Original Article

Investigating Inclusive Growth: A Comparative Analysis of Tamil Nadu and Gujarat

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Abstract

This study presents a comparative analysis of the nature of inclusiveness of economic growth of two of India's fastest-growing states, Gujarat and Tamil Nadu. Using the Household Consumer Expenditure Survey (HCES) unit-level data for the years 1993–1994, 2004–2005 and 2011–2012, collected by the National Sample Survey Organization, this study examines the inclusiveness by deploying a poverty decomposition technique, followed by spatial/sectoral and household type–based decomposition of inequality in both regions. We find that Tamil Nadu has outperformed Gujarat with respect to poverty reduction for the two periods of analysis—1993–1994 to 2004–2005 and 2004–2005 to 2011–2012—in both urban and rural sectors. The poverty decomposition exercise demonstrates that although economic growth contributed significantly to reducing the level of poverty, the magnitude of poverty decline has been slowed down due to accelerating inequality. The growing divergence among households of various types has been significant in explaining rising inequality. Hence, poverty-alleviating policies should consider the distributional dynamics and should be more holistic in nature.

Keywords

Inclusive growth, poverty decomposition, Tamil Nadu, Gujarat, inequality decomposition

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Introduction

Economic growth does not matter in itself; rather, it is considered to be a means to an end—development, with poverty alleviation being one of its most crucial purposes. Market-oriented reforms, as suggested by the proponents of the free market, are meant to result in higher economic growth and lower poverty. Although the poverty rate in India has declined with the progression of market-oriented reforms, as measured following the official metric, the process of economic growth has resulted in accentuating disparity, which, in turn, has hindered poverty reduction itself, among other things (Motiram & Naraparaju, 2015; Motiram & Sarma, 2014). Therefore, for analytical purposes, it is more significant to investigate inclusive growth, as opposed to growth per se, while comprehending the process of economic development. In the Indian context, there is substantial inter-state variation, in terms of both economic growth (Ahluwalia, 2000; DeLong, 2012; Kumar & Subramanian, 2012) and the extent of development (Bhagwati & Panagariya, 2013). This is further accompanied by increasing divergence among the states (Cherodian & Thirlwall, 2015; Datt & Ravallion, 1998; Dev & Ravi, 2007; Himanshu, 2010). For our study, therefore, we consider two highly industrialised states, Gujarat and Tamil Nadu, with comparable performance in terms of their economic growth, to present a comparative analysis of their nature and extent of inclusivity.

The proponents of economic reforms argue in favour of ensuring conditions conducive to economic growth, as it would automatically help reduce poverty. However, the experiences of these two states present a somewhat different picture. While Gujarat grew at a marginally higher pace than Tamil Nadu (Bagchi et al., 2005; Dholakia, 2007), the latter witnessed a faster reduction in poverty (Kalaiyarasan, 2014). It also fared better in terms of multiple other developmental goals (Ghatak & Roy, 2014). However, while Tamil Nadu registered a remarkable performance with regard to poverty alleviation, in terms of inequality, Gujarat, as argued by Kalaiyarasan (2014), continued to be a comparatively less unequal state. This presents a somewhat paradoxical phenomenon, as higher inequality is considered to be a matter of concern and is supposed to hinder poverty reduction too. If trickle-down is in place, a state with a relatively higher economic growth is expected to experience a relatively faster reduction in poverty, but this did not happen in this case. If the state with higher poverty reduction is meant to be one with comparatively better inclusive growth, it should also be the one with lower inequality but, apparently, that did not happen either. This motivates our enquiry into the pattern and dynamics of inclusive growth throughout market-oriented reforms in these states under consideration, as their progress presents an apparently conflicting understanding of their development models. Accordingly, this article comprises the following objectives: (a) to analyse the source of poverty change, considering how economic growth and distribution have affected the direction and magnitude of change in the poverty rate, and (b) to investigate the dynamics of inequality along multiple axes to comprehend the pattern and sources of economic inequality in both these states, revealing the potential linkages among growth, disparity and poverty.

In this endeavour, we deploy a unique approach where we estimate the effect of income growth and distribution on poverty alleviation by deploying a rigorous decomposition technique, followed by spatial/sectoral and household type–based understandings of inequality. All of these together render a holistic narrative of the economic development process in Gujarat and Tamil Nadu, highlighting the importance of economic inequality with respect to poverty eradication and demonstrating the merits of a multidimensional study on inequality to understand the interplay of growth, poverty and inequality. This study contributes, both methodologically and empirically, to the discourse on inclusive growth in India and, more specifically, to the comparative analysis of subnational experiences in this regard.

The rest of the article is structured as follows. The second section describes the data used and methods deployed in this study. The third section presents our estimates of the poverty decomposition analysis, demonstrating the relative effect of economic growth and inequality. The fourth section illustrates a detailed analysis of inequality, where we discuss our findings related to the decomposition of inequality in terms of space/sector (rural–urban) and household type. The fifth section presents the discussion connecting all three factors: growth, inequality and poverty. It also intends to render plausible explanations for the observed developmental outcomes and concludes the article.

