

Poverty in India: Issues and Policies

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Poverty Measurement and other issues

- India has long history of studies on measurement
- Poverty Line: Income or consumption or multi-dimensional
- Expert Committees of Erstwhile Planning Commission used Consumption
- Tendulkar Committee : Used urban poverty line basket for both rural and urban
- Rangarajan Committee: Reverts to two separate all India rural urban poverty line baskets.
- Government (Niti Ayog) is thinking of another committee to look at the poverty issue again : whether one can avoid poverty line.

Poverty Line (Rs.)

Tendulkar Committee

	Monthly Per capita	Monthly per hh	Per year per house
Rural	860	4080	48960
Urban	1000	5000	60000

Rangarajan Committee

Rural	972	4860	58320
Urban	1407	7035	84420

Poverty Measurement and other Issues

- Criticism of official poverty lines that it is not multi-dimensional. Rangarajan Committee discussed this aspect.
- We already have OPHI and UNDP multidimensional poverty index (MPI)
- NAS (National Account Statistics) and National Sample Survey (NSS) differences in consumption
- The difference was less than 10% in 70s. It was nearly 50% in 2009-10.
- Public Expenditure and Poverty (poor consumption higher if we take this into account)
- Poverty ratios for targeted programs.

Trends in Poverty Estimates

- There are two conclusions in the post-reform period.
- First one is that a World Bank study by Gaurav Datt et al shows that poverty declined by 1.36% points per annum in post-1991 compared to that of 0.44% points per annum prior to 1991.
- Second conclusion is that within post-reform period, poverty declined faster in 2000s than in 1990s.
- 0.74 percentage points per annum during 1993-94 to 2004-05.
- 2.2 percentage points per annum during 2004-05 to 2011-12

Access: Changes in poverty (official)

	Poverty Ratio (%)			Number of Poor (million)		
	Rural	Urban	Total	Rural	Urban	Total
1993-94	50.1	31.8	45.3	328.6	74.5	403.7
2004-05	41.8	25.7	37.2	326.3	80.8	407.1
2011-12	25.7	13.7	21.9	216.5	52.8	269.3
Annual decline 1993/94 to 2004/5 percentage points	0.75	0.55	0.74			
Annual decline 2004/5 to 2011/12 percentage points	2.32	1.69	2.18 Poverty decline faster in the second			

Poverty ratio with different cut-offs of poverty lines

- Generally poverty gap index and squared gap index is used for depth.
- One way of looking at this issue is to look at the poverty ratios using different cut-offs of poverty lines (125%, 115%, 85%, 75%, 50%).
- One conclusion is that even if we raise the PL to 125%, the rate of change is nearly the same.
- With lower cut-off, 85% or 75%, rate of change is higher after adjusting for base.
- Another conclusion, poor lie between 75% PL and PL.
- Below 50% PL we have less than 5% population.

Poverty Ratios using different cut-offs

Cut-off	Rural		Urban		Total	
	2009-10	2011-12	2009-10	2011-12	2009-10	2011-12
125%PL	60.0	51.3	49.8	40.1	57.1	48.1
115%PL	53.0	43.5	44.0	34.7	50.4	41.0
100%PL	39.6	30.9	35.2	26.8	38.2	29.5
85%PL	25.6	18.3	25.4	18.1	25.5	18.3
75%PL	16.7	11.1	18.5	12.4	17.2	11.5
50%PL	2.0	1.4	4.4	2.2	2.7	1.7

Concentration of Poverty

Best Performing States			Worst Performing States		
State	1993-94	2011-12	State	1993-94	2011-12
Kerala	31.3	7.1	Bihar	60.4	33.7
A.P.	44.6	9.2	U.P.	48.4	29.4
Tamil Nadu	44.5	11.3	Jharkhand	60.7	37.0
Punjab	22.4	8.3	Assam	51.8	32.0
Haryana	35.9	11.2	M.P.	44.0	31.7
Uttarakhand	32.1	11.3	Chhattisgarh	50.9	39.9
All India	45.1	21.9			

