Lecture Notes on Poverty

Poverty: Poverty is the deprivation of food, shelter, money and clothing when people can't satisfy their basic needs. Poverty can be understood simply as a lack of money or more broadly in terms of barriers to everyday human life. Gandhi says poverty is the worst form of violence. Providing minimum basic needs to the people upliftment of the poorest of the poor (Antyodaya), integrating the poor into the mainstream and achieving a minimum standard of living for all have been the major aims of independent India.

World Bank's document Poverty and Shared Prosperity notes that since growth in the world economy is slowing down, this would have a deleterious effect on poverty reduction. For achieving a given target of poverty reduction therefore, such as what the Sustainable Development Goals **(SDG-1) of the UN specify, namely ending poverty (almost) by 2030, income inequality should be reduced. Towards this end, the objective is to increase the share of the bottom 40 percent of the population in total income.**

(1) Absolute Poverty: (Destitution) It refers to the state of severe deprivation of basic human needs.

(2) Relative Poverty: It is defined contextually as Economic inequality in location or society in which people live.

WHAT CAUSES POVERTY?

The causes of poverty lie in the institutional and social factors that mark the life of the poor. The poor are deprived of quality education and unable to acquire skills which fetch better incomes. Also access to health care is denied to the poor. The main victims of caste, religious and other discriminatory practices are poor. These can be caused as a result of (i) social, economic and political inequality (ii) social exclusion (iii) unemployment (iv) indebtedness (v) unequal distribution of wealth. Aggregate poverty is just the sum of individual poverty. Poverty is also explained by general, economy-wide problems, such as (i) low capital formation (ii) lack of infrastructure (iii) lack of demand (iv) pressure of population (v) lack of social/ welfare nets.

Poverty Line

Poverty Line refers to the minimum income, consumption, or, more generally access to goods and services below which individuals are considered to be poor. The poverty line in India is the expenditure level at which a minimum calorie intake and indispensable non-food purchases are assured. It may be noted that even among the poor, there are differences in the degrees of poverty. So the focus of the government policies should be on the poorest of the poor.

Nutrition based poverty lines are used in many countries. Due to various limitations in the official estimation of poverty, scholars have attempted to find alternative methods. For instance, Amartya Sen, noted Nobel Laureate, has developed an index known as Sen Index. There are other tools such as Poverty Gap Index and Squared Poverty Gap.

There are many factors, other than income and assets, which are associated with poverty; for instance, the accessibility to basic education, health care, drinking water and sanitation. They need to be considered to develop Poverty Line. The existing mechanism for determining the Poverty Line also does not take into consideration social factors that trigger and perpetuate poverty such as illiteracy, ill health, lack of access to resources, discrimination or lack of civil and political freedoms.

Why defining poverty line is a controversial issue?

Most of the governments have mothballed the reports of commmittees and panels because this issue is not only politically sensitive but also has deeper fiscal ramifications. If the poverty threshhold is high, it may leave out many needed people; while if it is low, then it would be bad for fiscal health of the government. Third, there is a lack of consensus among states too. We note that some states such as Odisha and West Bengal supported the Tendulkar Poverty Line while others such as Delhi, Jharkhand, Mizoram etc. supported Rangrajan Line. Thus, no one, including NITI aayog wants to bell the cat when it comes to count number of poor in the country.

How poverty is measured in other countries?

In most of European countries, a family with net income of less than 60% of a median net disposable income is counted as poor. In United States, poverty line represents the basic cost of food for a family multiplied by three. A family is counted as poor if its pre-tax income is below this threshold.

Poverty in India

A large section of the rural poor in India are the small farmers. The land that they have is, in general, less fertile and dependent on monsoon. Their survival depends on subsistence crops and sometimes on livestock. With the rapid growth of population and without alternative sources of employment, the per-head availability of land for cultivation has steadily declined leading to fragmentation of land holdings. The income from these small land holdings is not sufficient to meet the family's basic requirements and to pay back the loans that they have taken for cultivation and other domestic needs. In situations of drought and other natural calamities make them take extreme steps like suicide.

A large section of urban poor in India are largely the overflow of the rural poor who migrate to urban areas in search of employment and a livelihood. Industrialisation has not been able to absorb all these people. The urban poor are either unemployed or intermittently employed as casual labourers. Casual labourers are among the most vulnerable in society as they have no job security, no assets, limited skills, sparse opportunities and no surplus to sustain them. Poverty is, therefore, also closely related to nature of employment. Unemployment or under employment and the casual and intermittent nature of work in both rural and urban areas that compels indebtedness, in turn, reinforces poverty. **Indebtedness is one of the significant factors of poverty.** A steep rise in the price of foodgrains and other essential goods, at a rate higher than the price of luxury goods, further intensifies the hardship and deprivation of lower income groups. The unequal distribution of income and assets has also led to the persistence of poverty in India.