Data and Methodology

In this study, we use the unit-level data of the Household Consumer Expenditure Survey (HCES),[1] for 1993–1994 (50th round), 2004–2005 (61st round) and 2011–2012 (68th round),[2] collected by the National Statistical Office (NSO) to estimate poverty ratio (i.e., rate of poverty) and inequality (as measured by the Gini coefficient).

We adopt the Tendulkar poverty line, the official poverty threshold in India, to estimate the poverty ratio. The choice of the Tendulkar poverty line is justified by its methodological improvements over earlier poverty estimation approaches. It incorporates broader consumption patterns, including essential expenditures on health and education, making it a more comprehensive measure of poverty.

For the calculation of the poverty ratio, the nominal monthly per capita consumption expenditure (MPCE) for the years 1993–1994 and 2011–2012 has been converted into real MPCE, using 2004–2005 as the base year. This adjustment is necessary to account for inflation and ensure comparability across different time periods. The Tendulkar poverty line has been used to derive the implicit price deflator, which allows us to adjust the MPCE values to constant prices, thereby facilitating a more accurate estimation of real MPCE for both 1993–1994 and 2011–2012. This methodological approach ensures consistency in poverty measurement over time and aligns with official estimates used in policy analysis and economic research.

In our study, we deploy poverty decomposition and inequality decomposition. The former is aimed at separating the influence of income growth and distribution

on changes in the rate of poverty. Accordingly, the aggregate change in the rate of poverty is decomposed into, what is termed as, the 'growth' and the 'distribution' effect. This exercise thus aims to estimate and segregate the contribution of change in income (growth) and change in distribution (inequality) to the total change in poverty. The extant literature contains some pioneering and major contributions in this regard by Jain and Tendulkar (1990), Datt and Ravallion (1992) and Kakwani et al. (2000). While the first two papers decomposed a change in poverty into growth, distributional change in income and residuals, Kakwani (2001) proposed an exact decomposition that left no residuals. Later studies by Son (2004) and Mishra (2015) introduced the population effect to poverty decomposition literature. The growth effect of change in poverty estimates the extent to which poverty would change solely because of changes in income (MPCE), while keeping inequality throughout analysis unchanged. However, the distribution or inequality effect is supposed to assess the extent to which poverty would change only because of changes in inequality if the level of income (here, measured by MPCE) over the same period were to remain unaltered. Generally, growth in income is likely to have a positive effect on poverty reduction; that is, higher growth is more likely to lead to a lower poverty rate and vice versa. However, positive economic growth can be coupled with changes in inequality in either direction—upwards or downwards. Therefore, the relative benefits of positive growth accruing to the poor would tend to be lesser than those to the non-poor, if it is accompanied by a rising inequality. Consequently, a rise in inequality might potentially hinder poverty reduction even when there is an improvement in income. The opposite happens in the case of a decrease in inequality accompanied by a positive growth in income.

Thus, as mentioned earlier, the primary goal of the poverty decomposition exercise is to estimate the growth effect and the distribution effect. Holding the poverty line (z) unaltered over two time points, t and 0, the explained segment of total poverty reduction (or change) in a region can be identified as follows:

$$\Delta\theta_{st} = \theta(y_t, \sigma_t) - \theta(y_0, \sigma_0), \tag{1}$$

where
y_t is the income (here MPCE) at final time period t,
σ_t is the inequality at the final time period t,
y_0 is the income (here MPCE) at the initial period and
σ_0 is the inequality at the initial time period
θ_s is the poverty ratio or rate of poverty in a region, and
$\Delta\theta_{st}$ is the change in rate of poverty between two time periods or two time points.

By adding $\theta(y_0, \sigma_t)$ to both sides, the equation can be expanded as follows:

$$\Delta\theta_{st} = [\theta_s(y_t, \sigma_t) - \theta_s(y_0, \sigma_t)] + [\theta_s(y_0, \sigma_t) - \theta_s(y_0, \sigma_0)], \tag{2}$$

where $[\theta_s(y_t, \sigma_t) - \theta_s(y_0, \sigma_t)]$ signifies the income growth element in poverty changes with an unchanged income distribution, which is defined as the growth effect in the decomposition of change in poverty. The term $[\theta_s(y_0, \sigma_t) - \theta_s(y_0, \sigma_0)]$

depicts the inequality component in poverty reduction, which is meant to capture the effect of changes in inequality on poverty change with the level of income being constant. This is defined as the distribution effect.[3]

For the inequality decomposition, we follow the Yitzhaki (1994) method of decomposition. This method has been used to analyse the changes in inequality at both the national level and subnational (i.e., state) level (Biswas, 2020; Nelson Mandela, 2018; Sreeraj & Vakulabharanam, 2015; Vakulabharanam, 2010). Inequality decomposition facilitates to decompose total inequality into inter- and intra-units of analysis components. For example, when we decompose total inequality in terms of the sector (rural and urban), we are able to present the value as a summation of intra-sector and inter-sector inequality. Furthermore, this exercise provides us with the estimates of intra-rural and intra-urban inequality as well. The same is true if we are to decompose total inequality in terms of (NSO formulated) household type (primarily based on the type of occupation). Accordingly, we have estimates of intra-household-type and inter-household-type inequality.

