Editorial

Towards an Egalitarian Economy

It is now widely acknowledged that the roots of the economic downturn lay in the creation of global macroeconomic imbalances. Interestingly, the recession has also led to a major shift in the economic power from the US and Europe to the BIC bloc (Brazil, India and China). For India, this is a salute to the economic re-emergence of a nation, which was once written off as a nation with perpetual fiscal and foreign exchange deficits. While the advanced countries still continue to reel under the economic pressures, India has been able to consistently clock growth rates above 6% even during the height of the crisis.

However, lurking behind this rosy picture of robust growth lie disturbing issues of growing inequality. The widely used Gini Coefficient, which is a measure of income inequality is at 36.8 (thus making India one of the mid ranking nations in the world in terms of income inequality) and is rising. Further, there is widespread regional inequality even within the country. Inequality has important socio- economic implications for the country. Concentration of wealth in a few pockets give rise to greater resentment among people, which in the absence of effective governance increases the incidence of crime and lawlessness. It is no coincidence that instances of Maoist inflicted violence are intense and frequent in some of the poorest areas of India. Years of good economic performance have not led to 'trickle down' growth, implying that a vast majority of the population continued to be deprived of the fruits of enhanced development, thus increasing the gap between haves and have-nots.

All this underscore the necessity of economic growth with wider coverage and greater participation of the people, in other words more "inclusive growth". Inclusive economic growth encompasses a wider ambit that involves just not direct up-liftment of the standards of living of the poor people, but also creation of indirect "enabling" environment like development of infrastructural facilities, cheaper access to bank credit, more efficient distributional and delivery mechanisms, greater social development in terms of better education, health services etc. In a narrower sense, financial inclusion implies easier, timely and adequate access to banking (both on the liability and loan side), remittance, insurance and other financial services so that the poor people can escape the clutches of money- lenders and other usurious informal channels of intermediation.

In India, a number of measures are being taken for financial inclusion. All banks have been given targets to achieve 100% inclusion in their lead districts. The models of business facilitators and business correspondents have been devised to help banks meet the targets. Even before financial inclusion became fashionable, priority sector targets had been specified by RBI to cater to the needs of the unbanked population. However, a National Sample Survey indicates that even today nearly 51.4% of the nearly 89.3 million total households do not access credit either from institutional or non-institutional sources. Nearly 51% do not have access to any credit, formal or informal. More importantly, despite the vast network of rural branches, only 27% of the total farm households are indebted to formal sources; of them one-third also borrow from informal sources. The poorer the group, the greater is the exclusion.

Thus clearly apart from strengthening bank presence in the vast hinterlands of the country through increase in bank branches, rural banks and cooperatives, other measures are urgently required. The importance of SHGs (Self Help Group) in meeting the financial requirements of the poor has already been documented in an earlier edition of the journal. Greater tie-ups between banks and SHGs will both benefit the former due to SHG's greater reach to the poorest population and also the latter due to larger pools of credit available with the banks.

At the same time, innovative methods like harnessing the immense potential unleashed by the technological revolution in India can also help. RBI has already come out with guidelines on use of mobile phones for limited banking. Greater use of ATMs/ biometric cards in transfer payments strengthened with security features can reduce cost of transactions and scope of corruption as also integrate the economically disadvantaged people with formal financial channels. After all, today financial inclusion is not an option but a compulsion.

In this issue we highlight issues on financial inclusion. For benefit of readers we have also included the highlights of the Railway Budget, the Economic Survey and the Financial Budget. We wish our readers a happy and auspicious Gudi Padava and Ugadi.