



A Review on India's Experience with Poverty Since Independence-Conceptual Framework, Trends and Approaches for its Eradication

Dr.Parvathamma.
G.L

Associate professor and coordinator, Department of Economics, Bangalore University, P.G.Centre, Kolar

ABSTRACT

India's economic structure has changed dramatically over last 5-6 decades. But the benefits of growth not widely spread to various sections in society, reached only marginally to low income groups. Even more than 60 years after independence from almost two centuries of British rule, large scale poverty remains the most shameful blot on the face of India. Of its nearly 1 billion inhabitants, an estimated 350-450 million are below the poverty line, 75 per cent of them in the rural areas. More than 40 per cent of the population is illiterate, with women, tribal and scheduled castes particularly affected. It would be incorrect to say that all poverty reduction programmes have failed. The growth of the middle class indicates that economic prosperity has indeed been very impressive in India, but the distribution of wealth has been very uneven. Though the middle class has gained from recent positive economic developments, India suffers from substantial poverty. According to the new World Bank's estimates on poverty based on 2005 data, India has 456 million people, 41.6 percent of its population, living below the new international poverty line of \$1.25 (PPP) per day. The World Bank further estimates that 33percent of the global poor now reside in India. Moreover, India also has 828 million people, or 75.6percent of the population living below \$2 a day, compared to 72.2percent for Sub-Saharan Africa. Inequality increased in recent years after reforms. Income elasticity of poverty has fallen. A given growth will be associated with more limited gains for the poor. Because, of weak participation of poor, limited access to education, land, credit, low agricultural growth, underdeveloped infrastructure such as irrigation, roads, electricity in poorer states. Poverty depends on per capita household income which in turn affected by employment, wage rate, land productivity, industrialization, expansion of service sector and other general growth and distribution factors. In this back ground the present paper made an attempt to analyse causes of poverty, poverty and Poverty Line in India, Intellectual genesis of poverty, Historical trends in poverty statistics, Measurement of Poverty, Comparison of Poverty after Reforms, estimation of poverty, Alternative Poverty Measures, the factors affecting incidence of poverty and Outlook for Poverty Alleviation. The study is concluded by giving some Long term suggestions for Poverty eradication in future.

KEYWORDS : poverty and poverty line, trends in poverty, consumption expenditure.

Introduction

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. Similar experience of other countries too. Even more than 60 years after independence from almost two centuries of British rule, large scale poverty remains the most shameful blot on the face of India. Of its nearly 1 billion inhabitants, an estimated 350-460 million are below the poverty line, 75 per cent of them in the rural areas. More than 40 per cent of the population is illiterate, with women, tribal and scheduled castes particularly affected. It would be incorrect to say that all poverty reduction programmes have failed. The growth of the middle class (which was virtually non-existent when India became a free nation in August 1947) indicates that economic prosperity has indeed been very impressive in India, but the distribution of wealth has been uneven.

A comparison of the consumption expenditure and associated nutritional intake data for 2009-10 with that of 2004-05 shows worsening poverty in terms of the percentage of people unable to reach the minimum required calories energy intake through their monthly spending on all goods and services. This result must be seen in the context of neo-liberal policy, the financial crisis and consequent global recession affecting export production, the rapid rise in food prices, declining employment growth, the drought of 2009-10, and in spite of a positive development like the National Rural Employment Guarantee Scheme.

Causes of poverty in India

The main causes of poverty are illiteracy, a population growth rate by far exceeding the economic growth rate for the better part of the past 50 years, protectionist policies pursued since 1947 to 1991 which prevented large amounts of foreign investment in the country.

There are at least two main schools of thought regarding the causes of poverty in India.