All this has created two distinct groups in society: those who posses the means of production and earn good incomes and those who have only their labour to trade for survival. Over the years, the gap between the rich and the poor in India has widened. Poverty is a multi-dimensional challenge for India that needs to be addressed on a war footing.

Poverty Measurement efforts undertaken in India

India is home to over one-third of poor people in the world. If we add the poor of Pakistan and Bangladesh into it, we find that almost half of world poverty exists in just these three nations. The next big concentration of poverty is in the sub-Saharan Africa. However, estimation of poverty has been a contentious issue in India. Historically, first estimation of a poverty line was done by Dadabhai Naoroji in 19th century, though he himself did not use the word "poverty line".

1. Dadabhai Naoroji

The history of poverty estimation in India goes back to 19th century when Dadabhai Naoroji's efforts and careful study led him to conclude **subsistence based poverty line at 1867-68 prices, though he never used the word "poverty line". It was based on the cost of a subsistence diet consisting of 'rice or flour, dal, mutton, vegetables, ghee, vegetable oil and salt'. According to him, subsistence was what is necessary for the bare wants of a human being, to keep him in ordinary good health and decency.** His studies included the scale of diet and he came to a conclusion on the subsistence costs based poverty line that varied from **Rs.16 to Rs.35 per capita per year in various regions of India.**

2. National Planning Committee

In 1938, Congress president Subhash Chandra Bose set up the National Planning Committee (NPC) with Jawaharlal Nehru as chairman and Professor K. T. Shah as secretary for the purpose of drawing up an economic plan with the fundamental aim to ensure an adequate standard of living for the masses. The Committee regarded the irreducible minimum income between Rs. 15 to Rs. 25 per capita per month at Pre-war prices. However, this was also not tagged something as a poverty line of the country. First Planning Commission working group, the concept of the poverty line was first introduced by a working group of the Planning Commission in 1962 and subsequently expanded in 1979 by a task force. The 1962 working group recommended that the national minimum for each household of five persons should be not less than Rs 100 per month for rural and Rs. 125 for urban at 1960-61 prices. These estimates excluded the expenditure on health and education, which both were expected to be provided by the state.

3. Y K Alagh Committee

Till 1979, the approach to estimate poverty was traditional i.e. lack of income. It was later decided to measure poverty precisely as starvation i.e. in terms of how much people eat. This approach was first of all adopted by the YK Alagh Committee's recommendation in 1979 whereby, the **people consuming less than 2100 calories in the urban areas or less than 2400 calories in the rural areas are poor.** The logic behind the discrimination between rural and urban areas was that the rural people do more physical work. **Moreover, an implicit assumption was that the states would take care of the health and education of the people**. Thus, YK Alagh eventually defined the first poverty line in India.

4. Lakdawala Formula

Till as recently as 2011, the official poverty lines were based entirely on the recommendations of the Lakdawala Committee of 1993. This poverty line was set such that anyone above them would be able to afford 2400 and 2100 calories worth of consumption in rural and urban areas respectively in addition to clothing and shelter. These calorie consumptions were derived from YK Alagh committee only. According to the Lakdawala Committee, a poor is one who cannot meet these average energy requirements. However, Lakdawala formula was different in the following respects in comparison to the previous models:

- **In the earlier estimates, both health and education were excluded because they were expected to be provided by the states.**
- **This committee defined poverty line on the basis of household per capita consumption expenditure. The committee used CPI-IL (Consumer Price Index for Industrial Laborers) and CPI- AL (Consumer Price Index for Agricultural Laborers) for estimation of the poverty line**.
- The method of calculating poverty included first estimating the per capita household expenditure at which the average energy norm is met, and then, with that expenditure as the poverty line, defining as poor as all persons who live in households with per capita expenditures below the estimated value.

The fallout of the Lakdawala formula was that number of people below the poverty line got almost double. The number of people below the poverty line was 16 per cent of the population in 1993-94. Under the Lakdawala calculation, it became 36.3 per cent.

5. Suresh Tendulkar Committee

In 2005, Suresh Tendulkar committee was constituted by the Planning Commission. The current estimations of poverty are based upon the recommendations of this committee. This committee recommended to shift away from the calorie based model and made the poverty line somewhat broad based by considering monthly spending on education, health, electricity and transport also.

