 to 2009 varying from (–) 2.2 to 6.3 percent. Root causes of these phenomena, not known precisely, needs to be understood and remedial measures undertaken.

Rural Scene—Farm and Non-Farm Households

Explaining the features of Rural India-Pakistan, where farm as well non-farm households earn their livelihood and have depended on each other's supporting role, Professor Hirashima rightly points out to the fading out of *Jajmani* system ('Sep' system). No doubt many of the artisan households, in the wake of increasing mechanisation in agriculture and other changes in the rural landscape have migrated to urban areas and Gulf countries. In the process they may or may not have changed their ancestral occupations but have definitely improved their economic status. But their social position in the rural social set up and hierarchy remains inferior. However, this may not necessarily hold in the urban settings.

Professor Hirashima argues that if we have to address the issue of poverty in the rural areas the focus has to be on non-farm households. If I follow him correctly, 50 percent of the rural poor belong to this group. What about the other 50 percent? Their cause also needs the attention of those who matter. Farm households also vary in their access to land and other factors. Many of the farm households are poor because of inadequate access to land, water, credit and other inputs as well poor functioning of commodity markets and a host of other factors which need to be examined and understood. No doubt adequate access to income earning assets and more so to land is important for the success of poverty reduction efforts. Professor Hirashima has also emphasised this aspect in his paper. But is so much land available? And if yes at what price? In this context distribution of state land amongst the marginal farm households and landless non-farm households should receive priority. The provincial governments in Pakistan are known to making some progress in this direction. The need for transparency and speed in such operations is of utmost importance.

Another aspect and issue of considerable importance is the low rate of return to land investment. But given the inelastic supply of arable land in the short run and increasing competition from non-farm uses, like industrial development, housing, infrastructure and burgeoning population per capita availability of land is declining.

Consequently, prices of land have risen very high. Given the low productivity and deteriorating terms of trade it is no wonder that land investment is not an attractive economic proposition. However, in view of the appreciation in its value and social status which goes with increase in its holding land remains a preferred asset in the rural settings. In view of this situation, I submit a better proposition may be the establishment of institutions providing marketable skills rather than the focusing on provision of land to non-farm households. At the same time we have to look for ways and means that rural population does not fall behind in the development of human resources as the current system of education with its class oriented structure is not going to help in this context.

Disparity in terms of assets, which is dominated by land in rural areas, is higher than consumption. But this phenomenon is well known in the literature on poverty. The consumption especially at the lower rungs may be supported by distress selling of assets, dissaving, borrowing etc. However, worsening of disparities in consumption, total assets and land, in spite of economic growth and reduction in poverty, is rather astonishing and needs further examination and analysis through continuous monitoring of the socio economic, political and institutional developments in the rural landscape. Asset holding position particularly ownership of land distinguishes rural residents much more than income and remains one of basic causes of disparities in rural areas of the subcontinent. However, I was struck by the relatively lower values of the assets dominated by land in India as compared to Pakistan. In Pakistan average value of land hovering around Rs 800,000 to 1,000,000 per acre in irrigated regions is much higher as compared to value in India hovering around Rs 400,000. But inter state as well as intra state disparity cannot be explained by simply appealing to factors impacting on farm productivity and income alone and needs a detailed examination.

No doubt there is a nexus between poverty and access to land which is reinforced through lack of collateral in the credit market. Thus, those who are born poor are likely to remain poor unless they are provided access to education, marketable skills which will unlock the access to employment and or assured access to credit. The high average debt-asset ratio (4.65) for non-cultivator households as compared to cultivators (2.4) reflects the lower capacity and handicaps of non-cultivators in credit market. Thus, the author rightly concludes that a poor asset base is both a cause and consequence of poverty. I fully endorse the author's proposal that for poor people state must improve the pathways towards empowerment. These, I submit will, inter alia, include enhanced opportunities for education, improvement in law and order and governance at all levels but especially at lower levels, ensuring justice and fair play. A pathway to social equality in the rural areas is through accessibility in land ownership. Nevertheless, given its inelastic supply and other imperatives of agricultural development one has to look for other pathways. In this context the recent initiatives of the Punjab government in Pakistan to highlight the achievements of position holders in various examinations and other academic competitions and provision of scholarships are steps in the right direction. Similarly, Higher Education Commission's endeavours to promote the cause of education in Pakistan by providing scholarships are good beginning and steps in the right direction. But their scope needs to be broadened so that the talented but poor people do not lag behind for want of resources. In this context, I would also request the need for more vocational and training institutes and for having a uniform educational system up to

matriculation, at least, in the country. Issues of governance, merit based appointments, abolition of political parties quotas in employment are some of the other pathways to empowerment of the poor. Need for reducing instability in agricultural growth rate, raising farm productivity through enhanced R and D efforts, upgrading the marketing intelligence and infrastructure to improve the functioning of both factor and product markets and arresting resource hemorrhage from agriculture are some of the key areas which need urgent attention of the policy-makers to reduce the incidence of poverty.

Hirashima rightly concludes issue of social inequality does not lend to short cuts and pathways will come with consistency and continuation of IGS. To overcome social inequality, predominantly land based total household income must be increased to the extent they could participate in land market in due course. However, with deteriorating land man ratio enhancing total household incomes will not come from agriculture. Need for highest priority for reforms and investment in the education. Achieving 4-5 percent annual growth rate the agriculture and sustaining it would be predicated on raising its productivity and enhancing labour absorptive capacity. Here there is also a need for increasing technical support at the grass root level, improving the functioning of factor input and product markets and arresting resource transfers from agriculture. At the same time there is an urgent need for strengthening the processing and marketing infrastructure for agriculture so as to enhance value addition and opening up employment opportunities.

