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Topic : Macroeconomic Policy- As A Measure To Reduce Poverty In India

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Poverty is a multidimensional problem which is not concerned only to economics but it is also concerned with social, political and cultural issues. Therefore, solutions to poverty cannot be based exclusively on economic policies, but requires a comprehensive set of well-coordinated measures. Why we are to focus on Macroeconomic issues? The reason behind is very simple that among all issues economic growth is a single most important factor influencing poverty. Hence macroeconomic policy becomes a key component of any poverty reduction strategy.

The World Bank's 2000 World Development Report defines poverty as an unacceptable deprivation in human well being that can comprise both Physiological and social deprivation. Physiological deprivation involves the non-fulfillment of basic material or biological needs, including inadequate nutrition, health, education and shelter. The concept of Physiological deprivation is thus closely related to, but can be extended beyond, low monetary income and consumption levels. Social deprivation widens the concept of deprivation to include risk, vulnerability, lack of autonomy, powerlessness and lack of self respect.

Although there exist many studies on the measurement and definitions of poverty, there is still limited focus on Policy measures on how best to reduce Poverty. So what kind of policies is required which reduce Poverty? In general, Macroeconomic Policies primarily contribute to maintaining Macroeconomic Stability, which further helps economic growth and may contribute to Poverty reduction. The major objective of Macroeconomic policy is to overcome permanent shocks and to weather temporary shocks. Further we need Macroeconomic policies that have distributional and allocational properties. Here Fiscal policy plays a key role for better distributional channels, which can work to the benefit of the poor. On the other hand, Monetary and Financial sector policies can work in improving the allocation of resources in order to foster access of the poor to credit. Therefore growth alone is not sufficient for poverty reduction-Growth associated with progressive distributional changes will have a greater impact on poverty reduction.

Since Economic growth is most important factor influencing poverty so macroeconomic stability is also essential for high and sustainable rates of Growth. Most of statistical studies have found a strong association between national per capita income and national poverty. Macroeconomic stability is the cornerstone on any successful effort to increase private sector development and economic growth. Macroeconomic stability exists when key economic relationships are in balance-for example balance between domestic demand and output, the Balance of payments, Fiscal revenues and expenditure, and savings and investment.

Macroeconomic stability depends not only on the macroeconomic management of an economy, but also on the structure of key markets and sectors. To enhance macroeconomic stability, countries need to support macroeconomic policy with structural reforms that will strengthen and improve the functioning of these markets and sectors. Further distributional pattern and the sectoral composition of growth determine the impact of growth on poverty reduction.

There are two main sources of economic instability, namely exogenous shocks and inappropriate policies. Exogenous shocks can put an economy into disequilibrium and require compensatory action. Alternatively, disequilibrium can be self induced by poor macroeconomic management. Macroeconomic policies influence and contribute to the attainment of rapid, sustainable economic growth aimed at poverty reduction in a variety of ways.

In India, the period of late 1960s and 1970s, was considered as a period of stagnation for Industrial growth. The GDP growth rate was about 5 to 6 percent per annum from the early 1980s. In fact, during the 1990s, the rate of growth of per capita food production in the country was of its lowest level for decades. Especially, during the 1980s, growth rate was driven by debt financed public expenditure, which was supported with debt creating inflows from international system. That resulted in a doubling of India's external debt to GDP ratio and led to crises in 1991.

The recent trends in the economy suggest that performance has been far below potential. This is because of extremely poor performance of agriculture and allied sectors and the increased volatility of Industrial growth over the recent periods. Indeed, only the service sectors show sustained high growth rates.

The real growth rates increased to a higher level in the period 19880-82 to 1990-92 and 1990-92 to 2000-02. Similar increases in per capita income were seen during the same period but because of the fall in the rate of population growth.

Table-1

Annual Rate of Growth of Net National Income (Percent)

Period	GDP at constant Price 1993-94	Per Capita NNP
1950-52 to 1960-62	3.9	1.8
1960-62 to1970-72	3.5	1.2
1970-72 to 1980-82	3.5	1.0
1980-82 to 1990-92	5.6	2.9
1990-92 to 2000-02	5.6	3.5

Some structural changes are there in economy but not as much as might be expected. The share of Agriculture in GDP has fallen where as little increase in the share of secondary sector was noted down. Rather the share of tertiary sector has increased dramatically, to the point where it has near about half of National Income.

Table-2

Structural changes in the Indian Economy

		Sectoral Share as % of GDP		
Period	Investment Rate	Primary	Secondary	Tertiary
1950-52	15.5	59.0	13.4	27.6
1960-62	19.4	53.1	17.3	29.6
1970-72	23.8	46.6	20.4	33.0
1980-82	22.0	41.3	21.8	36.9
1990-92	26.0	34.4	24.0	41.6
2000-02	26.2	26.1	24.7	49.2

Distributional Impact of Macroeconomic Policies

In developing poverty reduction strategies, policymakers would benefit from a quantitative framework that they could use to assess the distributional impact of the macroeconomic policy options under consideration. Such a framework would be useful because the links between macroeconomic policies and poverty are complex. A quantitative framework that identifies the critical relationships on which the outcome depends could therefore assist countries in assessing these trade-offs.