- 1.The Developmental View
2. Colonial Economic Restructuring

Jawaharlal Nehru noted, "A significant fact which stands out is that those parts of India which have been longest under British rule are

the poorest today." The Indian economy was purposely and severely reindustrialized (especially in the areas of textiles and metal-working) through colonial privatizations, regulations, tariffs on manufactured or refined Indian goods, taxes, and direct seizures. In 1830, India accounted for 17.6% of global industrial production against Britain's 9.5%, but by 1900 India's share was down to 1.7% against Britain's 18.5%. (The change in industrial production per capita is even more extreme due to Indian population growth). Not only was Indian industry losing out, but consumers were forced to rely on expensive (open monopoly produced) British manufactured goods, especially as barter, local crafts and subsistence agriculture was discouraged by law. The agricultural raw materials exported by Indians were subject to massive price swings and declining terms of trade. British policies in India exacerbated weather conditions to lead to mass famines which, when taken together, led to between 30 to 60 million deaths from starvation in the Indian colonies. Community grain banks were forcibly disabled; land was converted from food crops for local consumption to cotton, opium, tea, and grain for export, largely for animal feed. In summary, deindustrialization, declining terms of trade, and the periodic mass misery of man-made famines are the major ways in which colonial government destroyed development in India and held it back for centuries..

The Neo-Liberal View

Unemployment and underemployment, arising in part from protectionist policies pursued till 1991 that prevented high foreign investment. Poverty also decreased from the early 80s to 1990 significantly however. Lack of property rights. The right to property is not a fundamental right in India. Over-reliance on agriculture. There is a surplus of labour in agriculture. Farmers are a large vote bank and use their votes to resist reallocation of land for higher-income industrial projects. While services and industry have grown at double digit figures, agriculture growth rate has dropped from 4.8% to 2%. Neo-liberals tend to view food security as an unnecessary goal compared to purely financial economic growth. There are also a variety of more direct technical factors: About 60% of the population depends on agriculture whereas the contribution of agriculture to the GDP is about 18%. High population growth rate, The caste system, under which hundreds of millions of Indians were kept away from educational, ownership, and employment opportunities, and subjected to violence for "getting out of line." British rulers encouraged caste privileges and customs, at least before the 20th century. Despite this, India current-

ly adds 40 million people to its middle class every year. An estimated 300 million Indians now belong to the middle class; one-third of them have emerged from poverty in the last ten years. At the current rate of growth, a majority of Indians will be middle-class by 2025.

Why estimate poverty?

- ✓ 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. Yet, can act as a broad and reasonably policy guide.

Adam Smith, Ricardo, and Marx are defined poverty on: 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, and hut, oil for lamp, barber and domestic utensils to arrive at ‘subsistence per head’. In the absence of income distribution data, Naoroji compared computed subsistence level with per capita production to draw attention to mass poverty. Remarkable work that parallels an early work on British poverty by Rowntree, 1901. 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:

- (1) Poverty Line: definition of threshold income or consumption level.
- (2) Data on size distribution of income or consumption (collected by a sample survey representative of the population)

Poverty line(PL);

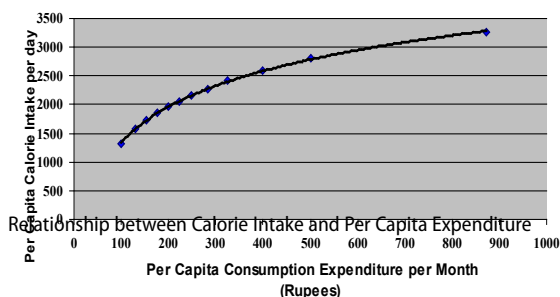
A minimum level of living necessary for physical and social development of a person. Estimated as total consumption expenditure level that meets energy (calorie) need of an average person.

- ✓ PL 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

Absolute vs. Relative

Relative PL defined in relative terms with reference to level of living of another person; or, in relation to an income distribution parameter. Examples: 50% of mean income or median, mean minus one standard deviation.

Absolute PL refers to a threshold income (consumption) level defined in absolute terms. Persons below a pre-defined threshold income are called poor. Data on size distribution of income or consumption (Percentage of Poor



An Example of Size Distribution of Consumption Expenditure

MPCE	% POPULATION
0-150	3.2
150-200	4.0
200-250	6.5
250-300	8.6
300-340	10.0(half of 10% are below poverty line 320)
340-400	11.3
400-450	8.6
450-500	9.2
500-550	9.3
550-650	11.4
650-800	8.9
800-1000	5.0
Above 1000	4.0
All classes	100

MPCE-Monthly per capita consumption expenditure Poverty line-Rs.320 per

HCR=3,2+4.0+6.5+8.6+5.0=27.3%

Alternative Poverty Measures

- ✓ Head Count Ratio (HCR): proportion of total population that falls below poverty threshold income or expenditure. Based on either national PL or dollar-a-day PL.
- ✓ Poverty Gap Index (PGI): unlike HCR, it gives us a sense of how poor the poor are. It is equivalent to income gap below PL 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.

