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Index

Measuring and Combating Poverty

1.1 Poverty: A Multi – Dimensional View

Poverty refers to socially perceived deprivation in terms of basic human needs. It has both material and non-material dimensions. The material dimension relates to deprivation in consumption including items such as food, clothing, durables, shelter, health, education and connectivity. Non material dimension relates to deprivation associated with such phenomena as discrimination based on gender, religion, race or caste.

In practice, the two dimensions are not distinct: deprivation in the non-material dimension partially manifests itself in deprivation in the material dimension and vice versa. Thus, discrimination experienced by the Scheduled Castes and Scheduled Tribes in the past resulted in reduced access to food, clothing shelter and other sources of material wellbeing. Equally, material deprivation may lead to a loss of social dignity.

1.2 Measuring Poverty: Conventional Approach

The conventional approach to measuring poverty focuses on the material dimension. It asks whether the individual or household earns enough to purchase goods and services to satisfy basic needs at socially acceptable levels.

The first step in measuring poverty is to specify a threshold level of expenditure that separates the poor from non-poor. The threshold expenditure, called the 'poverty line', is the amount necessary to purchase a basket of goods and services deemed necessary to satisfy basic human needs at socially acceptable levels. The basket itself may be referred to as the poverty line basket (PLB).

Perceptions of what represents basic human needs (and socially acceptable levels) vary according to general level of prosperity. What is "want" at low levels of income may turn into "need" at higher levels of income. For example, refrigerator may be a want at low levels of income but may become a need at a high enough level of income. Therefore, rising incomes require upward revisions of the PLB. Equally, since social norms may vary across social, economic and religious groups, an element of arbitrariness in defining the PLB cannot be avoided. This factor has often led to controversy on the appropriate calibration of poverty line.

1.2.1 Counting the Poor in India: A Brief History

The earliest poverty line figuring in the discussions on poverty in post-independence India was Rs. 20 (rural) and Rs.25 (urban) per capita per month at 1960-61 prices. Though not an official poverty line, it formed the basis of the extensive discussion of poverty in the planning division of Planning Commission.

Subsequently, in 1977, the Planning Commission appointed an expert committee under the chairmanship of economist **Y. K. Alagh** to develop a methodology for the measurement of poverty. The committee, which submitted its report in 1979, set the rural and urban poverty lines at Rs. 49.09 and Rs. 56.64 per capita per month at 1973-74 prices, respectively. These lines were based on the assumption of different PLBs for rural and urban consumption. Nationally, these lines remained the basis of poverty measurement until 2004-05.

Another committee was, however, set up in 1989 under the chairmanship of economist **D. T. Lakdawala** to look into the methodology for estimation of poverty at national and state level and also to go into the question of re-defining poverty line, if necessary. In its report, submitted in 1993, this committee retained the separate rural and urban poverty lines recommended by the Alagh Committee at the national level. In addition, it recommended a methodology to update these lines over time and extend them to individual states using appropriate price indices. These recommendations led the erstwhile Planning Commission to adopt the practice of calculating poverty levels in rural and urban areas in the states using state-specific poverty lines together with the national estimates.

In December 2005, the Planning Commission appointed another committee to look into the matter under the chairmanship of economist **Suresh Tendulkar**. In its report, submitted in 2009, the Tendulkar committee recommended the adoption of the consumption basket underlying the Alagh-Lakdawala national urban poverty line in 2004-05 as the PLB and aligning the national rural poverty line to it using an appropriate price index. Thus, **rural and urban poverty lines were now fully aligned around a common PLB**. The change led to an upward adjustment of the national rural poverty line and correspondingly the national rural poverty estimate. Rural and urban poverty lines for the states were to be then derived by evaluating the same urban PLB at the state-level rural and urban prices. The latest official poverty estimates for years 1993-94, 2004-05, 2009-10 and 2011-12 are now based on what is commonly referred to as the Tendulkar poverty line.

There remained dissatisfaction with the Tendulkar line, however, leading the Planning Commission to appoint yet another committee in 2012 under the chairmanship of economist C. Rangarajan. The **Rangarajan Committee** submitted its report in June 2014. It recommended **separate consumption baskets** for rural and urban areas which include food items that ensure recommended calorie, protein & fat intake and non-food items like clothing, education, health, housing and transport. The Committee once again de-links the rural and urban poverty lines. The recommended methodology of Rangarajan committee has raised the Tendulkar national rural poverty line from Rs. 816 per-capita per month at 2011-12 prices to Rs. 972 and the Tendulkar national urban poverty line from Rs. 1000 per capita per month at 2011-12 prices to Rs. 1407. These revisions lead to the total national poverty estimate in 2011-12 to rise from 21.9 per cent under the Tendulkar line to 29.5 per cent. This is where the matter stands currently.

