

INVESTMENT PATTERN, INDIAN INCOME DISTRIBUTION AND GLOBALISATION

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Abstract: From economic viewpoint, globalisation opened market door by lifting trade barriers, enlarged market size for capable entrepreneurs, introduced an element of competition in domestic economy, provided an opportunity to fill up lacunae in investible resources and possibly, in some cases, safer outlet for hot foreign money and surplus production. For India, pattern of different investment category shows some change for the period 1980-2010 but does not match the allocation required for bringing change in prevailing level of income distribution, keeping in view continuously diminished role of public sector. Investment distribution of recent past shows operation of Rostow's fifth stage of economic growth for some population segment. For general improvement in purchasing power and particularly, in living standard of common masses, aggregate investment as well as foreign investment need to be properly channelised into labour intensive and indigenous resource based sectors and especially, in provision of infrastructure and basic amenities to make income distribution egalitarian.

Keywords: Income Distribution, Employment, Unemployment, Investment, Economic Policy. JEL Classification – D31, J21, J64, E2, G18, J28, J48.

INTRODUCTION

Crisis in foreign exchange reserves getting prominent gradually in later 80s and ultimately in 1991, led the beginning of adoption of Structural Adjustment Programme (SAP) and liberal measures were undertaken as a follow-up process of globalisation with rest of the world. Indian economy started relying on others' resources by withdrawing ceiling restrictions and simplifying operational processes. Over passage of time, degree of that dependence is found to increase continuously as public investment in total investment was reduced monotonically shown by successive shorter columns in Figure I.

When looked at general economic indicators like Gross National Product at factor cost (GNP_{FC}), Net National Product at factor cost (NNP_{FC}) and Per Capita Net National Product at factor cost ($PCNNP_{FC}$), Indian economy seems to be

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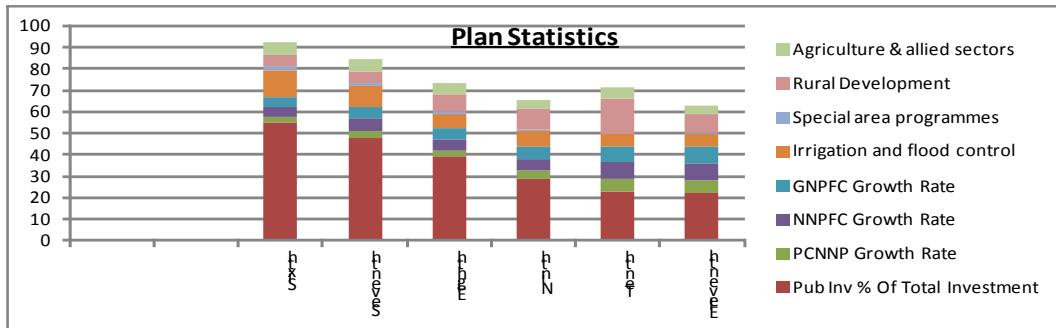
advancing forward as these annual growth rates mostly increased from Sixth Five Year Plan to Eleventh Five Year Plan (*Fig. I*) but this advancement becomes partial, not general when distributive aspect is considered as Gini Index of income distribution became more skewed from .322 in 1980 to .336 in 2011 (*Fig. II a*). This is also reflected in Gini coefficient of consumption distribution for rural and urban India during pre-reform period (1973-74 to 1993-94) and post-reform period (1993-94 to 2009-10). Available data shows marginal rise in consumption inequality for rural India during pre-reform period from .281 to .282 compared to that for urban areas from .302 to .340 whereas during post-reform period inequality burden is found to be intensified further both for rural and urban areas to .291 and .382 respectively (Uniform Recall Period) (*Fig. II b*). This simply indicates investible resources did not put Indian economy on a high growth rate trajectory only partially not generally.

Distinction public investment having is that by nature it thinks more about development of an economy than other types of investment. It emphasises development of lagging behind section of an economy so that overall economic development can take place. From this viewpoint increased inequality in Indian economy is not something unexpected as public investment out of aggregate investment was reduced continuously in percentage terms from 37% in 1990-91 to 24% in 2009-10. With respect to public investment about 1.5 times private investment was made in 1990-91 and in 2009-10 over 3 times investible resources came from private sector. Confinement of this huge investment quantum in developed regions with requisite infrastructure to earn expected prospective returns strengthens existing ground for probable increased skewness in future income distribution pattern.

