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A Study on Poverty Estimation and Current State of Poverty in India

Swastik S Satapathy[1], Krishna K Jaiswal[2]

[1]Research Scholar, Faculty of Commerce, Banaras Hindu University, Varanasi - 221005, Uttar Pradesh, India

[2] Professors, Faculty of Commerce, Banaras Hindu University, Varanasi- 221005, Uttar Pradesh, India

Abstract

It's been 70 years to our independence, and India has witnessed several economic policies, programmes and reforms leading a closed market economy to a globalized open market economy within this period of time. But the thing that has always been a matter of concern in our country is the state of poverty, which is deep, chronic and wide spread. It is a matter of fact that a significant part of the country and the population is deprived of access to basic health care, food, drinking water, sanitation as well as financial services, making the minimum standard of living out of their reach, largely due to long years of centralized development and inequitable distribution of income. No doubt, there have been notable improvement in this scenario over the years, and the Government is constantly making attempt to eliminate poverty through different policies and programmes. Before we examine different efforts aimed at poverty alleviation, we should try to understand how poverty is estimated. This paper starts with the basic concept of poverty estimation, different methodologies used for this purpose and progresses towards examining the current state of poverty in India along with discussions relating to measures for eliminating poverty.

Keywords: *Poverty line, absolute poverty, relative Poverty, MDPI, financial Inclusion*

1. Introduction

After 70 years of independence, today India is the fastest growing economy of the world. It is evident from this fact that India's economy has shown tremendous growth in these 70 years. India's GDP has reached $2.65 trillion in 2017 from a mere $93.7 billion in 1950. But amidst of all these developments, the state of poverty in India has always remained a matter of concern and a major problem in the country, the reason being India's lopsided development. The problem with India's development can be clearly observed i.e. certain parts of the country and the society enjoy all the benefits of development where as the other parts largely remain untouched. As a result, India witnesses chronic and widespread poverty. Joseph E.Stilglitz had rightly opined that, "If economic growth is not shared throughout the society, the development will be failed." It is not that India is having the same level of poverty what it used to have at the time of independence. The country has definitely shown growth in poverty alleviation rate, but the growth is not what it should have been after so many years of independence with so many policies and programmes being in existence to serve this purpose. The difference among the opinions of economists and intellectuals regarding poverty estimation has also led to chaos in the country several times. India lacks an uniform methodology of estimating poverty which adds to the misery. However, Government's efforts towards poverty alleviation through financial inclusion programmes is a clear indication that India wants to have increases standard of living and quality of life for one and all, and not only for the privileged few.

2. Definition of Poverty and Poverty Line

Poverty refers to a condition where a person lacks basic amenities, both financial and non financial to satisfy basic human needs. Amartya Sen has given a very comprehensive definition of poverty. According to him, poverty is not merely insufficient income, but also lack of opportunities to participate in the economic and political system of the country (Sen, A, 2010). This definition, along with explaining the economic vulnerabilities of the poor, describes the social discrimination they face in the society. The poverty can be divided in to two parts, such as-

A. Absolute Poverty, and
B. Relative Poverty

Absolute poverty refers to the condition where a person doesn't have the minimum amount of income needed to meet the minimum requirements for one or more basic living needs over an extended period of time. Relative poverty refers to a standard which is defined in terms of the society in which an individual lives. It differs between countries and over time. For eg, a poor in UK may not be considered a poor in India based on the value of money and difference of income and living standard between India and UK.

2.1. Poverty Line

Economists generally vary in their opinions on how to measure poverty. Some economists advocate its measurement based on income where as some others argue for consumption based measurement. However, poverty line is the commonly accepted method of estimating poverty throughout the world. Poverty line is not a physical line, but it divides the entire population to be studied into two parts namely poor and non poor. In developed countries, the poverty line is estimated based on income of the people. But India, like most of the developing nation uses consumption expenditure as the base for estimating poverty line (Dreze, J & Sen, A, 2013). In order to estimate poverty, a base line is first set which is the minimum expenditure required to purchase a basket of goods and services necessary to satisfy basic human needs, which is the poverty line. All those people falling above this line are considered to be non poor, and those below the line are considered poor, and all the efforts for social inclusion and poverty alleviation are directed towards these people for their upliftment.

3. Objectives of the Study

The study is based on the following objectives:

- To examine different methodologies used for estimation of poverty in India.
- To study the current state of poverty in the country based on different estimates.
- To examine the further attempts by the present Government for poverty estimation and alleviation.