1.2.2 Assessing the Need for Official Poverty Lines

Potentially, poverty lines and the poverty estimates can help fulfil three objectives:

1. Identification of the poor through a comparison of the poverty line with the household (or individual) expenditure;
2. Tracking poverty in a region over time and comparing it across regions at a point in time;
3. Estimation of the required expenditure on anti-poverty programs and their allocation across regions.

Indian states have applied a variety of alternative criteria to identify below poverty line (BPL) households. In particular, states have used the information from BPL censuses to implement various anti-poverty programmes. In future, **Socio-economic Caste Census 2011 (SECC-2011)** will be one of the leading sources of data for identification of beneficiaries under welfare schemes. As such, objective (1) does not require the adoption of an official poverty line.

Objective (2) requires comparison of poverty estimates over time and space. This in turn necessitates the existence of some objective and measurable criterion of poverty that is consistent over time and space and that can be combined with available data to count the poor. If poor are to be counted and their numbers compared over time and across regions, there is no escape from accepting some poverty line as the measuring rod.

As regards objective (3), there are two kinds of anti-poverty programmes: universal and targeted. For programs that are universal, identification of the poor is not required. The programme is available to all. For example, the Mahatma Gandhi National Rural Employment Guarantee Act (MNREGA) scheme guarantees hundred days of employment per year to one adult in every rural household. This benefit is available to all rural households and therefore requires no information on poverty.

In case of the second category of programs that are not universal and are targeted at the poor, official poverty estimates can be used to both compute the total expenditure required and to allocate the latter among states. But superior alternative criteria that do not rely on poverty line or poverty estimates can be devised. For example, if the social program in question aims to provide a minimum level of housing to all, the benefit can be allocated in proportion to the population deprived of housing in different states.

This discussion leads to the conclusion that while purposes (1) and (3) do not require specifying a poverty line and poverty estimates, purpose (3) does.

1.3 Measuring Poverty: New Approaches

At least two other approaches to tracking and evaluating poverty are worth considering.

First, we could track improvements in the average standards of living of different deciles of the population at the bottom of the income distribution over time. For example, we could think of the bottom 30 per cent of the population (defined in terms of per capita income or household consumption) as poor. We could then track progress in combating poverty by undertaking an analysis of how the average and median real expenditures of the bottom three deciles of the population have been evolving over time. As development proceeds, the proportion of the population at the bottom considered poor may be adjusted. This approach to the study of poverty, recently adopted by the **World Bank**, reverses the conventional approach.

Second, we could directly measure progress on some key components of material poverty.

(i) Consumption of cereals, milk, meat, fruits and vegetables by the bottom strata of the society.
(ii) Progress towards housing for all by 2022.
(iii) Progress towards basic facilities in each house: 24-hour power supply, clean drinking water, a toilet, and road connectivity.
(iv) Progress towards electrification of the remaining 20,000 villages in the country.
(v) Progress towards connecting each of the 1,78,000 unconnected habitations by all-weather roads.
(vi) Progress in various indicators of education and health.

These two approaches enrich our understanding of the progress in combating various dimensions of poverty.

1.4 Combating Poverty: Growth, Jobs

An integral part of a well-rounded and holistic anti-poverty strategy must be sustained rapid growth. Conceptually, sustained rapid growth works through two channels to rapidly reduce poverty.

First, it creates well-paid jobs and raises real wages. Both factors raise incomes of poor households thereby directly denting poverty. Increased incomes help in another way: households are able to purchase and access education and health services. On the other hand, at very low levels of incomes, households are unable to access even services that are freely available from the government because they lack the financial resources to travel to the point of delivery of those services: travel costs to even the nearest public health centre may be prohibitive.

Second, rapid growth leads to growth in government revenues. In turn, enhanced revenues allow the expansion of social expenditures at faster pace. India's own experience testifies to the importance of this connection. India began with very low income and also grew very slowly for several decades. The result was relatively low level of per-capita expenditures on health, education and direct anti-poverty programs. Faster growth during the post-reform era, especially during 2003-04 to 2011-12, changed this. India could afford a universal rural employment guarantee scheme and near-universal public distribution system (PDS) that offers cereals at highly subsidized prices. Likewise, per-capita expenditures on education and health also rose rapidly.

1.4.1 The Central Role of Agricultural Growth in Poverty Reduction

Any strategy for poverty reduction must tackle the issues facing rural India, which accounts for 68.8 per cent of the population or 833 million individuals as per

Census 2011. As per the poverty estimates of 2011-12, about 80% of India's poor live in rural areas, and livelihood of most of them is dependent directly or indirectly on the performance of agriculture. The rural farm and non-farm incomes are interdependent such that a strong non-farm rural economy requires a vibrant agricultural economy.