According to the Yitzhaki method, the Gini (measure of inequality) can be decomposed in the following way:

$$G = I_b + I_r, \tag{3}$$

where I_b is the inter-component or inter-group inequality and I_r is the intra-component or intra-group inequality.

The inter-component can further be expressed in the following way:

$$I_b = \frac{2\,\mathrm{cov}(\mu_i, \overline{F_{oi}}(y))}{\mu},$$

where μ_i is the mean income for group i, $\overline{F_{oi}}(y)$ is the mean rank of group i and μ is the corresponding population mean income.

The inter-component can be further expressed as

$$I_r = \sum_i s_i G_i O_i,$$

where s_i is the consumption share of group i, G_i denotes the Gini coefficient for group i and O_i measures the overlapping index for group i.

The overlapping index depicts how the distribution of a particular group overlaps with the distribution of the overall population. This can be thought of as an indicator of the stratification in society. If the overlapping index takes the value 1 for group i, it implies that the range of the income of group i overlaps exactly with the range of income corresponding to the entire population. However, if the index takes the value 0, it means there is no overlap with the range of income corresponding to the overall population. This indicates a pattern of stratification in the society. An index value greater than 1 for a specific group indicates a tendency for polarisation, implying there are certain people within the group who have a higher income than the average income of the whole group, while the other

section has lesser income than the average income. The results of the decomposition analysis conducted using this method are presented in the fourth section.

Investigating the Sources of Poverty Change: A Decomposition Analysis

In this section, we present the findings of the poverty decomposition exercise segregating the relative contribution of income growth and changes in inequality to changes in poverty. Consequently, this exercise extends an empirical justification to the argument that economic growth or income growth alone may not be strong enough to eradicate poverty and emphasises the criticality of focusing on inequality when aiming for poverty reduction. In our case, this also helps us explain why two otherwise comparable states performed differently in terms of poverty alleviation.

However, before we discuss the results of our poverty change decomposition, a brief overview of the situation regarding poverty and income per capita is presented.

We find that in terms of income per capita (proxied by average real MPCE here), Gujarat is ahead of Tamil Nadu (as well as the national average) initially, in the case of both rural and urban sectors (see Figure 1). However, Tamil Nadu registered a remarkable increase in per capita income in the later phase (i.e., from 2004–2005 to 2011–2012), and finally, its per capita income (MPCE) became higher than that of Gujarat. Note that by 2011–2012, the all-India per capita income in the urban sector is higher than that of Gujarat. Clearly, the period of

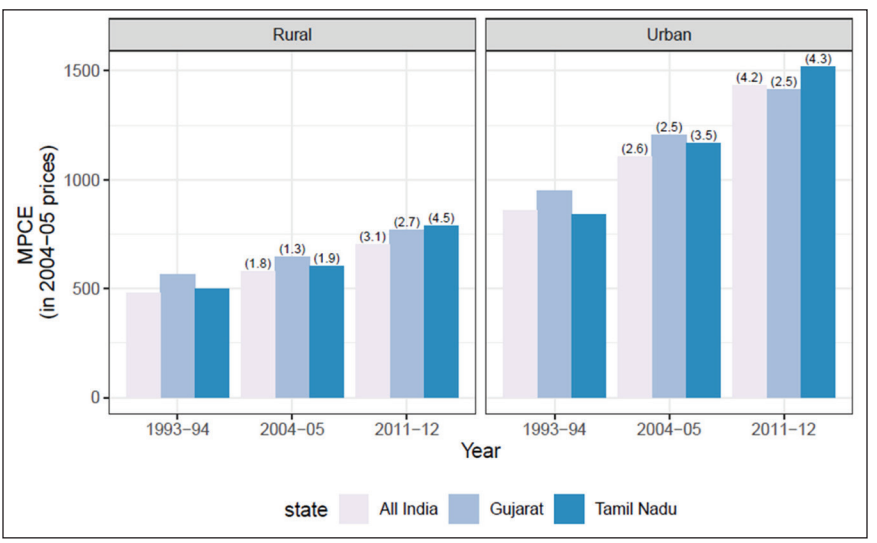

Figure 1. MPCE of Gujarat and Tamil Nadu over Time.

Note: The numbers in parentheses show the average annual rate of growth over the previous year.

2004–2005 to 2011–2012 experienced an impressive growth in per capita income in the urban sector at the national level. Tamil Nadu, on average, registered a marginally higher growth than the all-India level.

