Globalization, Rising Inequality, and New Insecurities in India
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> We must make our political democracy a social democracy as well. Political democracy cannot last unless there lies at the basis of it social democracy. What does social democracy mean? It means a way of life, which recognizes *liberty, equality, and fraternity as the principles of life*. . . On the 26th of January 1950, we are going to enter into a life of contradictions. In politics we will have equality and in social and economic life we will have inequality . . . We must remove this contradiction at the earliest moment, or else those who suffer from inequality will blow up the structure of political democracy which this assembly has so laboriously built up. (Speech by B.R. Ambedkar on 25th November 1949, In *Constituent Assembly Debates*, New Delhi, Lok Sabha Secretariat, 1989. Vol. IX, p, 979) (Emphasis Added).

> Since the fall of the Berlin wall in 1989, three billion capitalists have joined the world's economy, and we have barely begun to feel their impact. The virtual endless supply of labor, much of it skilled, in China and India, combined by the negation of time and distance by the Internet and global air delivery will create a new and challenging competitive environment for countries, companies and individuals (Clyde Prestowitz, *The Three Billion New Capitalists: the Great Shift of Wealth and Power to the East*, p. xiii).

India's citizens are poor and impoverished yet its global profile is one of rising economic and political power (Nayar and Paul 2003). India is a low-income country, yet eminent observers have begun to worry about the threats posed by its army of skilled professionals (Prestowitz and Friedman 2003). Is India a poor developing country with chronic hunger and malnutrition dogging its citizens or an economic superpower challenging US hegemony? This paper puts these disparate pictures of India's development together to assess the nature, forms, and patterns of emerging inequalities in India. What do this twin developments—continued inequalities and economic and software power—mean for its own citizens and peoples? And, correspondingly, how does the extent and nature of poverty and inequalities in India shape the nature of India's economic ambitions, and its national developmental pattern in the current globalised arena?

The extent of and trends in inequality, poverty, and well being in India affect global trends in inequality and poverty simply because of the country's large population size and the large share of its population below the poverty line. India's population of 1048.6 billion people in 2003 (16.9 percent of the world population), with 35 percent of its people below the national poverty line and with 34.7 of its population below the international poverty line of $1 dollar a day, has a large weight age (together with China) in overall global figures.[1] If $2 dollars a day were considered as the international poverty line, 86.2 percent of India's population –around 859.9 million— would be below the poverty line (2001 figures).

These questions and the possibilities of addressing problems of emergent inequalities and poverty can be better answered if we uncover mechanisms and linkages between rising growth rates, the nature of growth patterns, and the condition of India's vulnerable populations. What are the economic and political mechanisms that prevent poor people from moving into better income areas and sectors despite high growth rates? Does the nature of growth patterns stimulated by ongoing globalization activate such linkages and mechanisms or make such transitions more difficult?

I show that while globalization creates enormous potential for economic advancement, it also creates new vulnerabilities and insecurities. The massive problem of continuing absolute poverty and rising inequalities in India arises out of a basic asymmetry between growth of the national product and the source income of the majority of India's population. With the growth in India's gross national product, the share of its manufacturing sector and service sector has growth rapidly, yet, the share of labor force in agricultural employment remains too high and in manufacturing employment too low relative to the standard pattern of development. Similarly, employment in the organized sector has stagnated despite high rates of growth while employment in the informal/unorganized sector has increased. Given the industry-led developmental strategy followed by India, rising growth rates can lift more boats if enough people can move from the low wage and low-income agricultural sector to the higher growing manufacturing or high performing service sector. Does the pattern of liberalization growth help or hinder this process? Thus, the important question for an assessment of the impact of liberalization on income inequality or poverty is its effect on the *costs* associated with moving from farm and agricultural sector to the manufacturing sector or service sectors.

I show that the pattern of India's growth in the 1990s stimulated by liberalization exacerbated rural-urban, regional and sectoral inequalities. These inequalities affect people living in the undeveloped parts and sectors most directly. Simultaneously, the impact of liberalization on wages, and on wage inequality has tended to increase economic insecurity in the underdeveloped regions and among poor and unskilled people. Liberalization and attendant inequalities increase the *costs* associated with moving out of poverty or low income, from backward regions of the country and from agriculture to services. Thus, for the already poor and vulnerable populations, the current pattern of growth makes it more difficult to seek a way out of their economic conditions and vulnerabilities. Thus, multiple inequalities lock in income levels of the poor, disadvantaged and backward area populations, and the trickle down effects of growth is limited to the margins of the high growing enclaves and urban conglomerations.

Forms of Inequality in India: Patterns and Recent Trends

India is a country of multiple differences and persistent inequalities. India's multilayered diversity and cultural heterogeneity creates a potential for different axes of inequalities—religion, caste, income, gender, age, tribe, and region. India is home to people from five major religions (Hinduism, Islam, Christianity, Sikhism, and Buddhism),[2] numerous linguistic communities, a significant gender gap in life-chances,[3] education, and income, a large indigenous population, and caste-based inequalities. We see not only inequality of economic condition (for example, income inequality) but of opportunity (access to existing institutions) and of status (caste). Thus, while formal political equality is well established, income inequality is compounded by social and status dimensions. Interestingly, democratic theory and practice within India over the last fifty years have politicized different communities at different moments leading to mobilization of perceptions and resources in favor or against certain groups.[4] This means that genuine egalitarian movements invite backlash from the privileged sections of society. No one paper can map the nature and form of inequality for each of these dimensions; for the sake of tractability, I have chosen to focus on sectoral, regional, and caste inequalities in this paper.

Liberalization Policies, Global Linkages, and Rising Inequalities in India

Starting in 1985 and more systematically in 1991 India liberalized its economy. Important domestic regulatory changes were accompanied and followed by a change in India's global strategy. Trade, technology and foreign direct investment were all encouraged. Net FDI inflows as a percentage of gross capital formation increased from 0.23 % in 1980 to 2.6% in 2002, while total trade in goods and services as a percentage of GDP increased from around 16% to around 31%. Apart from growth in FDI and trade, technology imports were encouraged. This policy change had clear impact on India's economy. Most analysis focuses on output variables—GDP, the extent of foreign reserves, debt ratio, exports, and productivity. In India the rate of economic growth was low and stable for a considerable period. After 1992/1993, subsequent to the economic reforms of 1991, a sharp rise in the rate of economic growth rate was reported. Yet, liberalization of economic policy also affected the nature of India's growth pattern and facilitated structural change of the economy: service sector grew much faster and fuelled a large proportion of India's rising growth rate. How did this re-orientation in growth rates and the changing pattern of development affect India's poor people, the lower castes, and the pattern of inequalities in India? It is the argument of this paper that while all growth strategies lead to some inequalities, some configurations of growth patterns are worse than others for people's well-being. Thus, rising growth rates in India in the 1990s have lifted many boats but its pattern, exact nature, and composition needs fine-tuning. With a different pattern of growth India would have archived higher poverty reduction than currently achieved.

