Shoolini University

Course: Indian Economy ECON(H)221

Lecture 20 Poverty in India

Topics of Discussion

➢Introduction

➢Concepts of Poverty and Poverty Line

➢Measurement of Poverty

Overview

➢India's economic structure has changed dramatically over last 5-6 decades; among the most dynamic economies recently.

➢Benefits of growth not widely spread to various sections in society, reached only marginally to low income groups.

• Intellectual genesis of poverty very old

• Adam Smith, Ricardo, Marx: subsistence wage concept

• An early empirical work by Dadabhai Naoroji, 1901

• Estimated an income level "necessary for the bare wants of a human being, to keep him in ordinary good health and decency". Estimated cost of food, clothing, hut, oil for lamp, barber and domestic utensils to arrive at 'subsistence per head'.

Need for Poverty Estimation

➢Poverty estimates are vital input to design, monitor and implement appropriate anti-poverty policies.

➢Analysis of poverty profiles by regions, socio-economic groups

➢Determinants - factors affecting poverty

➢Relative effects of factors affecting poverty

➢Allocation of resources to different regions and to various poverty reduction programs

➢ Precise estimates of poverty neither easy nor universally acceptable.

Need for Poverty Estimation

➢ Poverty is multidimensional

➢ Deprivation in income, illiteracy, malnutrition, mortality, morbidity, access to water and sanitation, vulnerability to economic shocks.

➢ Income deprivation is linked in many cases to other forms of deprivation, but do not always move together with others.

Measurement of Poverty

➢ Two basic ingredients in measuring poverty:

➢ Poverty Line: definition of threshold income or consumption level

➢ Data on size distribution of income or consumption (collected by a sample survey representative of the population)

➢ **Relative Poverty-** defined in relative terms with reference to level of living of another person; or, in relation to an income distribution parameter.

➢ **Absolute Poverty-** refers to a threshold income (consumption) level defined in absolute terms. Persons below a pre-defined threshold income are called poor.

Measurement of Poverty

➢A minimum level of living necessary for physical and social development of a person.

➢ Estimated as: total consumption expenditure level that meets energy (calorie) need of an average person.

➢Poverty Line comprises of both food and non-food components of consumption.

➢Considers non-food expenditure actually incurred corresponding to this total expenditure.

➢Difficult to consider minimum non-food needs *entirely* on an objective basis

Early Estimates of Poverty

➢Originally estimated for 1973-74: Rs 49 and 56 for rural and urban areas respectively.

➢A monthly per capita consumption expenditure of Rs. 356 and 539 for rural and urban areas respectively for 2004-05.

➢More than a quarter of India's population remain below PL in 2004-05.