4. A Brief History of Poverty Estimation in India

The history of poverty estimation in India can be divided into two parts, as shown below.

4.1. Pre-independence Era

The idea of poverty estimation in India dates back to the 19th century. The earliest effort to estimate the poor was made by Ddabhai Naroji who estimated a subsistence-based poverty line at 1867-68 prices in his book "Poverty and Un-British Rule in India". His estimation was based on diet prescribed to supply the necessary ingredients for the emigrant coolies during their voyage living in a state of quietude. He came up with a subsistence cost based poverty line, ranging from Rs.16 to Rs.35 per capita per year in various regions of India. (Mehta, A & Bhide, S, 2006).
The National Planning Committee was established in 1938 to estimate the poverty line in India. It appointed JL Nehru as chairman and KT Shah as the secretary, and the committee came up with the poverty line ranging from Rs.15 to Rs.35 per capita per month.

4.2. Post-independence Era

The need of a formal poverty line was first discussed among the scholars and policy makers at the Indian Labor Conference, 1957. But the talk gained prominence in 1957 when Dr. Ram Manohar Lohia's speech in the Parliament attacking the Government for wide spread poverty in India became talk of the town. In his speech he claimed that most of the Indians were living below Rs 3 anna per day contradicting the official figure of Planning Commission according to which it was 15 anna.
Planning Commission was established in 1950 and in India it became officially responsible for estimating the poverty. It has been estimating the number of people below poverty line at both state and national level based on consumption expenditure information collected through National Sample Survey Organization (NSSO) since the sixth five year plan.
In 1970, Y.L Alagh Committee approached to change the methodology of poverty estimation by considering how much people eat i.e based on calories intake (Agarwal, S & Klapper, L, 2013). According to the recommendation of this committee, the people consuming less than 1200 calories in the urban areas and less than 2400 calories in rural areas were to be considered poor. In 1993, DT Lakdawala Committee came up with another poverty line based on similar methodology. (Joyita, S, 2014). The Ministry of Rural Development started BPL survey

to estimate the number of poor in the country from 1992, which was to be done on the basis of annual income of the families. This approach was criticized as it was based on self reported incomes of the families. As a result, in 1997 Census, the methodology was changed from income based to consumption based. The 2002 census was based on a Score Based Ranking (SBR) of each household, indicating their quality of life. Families were identified as poor based on 13 criteria. The aggregated score based on these indicators were compared with cut-off scores of the states to identify the poor. The BPL census approach came under severe criticism from all quarters for its inherent complexity and lack of transparency in identifying the poor. There was lack of clarity in the criteria, drawbacks in how the scoring and aggregation was done, and increased probability of wrong selection.
Given the out spread criticism for the 2002 approach, the N C Saxena Committee report proposed an improved method for the next BPL census (SECC 2011), based on continuation of the scoring method in a simplified form. Instead of 13 indicators with a scale of 0 to 4 for each, the report proposes just five indicators (essentially focusing on community, land ownership, occupation, education, and old age or illness), with an aggregate score ranging from 0 to 10.
The Suresh Tendulkar Committee on poverty estimation submitted its report in 2009 and its recommendations were path breaking as it changed the methodology of estimation. Previously, the estimations were done based on the expenditure of people primarily on food. But Tendulkar Committee's estimation methodology considered expenditure on education, durable goods and entertainment alongside expenditure on food. It fixed poverty line at Rs. 816 per month for a person in rural area and Rs.1000 per month in a urban area (Tendulkar, 2009). But looking at the rapid changes taking place in the economy of the country, and drawbacks of Tendulkar Committee, the Government appointed Rangarajan Committee in 2012, which submitted its report in 2014 with further changed the methodology of poverty estimation. The committee estimated the poverty line at Rs. 972 per month in rural areas and Rs. 1407 per month in urban areas (Rangarajan, 2014).

5. Important Poverty Estimation Methods Used in India

India, since its independence has witnessed several bodies and individual economists following different methodologies to measure the poverty in the country. Some of the important methodologies are as follows:

5.1. Estimation Based on Calories Intake

This is perhaps the oldest method in use for estimating poverty line in India as well as throughout the world. Under this methodology, first of all the requirement of calories for a person in rural area and urban area are determined independently. The calorie so determined is considered to be the minimum requirement for a person to maintain a standard health condition. Then the expenditures incurred by on food items are calculated to know whether a person spends the minimum amount required to meet minimum calories requirements. Based on the observation, all those people who are not in a position to spend for minimum required calories are considered poor and others non poor. . Dada Bhai Naroji first used this methodology to estimate poverty before independence. In 1970, YK Alagh Committee also used this methodology to fix poverty line at 1200 calories in urban areas and 2400 calories in rural areas.