I tend to agree with Professor Hirashima's views on the land reform being a political process rather than being a development programme. This has become more so over time as the inverse relationship between farm size and land productivity a hall mark of traditional agriculture is no more tenable under transitional and commercial agriculture. But that does not mean no more tenancy reforms, implying regulation of tenurial contracts and consolidation of holdings either. There is also an urgent need for studying and analysing the evolving land market so as to develop an understanding of the formation of prices and the sources of financing the transactions and related issues in land markets.

In closing, I would like to commend Professor Hirashima for his scholarly work on growth poverty linkage. Most of the discussion in the paper is however based on Indian data and Pakistan figures marginally at best. Notwithstanding certain similarities in all developing countries all of them have unique features requiring attention and distinct approach. Accordingly, I have not been pleased with the less than equal approach to Pakistan which featured ahead of India in the title.

I thank you for your patience and attention.

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Comments

1. I am honoured to have the privilege of commenting the paper by Professor Hirashima. It is a very interesting and a comprehensive paper. It touches various dimensions like growth-poverty linkages, inter- and intra-state disparities, income-asset relations, poverty-asset linkages, social inequality citing evidences both from Pakistan and India.
2. Though the paper is mainly based on Indian data, it provides useful insights to follow development route in case of Pakistan as well. Nonetheless, the paper does not justify Pakistan's case as it has been highlighted in the title. The discussion revolves mainly around the Inclusive Growth Strategy (IGS) adapted buy the Indian government in 2006 as a development strategy to alleviate poverty on the one hand and sustained rapid economic growth on the other.
3. Professor Hirashima rightly highlights the fact that the foundation of India's development performance has been her major emphasis on sustained growth with equity since the independence. Therefore, the inclusive growth concept for India is not really new. This strategy resulted into fast track and diversified industrial structure. The paper further argues that the asset holding disparities are also high within and across social groups, and the growth rates in agriculture decelerated almost in all major States. However, the World Development Report 2008 on agriculture shows that India has fairly low income inequality.
4. Interestingly, despite all these weaknesses rural poverty in India generally declined. The author argues that poverty reduction could have been much more significant if the agricultural sector had kept pace with the industrial sector.
5. Regarding the agriculture, the growth rates not only declined but show a much more variation among states during the recent period. The data shows a complete disconnect of agriculture from the other sectors since the correlation coefficients (though very crude) between growth in agriculture and the other sectors before and after the reforms period are 0.51 and 0.15, respectively. The cause of low performance of agricultural growth has been due mainly to lack of focus on this sector in recent reforms.
6. Despite this the declining rural poverty highlights the facts that how mature and broad based is the Indian economy that absorbed the shocks of low growth rates in agriculture sector. The forces behind this success of India have been the very strong and reliable infrastructure of safety nets in place as well as world's largest food procurement and distribution system in the country. Moreover, these trends also point out that agriculture alone cannot reduce

rural poverty, the role of rural non-farm employment and equity in land distribution is important [World Bank (2008)].

7. The declining trends in poverty may not sustain in India because asset holdings particularly the land per farm is continuously on the decline that constrains individuals' access to credit markets, education and health facilities that further limits their access to remunerative jobs. It has also been argued in the literature that lack of minimum asset endowments push the households in long-term poverty trap that further perpetuates when such households cannot secure productive off-farm employment due to their low human capital. Therefore, the asset base of the poor has become a major challenge for the policy-makers to implement agriculture-for-development strategy [World Bank (2008), p. 84]. This has to be rather more true for Pakistan.
8. These facts imply that it is responsibility of the State to provide equal access to quality education and health. If we consider the case of Pakistan, our health and education policies are totally misplaced and further widening the disparity between haves and have nots closing the doors of remunerative job opportunities for those who cannot afford to acquire quality education. Access to health services in rural Pakistan is dismal as well. There are strong empirical evidences available in literature that poor health and education depress agricultural productivity. The dynamics in agriculture technological evolutions further urges strengthening of rural educational and health infrastructure the truth is that we are loosing the existing one also.
9. An important point raised by Professor Hirashima is on rapidly increasing land prices; the land value surpassing the marginal returns to land use. I think the major factor behind this in Pakistan is greater pressure on land because of low absorption of surplus rural labour force in non-agricultural sectors, unplanned urban expansions and lower alternative investment opportunities particularly for those working abroad.
10. The paper emphasises on land ownership as pathway to social equality because access to economic opportunities are attached to this factor of production. If I am not wrong Professor Hirashima is not in favour of land reform *per se* rather he is inclined towards agrarian reforms, tenancy reforms, consolidation of holdings and market assisted land reforms with provision of low cost institutional credit. I find myself completely aligned with Professor Hirashima's argument. Nonetheless, the policy of land reforms has been successfully implemented in India, while Pakistan has failed to do so despite various efforts. Now it seems Pakistan has missed the train and may not be able to take up the land reforms at all because of political reasons.
11. The distribution of land I believe is much less unequally distributed in India than in Pakistan, and the pure tenancy is even less than 1 percent, while in Pakistan this figure is 19 percent. The figure of pure tenancy is worse in Sindh province where it accounts for nearly 40 percent. The asset holdings inequality in rural Pakistan is worsening further due to continued capture of

public services by the rural elites and above all the impact of policy biases. There are intergenerational poverty transfers through lack of quality education and health, and poor nutrition in rural societies [World Bank (2008)].

12. One of the viable options is to go for well thought market based land reforms. It is however important to mention here that the famous inverse farm-size and productivity relationship does not hold any more in many cases and has even reversed particularly in some areas of Pakistan. My own research supports that the inverse relationship does not hold any more in Pakistan. However, there is need to analyse this issue in detail using a fairly representative data set.

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