➢28.3% Rural   25.7% Urban   27.5% Total

➢Absolute no.: 302 million in 2004-05

Poverty in India: Changes over time
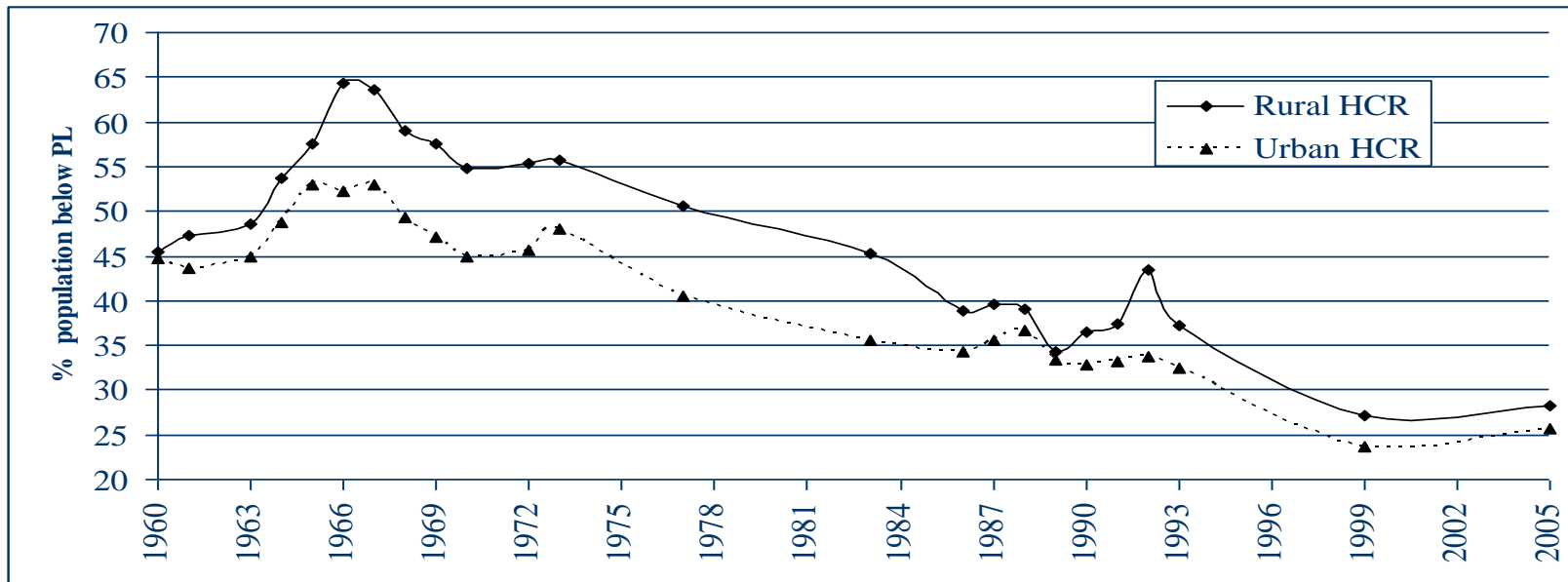
➢ Up to mid-1970s – fluctuations with cycles

➢ Since mid-1970s – continuous fall

• Except a few years immediately after start of reforms (early 1990s)

Comparison of Poverty After Reforms

Uniform Recall Period		
	1993-94	**2004-05**
Rural	37.3	28.3
Urban	32.4	25.7
Total	36.0	27.5
Mixed Recall Period		
	1999-2000	**2004-05**
Rural	27.1	21.8
Urban	23.6	21.7
Total	26.1	21.8

Poverty Measures

➢**Head Count Ratio (HCR):** proportion of total population that falls below poverty threshold income or expenditure. Based on either national Poverty Line or dollar-a-day Poverty Line.

➢**Poverty Gap Index (PGI):** unlike HCR, it gives us a sense of how poor the poor are. It is equivalent to income gap below Poverty Line per head of total population, and expressed as a percentage of the poverty line.

➢**Squared Poverty Gap index (SPG):** Adds the dimension of inequality among the poor to the poverty gap index. For a given value of the PGI, population with greater dispersion of income among poor indicates a higher value for the SPG.

Incidence of Poverty

Incidence of poverty is affected by two factors:

➤Growth in average income

➤Distribution.

- Poverty reduction is fast when average income rises and inequality falls.

- Fluctuations in poverty incidence till early 1970s were primarily due to slow per capita income growth.

- Incidence of poverty started to fall after mid-1970s when there was marked acceleration in per capita GDP growth rate to above 3%

Factors Affecting Poverty

➢ Poverty depends on per capita household income which in turn is affected by employment, wage rate, land productivity, industrialization, expansion of service sector and other general growth and distribution factors

➢ Role of per capita agricultural income

➢ Employment and real wage rate

➢ Inflation rate and relative food prices

➢ Government expenditure

- Per capita development expenditure

- Social sector expenditure

Factors Affecting Poverty

➢Inequality increased in recent years after reforms.

➢A given growth will be associated with more limited gains for the poor

➢Reasons for weak participation of poor: limited access to education, land, credit; low agricultural growth, underdeveloped infrastructure such as irrigation, roads, electricity in poorer states

➢About a fourth of poverty reduction could be attributed to demographic factors in India

Poverty in India

➢ Long term growth prospects fairly optimistic: India likely to continue among the fasted growing economies

➢ India might surpass Japan and Germany in terms of total size of the economy, yet its per capita income would be less than world average for a long time

➢ Poverty could be reduced faster provided inequality is under control, labour intensive activities must grow, removal of rigidities in land and labour market critical for reallocation of resources

➢ Government can afford to devote more resources for poverty removal programmes: wage employment (MNREGA) or self employment type

Thank You ☺