Worst performing states had share of 41% in total 1993-94 but increased to 57% in 2011-12

Poverty by Social groups and Types (Rural)

	ST	SC	OBC	Others
SE in agri	42.2	28.9	20.3	13.4
SE in non-agri	28.3	23.4	19.1	12.5
Regular wage	20.8	12.9	10.3	7.7
CL in agri	59.7	41.3	34.8	31.0
CL in non-agri	54.5	32.7	29.7	23.0
Others	44.3	27.6	16.5	8.2
Total	45.3	31.5	22.7	15.5

In rural, poverty is concentrated in SCs and STs and casual labour in agri and non-agri

3. Factors for decline in poverty

- What are the factors for higher decline in poverty during 2004-05 to 2011-12? Several factors
- Higher economic growth: 7 to 8% per annum
- Agricultural growth: Around 4% per annum.
- Agriculture and rural real wages recorded higher growth
- Rural non-farm employment increased. It rose from 23.7% in 1999-00 to 35.9% in 2011-12.

Real Wages growth (%) per annum

1999-2000 to 2011-12

Employees	Real wage per day worked	Employees	Real wage per day worked
<u>Organised Sector</u>	<u>1.8</u>	<u>Unorganise d Sector</u>	3.9
Regular Formal	3.3	Casual	4.9
Casual Employees	2.7	Self employed	4.5
For Self employed, real wage refers to 'mixed income' per day of work			

Yearly Growth Rates of Agricultural Real Wages

Year	Growth Rates %	Year	Growth Rates %
1999-00	0.48	2008-09	4.17
2000-01	-7.33	2009-10	4.09
2001-02	5.37	2010-11	7.66
2002-03	0.01	2011-12	9.39
2003-04	-0.12	2012-13	9.18
2004-05	-1.23	2013-14	10.63
2005-06	1.73	2014-15	5.10
2006-07	-0.52	2015-16	-0.21
2007-08	-0.83		
Average growth	-0.27	Average growth	6.30

Note: Average of wage rates in Ploughing, sowing, weeding, transplanting and harvesting

Rural non-farm Employment

- Growth since 2004-05, non-farm concentrated in construction, transport and communications.
- Wages of casual workers in non-farm construction higher than for agri. Workers. One reason for reduction in poverty.
- Village studies show that SCs have benefited from growth in the non-farm sector.
- Nearby towns and cities are also drivers of rural non-farm activities

MGNREGA and other programs

- Programs like Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) also helped in reducing poverty.
- Although there are mixed results on the impact of MGNREGA, it had impact on poverty, agricultural wages, asset creation etc. in some selected areas/states.
- Similarly, Public Distribution System (PDS) inspite of leakages had some impact.
- One study shows that PDS without PDS transfers poverty was 33.9% in 2009-10. With PDS transfers, poverty was 30.7%.

- ## Debate: Role of Agri&Non-agri in poverty reduction
- Recently there have been debates on the roles of agriculture and non-agriculture
 - Some studies showed that non-agri. and urban growth were important for poverty reduction.
 - Some other studies indicated that agriculture and rural growth were responsible.
 - Recent paper by Datt, Ravallion and Murugan showed that during pre-1991-period, rural growth was the driver of poverty reduction.
 - However, in the post-1991 period, rural growth though still important, has been displaced by urban growth as the most important contributor to the rapid reduction in poverty even in rural areas.

Agri, non-agro and poverty

- Datt and Ravallion study says in the pre 1991 period, two-fifth reduction due to agri
- In the post-1991, agri contributed only 10% while services 60% and manufacturing 30% contributed for poverty reduction.
- Stephan Dercon (Oxford University) in a paper 'Does Agriculture Reduce Poverty'.
- He challenged the very notion that agricultural research or agri growth reduces poverty.
- He says poverty did not decline during green revolution time in India. Later decline was due to non-agriculture.