After 1991 in line with SAP of IMF terms and conditions of foreign investment were made simpler and operationally easier and foreign investment started flowing with a great vigour in Indian Ocean. Aggregate foreign investment increased immensely from Rs. 183 crores in 1990-91 to 311779 crores in 2009-10. In percentage term, this was not even 1% (.12%) of aggregate investment in 1990-91 but then increased to 13% in 2009-10. Out of aggregate private sector investment this constituted only .19% in 1990-91 and became as high as 17% in 2009-10. Although above criteria shows smaller share of foreign investment participation in aggregate investible resources but when absolute foreign investment is compared to aggregate public sector investment, it is found that aggregate foreign investment was only .32% in 1990-91 but since then it increased continuously to 52% in 2009-10. On candid terms it can be argued that foreign investment is making significant addition to aggregate pool of investible resources in Indian economy. However, composition of foreign investment makes that unbalanced and impersistent as it

shows significant and continuous reduction in share of foreign direct investment (FDI) from 95% in 1990-91 to 59% in 2000-01 and then to 51% in 2009-10 (Fig. II c). This implies foreign investment is more compatible with reaping short-term ready outcomes from already laid down foundation of Indian economy than extending it's base which economies may spill-over to ever increasing people demand and lagging behind section through forward and backward linkages and thus can accelerate its expected long-term development, thereby sustaining and enhancing long-run viability of foreign investment. However per capita foreign direct investment increased from Rs. 2 in 1990-91 to Rs. 181 in 2000-01 and then substantially to Rs. 1350 in 2009-2010(RBI, NSS and SIA Newsletter) and doubtlessly it will have some impact on long-term development of Indian economy but whether it's development benefits will have significant spread effects and reach backward regions, thereby improving inequality reduction in income distribution may depend on sectoral pattern of foreign direct investment as well as that of aggregate investment which is being attempted to discuss in the following section.

Figure: I



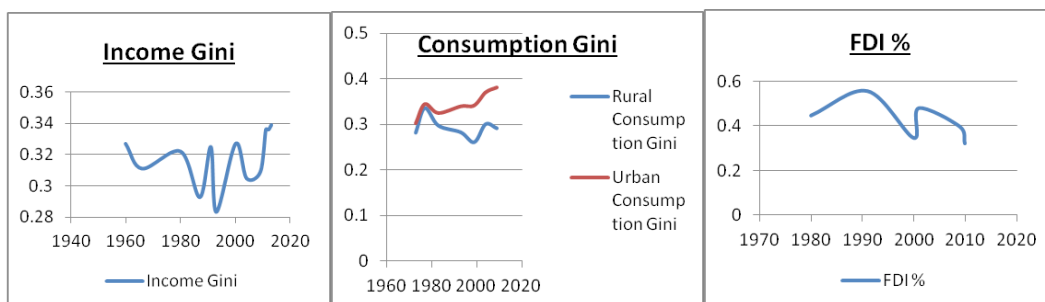
Source: Planning Commission, RBI

SECTORAL INVESTMENT ALLOCATION

According to present economic scenario, Indian economy continued growing with an annual growth rate of 7 per cent per annum (pcpa) NNP_{FC} and 5 pcpa $PCNNP_{FC}$ on 2011-12. High expectations are made about bright future that in the coming decades India may emerge as Asian Economic Superpower. For this to happen basic economic foundation should be strengthened and this needs narrowing down of gap in development pace between rural and urban India. Alongwith health, education, income level, consumption pattern, employment generation and provision of infrastructural and basic amenities, standard of living in rural areas needs to be improved on equal footings with no reasonable deviation from

urban areas. In 1991 and 2001, 74% and 72% people respectively resided in rural areas and 67% and 58% working population were involved in primary sector. From 2011 census it is found that 69% people still live in rural areas and occupational pattern shows that even after sixty five years of independence majority of working population (about 55%) derive their livelihood from primary sector which is prevalently located in rural India. Therefore inequality alleviation programmes of rural areas need to put emphasis on development of agricultural sector, forestry, fishery, mining and quarrying, construction of physical and social overhead capital alongwith provision of basic amenities. Then employment opportunities created may help in a great way to improve living standard of rural population. However, available data shows that every type of investment in agriculture and allied sectors is attributed reducing share in total investment over time. Allocation of plan outlay in agriculture and allied sectors got reduced from 6% in Sixth Five Year Plan to 4% in Eleventh Five Year Plan, that in special area programmes from 2% to 1% and from 12% in irrigation and flood control to 6% over the respective plan period (*Fig. I*). Private sector investment share in agriculture, forestry and fishery also fell from 17% in 1980-92 to 9% in 1993-2011. Even share of foreign direct investment (FDI) in food processing industries, rubber goods, fertilisers and sugar sector made a declining trend from 1991-99 to 2000-10 (SIA).