However, the scenario changes with respect to poverty alleviation. In 1993–1994, the poverty headcount ratio in Tamil Nadu (in the case of both urban and rural sectors) was comparable with the same for the all-India level, while it lagged behind in the case of Gujarat. In this regard, even before Tamil Nadu's income per capita crossed that of Gujarat, the former achieved substantial poverty reduction, resulting in lower poverty (especially in rural areas) during the first phase (1993–1994 to 2004–2005) itself (see Figure 2). Note that the rural poverty gap between the all-India level and Gujarat reduced considerably during the first phase, only to later increase again in the second phase, implying a relatively faster improvement in rural Gujarat as compared to the all-India level. With regard to urban poverty, the difference between the all-India estimate and Gujarat is somewhat stable, with Tamil Nadu registering a major improvement as compared to the other two estimates as it experienced a much faster improvement in its urban poverty from 2004–2005 to 2011–2012. However, as argued above, while income growth almost invariably helps reduce poverty, the aspect of distribution also influences it. Our poverty decomposition exercise segregates the contribution of (a) changes in income and (b) changes in inequality to the overall change in poverty ratio.

With regard to rural poverty, both states exhibit a negative growth effect between 1993–1994 and 2004–2005, implying a reduction in the rate of poverty as a consequence of income growth. However, this was accompanied by a positive distribution effect, implying that changes in inequality would lead to a rise in poverty if income was kept constant over the time period. The net effect, under such circumstances where the signs of these two effects are opposite, is finally

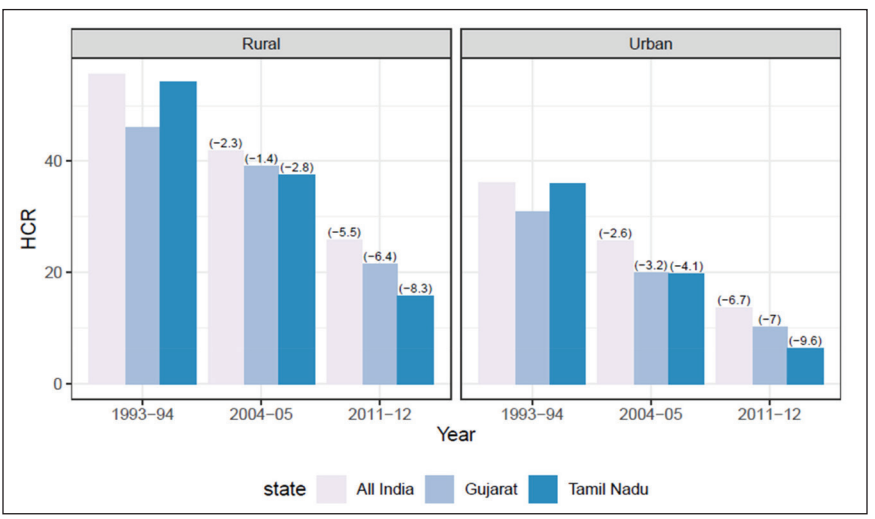

Figure 2. Poverty Ratio in Gujarat and Tamil Nadu over Time.

Note: The numbers in parentheses show the average annual rate of growth over the previous year.

determined by their relative strength. Our finding (Table 1) demonstrates that during the first period (1993–1994 to 2004–2005), the change in the rate of rural poverty was much higher for Tamil Nadu as compared to Gujarat, while a relatively higher positive distribution effect had a dampening effect on poverty reduction in the case of the latter. This situation, however, altered considerably during the next phase (2004–2005 to 2011–2012). Even though both states continued to experience positive distribution effects, its magnitude was substantially lower than in the preceding period, with the growth effect turning out to be considerably higher. This led to a considerable decrease in poverty. The improvement is stark for Gujarat during 2004–2005 to 2011–2012. In comparison with the earlier period (i.e., 1993–1994 to 2004–2005), the growth effect registered an increase while the distribution effect decreased.

With respect to urban poverty reduction, the differences between the two periods for the two states are noteworthy. During the first period (from 1993–1994 to 2004–2005), the growth effects in both states were higher as compared to the subsequent period (from 2004–2005 to 2011–2012). However, the opposite holds true for the distribution effect. Although the distribution effect corresponding to the all-India level is found to be lower during the period from 2004–2005 to 2011–2012 as compared to the periods 1993–1994 to 2004–2005, it continued to be positive, implying that inequality hindered poverty reduction. However, for both states being studied, changes in the distributional dynamics, in fact, contributed to poverty reduction from 2004–2005 to 2011–2012, while they had aggravated it earlier. As we shall discuss in greater detail in the next section, urban inequality admittedly registered a decline in both these states during the latter period. While considerable and favourable changes in the distribution effect can be identified during the second period, the growth effect is found to be substantially

Table 1. Poverty Decomposition.

State	Change in Rate of Poverty	Growth Effect	Distribution Effect
Rural (1993–1994 to 2004–2005)			
Gujarat	−6.92	−13.31	6.39
Tamil Nadu	−16.77	−18.54	1.76
All India	−13.81	−17.36	3.55
Rural (2004–2005 to 2011–2012)			
Gujarat	−17.60	−17.91	0.30
Tamil Nadu	−21.76	−23.28	1.52
All India	−16.00	−17.13	1.12
Urban (1993–1994 to 2004–2005)			
Gujarat	−10.97	−16.89	5.91
Tamil Nadu	−16.19	−23.18	6.99
All India	−10.46	−16.79	6.33
Urban (2004–2005 to 2011–2012)			
Gujarat	−9.78	−8.59	−1.18
Tamil Nadu	−13.31	−11.38	−1.93
All India	−12.04	−13.41	1.37

lower than in the first period. However, in both periods, the contribution of the growth effect appears to be relatively greater for Tamil Nadu as compared to that for Gujarat. The second period also makes a case for the combination of economic growth (even though it is relatively moderate) and diminishing inequality leading to substantial poverty reduction. Therefore, a comparison of both states during both periods stresses that a rapid increase in inequality could potentially dampen poverty reduction despite relatively higher growth.

