

ESSAYS ON ECONOMIC DEVELOPMENT IN INDIA

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The thesis examines some aspects of economic development in India. The first chapter finds the distributional effects of tariff reform in India, the second chapter focuses on determinants of violence in India and the last chapter deals with the changes in consumer preferences in recent years and its effects on sector specific aggregate demands.

In 1991, India adopted comprehensive measures of internal and external reforms. One of the important aspects of external reforms was drastic reduction in tariff rates. The literature suggests that growth, productivity, competitiveness and efficiency are positively affected by reform measures. However, the question about the distributional impact is largely unanswered. If gains from reform do not reach all sections in equal proportions, we need some complementing strategy to combat widening gap between rich and poor. Moreover, during the period of rapid external sector reforms, inequality measures show some erratic trend. It is important to ask whether the increasing consumption inequality could be attributed to trade openness. In a path-breaking paper, Topalova (2007) first pointed out that district inequality is unaffected by tariff reforms. However, the paper fails to explain why inequality has not been affected by tariff reform. Does it mean that gains from trade policy are similar for all income groups? In this paper, I estimate the general equilibrium distributional impact of tariff reform in India using empirical method of Porto (2006). This method enables me to find each channel separately through which inequality could be affected by tariff change. I estimate consumption effects of both traded goods and non-traded goods as well as labour income effects of tariff reduction using household consumption and employment survey data. The estimated welfare gain (compensating variation) are comparable across all income groups. Therefore, tariff reforms do not have any significant effect on inequality. This result substantiate the findings of Topalova (2007).

In second chapter, I explore the determinants of violence in India. In recent years India has drawn tremendous attention of international media as well as academicians for its emerging status. However, a close look at other dimensions of human development reveals that India's performance is not satisfactory. "Freedom from violence" is one of the important aspects of socio-economic development. In assessing the influence of inequality on violent crimes this paper brings out an interesting nexus between violence and inequality which contradicts a common prediction of almost all prominent theories of crime. I show empirically that higher inequality leads to lower murder rate (proxy for violence) using a district level panel. I experiment with different estimation models and the result is robust. The explanation of this result lies in the fact that in a class conscious society like India where law and order machinery is not always unbiased, higher degree of inequality does not immediately lead to higher incidence of violence or

crime. It has two reasons: 1) Higher income group people are more immune to violence just because they enjoy special status in society and they can “buy” law and order machinery (public good) in their favour. When inequality is high (income groups are far from each other), their relative strength of using law and order machinery in their favour is higher. Therefore, poor people have higher opportunity cost of violent activity when power is concentrated in higher income group. 2) Return from violent activity for higher income group is less in highly unequal society.

In third chapter, I intend to empirically investigate the “trickle-down” process in India using household survey data. The mechanism of trickle-down is well understood in a frame-work of demand analysis. It is pointed out in literature that if preferences are non-homothetic then the distributional impact of fast growth is skewed towards the richer section of society. In recent years, the structure of consumer preferences are changing for both rich and poor. While Engel curve gives the relations between income and expenditure shares, it also informs us about the relationship between aggregate demand and income distribution. Lambert and Pfler (1997) identify a variety of empirically relevant properties of distributional effect on market demand with the help of information on the shape of the Engel curve and transition in income distribution. Using consumption expenditure data I estimate the relevant parameters to identify the effects of changing preference structure on sector specific aggregate demands. Finally, the sector specific skill intensities are used to find whether the change in preferences have any effect on labour incomes of different groups.