Figure: II IIa IIb IIc



Source: World Bank, DCH, SIA Newsletter.

As a result, Gross Domestic Product at factor cost (GDP_{FC}) in agricultural sector and mining and quarrying was slowed down from 4% and 8% during 1980-91 to 3% and 4% respectively during 1991-2012 (*RBI*). This was reflected in decrease of employment elasticity by Current Daily Status (CDS) in agriculture and mining and quarrying from .45 and .80 in 1977-78 to .04% and .52% respectively in 2009-10 and share of employment (CDS) accordingly fell from 65% and .66% in 1983 to 53% and .59% respectively in 2009-10. Not only by CDS but also by Usual Principal Status (UPS) and Usual Principal and Subsidiary Status (UPSS), employment in

primary sector fell by 2-3% and this is estimated to be over 5% in rural areas and nearly 5% in urban areas (GOI, 2011-12). As a result, unemployment rate like employment elasticity after little improvement from 1987-88 to 1993-94, is found to worsen on all status indicated by UPS, UPSS, Current Weekly Status (CWS) and CDS. Unemployment problem became more severe particularly in rural areas than in urban areas, in fact employment was shrunked in absolute terms from 1993-94 to 2009-10 (Table 1).

Table 1
Employment Unemployment Statistics (Percentage of Labour Force)

Year	1977-78			1987-88			1993-94			2009-10		
	Rural (R)	Urban (U)	Total (T)	R	U	T	R	U	T	R	U	T
Employment				32.9	16.9	29.6	35.6	18.3	32	38.6	17.5	33.5
Casual (UPSS)												
UPS	3.26	8.77	4.23				1.8	5.21	2.56	2.1	3.7	2.5
UPSS	1.54	7.01	2.47				1.2	4.52	1.9	1.6	3.4	2
CWS	3.74	7.86	4.48				3	5.83	3.63	3.3	4.2	3.6
Unemployment												
CDS	7.70	10.34	8.18				5.63	7.43	6.03	6.8	5.8	6.6

Source: NSSO Surveys.

Consequently ratio of rural monthly per capita consumption expenditure (MPCE) to urban counterpart was reduced continuously from .65 in 1977-78 to .61 in 1993-94 and then to .53 in 2009-10 (DCH). Albeit few exceptions, this problem could be found for every decile over that period with an upward trend for higher deciles as well as difference ratio between the poorest and the richest decile of rural and urban areas respectively was diminished from 17 to 14 and then to 11 over the above period implying that effort for gap coverage of respective decile needs to be strengthened specially in the lower decile classes. From another viewpoint even the gap between respective downtrodden and better-off section was widened as ratio of MPCE at Mixed Reference Period (MRP) between first and ninth decile although improved from 1977 to 1993, is found to reduce afterwards both for rural and urban India. When spatial comparison of MPCEMRP is made, its annual compound growth rate for rural areas registered a decrease from 1% during 1987-1999 to .73% during 1999-2010 whereas for urban areas that marked an increase from 1.7% pcpa to 1.9% pcpa (Table - II). These point towards one important aspect that criteria for channelising of investible resources in primary sector mainly located in rural areas need to be made more prudent and returning as these having

tremendous potentiality of generating huge employment opportunities and thereby assist in correcting regional imbalances in prevailing pattern of income and consumption distribution.

Table 2
MONTHLY PER CAPITA CONSUMPTION EXPENDITURE (MPCE)

Ratio of MPCE to	1983	1993-94		2009-10 (MRP)		
Urban MPCE (Constant Price)	0.65	0.61		.53		
MPCEMRP Deciles	NSS 32nd (July 1977 - June 1978)	NSS 50th (July 1993 - June 1994)		NSS 68th (July 2011 - June 2012)		
	Rural (R)	Urban (U)	R	U	R	U
1 to 9 Ratio	25.75	22.75	30.91	23.27	29.45	19.88
1 to 9 Difference Ratio	16.70		13.76		10.84	

Source: Author's Estimation.