First, we need to map the pattern of India's growth pattern. Measuring inequalities in terms of consumption expenditure, inequalities have risen. Rural inequalities have stayed the same in the 1990s as in the 1980s but urban inequalities have risen rather than fallen (Deaton and Dreze 2002, 3740). Banerjee and Piketty (2003) show that, the shares in the terms of total income of the top 0.01 %, the top 0.1%, and the top 1 % of the population shrank very substantially until the mid 1980s and then went up back again, so that today these shares are only slightly below what they were in 1956.[5] Rural-Urban disparities have also risen in this period. This shift affected income distribution adversely. As Deaton and Dreze note, this rise in inequalities is a new development in the Indian economy: until 1993-1994, the all-India Gini coefficient of per capita consumption expenditure was fairly stable but has shown a marked increase since. The magnitude and rate of change of inequalities is quite substantial as very sharp contrasts are evident between the rural sectors of the slow growing states and the urban sectors of the fast growing states (Deaton and Dreze 2002).

Liberalization has affected wages and wage inequalities directly. Inequalities seem to have risen between occupation groups. Real agricultural wages have grown at 2.5 percent or so in the 1990s, while public sector salaries have grown at almost 5 percent per year during the same period (Dreze and Deaton 2002). Yet, within manufacturing, employment in the organized sector has "declined significantly" (Tendulkar 2003) despite high rates of overall growth while employment in the informal/unorganized sector has increased.[6] Public sector employment in manufacturing significantly increased its share in organized manufacturing employment between 1961 and 1993-1994 before declining in 1999-2000 (Tendulkar 2003). Organized sector employment has experienced a virtual stagnation over the period 1994-2000 showing a growth rate of only 0.56% per annum, mainly in a few sectors—trade, hotels and restaurants, and finance and insurance, even as unorganized sector employment has grown, in fact, at a more rapid rate. According to estimates provided by the Director General of Employment and Training (DGET), organized sector employment saw an absolute decline of 9.1 lakh during the period March 1997 to March 2002; more than half of it in the manufacturing sector. During a single year 2001-2002, organized sector employment declined by 4.2 lakh. Unorganized sector employment, on the other hand, has shown consistently higher growth than the organized sector. The share of unorganized sector employment which was estimated to be around 93% earlier should, therefore, have gone up and may further increase over the coming years. Thus, more and more people are dependant upon the informal/unorganized sector, but its wages continue to be low. Moreover, "the organised-unorganised duality" in the labor force has increased over the four decades (Tendulkar 2003).

In the organized manufacturing sector, liberalization has been associated with rising wage inequality between *skilled and unskilled* workers.[7] This rise in the wage gap between skilled and unskilled workers directly contributes to rising income inequalities. This gap maps onto the rising gap between the service, manufacturing and agriculture sectors of the economy. If India's growth trajectory is largely fuelled by the service sector growth, technological improvements, and skill level of its population, it leaves the large masses of the unorganized, unskilled, and non-

English speakers behind. These rising disparities between wages, sectors, and skills are magnified by an increase in regional inequalities.

A Map of Regional Inequalities in India

Its plausible to argue that regional inequality is not a problem in itself as some level of spatial inequality is omnipresent in all countries; normal processes of development do create divergent spatial patterns. Yet, in India, regional disparities matter for two important reasons. First, several of India's states have large populations; four Indian states, if they were sovereign countries, would have been among the 20 largest countries in the world (see Table 1). For example, what happens in Uttar Pradesh affects 166.4 million people. Thus, unusual backwardness in any one state affects the lives of large masses of people and cannot be ignored.

Table 1:
Population of Countries and Subnational States from India (in 2001)

Country	Million People	Rank
China	1280.4	1
India	1032.7	2
United States	288.4	3
Indonesia	211.7	4
Brazil	174.5	5
Uttar Pradesh	**166.1**	6th largest
Pakistan	144.9	7
Russia	144.1	8
Bangladesh	135.7	9
Nigeria	132.8	10
Japan	127.2	11
Mexico	100.8	12
Maharashtra	**96.8**	13th largest
Bihar	**82.9**	15th largest
Germany	82.4	14
West Bengal	**80.2**	16th largest
Andhra Pradesh	**75.8**	17th largest
Egypt	**66.4**	18
Tamil Nadu	**62.1**	19th largest
United Kingdom	60.2	20
World	6130	

Second, the regional growth pattern may affect the prospects of poverty reduction and impoverishment. The trend rates of poverty reduction vary by state, with Kerala having the highest rate of poverty reduction and Assam the lowest with Bihar close behind. Around 1960

Kerala had one of the highest poverty rates, along with Bihar. By the mid 1990s, Kerala's poverty rate had fallen to almost half that of Bihar. Poverty today is concentrated in a few states. The share of six states (Bihar, UP, MP, West Bengal, Orissa, and Assam) in the rural poor increased from 68.8 percent in 1993-1994 to 74 percent in 1999-2000 (S. Mahendra Dev 2004). If growth is unevenly concentrated in some states, then we need to analyze if that distribution of growth patterns is most conducive for reducing poverty. Thus, the regional pattern of growth may affect the incidence of poverty reduction and thus is important. This follows, as the initial conditions across states are relevant to the impact of economic growth on poverty. In a state with a high literacy, for example, there could be more scope for reducing poverty through non-agricultural growth. Thus, Dutt and Ravallion find that "India's economic growth in the 1990s has not been occurring in states where it would have the most impact on poverty nationally. If not for sectoral and geographic imbalance of growth, the national rate of growth would have generated a rate of poverty reduction that was *double* India's historical trend rate" (Dutt and Ravallion 2002, 1). The spatial pattern of development does not allow all states to benefit from the impact of economic growth on poverty; this in turn reduces the potential positive impact of economic growth on poverty measures. Thus, "A more pro-poor geographic pattern of growth in India's non-agricultural economy would have required higher growth rates in states such as Bihar, Madhya Pradesh, Orissa, and Uttar Pradesh. Similarly, the regional pattern of agricultural growth has *not* been pro-poor. The states with higher growth rate in agricultural yields were not the key states with higher share of India's poverty" (Dutt and Ravallion 2002, 13-14). Basically, the poorer states in India show a lower reduction in poverty and lower growth rates.

In India, one's well-being is heavily shaped by where one resides. Growth has been concentrated in Gujarat, Maharashtra, Rajasthan, West Bengal, Tamil Nadu, and Karnataka

(Ahluwalia 2000; Bhattacharya and S. Sakthivel 2004; Dholakia 2003; Govinda Rao, R.T. Shand, and Kairajan 1999; Shetty 2003). Each of these states recorded a growth of 6 percent and more. Interestingly, a high growth state like Punjab recorded low growth in the 1990s. Regional variation across 16 states as shown by the coefficient of variation, increased from 18% in the 1980s to 27 percent in the 1990s. The coefficient of variation in per capita gross state domestic product increased from 25 percent in the 1980s to 43 percent in the 1990s (Shetty 2003).

The most troubling aspect of regional inequalities is that multiple inequalities are superimposed upon each other; that is, regional inequalities are superimposed on gender and caste deprivations. A man in Bihar not only earns the least among all other states but in his household his wife is likely to be the most deprived among women, their children the most malnourished. In 1991 for instance, 94% of males in Kerala were literate, while literacy rates were still below 10% (even as low as 2 or 3 % in some districts) among scheduled caste woman in Bihar or Rajasthan. These disparities in wellbeing across states are enormous even if we remove Kerala from the comparison. Himachal Pradesh has very high literacy rates by now. Yet, economic growth and prosperity do not necessarily predict the opposite, especially for gender equality; in affluent Punjab and Haryana, the sex ratio is one of the lowest in the world.[8] While economic growth is no guarantee of positive externalities in other dimensions, low-income parts of the country coincide with acute inequalities in almost every other dimension.

