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GLIMPSES OF ECONOMIC GROWTH AND ITS IMPACT ON POVERTY REDUCTION

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ABSTRACT:-

The term economic growth is one of the most powerful macroeconomic variables that help to reduce poverty and improving the quality of life in developing countries. Economic growth can generate virtuous circles of prosperity and opportunity. Strong economic growth and better employment opportunities improve incentives for parents to invest in their children's education by sending them to school. A strong economic growth therefore advances human development that, in turn, promotes economic growth. This paper is attempted to examine the relationship between economic growth and poverty reduction in developing nation like India.

Introduction: The term economic growth is one of the most powerful macroeconomic variables that help to reduce poverty and improving the quality of life in developing countries. Economic growth can generate virtuous circles of prosperity and opportunity. Strong growth and employment opportunities improve incentives for parents to invest in their children's education by sending them to school. A strong economic growth therefore advances human development that, in turn, promotes economic growth.

The analysis of the relationship between economic growth and poverty reduction has gone through various phases in the literature on economic development. For example, an important premise of the very early theories of development was that the benefits of economic growth would trickle down to the poor. Since then, questions have been raised on the assumption of an automatic link between growth and poverty reduction, and attempts have been made to understand the mechanisms through which the benefits of growth may get transmitted to the poor.

Research Problem: The present study has been undertaken on the issues of two important things, first one is economic growth and second one in poverty. Present Study would examine the question which is raised by various growth models in literatures that "Does economic growth and reduce poverty"? This paper is attempted to examine the glimpses of economic growth and its impact on poverty reduction in developing nation like India.

Research Objectives: The research is based on following objectives. These are as follows:

1) To study the overview of economic growth and poverty.
2) To study the relationship between economic growth and poverty reduction .
3) To study the essential condition required to increase economic growth that help to reduce poverty.

Literature Review: The economic literature is firm on the point that the sustained economic growth reduces poverty. Numerous cross-country studies have concluded that the main determinant of poverty reduction is the pace of economic growth.

A recent study by Fields (1989) indicates that of 18 countries with data on poverty over time, in only one case was economic growth not accompanied by a fall in poverty. Moreover, Fields found that more rapid economic growth tends to bring greater declines in poverty.

Another study by Ravallion and Chen (1996) analyzes a more selective set of household survey results, covering the period since 1980. Their results are striking and give strong support to the hypothesis that growth reduces poverty in developing countries.

Research Methodology: The research study is based on purely secondary data such as publication of various journals from RBI, GOI, and others institutional journals, Government of India publications and others statistical report that provides required and reliable information on the topic "Does Economic Growth Reduce Poverty". Further contributions of experts in the subject are also referred.

Overview of Economic Growth and Poverty Reduction in India: The differences in overall economic growth performance across the Indian states have important implications for poverty reduction. India's past experience at the national level shows that as long as GDP growth was modest, i.e. between 3.5 to 4% up to the late 1970s, there was no significant reduction in poverty. The percentage of the population below the poverty line was fluctuated. It was only after GDP growth accelerated in the 1980s that a trend reduction in poverty began to be noticed. Since 1991, data shows strong relationship between economic growth and poverty reduction in Indian States. Some states have shown tremendous improvement in economic growth that helps to reduce poverty.

Trends of Relationship between Economic Growth and Poverty: The current methodology for poverty estimation is based on the recommendations of an Expert Group to Review the Methodology for Estimation of Poverty (Tendulkar Committee) established in 2005.

Table 1: Estimation of Economic Growth and Poverty Ratio

Year	Poverty Ratio	Economic Growth
2004-05	37.2	7.5
2009-2010	29.8	8.59
2011-12	21.9	6.69

Source: Planning commission and Poverty estimation Report, 2013

According to the Table 1, that shows national level of overall economic growth and poverty levels for the last ten years. According to these estimates, poverty declined at an average rate of 2.18 percentage points per year between 2004-05 and 2011-12. Table shows that there is negative correlation between economic growth and poverty. It is prove that higher economic growth leads to reduce poverty.

Comparison between economic growth and poverty of Selected Indian States since 2004-5: The economic growth and poverty ration is given in table no. 2.Table 2 presents' state-wise data on percentage of gross state domestic product and population below poverty line in 2009-10 and 2011-12.

Table 2: Poverty Ratio and Growth rate of GSTP at Constant 2004-05 Prices

No. of States	Percentage of Poverty (Tendulkar Committee)		GSDP at Constant Price (% of Growth on YoY)		Declining Rate of Poverty
	2009-2010	2011-12	2009-2010	2011-12	2009-10 to 2011-12
Bihar	53.5	33.7	5.35	10.29	19.8
Gujarat	23.0	16.6	11.25	7.66	6.8
Madhya Pradesh	36.7	31.6	9.56	9.69	5.1
Maharashtra	24.5	17.4	9.30	4.82	7.1
Odisha	37.0	32.6	4.55	3.78	4.4
Rajasthan	24.8	14.7	6.70	5.17	10.1
Utter Pradesh	37.7	29.4	6.58	5.57	8.3
West Bengal	26.7	20.0	8.03	4.72	6.7
All India % Rate	**29.8**	**21.9**	**8.59**	**6.69**	**7.9**

Source: Planning Commission and Poverty Estimation Report, 2013

According to data released by the Planning Commission in Oct 2013, on economic growth and percentage of population below poverty line indicates that there is declining trends of poverty since 2009-11. The poverty level in 2009-10 was 29.8 percentages that has come down up to 21.9 percentages.