5.2. Estimation Based on Income

This is another traditional methodology of estimating poverty where a level of income is fixed as poverty line. This level of income is determined based on the principle "what income would be sufficient for a person to make him buy the goods and services to satisfy basic human needs". All the households falling below this level of income are considered poor. For eg, if Rs.30 per day is fixed as the poverty line, then all the people having income of less that Rs.30 per day at that particular period of time would be treated as poor. This is considered more authentic estimation of poverty in comparison to other methods. So all most all the develop countries use this methodology to estimate poverty. In India the BPL survey conducted by the Ministry of Rural Development in 1992 was based on annual income of households.

5.3. Score Based Ranking Estimation

This methodology of poverty estimation takes into account the quality of life people are leading at a particular point of time. This doesn't only include their income, but also their fixed and current expenditures on food, clothing, properties etc. In 1997, the Ministry of Rural Development used this methodology to conduct BPL survey throughout the country, where families were identified as poor based on 13 criteria or indicators. An improved version of this methodology was suggested by the NC Saxena Committee for estimating poverty in 2011 SECC. The committee recommended a simplified form of score based ranking. Instead of 13 indicators with a scale of 0 to 4 for each, the report proposes just five indicators namely community, land ownership, occupation, education, and old age or illness with an aggregate score ranging from 0 to 10. The report recommended an automatic inclusion criterion for the most vulnerable sections of society (E.g. homeless people, persons with disability) who would all automatically get BPL cards. The report recommended a cut-off line for determining BPL status as `700 for rural areas and `1000 in urban areas since the existing basis of `365 per capita per month in rural area and `539 per capita in urban areas resulted in people consuming “just about 1,820 calories (kcal)” of food as against the norm of 2100-2400 kcal (rural-urban).

5.4. Estimation Based on Consumption Expenditures

This is arguably the most preferred methodology of estimating poverty line in India at present. This methodology focuses on the consumption pattern of a household over a period of time to determine its status. This is the result of shortcomings of income based poverty estimation where the BPL survey was relying on self reported annual incomes of the households to determine the poverty line. It also disregards the calories based poverty estimation as it doesn’t hold expenditure on food to be the only deciding factor in determining poverty. Under this methodology, various weights are assigned to different consumption of the households. Along with expenditure on food, expenditure on health, expenditure on clothing, expenditure on education, expenditure on entertainment and expenditure on durable goods are also considered to determine the minimum expenditures required to purchase a basket of goods and services to satisfy basic human needs. This minimum expenditure is taken as poverty line under this methodology. In India, the BPL Survey 1997 was undertaken following this methodology. But this gained prominence when Tendulkar Committe submitted its report in 2009 where the committee had estimated poverty line in India based on this methodology. The Government of India also accepted this as the official methodology to measure poverty in the country.

5.5. Multidimensional Poverty Index (MDPI)

The MDPI was first published in the United Nations Annual Report, 2010. This is a methodology developed by the UN to measure poverty in different countries globally and this index also estimates India’s poverty. The index indicates the deprivation across the same three dimensions as the HDI and shows the number of people who are multi-dimensionally poor (suffering deprivation in 33% or more of the weighted indicators) and the number of weighted deprivation with which poor households are typically concerned with. It can be categorized by regions, ethnicity and other groupings as well as by dimension and indicators, making it an useful tool for the policymakers. The beauty of this methodology is the fact that it recognizes the regional importance by pointing out the difference in the volume and growth of the economy, the geo-political scenario, the degree of development among the countries while determining the poverty. By 2016, about 1.5 billion people in the 102 developing countries were covered by the MPI, about 29% of whose population was living in multidimensional poverty that is with at least 33% of the indicators reflecting acute deprivation in health, education and standard of living.

6. Current State of Poverty in India

As we have come to know so far in this study, India doesn’t have an uniform poverty estimation for all the years. Previously Planning Commission was responsible for estimating poverty officially. The Tendulkar Committee and Rangarajan Committee have put forth different estimations of poverty based on different methodologies. Similarly World Bank also estimates poverty of India using MDPI. In 2012, the Indian government stated 22% of its population is below its official poverty limit. The World Bank, in 2011 based on 2005's PPPs International Comparison Program, estimated 23.6% of Indian population, or about 276 million people living below $1.25 per day on purchasing power parity.