TABLE 2

Disparity in Performance Between the Best and the Worst Performing States

No.	*Indicator*	*Best Performer*	*Worst Performer*
1.	Human Development Index 1991 (value)	Kerala (0.59)	Bihar (0.31)
2.	Human Poverty Index 1991 (% of households)	Kerala (20)	Bihar (52)
	Indicators for all population		
3.	Income poverty 1999-00 (% of population)	Jammu & Kashmir (4	Orissa (47)
4.	Total literacy 2001 (% of population)	Kerala (91)	Bihar (48)
5.	Ever enrolment rate, 6-14 years 1994 (%)	Kerala (99)	Bihar (59)
6.	Infant Mortality Rate (per 1000 births)	Kerala (16)	Uttar Pradesh (87)
7.	Kutcha housing 1994 (% households)	Haryana (14)	Orissa (77)
8.	Households with a toilet 1994 (%)	North East region (68)	Orissa (3)
9.	Households with electricity 1994 (%)	Himachal Pradesh (88)	Bihar (9)
	Gender sensitive indicators		
10.	Gender Disparity Index (value)	Kerala (0.83)	Bihar (0.47)
11.	Female life expectancy 1993-97 (years)	Kerala (75.9)	Madhya Pradesh (55.2)

12.	Female literacy 2001 (% of popu	Kerala (88)	Bihar (34)
13.	Sex ratio, 6 yrs+ (females per 1000 males)	Kerala (1071)	Sikkim (858)
14.	Infant mortality, girls 1998 (per 1000 births)	Kerala (13)	Madhya Pradesh (97)
15.	Anemia among women 1994 (%)	Kerala (23)	Assam (70)
16.	Dropout among girls, primary 1994 (%)	Kerala (-5)	Rajasthan (63)

Source: Mahendra Dev (2004). The Union Territories and Delhi and Goa have been exclu from this analysis.

A related issue is of urbanization. The pace of urbanization in India has been quite slow (see Table 3). Overall, the growth rate of the urban population has slowed from the record level of 3.8% per annum in the 1970s to 3.1% in the 1980s and 2.7% in the 1990s (Oxford Policy Management 2004). India's urbanization profile is similar to Myanmar. This means that (a) rural-urban disparities are increasing; (b) that inequalities between the English educated middle and upper class that benefit from the knowledge and service economy and the agrarian landless and small farmers, sc, and unskilled people are likely to become even more worse than if growth had been accompanied by rapid urbanization. Third, the poor tend to be more constrained in their access to markets and infrastructure than the non-poor. Since the extent of urbanization in an area reflects the level of marketization and the presence of infrastructure, "one would expect that the poor would be able to benefit more from non-farm growth when they live in an more urbanized area" (Dutt and Ravillion 2002, 8). Thus inequality is going to adversely affect poverty reduction because the rate of urbanization is very slow in India.

Table 3: Urban Population as a % of Total Population

	1980	2002
China	20	38
India	23	28
Vietnam	19	25
Thailand	17	20
Sri Lanka	22	23
Philippines	37	60
Pakistan	28	34
Nepal	7	13
Myanmar	24	29
Malaysia	42	59
Indonesia	22	43
Bangladesh	15	26

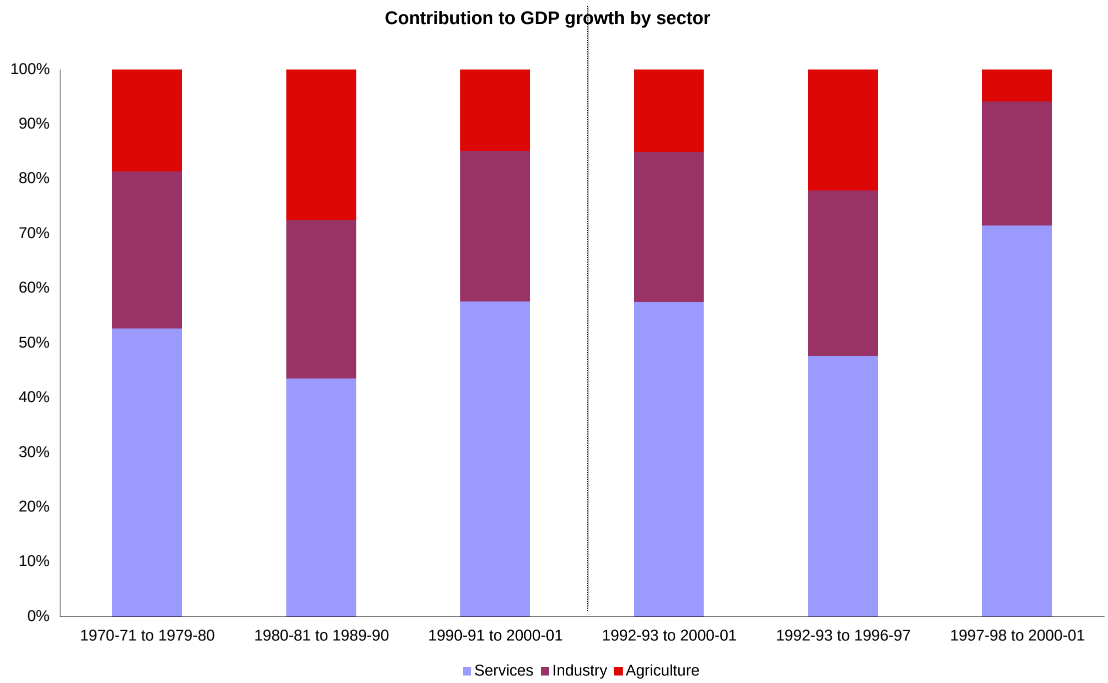
Source: World Development Indicators, 2004.

The Impact of Software and Services Growth in India on Inequalities and Poverty

The global success of India's software industry has become a hot topic of discussion in the US electoral debate of 2004.[9] At the same time India remains extremely poor with levels of human development similar to sub-Saharan Africa (Dreze and Sen 2002). It is worth considering if India's IT success "represents the emergence of another elite enclave, with increased inequality the result" (Singh 2004, 223). Can IT and more broadly, services-led growth contribute to the wellbeing of India's population in a wider, more encompassing way? Or would a focus on the IT sector amplify India's inequalities? And, what are the plausible mechanisms by which these two different scenarios can occur?

In order to answer these questions, we need to map the extent of growth of the service economy, the IT sector, and outline its patterns and effects on growing inequalities. There is no doubt that a striking feature of India's growth performance over the past decade has been the growth in the services sector. The software sector grew by 43.7 percent (in current Rupees) and 34.4 (in current dollars) (Kapur 2002, 92).

Projections show that if different sectors grew at the average growth rates experienced between 1996-2000, then, by 2010 the share of services in the country's GDP would increase to 58 percent. This would "bring the size of India's services sector, relative to GDP, closer to that of an upper middle income country, while still belonging to the low income group" (Gordon and Gupta 2003, 7). (See Graph Below).



Given the rising importance of services in India's economy, its impact on inequality trends must be assessed. One of the most important elements of a sector's impact on inequalities and income distribution is whether the sector is labor intensive enough. Even though India has experienced profound changes in the relative output shares of different sectors (agriculture, manufacturing, and services) the same is not true for employment shares. While agriculture contributes to a declining share of output, there has been little change in the share of employment in agriculture. While the contribution of agriculture to the national GDP declined from 52.3 to 25.1 percent, in

1983 68 percent of people were employed in agriculture; in 1999-2000, 60.4 percent continue to be employed in agriculture. Rural industrialization is quite limited with 76.3 percent of the rural workforce still employed in agriculture. Although services rose from 42 percent to 48 percent in GDP during the 1990s, the employment share actually declined by one percentage point during the decade.