Roles of Agri and Non-agri

- On the other hand, World Development Report of the World Bank says the poverty reducing impact of agriculture is twice to that of non-agriculture.
- Recent study by Raghav Gaiha & others examined separate effects of agriculture, rural non-agri., small towns and metropolitan cities.
- They found that contrary to the conclusion of Datt and Ravallion, agriculture's contribution to poverty reduction is five times more than the metropolitan cities.
- This is in contrast to the dominant view that urbanization is the key to growth and elimination of extreme poverty.

Agri and Non-agri

- This study shows that there is a case for drastic shift away from rural–urban migration and urbanization as main drivers of elimination of extreme poverty.
- And move towards revival of agriculture in the policy discourse.
- A recent study ,using CGE model, by Parikh et al (2013) examine the role of agriculture development in an inclusive and sustainable way at a double digit rate for three decades (2039).
- Their analysis suggests that at least a 4% g.r. of agri. GDP is needed to support GDP g.r. in excess of 8%.

Policies for Reduction in Poverty

- In spite of reduction in poverty, India has still nearly 300 million below poverty line.
- Cover the following.
 - Agricultural Policies
 - **Employment Policies**
 - Social Protection
- Reduction in inequalities including inequality of opportunity and gender inequalities

Agriculture

- Although role of agriculture declined, it is still important for nearly 50% of workers.
- One of the challenges is how to improve the viability of small and marginal farmers who constitute 85% of the farmers.
- The govt. of India wants to double the farmers income in 7 years.
- But during the 10 year period 2003 to 2013, farmers total real income (cultivator income, animal income, wage income, non-farm business) increased only by 35%.
- For small farmers, consumption is more than income (they are indebted).