Generally, as far as poverty alleviation is concerned, economic growth receives all the limelight. The above discussion, however, demonstrates the critical role of inequality dynamics in this regard. At the same time, it presents circumstances where, despite high inequality, rising economic growth appears to be sufficient for ensuring considerable poverty reduction. While Tamil Nadu's performance with regard to poverty reduction is impressive, Gujarat appears to be located at a better place along the axis of inequality (see Kalaiyarasan, 2014). This phenomenon raises some intriguing questions: How did Tamil Nadu manage to achieve a faster reduction in poverty despite higher inequality? Does this imply that a classic case of the trickle-down effect, which implies that rising inequality should not be a matter of major concern as long as there is enough economic growth, is at work here? We argue that the trends presented so far conceal more than they reveal. Therefore, we further investigate the pattern of inequality in these two states in order to comprehend the nature of their inclusive growth.

Dynamics of Inequality: A Spatial and Household-Type-based Decomposition

Unlike the narrative of poverty reduction, the dynamics of inequality is far from being straightforward. The directions of change in inequality are not always similar, nor are the magnitudes of the rate of this change. Thus, this section discusses the nature of inequality in Tamil Nadu and Gujarat during the study period. As observed in the ensuing discussion, the level of inequality in Tamil Nadu is relatively higher as compared to Gujarat. However, the former fared better in terms of poverty reduction. This further motivated us to study the pattern of inequality in both these states, which is analysed with the help of inequality decomposition (see Tables 2 and 3) along the spatial/sectoral (rural–urban) and household-type axes.

Inequality in Tamil Nadu has always been higher than that in Gujarat. For both states under consideration and at the all-India-level consumption, inequality increased from 1993–1994 to 2004–2005. However, the increase in the same happened at a relatively faster rate in Gujarat as compared to Tamil Nadu, subsequently, during the next period (2004–2005 to 2011–2012), when overall inequality declined in both states, that happened at a relatively faster rate for Tamil Nadu. Clearly, the direction and extent of change in the level of inequality demonstrate that the distributional dynamics were not entirely contradictory for the state of Tamil Nadu, which saw an impressive degree of poverty reduction.

Table 2. Inequality Decomposition: Sector-wise.

State	Total Gini	Inter-sectoral	Intra-sectoral	Rural Gini	Urban Gini
1993–1994					
Gujarat	0.279	0.040	0.238	0.240	0.291
Tamil Nadu	0.344	0.037	0.306	0.312	0.348
All India	0.326	0.044	0.280	0.286	0.344
2004–2005					
Gujarat	0.334	0.093	0.241	0.273	0.310
Tamil Nadu	0.379	0.079	0.299	0.322	0.361
All India	0.363	0.070	0.291	0.305	0.376
2011–2012					
Gujarat	0.324	0.067	0.257	0.287	0.294
Tamil Nadu	0.345	0.051	0.293	0.301	0.338
All India	0.375	0.072	0.302	0.311	0.390

Our decomposition analysis shows that both the components of inequality, that is, inter-sectoral and intra-sectoral, increased for Gujarat during the first period (from 1993–1994 to 2004–2005). However, the inter-sectoral component specifically increased at a faster rate. Tamil Nadu also witnessed rising inequality in the first period. However, the decomposition exercise shows that the inter-sectoral component had a relatively stronger influence on the change in overall inequality. For Tamil Nadu, we further observe that while intra-sectoral inequality, as a whole, decreased, independently, both rural and urban inequality went up.

From 2004–2005 to 2011–2012, the declining inequality in Gujarat was mainly influenced by the declining inter-sectoral component, while the intra-sectoral component increased. The decomposition exercise further indicates that rural Gujarat became more unequal, whereas urban Gujarat witnessed declining inequality. Note that, as a large proportion of poor people continued to live in rural India, increasing rural inequality would hamper poverty reduction, unless countered by specific government policy. Nevertheless, we do not intend to undermine the glaring criticality of urban poverty by any means in this regard. In fact, we argue that battling urban inequality is critical to tackling urban poverty. Unlike Gujarat, the declining trend of inequality in Tamil Nadu was influenced by a decrease in both inter- and intra-sectoral inequality. In Tamil Nadu, both rural and urban inequality declined, and as mentioned earlier, urban poverty also fell at an impressive rate in the state.

While inter-sectoral gap is important in understanding the dynamics of overall inequality and it might have its own distinct effect on poverty, we explore the within-sector inequality more extensively because (a) despite the rising significance of between-sector inequality, intra-sectoral disparity continues to account for a significant proportion of the overall inequality, and (b) this study analyses poverty at the sectoral level; thus, investigation into the changes in intra-rural and intra-urban inequality becomes imperative.