Table 4: Share of Service Sector Employment in the Total Employment
(In Percent of Total)

	Share of Employment in Service Sector	Total Workforce
1965-1966	18.1	188.7
1970-1971	20.0	
1980-1981	18.9	302.7
1990-1991	24.4	374.1
1999-2000	23.5	397.9

Source: Gordon and Gupta, p, 9 and National Account Statistics, CSO.

Currently, software and BPO service employ less than a million workers out of a labor force of 363 million. This pattern is true for the IT sector too. According to Nasscom, IT now employs 770,000 persons and is likely to employ two million directly and another two million indirectly (in IT enabled services) by 2008. Impressive as these figures seem, they have to be seen against the overall size of the labor force of over 400 million. The NASSCOM-McKinsey projection of the IT sector predicts that export will rise to US$50-60 billion over the next few years but only 4 million jobs will be created in the process (Gordon and Gupta 2003). Thus, employment creation in the service sector has lagged behind in India. India's relatively *jobless service sector growth* is anomalous comparatively; in most countries the service sector has tended to gain a larger share of employment over time.[10] This asymmetry is one important source of rising inequalities in India. The numbers of people that benefit from India's service revolution have raised their income dramatically but the number of people employed by the service sector –their proportional numbers— have shrunk. It is also worth noting, that the IT related employment is concentrated in a few large cites and their satellite towns such as Noida, Gurgaon, Mumbai, Pune, Bangalore, Hyderabad, Bangalore and Chennai. Very few persons of rural and poor backgrounds find jobs in this sector due to a lack of requisite skills. An IT sector led growth also magnifies the wage and social inequalities between the skilled and the unskilled workers (on this see below).

We also need a more disaggregated picture within sectors. If growth in the service sector is limited to largely skilled and technologically intensive activities, then, their relative growth will affect different sections of society differently. In India, growth acceleration in services was mostly due to fast growth in *technologically sophisticated and skilled sub-sectors*: communication services, financial services, business services (includes IT), and community services (Gordon and Gupta 2003). Table 5 below shows that "Business Services" were the fastest growing sector in the 1990s averaging nearly 20 percent a year while more labor or unskilled segments of the service sector grew much slowly.

Table 5: Growth of Service Sub-Sectors Over Time

Sector	Activities Included	Avg. Growth in 50s-70s (Share in GDP in 1980)	Avg. Growth in 80s (Share in GDP in 1990)	Avg. Growth in 90s (Share in GDP in 2000)
Trade, Hotels & Restaurant				
Trade (distribution services)	Wholesale and retail trade in commodities both produced at home (including exports) and imported, purchase and selling agents, brokers and auctioneers	4.8 (11.7)	5.9 (11.9)	7.3 (13.7)
Hotels & Restaurants	Services rendered by hotels and other lodging places, restaurants, cafes and other eating and drinking places	4.8 (0.7)	6.5 (0.7)	9.3 (1.0)
Transport, Storage & Communication				
Railways		4.2 (1.5)	4.5 (1.4)	3.6 (1.1)
Transport by other means	Road, water, air transport, *services*	6.3 (3.6)	6.3 (3.8)	6.9 (4.3)

	incidental to transport			
Storage		5.5 (0.1)	2.7 (0.1)	2 (0.1)
Communication	Postal, money orders, telegrams, telephones, overseas communication services, miscellaneous	6.7 (1.0)	6.1 (1.0)	13.6 (2.0)
Financing, Insurance, Real Estate & Business Services				
Banking	Banks, banking department of RBI, post office saving bank, non-bank financial Institution, cooperative credit societies, employees provident fund	7.2 (1.9)	11.9 (3.4)	12.7 (6.3)
Insurance	Life, postal life, non life	7.1 (0.5)	10.9 (0.8)	6.7 (0.7)
Dwellings, real estate		2.6 (4.0)	7.7 (4.8)	5.0 (4.5)
Business services		4.2 (0.2)	13.5 (0.3)	19.8 (1.1)
Legal services		2.6 (0.0)	8.6 (0.0)	5.8 (0.0)
Community, Social & Personal Services				
Public adminis-Tration, defence		6.1 (5.3)	7.0 (6.0)	6.0 (6.1)
Personal services Domestic, laundry, barber, beauty shops, tailoring, others		1.7 (1.6)	2.4 (1.1)	5.0 (1.1)
Community services	Education, research, scientific, medical, health, religious and other community	4.8 (4.0)	6.5 (4.3)	8.4 (5.5)
Other services	Recreation, entertainment, radio, TV broadcast, sanitary services	3.4 (1.1)	5.3 (1.0)	7.1 (0.7)

Source: Jim Gordan and Poonam Gupta. 2003. *Understanding India's Services Revolution*, Paper prepared for the IMF-NCAER Conference, A Tale of Two Giants: India's and China's Experience with Reform, November 14-16, New Delhi.
www.imf.org/external/np/ apd/seminars/2003/newdelhi/gordon.pdf

This rapid growth in business services was largely on account of the export and software sector growth, which benefits the well educated and the skilled working population. Communication services growth (growth at 13 percent in the 1990s) was due to the growth in telecom, a technologically intensive sector. Faster growth in the hotel and restaurant and education and health services (what are referred to as "Community services") did have more potential to affect the unskilled and vulnerable populations positively; this sector grew at 8 percent in the 1990s. Growth in other service sub sectors, which have significant potential to affect larger, and unskilled populations—real estate, legal services, transport, storage, personal services and public administration and defense—was not very high. Growth of railways suffered a decline in the 1990s from 4.5 percent to 3.6 percent. Railways employs a large and unskilled population and its shrinking would affect people negatively.

Further, the fastest growing segment of the service economy—business services—is directly linked to global export markets. In India export in services (in dollar) grew in average at 15 percent a year in the 1990s compared with 9 percent in the 1980s and at 21 percent in the second half of the 1990s. In terms of revenue, exports of IT industry contributed 20 percent of gross revenues in 1990-1991 rose sharply to a account for as much as 49 percent of revenues by 1999-2000 (Chandrasekhar, nd). Cumulatively, service exports increased fourfold in the 1990s and reached US$25 billion in 2002. Service exports from India are now 1.4 percent of global export in services, its rank is 21 (Salgado 2003, cited in Gordon and Gupta 2003).

Each of these fast growing service sub sectors benefit the literate and skilled individuals with high human development indicators while leaving the unskilled and more vulnerable populations behind. Most of the beneficiaries are concentrated in urban India; this might be driving the rise in rural-urban disparities noted by Deaton and Dreze. The success of India's IT sector is in large part due to the country's pool of English speaking skilled workers (NASSCOM 2004, cited in Srinivasan 2005, 25) and most of it is transacted in the English language. Thus, the market and cultural value of English speaking population has also gone up in comparison with regional and other languages. Interestingly, the success of the IT and service sector has increased the value of professional workers, not only programmers but also managers and analysts. According to the National Sample Survey Organization data the percentage of all workers falling into the categories of professional, technical, and related administrative and managerial categories has increased rapidly between 1977-1978 to 1999-2000 particularly in the urban areas: in 1999-2000, the more professionalized form of non-manual labor account for 15.97 million employees more than one sixth of the total urban population or 17 percent from a low of 10 percent in 1977-1978 (cited in Sridharan 2004, 416). Thus the *pattern and composition* of service sector growth creates rather than prevents further inequalities between rural and urban, the public school educated English-speakers and non-public school educated, and the skilled and the unskilled. The types of skill required—English-speaking abilities and ability to navigate western cultures—is tied to the global demands and markets and has the potential to create a cultural divide between "Bharat and India."