- **It strongly recommended target nutritional outcomes i.e. instead of calories; intake nutrition support should be counted.**
- **It suggested that a uniform Poverty Basket Line be used for rural and urban region.** It recommended a change in the way prices are adjusted and demanded for an explicit provision in the Poverty Basket Line to account for private expenditure in health and education.
- Tendulkar adopted the cost of living as the basis for identifying poverty.

The **Tendulkar panel** stipulated a benchmark daily per capita expenditure of **Rs. 27 and Rs. 33 in rural and urban areas**, respectively, and arrived at a cut-off of about 22% of the population below poverty line. However, this amount was such low that it immediately faced a backlash from all section of media and society. Since the numbers were unrealistic and too low, the government appointed another committee under Prime Minister’s Economic Advisory Council Chairman C. Rangarajan to review the poverty estimation methodology. Brushing aside the Tendulkar

Committee. **Rangarajan committee raised** these limits to **Rs. 32 and Rs. 47**, respectively, and worked out poverty line at close to 30%. **With estimates of Rangarajan committee, Poverty stood at around 30% in 2011-12.** The number of poor in India was estimated at 36.3 crore in 2011-12.

6. Current Status: Arvind Panagariya Task Force

The discussion about Lakdawala Formula, Suresh Tendulkar Committee and Rangarajan Committee make it clear that defining a poverty line in India has been a controversial issue since 1970s. The latest poverty line defined was by Rangarajan Formula. However, this report also did not assuage the critics. The new NDA Government turned down this report also. To define the poverty line, The NDA Government had constituted a 14-member task force under NITI Aayog's vice-chairman Arvind Panagariya to come out with recommendations for a realistic poverty line. After one and half years work, this task force also failed to reach a consensus on poverty line. In September 2016, it suggested to the government that another panel of specialists should be asked to do this job {if defining poverty line}. Informally, this committee supported the poverty line as suggested by Tendulkar Committee.

There are Various measures of the extent of poverty

1. The head count index: It simply measures the proportion of the population that is counted as poor. Most widely used maesurement tool for poverty estimation.

Head count index = Number of Poor /Total Number of Population

Weakness
1. It does not take the intensity of poverty into account.

2. Survey does not indicate how poor the poor are, and hence does not change if people below the poverty line become poorer.

3. The poverty estimates should be calculated for individuals and not the households.

Significance
1. The most common method of measuring and reporting poverty is the headcount ratio, given as the percentage of population that is below the poverty line.

2. One of the undesirable features of the headcount ratio is that it ignores the depth of poverty; if the poor becomes poorer, the headcount index does not change.

2. The poverty gap index: It is a measure of the intensity of poverty. **It is defined as the average poverty gap in the population as a proportion of the poverty line.** Poverty gap index provides a clearer perspective on the depth of poverty by estimating the depth of poverty by considering how far, on the average, the poor are from that poverty line and is an improvement over the poverty measure headcount ratio which simply counts all the people below a poverty line, in a given population, and considers them equally poor.

By definition, poverty gap index is a percentage between 0 and 100%. Sometimes it is reported as a fraction, between 0 and 1. **A theoretical value of zero implies that all the extremely poor people are exactly at the poverty line. A theoretical value of 100% implies all the extremely poor people have zero income.**

3. The squared poverty gap (poverty severity) index: It is related to poverty gap index. It is calculated by averaging the square of poverty gap ratio. **By squaring each poverty gap data, the measure puts more weight the further a poor person's observed income falls below the poverty line.** The squared poverty gap index is one form of a weighted sum of poverty gaps, with the weight proportionate to the poverty gap.

4. Sen index is related to poverty gap index (PGI).

Appraisal of Government measures

From 2014, a scheme called **Pradhan Mantri Jan-Dhan Yojana** is available in which people in India are encouraged to open bank accounts. Besides promoting savings habit, this scheme intends to transfer all the benefits of government schemes and subsidies to account holders directly. Each bank account holder is also entitled to Rs. 2 lakh accident insurance and Rs. 30,000 life insurance cover.

POVERTY REMOVAL: SDG Goal 1 aims to end poverty in all its forms everywhere. While it defines extreme poverty @$1.25 but nations are allowed to use their 'national poverty line' methods.

1. MGNREGA (2005)
- 2005: Parliament enacted MGNREGA Act.
- It promises to give minimum 100 days of unskilled manual labour to rural household whose adult members volunteer for it. Households are eligible for unemployment allowances if employment not been provided within 15 days of demand.
- MNREGA labourers are used for creating durable assets as per local needs e.g. ponds, wells, cattle sheds, granary, vermicompost plants, crematorium, renovation of Anganwadi centres, school buildings
- No contractors / machinery allowed.
- In any project, 60% of amount should go towards wages and 40% towards material.
- Union bears 100% wage cost and 75% of material cost.
- Wages are linked to Consumer Price Index (Agriculture labour:AL). [Although Modi thinking of linking it with CPI-Rural]
- Social audit by the gram sabha at least once in every 6 months.