From another perspective skewed income and consumption distribution can be normalised if living standard of labour section of Indian economy in general can be lifted upward and this obviously necessitates more employment generation which in turn asks for deployment of greater proportion of investible resources in labour intensive sectors and increasing growth rate of those sectors over time. In India by labour intensive industry following industries like manufacture of tobacco products, luggage, handbags, textile, wearing apparel, food products, sports and wooden goods are meant where proportionately greater labour force is used, although yearly average labour intensity for all these labour intensive industries saw a continuous fall from 0.72 in 1990-91 to 0.30 in 2003-04 (*Das et. al, 2009*).

According to Secretariat of Industrial Appraisal (*SIA*), investment over the period of 1991-2012 in various labour intensive industries like industrial machinery, machine tools, agricultural machinery, earth moving machinery, miscellaneous mechanical industries, textiles, paper and pulp, leather and leather goods, ceramics and timber products accounted for only 6% of aggregate investment in making 31% labour force absorption of aggregate employment in India. Surprisingly investment share in soap, cosmetics and toiletries and defence industries with comparatively lower employment absorption capacity exceeded

to that in higher labour-intensive industries of agricultural machinery and earth moving machinery. Performance measured in terms of annual compound growth rate over Eleventh plan period is found to be reduced for all those employment intensive sectors except for food products, beverages and manufacture of electric machinery whereas those of apparel industry, furniture, paper and paper products, manufacture of leather and fur products and manufacture of transport equipments and parts can be found to make a diminishing trend from Eighth five year plan to Eleventh five year plan period. Next component of FDI share on those labour-intensive sectors also show a declining trend. Percentage of FDI in aggregate such investment was reduced from 1991-99 to 2000-10 for electrical equipment, textiles, mechanical and engineering industry, industrial machinery, paper and pulp, machine tools, commercial, office and household equipment, agricultural machinery and leather and leather goods. As a result, annual growth rate in Gross Domestic Product (GDP) of manufacturing sector in aggregate was shrunked from 7% during 1991-2000 to 5% during 2001-2012 and aggregate employment in that sector also registered an absolute decrease from 63 lakh persons in 1990-91 to 51 lakh persons in 2011-12 (*Planning Commission*).

Table 3
Workforce Statistics

Workers	1981	1991	2011	CAGR (%)	
				1981-91	1991-2011
Main worker (%)	32.6	33.8	29.9	2.53	1.195
Marginal worker (%)	3.2	3.3	9.9	2.53	7.58

Source: Population Census.

Furthermore share of main workers and unemployment rate (CDS) although improved from 33% in 1981 and 8% in 1977-78 respectively to 34% in 1990-91 and 6% in 1993-94, were deteriorated to 30% and 10% respectively in 2011 and that of marginal workers increased continuously from just 3% in 1981 to 10% in 2011. This is also reflected in compound annual growth rate of main workers' participation rate which became diminished from 3 pcpa 1981-1991 to 1 pcpa during 1991-2011 and that of marginal workers' on the other hand, increased from 2.53 pcpa to 8 pcpa over that period whereas casualisation of workers measured through percentage of casual workers by UPSS increased continuously from 28% in 1977-78 to 34% in 2009-10 and its intensity became higher in rural areas from 31% to 39% over that period although this problem was reduced marginally in urban areas from 18.3% in 1977-78 to 17.5% in 2009-10 after an increase during 1977- 1994 (*Table - III*).

Consequently income share of poorest 10% of Indian population got reduced from 3.91% in 1987 to 3.69% in 2009 whereas that of richest 10% people became higher from 27% to 29% over that same period (*World Bank*).

CONCLUSION

Therefore correction of imbalances in prevailing pattern of Indian income distribution as well as production cost economisation need proper sectoral allocation of investment proposals particularly in labour intensive and resource intensive sectors alias in comparatively advantageous ventures and achievement of higher growth rate of those sectors over the years alongwith plea for undertaking of initiatives to move in the path of higher labour intensity wherever and whenever possible and probable and also, considerations ought to be present to impose lower limit for curbing its further reduction in order to justify Indian population structure.

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