At the macro level the low employment effect of the service economy creates a significant gap between its dollar value and its ability to raise the livelihood of a majority of people. A few people gain disproportionably from its rapid growth while few new jobs are created and fewer jobs are created in the unskilled segments. The externally oriented nature of India's service growth means that people and sections of India's population that are better able to navigate the external and export markets benefit more than those that are not able to mediate this realm. Thus, currently, the rapid growth of the service and IT economy in India has created new inequalities and vulnerabilities. This sector's potential for more wide-ranging welfare gains are dependant upon complementary institutions and mechanism that allow the erstwhile unskilled and non-English educated population to move into educated and technologically savvy sectors. The IT revolution demands a process of different kinds of education, and learning as well as lifelong learning as new technologies place ever newer demands on those participating in the new economy. This translation is further dependant upon bridging the digital divide. In 1998-199 the penetration of PCs in the country was only 3 per thousand and the number of fixed telephone lines to connect the worldwide web through an ISP only 22 per thousand (Kumar 2001). Thus, further public and private investment in IT infrastructure would be necessary for IT and externally stimulated service sector growth to begin to reduce rather than create new inequalities.

We noted earlier rising regional disparities in India. Software development has tended to exacerbate rather than diminish the regional disparities in growth rates, human capital development, and income levels. The software firms are concentrated in urban clusters of Mumbai, Bangalore, and Chennai. Top five cities of India together account for 80.5 percent of the 600 top IT companies (Kumar 2001, 4287). The regional concentration of software industry in the already developed west and south has further increased regional disparities between the south/west and the east. Its development has further widened the gap between the emerging human capital-based development in some states (Tamil Nadu, Andhra Pradesh, and Kerala) versus agriculture-based development other states (Punjab, Bihar, West Bengal etc.). Their development in few urban areas and their suburbs has also created intra-urban disparities evident in the macroeconomic data noted by Dreze and Deaton; this further increases the economic insecurities experienced by the urban poor. For example, real estate prices have risen in cities like Chennai because of the growth of the software industry; the software industry accounts for 70-80 percent of all industrial space in the city in 1999-2000 putting pressure on public uses of such land (Kumar 2001, 4287). More recently, the development of secondary centers for software development in Gurgaon, Noida, Pune, Hyderbad, Calcutta, and Trivandrum offers some potential for much larger spillover and externality effects in more undeveloped parts and the hinterland. It is these secondary urban centers that must be developed further to extend the developmental potential of software industry into expanding circles. It is thus important that the software centers and call centers be established into rural and urban townships rather than the metropolitan centers.

Liberalization, Rising Insecurities, and Vulnerability

Apart from the impact of globalization on income and income distribution, we also need to assess the impact of liberalization on people’s wellbeing, sense of security and emerging vulnerabilities. Massive changes in the role of public sector, shifts toward a technologically sophisticated service economy, informalization of the labor force, all create greater instabilities and insecurities in people's lives in the shorter and the medium term. If mechanisms for re-training, re-skilling, and adjustment are lacking then this insecurity can become a permanent feature of a working home's life as the workers go from one job to the next in search for stability. Furthermore, increased dependence upon the informal sector for employment has the direct affect of increasing the economic insecurity of those dependent upon it: Workers in the organized sector enjoy better wages and salaries, job security, reasonably decent working conditions and social protection against such risks as sickness, injury, disability and death arising out of hazards and accidents at work, separations and old age. Those in the unorganized sector generally have no protection against these risks, have low earnings, often lower than the modest statutory minimum wages and have no regularity, leave aside security, of jobs.

Insecurities have risen even in the organized formal sector. This is directly evident in the employment data of the organized sector itself. Within the organized sector, an increasing number of jobs are approximating the character of those in the unorganized sector as a result of the increasing labor market flexibility in the wake of globalization. A comprehensive survey of about 1300 firms, scattered over 10 states and nine important organized manufacturing industry groups (consisting of both public and private sectors), undertaken by the Institute for Human Development (sponsored by the Ministry of Statistics, Government of India), shows that between 1991 and 1998 although the total employment increased by over 2%, most of the increase was accounted for by temporary, casual, contract, and other flexible categories of workers.[11] As Jenkins notes: the "reform by stealth" in the field of labor policy continues so that without a formal exit policy, workers are disbanded through a voluntary retirement scheme (VRS), which are far from voluntary (Jenkins 2004, 340).

An indirect implication of rising intra-urban, rural-urban and inter-state inequalities is that impoverishment, and economic insecurities afflict some sections, social groups, and regions more than others. This divergence makes the economic problems and impoverishment of these sections more localized and invisible to the national media or national statistical systems. For example, the impoverishment experienced by the rural and poor communities was incompletely visible to national print and electronic media in 2004; this created the expectation of the BJP's victory in general elections. It appears that even the Congress leaders and party workers were surprised by their own victory and by the defeat of the BJP (Kumar 2001). Moreover, while we have ways of capturing poverty and other indicators, we are unable to find measures to captures rising insecurities and vulnerabilities at the national or aggregate level. It's only localized histories and particular crucial events that yield some insight into these declines in the well being and insecurities of some populations. A few illustrative cases highlight rising insecurities in India.

In 2003, attacks on Hindi-speaking people and Biharis broke out in several parts of Assam. These clashes soon spread to parts of the Northeast (eastern part of the country, which has experienced very low growth rates and decline in public sector employment). The immediate context for the sudden violence was recruitment by the railways for Northeastern railways for Class III and Class IV (lower level, unskilled) jobs. On November 9, 2003 some candidates from Bihar who had traveled to Guwahati for the written tests conducted by the Railway Recruitment Board for recruitment to class

III and class IV[12] jobs in Northeast Frontier railway (NFR) were prevented from taking the tests by some local youth. Some youth from Tripura who too had traveled to Guwahati for the same purpose received similar treatment. With over two million "educated unemployed" (the number of unemployed in the live registers of employment exchanges in Assam, as on December 31, 2001, was a little under 15 lakhs), and with the State having little capacity for employment generation on its own, the youth of the State depend heavily on agencies from outside the State to provide employment. With little inflow of private sector investment, only the State and Central governments, and structures like the Indian Railways and other public sector undertakings, are seen as providers of jobs, howsoever huge the problem of unemployment and howsoever meager their contribution in alleviating the problem is in the totality of things.[13] In the present instance there were over *six lakh applicants, more than half of them from outside the region, for 2,720 posts*. The victims of these so-called Assamese-Bihari clashes are almost entirely the so-called Biharis, more correctly Hindi-speaking people from many parts of India, including, perhaps predominantly, Bihar, whose ancestors had settled down in the State or the region generations ago. The backlash began in Guwahati but spread soon to areas in Upper Assam, with the major toll being in Tinsukia district. Two weeks after the first outbreak, the officially admitted death roll was 56. The victims, who included women and children, were hacked to death, as in the case of a whole family in Tinsukia, or stabbed or shot. The violence was not confined to "remote" areas; hundreds of houses, homesteads and settlements in Guwahati, including in the capital complex Dispur and the Guwahati University campus, were burnt. Livestock too was destroyed. In such a situation of drastic but localized economic decline and lack of private sector development, the slogan of “Jobs for the boys” resonated all across the Northeastern states.