Ratio of Real Monthly income in 2013 over 2003

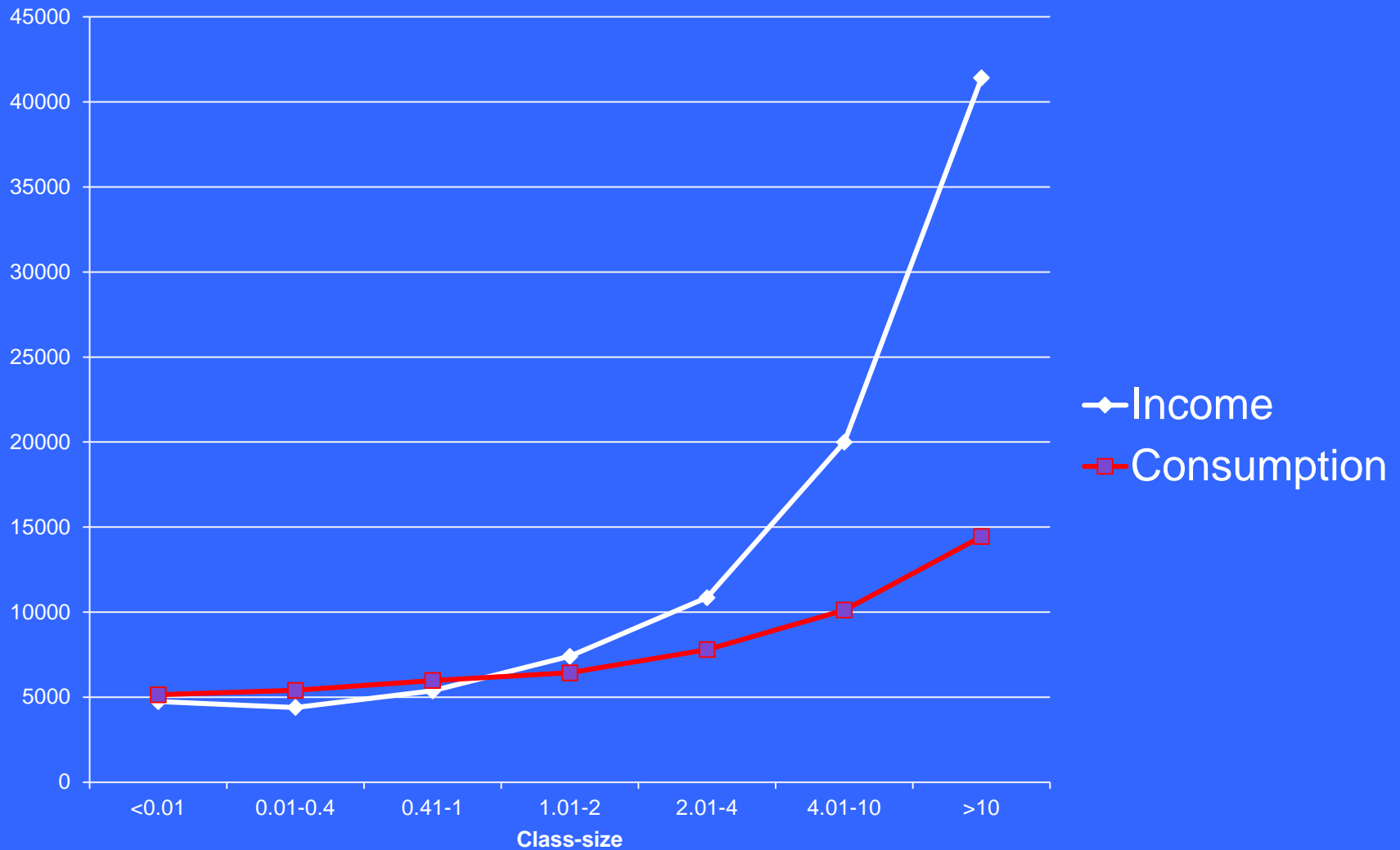
States	Wages	cultivation	Animals	Non-farm	Total In.
Punjab	1.56	1.80	2.39	0.68	1.67
Haryana	1.20	1.85	--	0.57	1.93
U.P.	1.00	1.38	3.76	0.99	1.31
Bihar	1.28	0.80	0.44	0.55	0.83
West Beng.	1.18	0.62	1.44	0.76	0.91
<u>Odisha</u>	<u>1.41</u>	<u>1.79</u>	<u>33.35</u>	<u>1.54</u>	<u>2.08</u>
Chattisgarh	1.25	2.05	1.58	0.00	1.57
M.P.	1.17	1.48	--	0.59	1.75
Gujarat	1.34	1.18	1.84	1.30	1.36
Maharasht.	1.29	1.54	1.82	1.49	1.47
A.P.	1.59	1.56	3.61	1.07	1.64
Karnataka	1.27	1.66	1.92	1.49	1.52
Kerala	1.21	1.43	1.58	1.62	1.36
Tamil Nadu	1.24	1.16	3.93	2.43	1.48
All India	1.22	1.32	3.21	1.00	1.34

Ratio of Real Monthly income in 2013 over 2003

Land size (ha.)	Cultivat Income	Animals income	Wage Income	Non-farm busines	Total Income
<0.01	0.34	3.40	1.01	0.63	1.13
0.01-0.4	1.09	2.78	1.07	0.67	1.10
0.41-1.0	1.40	2.61	1.26	1.08	1.38
1.01-2.0	1.50	3.31	1.23	1.61	1.52
2.01-4.0	1.54	5.39	1.26	1.23	1.59
4.01-10	1.76	7.88	1.81	1.33	1.85
<u>>10.00</u>	<u>2.06</u>	<u>3.58</u>	<u>1.23</u>	<u>1.32</u>	<u>2.02</u>
All Classes	1.32	3.21	1.22	1.00	1.34

Monthly Income, Consum. (Rs.) by size class of Land

All India



What are the drivers of rise in farmers' incomes

- **Farm Income = Productivity X Prices. Both have to be increased. Also rise in non-farm income.**
- Several studies including Niti Ayog reveal the drivers as given below.
- **1. Increase in yield or productivity :**
 - (a) Diversification: Increase high value crops
 - (b) Animal husbandry and livestock
 - (c) Water: per drop more crop
 - (d) New technologies
 - (e) Inputs : Seeds, fertilizers, credit
- **2. Rise in remunerative prices :** (a) Minimum support prices; (b) Agricultural marketing
- **3. Agricultural land policy: Leasing and titling**
- **4: Immediate relief: crop insurance**
- **5. Challenge of Small and marginal farmers**