Historical trends in poverty in India

The proportion of India's population below the poverty line has fluctuated widely in the past, but the overall trend has been downward. However, there have been roughly three periods of trends in income poverty. 1950 to mid-1970s: Income poverty reduction shows no discernible trend. In 1951, 47% of India's rural population was below the poverty line. The proportion went up to 64% in 1954-55; it came down to 45% in 1960-61 but in 1977-78, it went up again to 51%. Mid-1970s to 1990: Income poverty declined significantly between the mid-1970s and the end of the 1980s. The decline was more pronounced between 1977-78 and 1986-87, with rural income poverty declining from 51% to 39%. It went down further to 34% by 1989-90. Urban income poverty went down from 41% in 1977-78 to 34% in 1986-87, and further to 33% in 1989-90. After 1991:

This post-economic reform period evidenced both setbacks and progress. Rural income poverty increased from 34% in 1989-90 to 43% in 1992 and then fell to 37% in 1993-94. Urban income poverty went up from 33.4% in 1989-90 to 33.7% in 1992 and declined to 32% in 1993-94 Also, NSS data for 1994-95 to 1998 show little or no poverty reduction, so that the evidence till 1999-2000 was that poverty, particularly rural poverty, had increased post-reform. However, the official estimate of poverty for 1999-2000 was 26.1%, a dramatic decline that led to much debate and analysis. This was because for this year the NSS had adopted a new survey methodology that led to both higher estimated mean consumption and also an estimated distribution that was more equal than in past NSS surveys. The latest NSS survey for 2004-05 is fully comparable to the surveys before 1999-2000 and shows poverty at 28.3% in rural areas, 25.7% in urban areas and 27.5% for the country as a

whole, using Uniform Recall Period Consumption. The corresponding figures using the Mixed Recall Period Consumption method was 21.8%, 21.7% and 21.8% respectively. Thus, poverty has declined after 1998, although it is still being debated whether there was any significant poverty reduction between 1989-90 and 1999-00. The latest NSS survey was so designed as to also give estimates roughly, but not fully, comparable to the 1999-2000 survey. These suggest that most of the decline in rural poverty over the period during 1993-94 to 2004-05 actually occurred after 1999-2000.

Though the middle class has gained from recent positive economic developments, India suffers from substantial poverty. According to the new World Bank's estimates on poverty based on 2005 data, India has 456 million people, 41.6% of its population, living below the new international poverty line of 1.25 (PPP) per day. The World Bank further estimates that 33% of the global poor now reside in India. Moreover, India also has 828 million people, or 75.6% of the population living below \$2 a day, compared to 72.2% for Sub-Saharan Africa. On the other hand, the Planning Commission of India uses its own criteria and has estimated that 27.5% of the population was living below the poverty line in 2004-2005, down from 51.3% in 1977-1978, and 36% in 1993-1994. The source for this was the 61st round of the National Sample Survey (NSS) and the criterion used was monthly per capita consumption expenditure below Rs. 356.35 for rural areas and Rs. 538.60 for urban areas. 75% of the poor are in rural areas, most of them are daily wagers, self-employed householders and landless labourers. Although Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas. Wealth distribution in India is fairly uneven, with the top 10% of income groups earning 33% of the income. Despite significant economic progress, 1/4 of the nation's population earns less than the government-specified poverty threshold of \$0.40/day. Official figures estimate that 27.5% of Indians lived below the national poverty line in 2004-2005. A 2007 report found that 77% of Indians, or 836 million people, lived on less than 20 rupees per day, with most working in informal labour sector with no job or social security, living in abject poverty. Income inequality in India is increasing. In addition, India has a higher rate of malnutrition among children under the age of three (46% in year 2007) than any other country in the world.