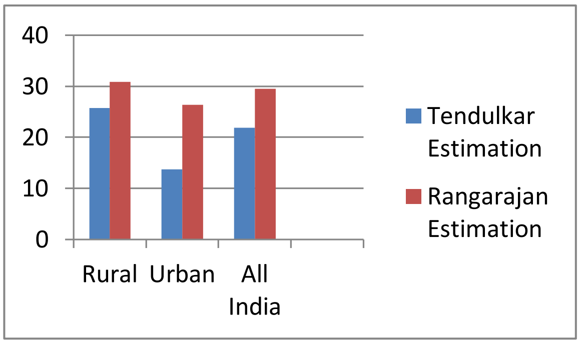
The Socio- Economic Caste Census, 2011 reveled several worrying details on India’s poverty. The highlights of the SECC were as below:

- There were 24.39 crore (243.9 million) households in India, of which 17.91 (179.1 million) crore were living in villages. Of those, 10.69 crore households were considered as deprived.
- .37 crore (29.97%) households in rural areas were "landless deriving a major part of their income from manual labour".
- 21.53%, or 3.86 crore, families living in villages belong to SC/ST categories.
- 56% of India's rural households lacked agricultural land.

- 36% of 884 million people in rural India were non-literate.
- Of the 64% literate rural Indians, more than a fifth have not completed primary school.
- 60% of the 17.91 crore rural households were deprived or poor.
- 35% of urban Indian households qualified as poor.[62][63]
- 74.5% (13.34 crore) of rural households used to survive on a monthly income of Rs 5,000 for their highest earner.
- 5.4% of rural India had completed high school.
- 3.4% of rural households had a family member who is a graduate.
- 4.6% of all rural households in India were paying income tax.
- 14% of rural households were employed either with the government or the private sector.
- 1,80,657 households were engaged in manual scavenging for a livelihood. Maharashtra, with 63,713, topped the list of the largest number of manual scavenger households, followed by Madhya Pradesh, Uttar Pradesh, Tripura and Karnataka.

The poverty estimation for the same period by Tendulkar Committe and Rangarajan Committee are shown below.

Figure 1– Chart showing percentage of people below poverty line in 2011-12 as per Tendulkar Committe and Rangarajan Committee Estimation:



This difference is due to the different methodologies used by both the committees to estimate poverty line. As we can see from the above chart, Rangarajan Committee reported comparatively higher number of people below poverty line. However, Planning Commission adpoted the Tendulkar Comittee recommendations as the official methodology of estimating poverty line and NITI Aayog still continues with it. India's top 5 states with highest poverty rate during this period as reported by Tendulkar Committee is shown as below.

Table 1: Table showing top 5 states with highest overall poverty

States	Headcount Ratio (In %)	Absolute Number (In Lacs)
Chhattisgarh	39.9	104.1
Meghalaya	36.9	10.2
Arunachal Pradesh	34.7	4.9
Bihar	33.7	358.2
Punjab	32.6	138.5

(Source- NITI Aayog Handbook of Statistics, 2018)

7. India's Poverty As Per World Bank Report

As we have studied above, World Bank uses MDPI for estimating poverty of different countries and it also estimates the poverty in India as whole as well as of Indian states. If World Bank estimation is something to go by, it really would be a very sad state of affair for our country. The major highlights of the report are as follows:

- 270,000,000 Indians are poor, that means 1 in every 5 Indians is a poor.
- The 7 low income states namely Uttar Pradesh, Bihar, Madhya Pradesh, Jharkhand, Rajasthan, Odisha and Chattisgarh, which are home to 45% of India's population house 62% of India's poor.
- 80% of India's poor live in rural areas.
- The poverty rate in rural India is 25% and that of urban area is 14%.
- The report states that the poor mostly spend on food, fuel and light and their education expenditures only amount to 6%.
- Secondary school completion rate among the poor is very low as the report indicates that 45%

of the poor in India are illiterate and only 15% having completed secondary school.

- It estimates 82% of marginal land owners in rural areas to be among the poor.