II Policies for growth and productive employment

- Many policies are needed to create productive employment along with higher growth
- Macro economic policies
- Sectoral policies
- Targeted employment programmes like MGNREGA
- Demographic dividend: Education and skills

But we concentrate on the following

- Role of Agriculture (we already discussed)
- Quality of employment
- Make in India' : Is manufacturing going to be the growth engine?
- service sector
- Labour market reforms

Quality of Employment; 2011-12

Employees	Poverty (%)	Average Years of Education	Money wage per day (regular formal=100)
Organised sector	10.1	9.9	65.3
a. Regu. formal	3.2	12.4	100.0
b. Regu. informal	8.7	9.3	36.9
c. casual	29.9	4.4	23.9
Unorganised sector	27.6	5.4	21.3
a.Regu. informal	16.2	7.6	26.3
b. casual	37.6	3.8	20.0
c. Self employed	23.6	6.1	--
All Employed	24.6	--	--

Make in India: Manufacturing

- As shown by the East Asian experience, we need labour intensive manufacturing.
- In this context, 'Make in India' is right initiative. Aim is to increase share in GDP to 25% and create 100 million jobs.
- However, there are two related issues.
- 1. Whether we can increase employment under manufacturing?
- 2. Services are equally important for 'Make in India
- Historical experience on manufacturing employment shows the following.
- Early industrializing countries like Japan, Taiwan, Korea could improve the share in employment.

Make in India: Manufacturing

- But in late industrialized countries like China, Indonesia and Thailand the share of manufacturing rose but not employment
- Employment in manufacturing today is not comparable to that of earlier times.
- Earlier, manufacturing used to employ directly for a variety of services but now they outsource them for service enterprises.
- Thus, manufacturing today generates less direct employ. but more indirect employment in services.
- There are constraints even for raising GDP in manuf.
- Export led growth is not easy. Global situation may not be able to accommodate another export-led China . Make more for domestic market.

Make in India: Manufacturing

- Manufacturing growth also depends on several other factors: Ease of doing business, infrastructure, land acquisition etc.
- Focus on service sector also.
- However, services generate less employment for low skilled while manufacturing generates substantial employment for them.
- Inequalities in services empl. are higher than manufa.
- Manufacturing for unskilled work. Services for skilled and unskilled workers. Structure of manufacturing sector different in India (85% less than 50 workers) as compared to China which has large firms.

Manufacturing in GDP and Employment

Country	Period	Peak share (%) of manufacturing in	
		GDP	Employment
Japan	1970	36.0	27.0
South Korea	2000	29.0	23.3
Taiwan	1990	33.3	32.0
China	2005	32.5	15.9
Indoneasia	2004	28.1	11.8
Thailand	2007	35.6	15.1
India	2011-12	15.7	12.8

Source: NSS for India; Ajit Ghose, 2015 for rest of the countries

Services in GDP and Employment: 2013

Country	% Share in GDP	% Share in Employment
USA	78.6	81.2
Germany	68.4	70.2
France	78.5	74.9
UK	79.2	78.9
Brazil	69.4	62.7
China	46.1	35.7
Japan	72.4	69.7
South Korea	59.1	76.4
India	58.4	26.7

Source: Economic Survey, 2014-15

India is an outlier in terms of the difference between share of services in GDP and employment (32 percentage points difference)

Raising quality empl. for poverty reduction

- Raising quality of employment is crucial for reduction in poverty
- The difference between India and China is that the latter reduced poverty with labour intensive manufacturing.
- But its future development path is unlikely to mimic that witnessed in East Asia like Japan, Taiwan or even in China.
- India has to forge its own path with emphasis on manufacturing for domestic production apart from possible opportunities for exports which looks bleak in the short run

