

On Specification of the Pattern of Income Redistribution in a Demand Projection Exercise

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1. INTRODUCTION

The importance of demand projections in the context of economic development of any country can hardly be over-emphasized. The specification of the pattern of income redistribution over the projection period is an essential problem in a demand projection exercise. Any income redistribution envisaged by the planners consists in some projected growth of income and decline in the poverty population i.e. the proportion of the population below a desired minimum level of income. The present study provides a simple framework for exploring the implications for the income distribution of projected changes in average income or in the poverty population. Such a framework would be helpful for planning purposes and for purposes of checking the consistency of projections.

In projecting demand based on cross-section budget data, the problem of specifying the pattern of income redistribution consists in making a suitable assumption about the distribution of income and providing for a possible change in the distribution between the base and the projection periods. As the parameters of the specified income distribution in the base period can be estimated from that period's observed distribution of income (or total expenditure), there remains the problem of specifying the distributional parameters for the projection period.

Earlier attempts on these lines have been based on assuming either of the two well-known forms of income distribution, viz. Pareto-law [Roy and Laha (1960)] and log-normal law [Iyengar (1960), Iyengar and Jain (1969), and Planning Commission (1973)], both forms containing only two parameters. In these studies distributional parameters for the projection period were specified by assuming certain growth rate for average income and certain rate of decline in Lorenz ratio, the commonly used measure of the inequality of income distribution, over the period of projection. Planning Commission (1973), however, stipulated the reduction in inequality which enabled the bottom 30 per cent of the population to enjoy an average consumption level satis-