As per the above table that indicate different type of correlation between economic growth and poverty. Table shows that economic growth in one of the strong root cause of declining poverty in developing nation like India. Indian developing states such as Bihar, Utter Pradesh, Madhya Pradesh, Rajasthan, Odisha, West Bangal and others shows that higher economic growth can reduce poverty. There is negative correlation between economic growth and decline poverty since 2009-10 to 2011-12. That's way every states should concentrate to increase overall economic growth. There are various condition required to come up strong economic growth that directly influences poverty level in developing nation.

According to the recently-released data on poverty by planning commission, Bihar and Rajasthan have done well when it comes to reducing poverty in the last few years. Bihar is one of the top most economic growth state shown average growth of 11.42 percent between 2004-05 and 2011-12 and also one of the sharpest falls in poverty levels. What worked in Bihar's favour was good agriculture growth of 15.17 per cent during this period. . Rajasthan the desert state reaped the benefits of way-above-the-average performance on the agriculture front. The state's agriculture and allied sector grew 6.42 per cent from 2005-06 to 2011-12.

During this period, these states also grew at impressive rates. Among the less developed states, Uttar Pradesh failed to see substantial improvement on the poverty front because of their below-par growth performance.

Essential Conditions for Strong Economic Growth and its Impact on Poverty:

Growth is ultimately about investment in capital and labour and improving the productivity of these factors of production through the processes of innovation and technological absorption. There are various constraints facing by developing nation like India and Indian states that my need to addressed. These are as follows:

I. Investment in Physical capital

The first condition for strong economic growth is to make investment in physical capital. Growth requires investment in physical capital such as plants, machinery, raw materials, etc. The country that has achieved sustainable growth has managed a significant increase in the levels of both domestic and foreign investment as a percentage of GDP. For example, Gujarat, Maharashtra and other developed states. Restricted or expensive access to finance is a brake on such investment, particularly for small and medium-sized enterprises and for the informal sector. So that a well-functioning financial sector enhances economic growth through ensuring that capital is not left idle, that it is directed to where it is most beneficial, and that risks are borne efficiently.

II. Investment in Human capital

The second condition for strong economic growth is to make investment in human capital such as education, health and skills. Investment in this 'human capital' is especially appealing as it directly leads to improved human development as well as helping to drive growth. That is good sign for better economic prospectus and poverty elimination from nation. Recently Indian states such as Gujarat, Maharashtra, Madhya Pradesh Rajasthan and few more invested more in human capital that help them to increase in faster rate and reduce poverty.

III. Proper Implication of the rule of law

The third condition for strong economic growth is to follow the rules of law. The business environment needs to have safeguards that ensure that the returns of investment will be collected by investors. The Indian states such as Maharashtra, Gujarat and many more is top most destination that implemented proper rules of law. Political instability, corruption and crime can all threaten potential returns and make investment unattractive and thus damage the prospects for growth. As well as curtailing domestic investment, poor property rights are likely to divert foreign investment elsewhere. This may substantially reduce the scope for technology transfer that will increase productivity and ultimately growth.

IV. Development of Competitive markets

The fourth condition for strong economic growth is to create competitive market environment. Competitive market ensures that the consumers are able to obtain more goods at lower prices than under a monopoly. Best example of such kind of development in Maharashtra and Gujarat.

V. Maintain Macroeconomic stability

The fifth condition for strong economic growth is to have stability in macroeconomic policies. A stable macroeconomic environment is crucial to reducing the risks associated with investment. A stable macroeconomic environment includes monetary policy that delivers low and stable inflation, effective management of government tax and spending to deliver public services; and an exchange rate regime that is not excessively distorted or volatile.

VI. Create better Infrastructure

The sixth condition for strong economic growth is to create better infrastructure in the country. Every investor investing in to the economy needs good access to knowledge, to inputs of capital, labour and raw materials, and to markets. This requires better transport infrastructure, as well as the provision of a regular supply of electricity and other utilities. Better infrastructure creates good scope for all kind of the people. That helps to reduce income inequality and poverty. In addition to transport infrastructure, communication infrastructure is crucial in disseminating information about prices and markets across a wide area. In this respect, the spread of mobile communications has been revolutionary. Recently Bihar, Rajasthan and other developing states are trying to make investment in infrastructure that shows them positive result.

VII. Adopt Openness to trade and investment

The seventh condition for strong economic growth is to adopt open economy system. No country has grown on a sustained basis in recent times without successfully integrating into global markets. There are two facets to this: integration into goods markets and integration into input markets, notably integration into financial capital. Openness of a country's goods markets enables growth, facilitating technology transfer, increasing competition and benefiting consumers.

VIII. Increased agricultural Production and productivity

The eighth condition for strong economic growth is to increase agricultural productivity. Productivity increases in agriculture serve as the channel for strong growth, as well as having strong effects on reducing poverty due to the high numbers of people involved in these sectors. Adapting or developing technologies and improving agricultural markets for seed, fertilizer and agricultural outputs will help this process. In terms of increased agricultural production and productivity, recently the states like Bihar and Rajasthan is on top. Because of this it has directly influences the poverty rates in these states.

Concluding Observation:

As per the above study that highlight the importance of economic growth that benefits the poor in almost all the countries in which substantial growth has taken place. In fact, strong economic growth appears to be one of the best ways to reduce poverty. Now the challenges before the policy maker is to combine growth-promoting policies with policies that allow the poor to participate fully in the opportunities unleashed and so contribute to that growth. This includes policies to make labour markets work better, remove gender inequalities and increase financial inclusion.

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