The World Bank's estimation is considered very practical as it reflects the truth about uneven distribution of income in the country. The poverty is characterized by low income, lack of access to basic healthcare, food, nutrition, insufficient property and land holding. The picture of poverty in rural India looks too cruel and heartbreaking even after so many poverty alleviation programmes being dedicated to them. The state wise poverty share of India as per the the World Bank report titled "Indian State Brief" gives us the following information.

Uttar Pradesh, Madhya Pradesh, Bihar, Odisha, Jharkhand and Chattisgarh have higher share among the poor of India than among the population and that is the rationale behind these states being categorized as Low Income States (LIS) by the World Bank along with Rajasthan being the only exception where share of poor doesn't exceed its share in total population.

7.1 Further Attempts for Poverty Alleviation

Now have we have analyzed the current state of poverty in India, based on different estimations, we can clearly say that poverty still remains a major problem in our country. The Governments in past have taken several steps and the present Government is also taking many steps for wiping out poverty. The rate of poverty has definitely declined over the time, but when more than 20% of our population is suffering due to this, we can't say that we have achieved success (Rani, A & Gill, S, 2015). India's journey to poverty alleviation started in the year 1969 with the strategic decision of bank nationalization. After it the country witnessed several other financial inclusion programmes such as establishment of Micro Finance Institutions, Regional Rural Banks, relaxation in KYC norms, introduction of no frill account, Direct Benefit Transfer, MGNREGA etc. At present Pradhan Mantri Jan Dhan Yojna has become India's National Mission for financial inclusion and Aadhar is playing an active role in poverty alleviation programme.

7.1. NITI Aayog Task Force for Poverty Elimination

NITI Aayog established a committee to study the current poverty scenario in India, and analyze different methodologies used for estimation of poverty line so as to come up with recommendations for better implementation of poverty reduction programmes for effective results. The committee submitted its report in June 2017 and its major observation and recommendations were as follows:

7.1.1. Poverty Estimation Methodology

The Committee backs the methodology followed by Tendulkar Committee for estimating poverty line in India and accordingly it estimates that 22% of India's population is living below poverty line at present.

7.1.2. Job Creation

The committee recognized the unemployment scenario existing in the country and recommended measures for job creation. The committee recommended relocation of agricultural workers to other sectors, mostly to the manufacturing sector given the fact that, India has always been over-dependent on agricultural sector which employs 48.9% of the workforce but contributes mere 14.4% to the GDP. So relocation of agricultural workers to manufacturing sector would not only ensure higher income to the remaining agriculture workforce, but also it would lead to higher productivity and economic growth (Kapoor, A & Sharma, S, 2016). The committee observed that successful sectors in India such as auto parts, engineering, tele-communication, software, textile etc are not employment intensive which has impaired India's ability to capture vast export market. Hence, it recommended better infrastructure, skill development, modern bankruptcy law, tax certainty and credit access for MSMEs to improve the situation.

7.1.3. Effective Social Programmes

The committee realized the need of strengthening social programmes and some of its recommendations are as follows:

- It recommended Aadhar based verification for plugging leakage to strengthen Food Security Act.
- It recommended improved quality and safety of food to be served in the schools as 25% of schools lack kitchen and prepare food outside.
- It provided several recommendations on strengthening MGNREGA like allowing the workers between unskilled employment and

skill formation that would allow them exit the programme, enforcement of 60:40 wage: material ratio at all district level.

- The committee provided framework to convert the idea of "Housing for All by 2022" into a reality both in rural and urban areas.
- It recommended identification of five poorest families in each village so that adequate attention can be given to them for upliftment of their living standard.
- It recommended enforcement of JAM Trinity (Jan Dhan- Aadhar – Mobile) to ensure the benefits reach the actual deserving beneficiaries. It also recommended the Government to bring policy for linking of Aadhar with mobile number and bank account, other those opened under Jan Dhan Yojna to ensure transparency.

8. Conclusion

Poverty has always been a major constraint on the path of India's economic growth, which is a fact never to be ignored. The only way to fight with this deep and chronic poverty is to eliminate it, though easier said than done. But the country has been witnessing constant growth in poverty reduction scenario post 1991 era with several financial and social inclusion policies being designed and dedicated towards serving this purpose leading to upliftment of the poor section of the society. Innovative poverty alleviation programmes and effective implementation of existing programmes are the needs of the hour. Challenges are still enormous. It is difficult but not impossible to overcome these challenges. All we need at this hour is wholehearted efforts and commitment to achieve economic growth in which the people from under-privileged sections will be having equal share. The country should be vouching for a better standard of living and an all inclusive society for one and all.

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