2. National Livelihood Missions =Skill+Loan
- In the late 70s, Government had launched Integrated Rural Development Programme (IRDP), Training of Rural Youth for Self Employment (TRYSEM) and a half dozen other schemes

3. Deen Dayal Antyodaya Yojana: National Urban Livelihoods Mission (DAY-NURM)
1. Give urban poors skill training and loan for self-employment.
2. Develop vendor markets for urban vendors.
3. Shelters for homeless people.

4. Deen Dayal Antyodaya Yojana: National Rural Livelihoods Mission (DAY-NRLM)
1. Bring min.1 woman from each poor household to Self Help Group (SHG) → give them training and loans for candle/soap/handicraft etc. biz.
2. Give training to rural men. They'll do self employment or skilled wage employment = More income then working as farm labourers.

- Deen Dayal Upadhyaya Grameen Kaushalya Yojana (DDUGKY-2014):
- Rural Youth given FREE skill training. Higher age limit for SC/ST/Women/PH. Guaranteed Placement for at least 75% trained candidates.
- Aajeevika Grameen Express Yojana (AGEY-2017): interest-free loans given to SHG / Community Based Organisations (CBOs) to buy public transport vehicle so they can earn ₹ ₹ by transporting passengers.

5. Mission Antyodaya (2017)
− It's similar to those two timepass 'Adarsh Gram Yojanas'.

− Here Government will implement the other ongoing schemes with more vigilance and accountability with the help of Gram Panchayat, NGOs, SHGs, ASHA workers etc.

6. DIRECTLY GIVE ₹ ₹ → UBI

Economic Survey 2017 suggested, "better we simply give them money so they can spend minimum aforementioned amounts, then they'll automatically come out of the poverty!" That is the idea behind UBI. Universal Basic Income (UBI) means government depositing a specific sum of money in a beneficiary's bank account each year to augment his/her purchasing power in the open market. The term 'universal' is 'de-jure', in reality, UBI is meant for rich & middle class families.

UBI: Pro-Arguments by Eco Survey

1) Safety Net. Protects people from deprivation, destitution.
2) PDS= leakage, diversion. Better give ₹ ₹ to needy to buy from open market.
3) MNREGA = Not good because it's creating shortage of farm labourers. Scheme is rife with corruption & mismanagement.
4) Some people face accident of birth (SC/ST/Rural/Poor). Some people face accident of life (e.g. drought, disaster, husband dead, caught in debt trap by informal money lender). UBI will help them overcome these accidents, boost their psychological aspirations.
5) PAN cards already linked with Bank accounts so possible to exclude rich / middle class easily. So, implementation of UNIVERSAL BASIC INCOME should not prove difficult.

UBI: Anti-Arguments by Eco Survey

1) Able bodied men given 'charity'. It'll turn them lazy. Gandhi will not approve it.
2) 1st world nations can afford UBI because their tax:GDP is high. If we give ₹ 12000 per year to poor people (without shutting down existing schemes) then Fiscal deficit = ~12% of GDP = new variety of problems: Crowding out of the private borrowers → Industrial expansion + job creation declines. (Counter arguments: if we stop all schemes/subsidies and give only ₹ 2500 / per year as UBI to only poor people, then Fiscal deficit will stay @3% while poverty will decline from 21.9% → just 9%]
3) Extra money in the hands of poor without proportional increase in the supply of goods → demand side inflation. So, poor person's real purchasing power will not increase, he'll remain poor only.
4) Providing Universal basic income without crossing the fiscal deficit target will require stopping the schemes like NFSA, MDM, MNREGA → but that will not be 'politically feasible'.
5) Many families hid their assets during SECC-2011 survey, so it's not a reliable data. So if UBI given to people based on SECC data → Inclusion Error, with non-poors getting benefit.
6) Men of the house may misuse ₹ ₹ on alcohol, gambling & other social ills. Better to give entitlements in the form of 'kind' e.g. free food under mid day meal, subsidized grains @PDS shop.

Economic Survey 2017 gave both the pro and anti-arguments. Its intent was only to 'generate a debate' around the topic (without suggesting UBI for immediate implementation). However eventually,

7. Interim-Budget 2019: PM-KISAN ₹ 6k / per year to small and marginal farmers.

- General Election 2019 Congress Manifesto promised to launch Nyuntam Aay Yojana (NYAY) schemes giving ₹ 72,000 / per year to poorest 5 crore families [IF they're elected to power].