

Human Development in India: Costs of Inequality

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Economic growth with income redistribution has been a basic objective of economic development policy in India. Such a strategy seeks to exploit the potential of development programmes for poverty reduction and welfare gains by reducing the costs due to inequality in income distribution.

The state of Kerala in India provides empirical evidence to show how it is possible to both achieve growth and improve income distribution through human development.

There is ample scope for achieving economic growth, human development and poverty reduction by reducing the extent of inequality in all three dimensions of human development: education, health and income.

The Human Development Index (HDI) proposed by UNDP summarises average levels of achievements in each of its three dimensions in terms of unit-free scores obtained by normalising their respective measures with reference to limits called goalposts. To facilitate international comparisons, UNDP specifies the goalposts in the global context.

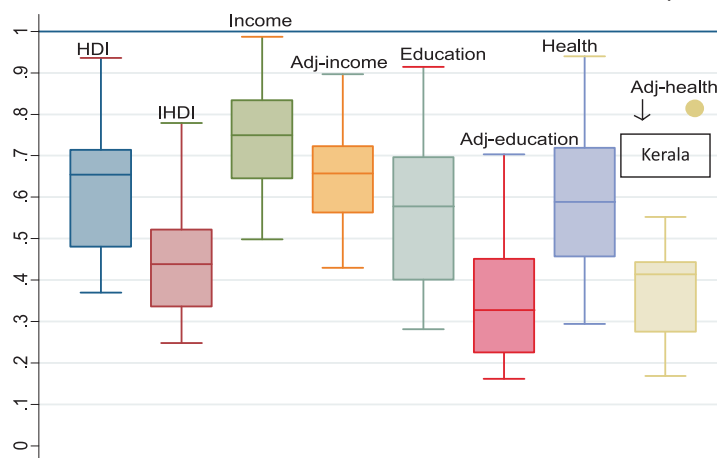
To contextualise the HDI estimates with reference to feasibility defined by the country's potential, we have made appropriate revisions in the methodology for defining goalposts. While UNDP defines goalposts with reference to minimum and maximum values, we define them for an order-based profile of human development indicators for the Indian states using box and whisker plots. We define the benchmark with reference to the central 50 per cent of the ordered distribution as reflected in the inter-quartile range² and displayed by the box at the centre of the plot.

Consistent with this proposal, the goalposts may be measured in terms of the upper and lower inner fences³ of the box and whisker plots of the different indicators, subject to the caveat that the limits for indicators—say, the combined education index—are set at feasible lower and upper bounds, i.e. zero and one, respectively.

We quantify the loss in human development due to inequalities in the three dimensions of human development across states in India using the methodology to estimate a new index called the Inequality-adjusted Human Development Index (IHDI) proposed by UNDP in its *Human Development Report* for 2010 entitled *The Real Wealth of Nations: Pathways to Human Development* (UNDP, 2010).⁴

Our estimates reveal substantial losses in human development due to inequality in different dimensions across states in India (see figure).

Profiles of HDI, IHDI and their Dimensions:
Indian States (Domestic Goalposts)



Note: The prefix 'Adj' refers to 'inequality-adjusted' scores.

Among the three dimensions, the potential lost due to inequalities is highest in education. This conforms to the findings in the global context reported in the UNDP *Human Development Report 2010*. Similarly, the extent of inequality is staggering in the case of health. Many studies have pointed out marked differences in access to health care and its use. As regards health and education, the results show low levels of attainment characterised by a high level of inequality.

India has experienced significant economic growth during the last decade. It is high time that policies promoting economic growth, education and health are integrated with those addressing their respective distributional dimensions. Thus, our results provide useful policy insights for a strategy seeking to promote human development through a distributive policy option—that is, addressing inequalities across dimensions in different states in the country.

References:

- Suryanarayana, M.H. and A. Agrawal (2013). 'Human Development in India: Costs of Inequality', Working Paper, No. 109. Brasilia, International Policy Centre for Inclusive Growth.
- UNDP (2010). *Human Development Report 2010*. New York, UNDP/Palgrave Macmillan.

Notes:

1. Thanks are due to Fabio Veras for useful suggestions on an earlier draft.
2. The inter-quartile range refers to the difference between upper and lower quartiles.
3. The lower inner fence is given by one step (1.5 times the inter-quartile range) beyond the lower quartile, while the upper one is given by one step beyond the upper quartile.
4. For sources of information, methodology and results in detail, see Suryanarayana and Agrawal (2013).