Labour market flexibility

- Labour market flexibility issue must be resolved to meet the needs of both workers and enterprises.
- We have *de facto* labour flexibility in terms of contract workers in organized sector.
- If you speak to industrialists, labour law is not in the top of the list of constraints for manufacture growth.
- There is no conclusive evidence that labour laws are the major factor behind for the problems in Indian manufacturing.
- Firms are not expanding beyond 100 workers due to other reasons.
- What about vast number of unorganized workers?
Need for minimum social security

Social Protection for reduction in poverty

- Risk and vulnerability are high as more than 90% of workers are in the unorganised sector.
- India has many social protection programs like MGNREGA, Public Distribution Scheme, Self employment programs, housing, old age pensions etc.
- UPA govt. had rights based approach
- Present NDA govt. wants to improve efficiency of these programs.
- Identification of the poor is a problem

Identifying the poor

- Poverty estimates of the erstwhile planning commission are delinked from entitlement programs. Not used for identifying the poor.
- One can ask a question: what is the use of poverty estimates?
- The purpose of these estimates at macro level is to see progress over time. E.g. one can examine whether poverty declined in the post-reform period.
- For identification at village level, we have BPL (Below Poverty Line) Census since 1992.
- Latest Socio Economic Caste Census (SECC) was conducted in 2011 for **Rural**. The objective is to collect socio economic data and rank the hhs. and state governments can prepare BPL list.

Three step criteria for ranking the hhs.

- (1) Automatic exclusion (2) Automatic inclusion (3) Remaining hhs will be ranked based on deprivation indicators
- 1.A household with any of the following will be **EXCLUDED AUTOMATICALLY**:
 - Motorized two/three/four wheeler/ fishing boat/
 - Mechanized three/four wheeler agricultural equipment
 - Kisan (farmer) Credit Card with credit limit of Rs. 50,000 and above
 - HH with any member as a Government employee
 - HH with non-agricultural enterprises registered with the Government

Criteria for Automatic Exclusion

- Any member of the family earning more than Rs. 10,000 per month
- Paying income tax; Paying professional tax
- Three or more rooms with all rooms having *pucca* walls and roof(*Pucca* is with brick and cement)
- Own a refrigerator
- Own Landline phone
- Own 2.5 acres or more of irrigated land with at least 1 irrigation equipment
- 5 acres or more of irrigated land for two or more crop seasons
- Owning at least 7.5 acres of land or more with at least one irrigation equipment

Automatic Inclusion

- A household with any of the following will be **INCLUDED AUTOMATICALLY**
- Households without shelter
- Destitute/ living on alms
- Manual scavengers
- Primitive tribal groups
- Legally released bonded labourers

Deprivation indicators for the rest

- The remaining households will be ranked using the following 7 Deprivation Indicators.
- (1) Households with only one room, *kucha* walls and *kucha* roof. *Kucha* house is made of mud and clay
- (2) No adult member between the ages of 16 and 59
- (3) Female headed households with no adult male member between 16 and 59
- (4) Households with disabled member and no able bodied adult member
- (5) Scheduled caste/scheduled tribe households
- (6) Households with no literate adult above 25 years
- (7) Landless households deriving a major part of their income from manual casual labour

Estimates based on SECC

- Total Rural Households: 179.7million
- Automatically excluded : 70.7 mill. (39.4%)
- Automatically included : 1.6 mill. (0.91%).
- Considered for deprivation: 107.3 mill
- Not reporting deprivation: 20.1 mil.
- HHs. With deprivation: 87.2 mill. (48.5%)
- HHs. With at least 1 deprivation: 87.2 m.(48.5%)
- HHs. With at least 2 deprivation: 53.6 m. (29.8%)
- HHs. With at least 3 deprivation: 23.5 m. (13.1%)
- HHs. With at least 4 deprivation: 7 mil (3.9%)

SECC data: Identifying the Poor

- HHs are ranked using deprivation indicators at village level.
- The data will be used for identifying the poor at village level.
- Right now govt. is planning to use for programs like
 - MGNREGA (universal but need focus)
 - Housing
 - Pension
 - Self employment programs

Social protection: Move towards direct benefits

- It is argued that we move towards direct benefit transfer (cash).
- Also discussion on universal basic income.
- The idea of an assured minimum income was discussed in India as early as 1960s but could not be implemented then on account of certain circumstances.
- It may be feasible in India if some of the subsidies and tax exemptions are removed.