Similar vignettes of rising insecurities abound in many other parts of the country. Dreze (2001) for example shows evidence of localized impoverishment in the poor districts of Orissa due to the destruction of the local environmental base and the dismal failure of state-sponsored programs in the 1990s. The decline of the textile industry in Gujarat and Mumbai has led to massive insecurities among the population in these industries creating the potential for deep social unrest utilized by Shiv Sena and the BJP (Spodek 1989; Hansen 2001; Rajgopal 2001; and D’Monte 2002). A case study of Ahmedabad, once known as the ‘Manchester of India,’ illustrates how the rise in economic securities can create a fertile ground for social and political instabilities. In 1985 and after 2001 Ahmedabad was affected by communal riots.[14] 80 percent of workers in the city of Ahmedabad were employed by the textile industry in the 1960s and the 1970s. Yet, by the late 1970s manufacturing employment started to decline in the Textile industry. Simultaneously, there was an increase of manufacturing in the small-scale units in the chemical and engineering industries. These changes directly affected the working conditions of workers making them more insecure and unstable.[15] Some of the displaced workers were absorbed in the illegal economy of alcohol, drugs, silver, and gun smuggling (Patel 2002b). Many of them joined the VHP, the Bajrang Dal and Hanuman Sena (Patel 2002a; 2002b). Thus, the decline of the textile industry and in formalization of its workers is directly related to the communal riots of 1985-1986 (Spodek 1989; Patel 2002b) and the riots in Mumbai in 1992-1993 (D’Monte 2002).

Similarly, numerous cases of substantial disruption and rising vulnerabilities in people's lives are evident: deep recession in the power loom sector in Tamil Nadu, a crisis in the edible oil industry after the slashing of import tariffs, collapse in coffee prices and farmer suicides in Kerala, bankruptcy among the cotton farmers and farmers in Andhra Pradesh leading to an increase in farmers suicides (Sainath 2002), the displacement of traditional fishing by commercial shrimp farmers in Kerala and Orissa. A related issue is of transitional costs as people move out of their traditional and more stable livelihoods into more unstable and informal occupations. In many poor regions of India, further decline has been avoided mainly through seasonal migration. Migration imposes social costs and increases social and political insecurities. In 2003-2004, many riots in India were against the immigrants. In formalization of the labor force also increases insecurities. It may mean longer working hours, higher insecurity, lower status and worse working conditions (Deaton and Dreze 3742). A specific analysis of the most derived community in India—the Scheduled Castes—may give some sense of the economic inequalities faced by members of this community.

Economic Inequalities of Dalits/Scheduled Castes[16]

India's caste system is structured and defined by principles of graded inequality; as such, it was bound to produce economic disparities across caste groups. The most deprived are the untouchables or Scheduled castes, now known as Dalits (literally, the oppressed or the exploited). In addition, insofar as it a rigid system discouraging mobility across social boundaries and occupation groups, this tends to reproduce persistent and systematic economic and social inequalities.

According to the 1991 census, the literacy rate of SCs is 37 percent as compared to all-India literacy rate of 52. About three-fourths of all SC's live in rural areas, where the main source of income are either wage labor in agriculture, or non-farm employment, or non-farm self-employment. In 1987-1988 only 18.9 percent of SC households were self-employed in agriculture, referring to those who had access to some land or assets, whereas among the non-SC the share was more than twice as high: 43.3 percent; this ratio had not changed much by 1994-1995. Overall, only 29.8 percent of SC households are self-employed in either farm or non-farm employment, while 57.1 of non-SC households were self-employed (See Figures 1& 2). In the urban areas, disparities in access to capital was as pervasive with only 28 percent of SC self-employed; by 1993-1994 it had actually *declined* by 4 percent points to 24 percent. Thus, unequal access to land or capital markets continues to affect Dalits. In 1999, scheduled castes, in comparison to other social groups—Scheduled Tribes, Muslims, Christians, and general caste groups—owned the least land. Only 47 percent of scheduled castes owned some land while the corresponding figures for other groups were: 69 percent for tribals/adivasis; 65 percent for non-SC castes; and 57 percent for Muslims. In addition, the average size of landholdings owned by a Dalit was very small, ranging from 1 acre to 2.8 hectares (Shariff 1999).

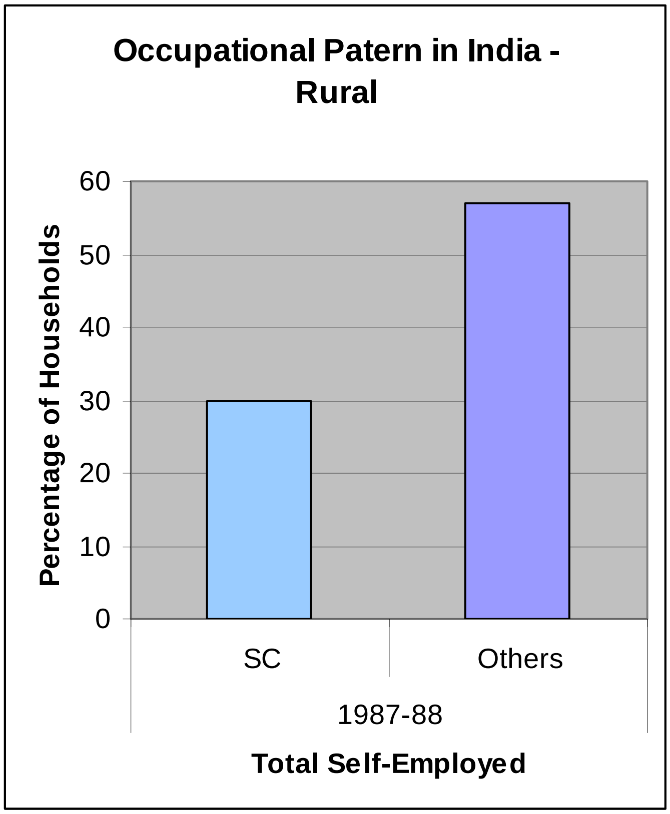

Occupational Patern in India - Rural
Percentage of Households
60
50
40
30
20
10
0
SC
Others
1987-88
Total Self-Employed

Figure 1:

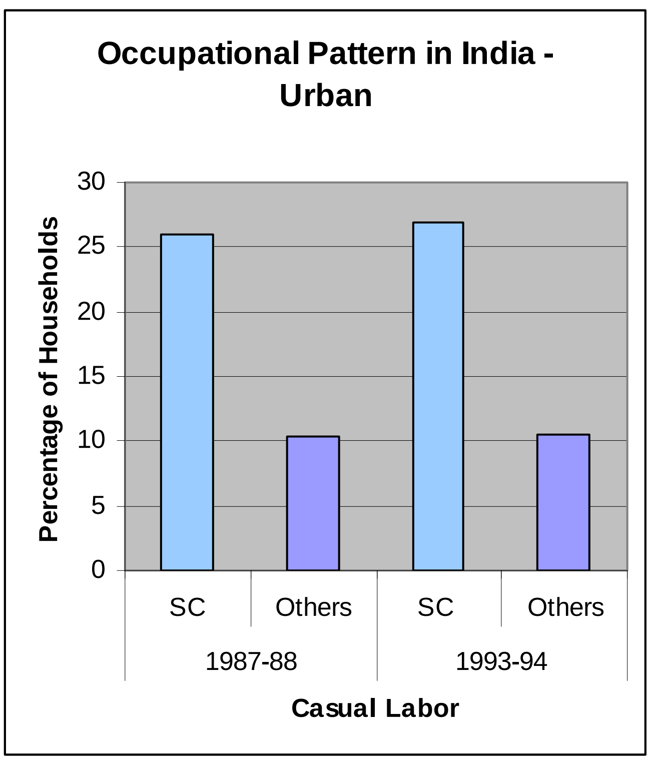

Occupational Pattern in India - Urban
Percentage of Households
30
25
20
15
10
5
0
SC
Others
SC
Others
1987-88
1993-94
Casual Labor

Figure 2:

Table 6 below shows that SCs are higher in proportion in the landless, marginal and small farmer categories.