Official PL in India

Originally estimated for 1973-74: Rs 49 and 56 for rural and urban areas respectively. Updated using an appropriate price index (CPIAL for rural India, CPIIW for urban). 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 remains below PL in 2004-05. 28.3% Rural 25.7% Urban 27.5% Total Absolute no.: 302 million in 2004-05

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

Source-NSS Reports

Incidence of poverty; Incidence of poverty affected by two factors:

(1)Growth in average income (2) Distribution.

Poverty reduction fast when average income rises and inequality falls. Fluctuations in poverty incidence till early 1970s 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 per cent.

Lorenz curve:

a curve that represents relationship between cumulative proportion of income and cumulative proportion of population in income distribution by size, beginning with the lowest income group. If perfect income equality, Lorenz curve coincides with 45-degree line.

$$L = \sum_{i=1}^n P_i(Q_i + Q_{i+1})$$

1. Gini coefficient: a commonly used measure of inequality; ratio of area between Lorenz curve and 45-degree line, expressed as a percentage of area under 45-degree line.
2. If perfect equality, Gini coefficient takes value 0 If perfect inequality, equals 1.
3. Internationally, Gini coeff. normally ranges between 0.25 & 0.7

Factors affecting Poverty

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

Special 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

Outlook for Poverty Alleviation in India

Since the early 1950s, government has initiated, sustained, and refined various planning schemes to help the poor attain self sufficiency in food production. Probably the most important initiative has been the supply of basic commodities, particularly food at controlled prices, available throughout the country as poor spend about 80 percent of their income on food. Eradication of poverty in India can be a long-term goal. Poverty alleviation is expected to make better progress in the next 50 years than in the past, as a trickle-down effect of the growing middle class. Increasing stress on education, reservation of seats in government jobs and the increasing empowerment of women and the economically weaker sections of society, are also expected to contribute to the alleviation of poverty. It is incorrect to say that all poverty reduction programmes have failed. The growth of the middle class (which was virtually non-existent when India became a free nation in August 1947) indicates that economic prosperity has indeed been very impressive in India, but the distribution of wealth is not at all even.

After the liberalization process and moving away from the socialist model, India is adding 60-70 million people to its middle class every year. Analysts write that an estimated 390 million Indians now belong to the middle class; one-third of them have emerged from poverty in the last ten years. At the current rate of growth, a majority of Indians will be middle-class by 2025. Literacy rates have risen from 52 percent to 65 percent during the initial decade of liberalization (1991-2001). While total overall poverty in India has declined, the extent of poverty reduction is often debated. While there is a consensus that there has not been increase in poverty between 1993-94 and 2004-05, the picture is not so clear if one considers other non-pecuniary dimensions (such as health, education, crime and access to infrastructure). With the rapid economic growth that India is experiencing, it is likely that a significant fraction of the rural population will continue to migrate toward cities, making the issue of urban poverty more significant in the long run. More than 103 million people have moved out of desperate poverty in the course of one generation in urban and rural areas as well. If India can achieve 7.3% annual growth over the next 20 years, 465 million more people will be spared a life of extreme deprivation. Contrary to popular perceptions, rural India has benefited from this growth: extreme rural poverty has declined from 94% in 1985 to 61% in 2005, and they project that it will drop to 26% by 2025. India's economic reforms and the inclusive growth that has resulted have been the most successful anti-poverty programmes in the country

Conclusions;

Indian growth processes since 1950s more or less neutral till 1980s. There is need to give importance for a critical minimum steady growth in per capita income for poverty reduction. Inequality in-

creased in recent years after reforms. Income elasticity of poverty has fallen. A given growth will be associated with more limited gains for the poor. Higher growth might more than compensate the adverse effect if fall in elasticity is small. Because of the weak participation of poor they are limited access to education, land and credit. In India there is a low agricultural growth, underdeveloped infrastructure such as irrigation, roads, electricity in poorer states hence the policies are essential in this area. Long term growth prospects fairly optimistic: India likely to continue among the fastest 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 if bring inequality is under control, labour intensive activities must grow, removal of rigidities in land and labour market for reallocation of resources. Government can afford to devote more resources for poverty removal programmes: such as wage employment (MGNREGA) or self employment type (SJSY).

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