First, the framework should be capable of identifying some of the critical trade-offs in poverty-reducing macroeconomic policies. For example, how do the costs (in terms of poverty) of higher spending (and higher fiscal deficits) compare with the benefits of targeting that spending on the poor? **Second**, the framework should be consistent with economic theory on the one hand, and with basic data availability, such as national accounts and household income and expenditure surveys, on the other. Otherwise, the frameworks will not be able to foster a dialogue between conflicting parties on these issues. **Third**, and most important, the framework should be simple enough that government officials can use it on their desktop computers. This means that it should not make undue demands on data, and it should be based on readily available software, such as Microsoft Excel TM.

World Bank staff is presently developing alternative quantitative frameworks that could be used to evaluate some of the macroeconomic aspects of poverty reduction strategies. It is expected that other possible quantitative frameworks will be developed over time that could assist country teams in this regard.

Fiscal Policy

Fiscal policy can have a direct impact on the poor, both through the government's overall fiscal stance and through the distributional implications of tax policy and public spending. Structural fiscal reforms in budget and treasury management, public administration, governance, transparency, and accountability can also benefit the poor in terms of more efficient and better targeted use of public resources. There is no rigid, pre-determined limit on what would be an appropriate fiscal deficit. An assessment would need to be based on the particular circumstances facing the country, its medium-term macroeconomic outlook, and the scope for external budgetary assistance. The terms on which external assistance is available are also important. There is a strong case, for instance, for allowing higher grants to translate into higher spending and deficits, to the extent that those grants can reasonably be expected to continue in the future, and provided that the resources can be used effectively.

With regard to the composition of public expenditure, policymakers will need to assess not only the appropriateness of the proposed poverty reduction spending program, but also of planned nondiscretionary, and discretionary nonpriority, spending. In so doing, they will need to take into particular consideration the distributional and growth impact of spending in each area and place due emphasis on spending programs that are pro-poor (e.g., certain programs in health, education, and infrastructure) and on the efficient delivery of essential public services (e.g., public health, public education, social welfare, etc.). In examining these expenditures, policymakers should evaluate the extent to which government intervention in general, and public spending in particular, can be justified on grounds of market failure and/or redistribution. Policymakers must also ask themselves whether the envisaged public goods or services can be delivered efficiently (e.g., targeted at the intended beneficiaries) and, if not, whether appropriate mechanisms and/or incentives can be put in place to ensure such efficient delivery.

Monetary and Exchange Rate Policies

Monetary and exchange rate policies can affect the poor primarily through three channels: inflation, output, and the real exchange rate. **Inflation** hurts the poor because it acts as a regressive tax and curbs growth. Fluctuations in **output** clearly have a direct impact upon the incomes of the poor, and monetary and exchange rate policies affect these fluctuations in two ways: first, changes in the money supply can have a short-run effect on real variables such as the real interest rate, which in turn affect output; and second, a country's chosen exchange rate regime can buffer, or amplify, exogenous shocks. Finally, the **real exchange rate** can affect the poor in two ways. First, it influences a country's external competitiveness and hence its growth rate. Second, a change in the real exchange rate (through, for example, a devaluation of the nominal rate) can have a direct impact on the poor.

Given that monetary and exchange rate policies affect the poor through their impact on inflation, output, and the real exchange rate, it might seem, at first glance, that such policies should therefore be used to target all three of these variables. However, although monetary and exchange rate policies may affect the poor through all of these channels, the monetary authorities cannot necessarily control the size and nature of the resulting impact. In some cases monetary and exchange rate policies are unable to manipulate the real exchange rate beyond a short period of time. Therefore, actively using these policies to pursue a particular short-run exchange rate goal, which may be inconsistent with underlying economic fundamentals, could introduce instability.

Monetary and exchange rate policies should target those variables over which they have the most control, namely the long-run impact of inflation on the rate of growth. Broadly speaking, this can be achieved by setting one objective for monetary and exchange rate policies: the attainment and maintenance of a low and stable rate of inflation. In practice this means (1) choosing, and firmly committing to, an inflation rate target within the context of the overall poverty reduction strategy and the associated macroeconomic framework; (2) adopting the required policies to achieve the target; and (3) not using monetary and exchange rate policies to pursue, overtly or otherwise, additional or alternative objectives. Formulated and implemented in this way, monetary and exchange rate policies can form the basis for a stable macroeconomic environment

Possible solutions for reducing poberty in india:

1) First, the composition of the growth needs to be altered to encourage agricultural growth on the poorest of areas.
2) Widespread tax reforms are necessary to increase tax revenue which will offer support for more rapid economic growth that would enable greater provision for public expenditure for antipoverty programmes.
3) The efficiency of public expenditure and of the social safety net should be improved. This would call for policies that sustain and enhance social expenditure levels and the more effective targeting of subsidies geared towards the poor.
4) Last but not least is the design of good social sector policy frame work.

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