Table 6: Size Distribution of Ownership Holding

	Scheduled Castes		Others	
	1982	1992	1982	1992
Landless	12.61	13.34	10.18	9.85
Marginal	72.41	72.91	52.2	53.95
Small	8.4	7.85	16.09	13.58
Semi-medium	4.52	3.86	12.05	10.08
Medium	1.8	1.83	7.66	11.48
Large	0.26	0.21	1.82	1.06
Total	100	100	100	100

Source: NSS (1982,1992) Landholding Survey, Delhi: CSO.

Lack of access to land, rural assets, and capital and high dependence on wage labor is likely to result in low income and consumption and higher incidence of poverty among SCs as compared to the non-SCs both in rural and urban areas. Table 6 shows that the per capita consumption of expenditure of SCs in rural areas was only Rs. 133 in 1987-1988 compared to Rs. 169 for the Non-SCs. Similarly, in urban areas, SC’s consumed about Rs. 185 while non-SC's consumed Rs. 256 per person. Low levels of consumption expenditure make it easier for SCs to fall below the poverty line. Figures 3 & 4 show that 50 percent of SC were below the poverty line in the rural areas in 1987-1988 with a slight improvement to 48.14 percent in 1993-1994. Interestingly, in the urban areas, a higher proportion of SCs are below the poverty line: 56 percent in 1987-1988 and 49.9 in 1993-1994.

Table 7: Monthly Per Capita Consumption Expenditure by Social Group

	Rural	Urban
1983-84		
Scheduled Caste	87	128
Others	112	165
1987-88		
Scheduled Caste	133	185
Others	169	256

Figure 3:

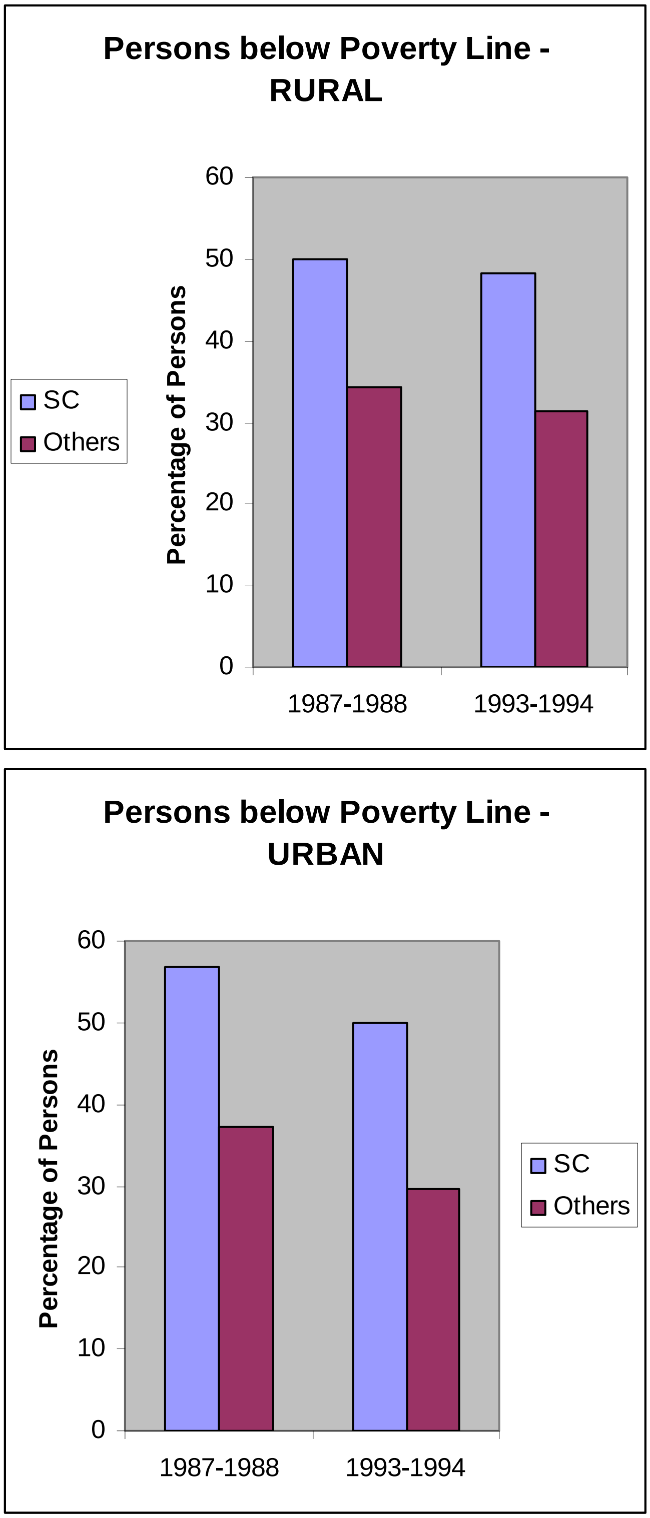


Figure 4

What is even more troubling is that the fact that social and economic inequality of lower castes maps on to regional disparities. 87 percent of SC households in Orissa are made of fragile materials (kutcha), while only 27 percent of SC households are kutcha. In backward states like Orissa, Bihar, and Uttar Pradesh, SC are the most backward (Table 6). In Uttar Pradesh, among the Chamars, a SC community, 99 percent of the households have no toilet facility, compared with 90 percent among Brahmans; 89 percent of Chamar households have no electricity compared with 64 percent among Brahmans; 73 percent live in kutcha houses compared with 47 percent among Brahmins (Srinivasan and Kumar 1999). Bihar, seems to be the poorest of Indian states and access to basic necessities for the Dalits as unequal: in the rural areas, 99 percent of the Chamar households have no toilet facility compared to 73 percent among the Rajputs and 75 percent of the Brahmans. These differentials persist for a variety of social and economic indicators. In terms of literacy, for example, 53 percent of the Chamar households have no adult literate member in the family; it was 40 percent for Yadavs (OBCs) and 9 percent among Brahmins.

Table 8: Disparity in Performance of SC and ST Between the Best and the Worst Performing States

	Indicators for Scheduled Castes and Tribes		
1	Kutcha housing 1994 (%)	Haryana (24)	Orissa (87)
2.	Households with a toilet 1994 (%)	North East region (67)	Orissa (0.7)
3.	Households with electricity 1994 (%	Himachal Pradesh (84)	Bihar (4)
4.	Overall literacy 1994 (% of populati	Kerala (78)	Bihar (28)
5.	Ever enrolment rate, 6-14 years 1994	Kerala (97)	Bihar (45)
Source: A. Shariff (1999), *India Human Development Report,* Oxford University Press, New Delhi. T Union Territories and Delhi and Goa have been excluded from this analysis.			