Reduction in inequality for red. In poverty

- One can't ignore inequality as rising inequality can adversely affect poverty reduction.
- Consumption inequality increased marginally in rural but significantly in urban areas.
- Income inequality is much higher at 0.55 Gini.
- If you consider inequality, urban poverty levels are equal to rural poverty ratio in terms of squared poverty gap index.
- Equality of opportunity is important for reducing many other forms of inequalities. Access to education is an important indicator of equality of opportunity.

Gini Coefficient in Consumption and Income

	Consumption			Income
	Rural	Urban	All	All
1993-4	0.258	0.319	--	--
2004-5	0.281	0.364	0.35	0.52
2011-12	0.287	0.377	0.37	0.55

Equality of Opportunity

- Recently, the Deputy Prime Minister of Singapore cautioned about school education in India.
- He says “schools are the biggest crisis in India today and have been for a long time. Schools are the biggest gap between India and East Asia. And it is a crisis that cannot be justified”
- Equity in quality education is the key for raising human development and reduction in inequalities in labour market and reduction in poverty.

Demogra Dividend: workers by level of educa.

Educat. Categ.	2011-12		
	Female	Male	Total
Not literate	51.3	23.5	31.2
Below primary	9.4	10.8	10.4
Primary& middle	23.0	32.4	29.7
Secondary&high er secondary	9.8	21.7	18.4
Diploma/certific at	0.8	1.6	1.4
Graduate& above	5.7	10.0	8.8
Total	100.0	100.0	100.0

Even in 2011-12, **around 42% of total workers are either illiterate** or have been educated upto primary level. For females it is 60%. Only 9% graduate and above. Skills of workers are much lower than many other countries. Only 10% vocational education.

Gender Inequality

- Lastly, Gender inequality index is one of the highest for India among many countries.
- Women's participation rate in labor market is 21.9% as compared to men (54.4%)
- IMF Chief said increase in women's participation rates would increase 40% GDP.
- But, women's 'work' and 'non-work' may be misleading. Non-earning is not same as non-working.
- Time use surveys indicate women's unpaid work as **home makers and care givers** is quite high.
- Some estimates show that if we monetize unpaid work of women, it amounts to around 16 lakh crores per annum (\$242 billion) (10% of GDP).

Conclusions

- Poverty declined in the post-reform period. Within post-reform, declined faster in 2000s compared to 1990s.
- Poverty is getting concentrated in poorer states and SCs and STs.
- In future, the no. of urban poor may increase with urbanisation.
- Higher economic growth, agriculture growth, rise in agri wages, rise in rural non-farm empl. and some social protection programs were responsible.
- Some say non-agriculture and urban growth were responsible for reduction even in rural poverty.

Conclusions

- On policies, agriculture has to play a different role of raising productivity and incomes rather than absorbing labour.
- For reducing poverty, focus on two areas.
- Raising quality employment and education.
- For quality employment, labour intensive manufacturing is important. This also increases employment in services.
- But its future development path is unlikely to mimic that witnessed in China.

Conclusions

- It has to forge its own path of manufacturing development. For exports, policy on FDI, exchange rate policies etc. are important.
- Reduction in inequalities is important for poverty reduction.
- Particularly, equality of opportunity in education is needed.
- There is emphasis on skill development. But, quality of general education (secondary education, adult education) has to be raised.
- Finally, improvement in gender equality can raise GDP and poverty reduction significantly.

THANK YOU