The changes in sectoral inequality can be further studied by decomposing the inequality across the household-type axis, which would substantiate our understanding of poverty reduction. The NSO survey registers different types of

households for the rural and urban sectors. The survey provides four types of households in the case of urban sectors—self-employed, regular wage or salaried employed, casual labours and others. However, in the rural sector, the types of households observed are self-employed for agriculture and non-agriculture, casual labour for agriculture and non-agriculture, other labour and others.[4] To capture how inequality within a specific type of households (intra-component) and between different households (inter-component) contribute to temporal changes in total inequality, we decompose the sectoral (i.e., rural and urban) inequality in terms of household types.

Between the years 1993–1994 and 2004–2005, the rising rural inequality in Gujarat and Tamil Nadu was primarily influenced by rising inter-household-type inequality, meaning that the distance between various rural household types increased in Gujarat during this period while it did so at a much faster rate in Tamil Nadu. While the intra-household-type inequality exhibited an increase in rural Gujarat, the same registered a decline in rural Tamil Nadu. In the next period, the rising rural inequality in Gujarat was caused by an increase in the intra-component, implying that income distribution within households of similar types became skewed, whereas the distance between households of different types decreased. Declining rural inequality in Tamil Nadu was mainly a result of a decrease in both the inter- and intra-components, implying that distribution within household types and between household types became less skewed during this period, with the latter falling at a faster rate. This contrasts with what is observed for Gujarat. This indicates that rural Tamil Nadu performed relatively well in terms of distribution as compared to Gujarat. Even though inequality between households of different types decreased considerably in rural Gujarat, the inequality among households of similar types continued to increase in the state. In rural Tamil Nadu, both these types of inequalities decreased, with inter-household inequality decreasing at a relatively faster rate.

Table 3. Inequality Decomposition by Household Type.

Year	State	Total Gini	Inter-household Type	Intra-household Type
Rural				
1993–1994	Gujarat	0.232	0.027	0.205
	Tamil Nadu	0.312	0.048	0.312
2004–2005	Gujarat	0.273	0.041	0.233
	Tamil Nadu	0.322	0.057	0.265
2011–2012	Gujarat	0.287	0.024	0.263
	Tamil Nadu	0.301	0.044	0.257
Urban				
1993–1994	Gujarat	0.290	0.022	0.268
	Tamil Nadu	0.348	0.036	0.312
2004–2005	Gujarat	0.310	0.026	0.284
	Tamil Nadu	0.361	0.048	0.313
2011–2012	Gujarat	0.294	0.024	0.270
	Tamil Nadu	0.338	0.041	0.297

Regarding urban inequality, Gujarat witnessed a rising trend during the first period because of the relative increase in the intra-household-type component, whereas the rising trend in Tamil Nadu was mainly because of increasing inter-household-type inequality, that is, rising distance between various types of households.

In the second period, both states witnessed a declining urban inequality trend. The decomposition exercise shows that this was possible primarily because of the intra-component; that is, the distribution within households of similar types became relatively equal. Even though the inter-component decreased for these two states, the decline was more pronounced in Tamil Nadu, which hints at the possibility that comparatively poorer households witnessed relative improvement more in urban Tamil Nadu as compared to urban Gujarat. In urban areas, casual labour households tended to be relatively poorer as compared to the regular wage, salary earners and self-employed. Thus, declining inter-household-type inequality in Tamil Nadu could have been influenced by the relative improvement in material well-being in the state, which is possible in the case of sufficient growth in the income of this class. It has been observed that between the years 2004–2005 and 2011–2012, the real wage rate for a casual male worker increased in Tamil Nadu and Gujarat, at the rate of about 7% and 2%, respectively (Himanshu, 2018).

Discussion and Conclusion

Our enquiry into the nature of inclusive development in two economically advanced Indian states—Gujarat and Tamil Nadu—revealed that economic growth in itself is far from being a satisfactory indicator of poverty reduction and nature of inequality. Specifically, the sources of inequality are too important to ignore in this regard. A careful analysis of the extent and changes in the rate of poverty in Gujarat and Tamil Nadu enables us to argue that even states with comparable economic growth may not perform similarly in terms of poverty alleviation.

Our findings suggest that Tamil Nadu outperformed Gujarat in terms of poverty reduction during the two periods under consideration, that is, from 1993–1994 to 2004–2005 and from 2004–2005 to 2011–2012, for both rural and urban sectors. Over the period of 1993–1994 and 2004–2005, poverty reduction in rural Tamil Nadu was higher as compared to rural Gujarat. Our poverty decomposition exercise demonstrates that, as expected, income growth, reflected through the growth effect, played an important role in bringing down the poverty level. Provided a higher level of inequality in Tamil Nadu than in Gujarat, their respective experiences with regard to poverty alleviation present an intriguing case. Our endeavour attempts to address this with a disaggregated analysis of inequality in both states. We find that there have been episodes when the distribution effect worked as a deterrent factor in poverty reduction for both states. Specifically for Gujarat, the result showed that the state could have witnessed a further six-percentage-point decline in poverty had distribution been in favour of the relatively poorer segments of the population. Our analysis of inequality revealed

that inequality in both rural Gujarat and Tamil Nadu increased during this time, but it did so at a faster rate in the former. The inequality decomposition exercise further demonstrated that rural Gujarat witnessed rising inter-household-type inequality at a faster rate than rural Tamil Nadu.