Three salient conclusions follow from the above data. First, there is clear socio-economic inequality of SC versus other communities. Second, their economic deprivations have persisted over time; the general process of economic development has not reduced the extent of inequality between Dalits and non-Dalits. Third, economic inequality maps onto regional inequalities.

Conclusion:

Globalization and liberalization processes shapes rising inequalities and the specific pattern of spatial and cultural divides amidst growing prosperity in India. Yet, rising insecurities and vulnerabilities should not be treated as the inevitable product of globalization or economic interdependence. Politics, political mobilization, political institutions, policy frameworks, and regimes can and do intervene to refract rising and emerging inequalities. Governance institutions and political preferences do change and slow down the process of rising inequalities and costs that prevent movement from agriculture to more service or urbanized environments. As an illustration, Dutt and Ravillion's recent evidence suggests that initial literacy levels have a direct impact on poverty levels (Dutt and Ravillion 2002). The extent of poverty reduction is directly affected by the extent of literacy. Thus, if "Bihar had Kerala's literacy rate then the elasticity of the headcount index in Bihar would have risen by 0.52 from 0.25 to 0.78 (Dutt and Ravillion, 18)." We know that extent of literacy is a direct policy variable: government's commitment toward increasing literacy level, thus, would have a direct effect in reducing poverty. In recent times, Himachal Pradesh and Madhya Pradesh have made significant gains in improving the literacy levels of their population despite continuing resource or income scarcity (Dreze and Sen 1997). More generally, differences in human resource development accounts for a sizeable share of the long-run differences between states in rates of rural poverty reduction (Dutt and Ravillion 1998; 2002). States that are better administered are also states with lower inequalities and poverty.

One of the most consequential ways in which liberalization affects the wellbeing and security of people is in terms of its impact on public policy, state capacity, and the discourse on inequality. The sharpest casualty of the liberalization process in India and beyond may be the belief long enshrined in the public consciousness that states and public action is responsible for ameliorating poverty and inequality. The language of markets and individual rationality has become more important than the issue of public accountability and responsibility. The public attention of national and state-level policymakers has shifted to attracting investment, increasing growth, and facilitating private sector development. With such demands, the political attention to equity and ensuring public goods for the poor has diminished. This may explain the lack of explicit policy initiatives in the field of poverty or equality initiatives in the last decade. The ratio of development expenditure to non-development expenditure for all states taken together has come down sharply to 2.1 in 1995-1996 from 3.2 in 1980-1981. A major reason for this increase in non-development expenditure has been the steep increase in the interest burden of the states during this period. Table 9 shows that interest payments take a large proportion of state expenditure crowding out expenditure on social and economic services. The share of provincial expenditure on social services declined from 52.93 percent in 1980-1989 to 35.45 percent in 1990-1999; while the share of expenditure on economic services declined from 44 percent to 30 percent for the same period (Saez and Sinha 2005).

Table 9: Average Expenditure on Interest Payment across Indian States (as share of total state expenditure)

	1980-1989	1990-2000
AP	7.75	13.60
AS	11.95	14.07
BI	11.28	17.92
GU	9.38	14.91
HA	11.13	13.34
HP	7.73	15.00

JK	14.67	18.15
KA	11.23	13.18
KE	9.96	15.50
MP	8.10	12.92
MA	10.86	13.87
OR	13.05	20.29
PU	12.55	20.23
RA	13.12	17.28
TN	8.14	11.20
UP	12.59	21.49
WB	11.71	18.43
all states	10.89	15.96

Source:

Some of these shifts are well demonstrated by the ruling party's party platforms in the election campaigns of 1971 versus 2004: Garibi Hatao or "Remove Poverty" (1971 election slogan of the Congress Party) to "India Shining" (election slogan of the BJP in 2004). Yet, after the BJP's defeat, the Congress Party was forced to re-frame its policy priorities toward the rural sector. After elections of 2004, the Prime Minister, Dr. Manmohan Singh, first visited the families of farmers in Andhra Pradesh who had recently killed themselves. Thus, political mobilization and egalitarian movements still offer the most consequential antidote to a rush to deny the importance of inequality, egalitarian strategies toward growth, and the localization of people's vulnerabilities.

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[1] It is better to use national poverty line than the World Bank comparisons of $1 dollar (at purchasing power parity) a day, especially for India. Wade (2004) shows there is reason to doubt the World Bank figures: $1/a day biases the number of poor downward and the World Bank calculations on poverty especially for India and China are mistaken. Also, most scholars agree that $1 dollar a day, translated in purchasing power parity terms, used by the World Bank, is very low. William Cline uses $2/day as the cut off point (Cline 2004). For an analysis of poverty and inequality in China see Ravallion and Chen (2004).

[2] 80.5 percent of the population is Hindu; 13.4 Muslim; Christians are 2.3 percent of the population and Sikhs 1.9 and Buddhists 0.8 (Census of India, 2001). India's population is 1.048 billion.

[3] India sex ratio is one of the lowest in the world and becoming lower over time, Currently, it is 927 women to every 1000 men. See, Kalpana Sharma, "No Girls, Please, We Are Indian," *The Hindu*, August 29, 2004.

[4] The Hindu nationalist movement articulates an argument about the discrimination faced by Hindus and has powerfully shaped Hindus perceptions about perceived discrimination, even if this may have no basis in objective indices. This alerts us that the 'framing' of inequalities can be quite consequential.

[5] Yet, its not clear if liberalization is the culprit as this shift in income started in 1980.

[6] Organized workforce as a % of total workforce declined from 18.93 in 1961 to 13.80 in 1999-2000.

[7] Rashmi Banga (2005) finds that liberalization in India is associated with growing wage inequality between skilled and unskilled sectors but in export-oriented sectors, wage inequalities have been lowered; this may be due to the fact that many of India's exports take place in low skill and low wage industries.

[8] In some districts of Punjab and Haryana, the sex ratio is as low as 766 for every 1000 men (For example, Fatehgarh district).

[9] Two recent books have as their main topic, the rise of India's software sector: Friedman (2005) and Prestowtiz (2005).

[10] Some predict that the IT sector will create indirect employment but actual measures of indirect employment are not yet evident. See T.N. Srinivasan (2005).

[11] Ibid.

[12] These jobs are mainly for *gangmen*, *khalasis, helpers etc*., which are manual and non-skilled workers.

[13] Both the states of Assam and Bihar are economically backward and gripped by alarming unemployment. In Assam alone, the number of registered unemployed youth touches 15-lakh mark. A nation-wide test is being conduced by the ministry of railways through 19 RRBs in the country for absorption in the Group 'D' category posts. While only around 38,000 vacancies, spread over 17 railway zones, of gangmen, *kaalasi* etc., a whopping 75 lakh candidates applied for these posts. After screening, 55 lakhs applications were found valid. The qualification required for the posts was only up to class VIII standard. However, as reported in the press, a large number of graduates, post-graduates, engineers etc. also applied for the 'D' category posts.

[14] In 1985 there were 170 deaths and 669 people injured as a result of riots.

[15] Shiv Sena in Bombay also recruited its cadres from displaced workers in textile industry See D'Monte (2002).

[16] The Scheduled Castes are over 400 castes that have historically been treated as "untouchable" by Hindu society. The term "Scheduled" refers to the government schedule in which they were originally listed as being eligible for affirmative action benefits.