According to the 2011-12 Employment-Unemployment Survey by the NSSO, agriculture and allied activities employed 49% of the total workforce in India. But the share of agriculture in the GDP is only about 17 per cent. One of the reasons for this skewed distribution of labour force in agriculture is the paucity of alternative livelihood opportunities either at village level or in the nearby townships and cities. Excess manpower coupled with traditional agricultural practices has resulted in low farm yield and income. To break this cycle of poverty in rural areas, a two-pronged strategy is required: we must improve the performance of agriculture and create jobs in industry and services in both rural and urban areas.

Need of the hour is to modernize Indian agriculture and accelerate its growth.

First, changes are required with respect both quality and efficient use of inputs. Improved irrigation leading to "more crop per drop" should be on top of this list. Water tables in western India have dropped to dangerously low levels and we need to massively shift towards micro irrigation methods that water crops in a more targeted and controlled manner thereby yielding higher output per hectare while also conserving water.

We also need better seeds and more efficient use of fertilizer. China has been highly successful in raising productivity via the use of hybrid and other seed varieties and we must look into this more closely. More than a decade has passed since Bt. Cotton seeds were introduced with very positive overall effect on the income of the vast majority of farmers who adopted them. It is now time to seriously consider the introduction of new seed varieties. The large subsidy on urea has resulted in excessive use of this fertilizer in some regions with detrimental effects on productivity, soil quality and the environment. This too requires attention.

Second, it is important for famers to receive remunerative prices. Currently, a highly fragmented supply chain has meant that the farmer gets a tiny proportion of the final price paid by the consumer. Recent government step to develop "E – National Agriculture Market" for better discovery of prices in agriculture commodities is a step in right direction.

Third, regionally, there is a need for a 'second green revolution' in rain-fed areas in general and eastern India in particular. We must bring modern irrigation technology to these so far underexploited areas. The high priority accorded to this objective by the present government is a welcome development in this regard.

Fourth, Indian agriculture disproportionately consists of small and marginal farmers who are particularly vulnerable to crop failure. An important step that would help small and marginal farmers is to reform the tenancy laws. These were originally meant to help small and marginal farmers but now operate against them. Even limited legalisation of agricultural tenancy and freeing the land lease market with proper record of ownership and tenancy status will help such farmers. Some small farmers may prefer to lease their land in favour of alternative occupations if they had assurance that they would be able to return to farming if they wished.

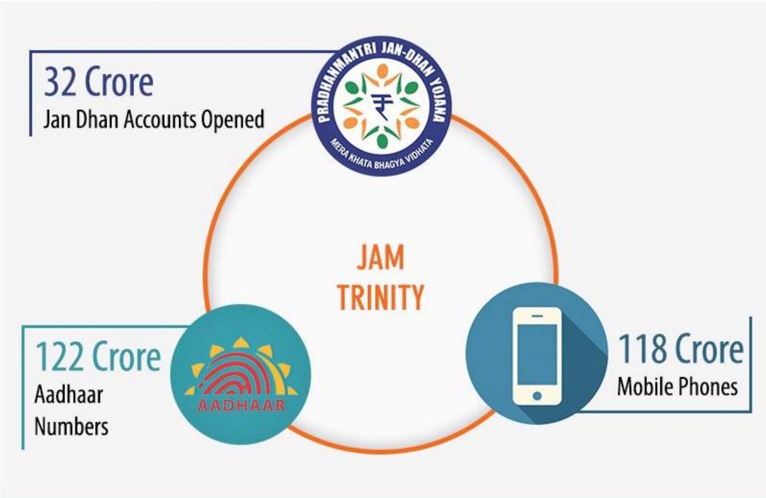
Some large farms may lease in land and even employ the small owners on their own farms to grow specific crops under supervision.

Finally, diversification into high value crops such as horticulture and fruits and vegetables, livestock, poultry and fisheries may offer avenues to higher income to even small and marginal farmers.

1.4.2 Making Growth in Manufacturing and Services Employment Intensive

While faster agricultural growth that raises rural wages and incomes is an effective means to brining relief to the rural poor, we must bear in mind that bringing shared prosperity in the longer run requires healthy growth of employment-intensive manufacturing and services. This is because agriculture rarely grows more than 5 per cent per year over large areas for extended periods. In India, the fastest agriculture has grown over a continuous ten-year period in the recorded history is 4.7 per cent during the 1980s. But if the economy as a whole grows at 7 to 9 per cent, the share of agriculture in the GDP would progressively decline, as has been true. In 1990-91, this share was 30 per cent but today it is almost half of that figure. In order that those employed in agriculture today may share in the prosperity of tomorrow, it is important that industry and services create jobs for them.

1.5 Combating Poverty: New Approach – JAM Trinity.



Cash transfers can directly improve the economic lives of India's poor, and raise economic efficiency by reducing leakages and market distortions. Implementing direct benefit transfers (DBT) at large-scale and in real-time remains one of the government's key objectives, and significant progress has been made in the past years.