Similarly, urban poverty reduction was faster in Tamil Nadu as compared to Gujarat, with the growth effect playing a decisive role, considering that the distribution effect had an adverse impact on poverty reduction for both states in the first phase (1993–1994 to 2004–2005). In particular, in the case of Tamil Nadu, it is observed that the extent of poverty alleviation would have been higher if the distributional scenario had improved in urban Tamil Nadu. In this regard, the inequality exercise shows that both urban Tamil Nadu and Gujarat witnessed a rising urban inequality, but the inequality in the former increased at a faster rate. The decomposition exercise further showed that the inter-household-type component influenced this rising inequality trend in Tamil Nadu. Thus, even though economic growth contributed to poverty reduction during the first period, the outcome would have been far better had the distributional aspect been taken care of adequately and effectively.

Coming to the second period, poverty reduction in rural Gujarat and rural Tamil Nadu was relatively faster in comparison with the first period. It appears that in this period also, the growth effect accounted for a poverty reduction. The observation that the distribution worked as a deterrent to poverty reduction in the first period persisted for this period too. However, the extent was relatively less compared to the first period for both states. In this regard, the inequality exercise depicts that rural inequality in Tamil Nadu had actually declined, along with a declining inter-household-type inequality component. At the same time, intra-household-type inequality in Tamil Nadu increased during this period. For Gujarat, the rural inequality increased, but this occurred due to the intra-household-type component.

The urban story seems to be different in the second phase. Both states witnessed a reduction in urban poverty, but it was lesser in the second phase as compared to the first. The decomposition exercise showed that, unlike the earlier period, both the components, that is, the growth and distribution effects, helped reduce poverty during this period. Subsequently, the inequality exercise showed that both urban Gujarat and urban Tamil Nadu witnessed declining inequality in this period. This was heavily influenced by the declining inter-household type and intra-household-type inequality in both states. However, as compared to Gujarat, the extent of declining inequality, particularly the inter-household-type inequality, was higher for urban Tamil Nadu. In this regard, as mentioned in the earlier section, the high wage growth rate of casual labour in urban Tamil Nadu as compared to urban Gujarat could have led to the differences in their extent of declining urban inequality. Although both states have endorsed the overall neoliberal paradigm to promote economic growth and grown at a high rate during the post-reform period, it seems that distribution played a vital role in their poverty reduction, especially during the first period. However, during the second period, the improvement in the distribution, especially for urban Gujarat and Tamil Nadu, contributed favourably to poverty reduction.

To summarise, the poverty decomposition exercise revealed that while growth in per capita income has been crucial in explaining the changes in poverty, the distributional condition has offset its impact and resulted in lesser poverty reduction. Our study further highlights that while the level of inequality is comparatively higher in Tamil Nadu than in Gujarat, raising concern about how the former managed to achieve such impressive poverty reduction, an inspection of the changes in inequality places the former in a much better situation as compared to the latter. Further, based on the inequality decomposition, we conclude that rising inter-sectoral inequality (i.e., increasing urban–rural gap) contributed significantly to the overall inequality, especially during the first period. It is worth noting that for both states, a relatively better performance with respect to poverty reduction correlated with a relative improvement in inter-household-type inequality. The analysis of causal linkages behind such correlations is beyond the scope of the current endeavour. Moreover, a closer study of the effect of increasing divergence between the urban and rural sectors on the condition of poverty in terms of, among other things, patterns of migration, extent and nature of jobs in urban areas vis-à-vis rural areas, improvement in urban wages, is also an area reserved for future research.

The idea of inclusive growth is not as straightforward as it might sound. There are various factors, especially those related to government policies and production processes, which are critically important in deciding poverty and inequality dynamics and their interlinkages. The relevant literature argues that issues such as farm growth (De Janvry & Sadoulet, 2009; Eswaran et al., 2009), non-farm growth (Foster & Rosenzweig, 2004; Kijima, 2006) and public spending[5] (Fan et al., 2000; Hong & Ahmed, 2009) are of utmost importance in the case of poverty reduction. Similarly, in the era of increasing urbanisation, urban poverty has become a major concern, the most recent manifestation of which has been the evident precariousness of thousands of urban poor migrants during the COVID-19 lockdown (Mandela & Yuvaraj, 2020). Urban poverty is deeply intertwined with urban inequality (Vakulabharanam & Motiram, 2012).

In our present analysis, it has been observed that both states have had a growth path mainly focusing on the expansion of industries. Still, the basic differences come from the fact of the existing institutions, government intervention and its role in providing public services. For instance, the midday meal scheme, efficient public distribution system, public health care system and Mahatma Gandhi National Rural Employment Guarantee Act have provided essential social services to the larger section of society in Tamil Nadu, making the process of providing social services more inclusive (Kalaiyarasan, 2014). Conversely, even though Gujarat exhibited a different pattern, it too introduced midday meal schemes early. However, in terms of implementation and performance, Tamil Nadu was ahead of Gujarat. In fact, in terms of spending on social sectors, too, Tamil Nadu's performance was better than Gujarat's performance. These differences in the institutional performances could be because of the social movements and the existing political regimes. Gujarat was continuously ruled by the BJP government, and the political commitment of the BJP government lay in the expansion of capital-intensive and export-promoting industries (Akhtar, 2024). In contrast,

Tamil Nadu was ruled by regional political parties committed to growth coupled with social justice. The differences in institutions, socio-, political and historical factors, appeared to influence the working of various policies and, hence, the outcome in both states. This work further affirms that to address the issue of poverty reduction, government policies should be more comprehensive and holistic in nature, considering the complex links between poverty and inequality, or else the idea of inclusive growth will remain catchy political rhetoric at best.

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Appendix

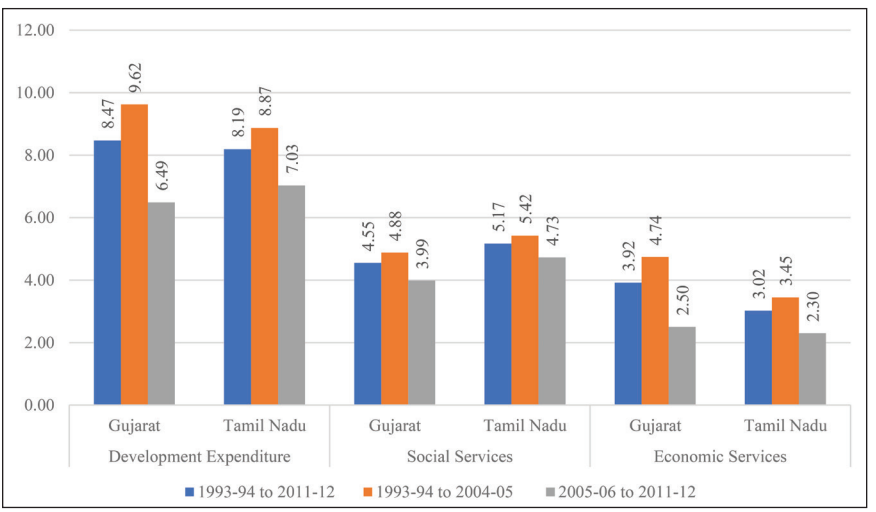

Figure A1. Average Percentage Share in GSDP at Current Prices.

Source: Authors' Calculation Based on Data from EPWRFITS.[6]

For the entire period of analysis, the percentage share of development expenditure in gross state domestic product (GSDP) at current prices for both states is

comparable, with Gujarat being marginally higher than Tamil Nadu. This clearly emanates from the former registering a marginally higher average percentage of expenditure towards economic services. Evidently, Tamil Nadu spends a larger share of its GSDP on social services. Also, we must note that a higher share of development expenditure for Gujarat is primarily observed during the first period, as Tamil Nadu appears to be the state spending a relatively larger share of its GSDP for developmental purposes during the second period. Be it the overall period (1993–1994 to 2011–2012) or the two sub-periods (1993–1994 to 2004–2005 and 2005–2006 to 2011–2012), Tamil Nadu always spends a larger share of its GSDP on social services. Further, even though the share of economic services in GSDP was relatively higher for Gujarat during 1993–1994 to 2004–2005, this gap was reduced during the next phase (2005–2006 to 2011–2012). Thus, public welfare programmes seem to have contributed to faster poverty reduction in Tamil Nadu, as compared to Gujarat (Tillin, 2021).

Notes

1. Although consumer expenditure data have representational issues, this has been used widely to study the poverty and inequality trends in India.
2. We have stopped our analysis till 2011–2012 as the recent round of the data has some comparability issues with the previous rounds and as our focus is to understand the long-term trend in both states.
3. The decomposition method deployed in this study follows the one proposed by Kakwani (2001), and it has the specific advantage of being symmetric with no residual effect. Thus, it provides an exact decomposition.
4. Only in the recent round, that is, 2011–2012, has the regular wage/salary earner category been included in the rural household type.
5. See Appendix A for a brief comparison of the relative size of the different categories of government spending in these two states.
6. We use GSDP estimates at current prices for our calculation of the percentage share of each of these categories of expenditure. For the years 1993–1994 to 1998–1999, we use the NAS 1993–1994 GSDP at current prices, while for the years 1999–2000 to 2003–2004, we use the NAS 1999–2000 GSDP at current prices, and for the years 2004–2005 to 2011–2012, we use the NAS 2004–2005 GSDP at current prices. We calculate the share of each variable—total development expenditure, spending towards economic services and social services—as a percentage share of GSDP at current prices, after which we calculate the average of the three periods—1993–1994 to 2011–2012, 1993–1994 to 2004–2005 and 2005–2005 to 2011–2012.

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