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CHAPTER - 1

Measuring poverty commonly defined as an unacceptable deprivation in well-being is a challenging and complicated task. This is because well-being itself encompasses a multitude of both economic and non-economic dimensions and is therefore difficult to define and quantity. Conventional income or consumption based measures, while essential to poverty monitoring, may fail to capture many of its critical dimensions. For example- two households with identical income levels cannot be said to be equally impoverished if one has access to free government services, while the other relies on expensive private schools and hospitals. Households may also face different economic prospects if their respective members do not have access to the same work opportunities due, for example, to ethnic or social discrimination in local labour markets.

In addition to low incomes and inadequate consumption, poverty encompasses low human capabilities, including inadequate skills, lack of education, poor health, and malnutrition, in any country, a variety of economic and non
economic factors must be taken into consideration to obtain an accurate and comprehensive picture of poverty. India, with its rich mosaic of cultural practices and wide variety of social settings and natural environments, presents a special challenge to those wishing to measure and monitor poverty. Poverty is also associated with forms of deprivation situated in specific, local contexts, such as insecurity and violence, vulnerability, social and political exclusion, as well as a lack of dignity and basic rights.

Among the best ways of identifying many dimensions of deprivation is to solicit the perspectives of those who experience it. For this reason, the poverty profile and diagnostic work presented in this paper draws not only on conventional quantitative data, but also on a range of consultations carried out in poor communities through discussions and open-ended interviews. This allows the poor in UP to give voice and context to the story that emerges from the statistical analysis. In so doing, they highlight concerns about lack of land, insecurity of tenure, lack of skills and good education, lack of social networks and lack of access to stable employment. In addition, they speak
of poverty in terms of risks, particularly those linked to sudden
bouts of poor health, debt, and desertion. The importance of
social identity is also sharply highlighted. In rural areas, low
caste status was cited as one of the strongest indicators of
poverty.

In contrast, the urban poor saw upward mobility as more
closely linked to behavior (i.e. hard work, good business sense)
than caste standing.

In India, and indeed throughout the world, we
conventionally equate poverty with material deprivation and
define the poor as those individuals whose level of per capita
consumption or income falls below the chosen cut-off point, or
poverty line. There is no doubt that material deprivation is key
factor that underlies many other dimensions of poverty. And to
be materially poor in India is to be poor indeed. India's official
poverty lines represent living standards well below the World
Bank International Comparator line of $1.08 per person per day,
in 1993 PPP-adjusted prices.

But it is misleading to think of poverty as primarily a
statistical construct. What does it in fact mean to be poor in
India? On the basis of data from the 1993-94 NSS, a person living at India's official poverty line would have spent Rs.6.8 per day, equivalent to about 22 cents. And what this buy? While relative prices have changed since 1994, the change is likely to be marginal. Accordingly, we assume the 1993-94 food baskets still relevant for the poor today. On a typical day therefore, a poor person would consume:

- There scant plates of cooked rice, or 8-10 chapattis

1. A half cup of cooked pulses

2. A spoon of edible oil

3. A spoon of dried chili

4. One medium-sized potato or onion.

5. One cup of tea

6. A handful or brinjal

7. One half cup of milk

8. One banana three times each month.

9. An egg every five days.
After buying food, two additional rupees each day, equivalent to about 6 cents, would be left over for items like medicines, school books, fuel for cooking, clothing, soap, durable goods, etc. notably, one-third of India’s rural population cannot even afford this frugal bundle [World Bank, 2001].

In recent debates, questions have been raised about the methods used to estimate India’s official poverty lines (Dubey and Gangopadhyay 1999, also Deaton 2001 and Deaton and Dreze 2002) and about the reliability and comparability of the consumption estimates upon which recent poverty estimates are based. However, given their broad acceptability within India, we in our work use India’s official poverty lines.

India’s industrial productivity growth has never been very impressive, but even if it was, the poor would not benefit from it as long as the economy was closed to international trade. This bring to the fore the importance of international trade. If Indian industry can export its products to the rest of the world in exchange for agricultural goods, labour could shift from agriculture to industry in India, raising the wage. International trade thus makes it possible for industrial progress to benefit the
poor in a very poor country. Notice, however that here industrial progress is the cause and trade is a catalyst in the above process. If the Indian economy is opened up suddenly to industrial imports from developed countries, without first ensuring that the productivity growth in Indian industry was sufficiently rapid, the result may be a de-industrialization of India. This would indeed be disastrous for the poor. Trade will improve the well-being of the poor only if there is a simultaneous increase in the rate of industrial productivity growth.

The feeling among intellectuals that a trading relationship with developed countries would be detrimental to the interests of the poor in India has, at its source, the experience of trade during the colonial rule. The pattern of trade then was the reverse of what we have indicated above. Rapid industrial growth in great Britain created a growing demand for agricultural goods from India. This resulted in a shift of labour from industry to agriculture, thus reducing the wage rate. The poor in India became worse off as a result of its trading relationship with Great Britain.
Trade with the developed world, thus, can either help the poor in India or hurt them, depending upon whose industrial productivity is increasing at a faster rate. Late industrializing countries have one advantage vis-à-vis the developed countries. It is easier to adopt an old technology than to invent a new one. The learning and assimilation of know-how invented in the west can occur at a much faster rate than the generation of new inventions. This is what the Southeast Asian economies have accomplished so well during the last thirty years. If India can achieve such fast growth in her industrial sectors, it could become a major industrial exporting nation. If she cannot, India's poor would not benefit from her industrial progress. Certainly, the task will be much harder for India than it was for South Korea or Taiwan, but with her pool of technical manpower and well-developed financial markets it is well within India's reach.

There is yet another avenue through which trade can be beneficial to a developing country which is able to bring about a rapid growth in her industrial productivity. It allows an increase in the rewards for human effort. How much effort people expend does depend upon the reward or compensation they receive for
it. An economy in which there are no rewards for creative effort will be a stagnant economy. A new opportunity to export an industrial good could create incentives to put in greater effort. One individual's decision to increase effort can increase the rewards to the effort of another, and can thus induce the latter to increase his effort level as well. The net result is an overall expansion in the productive capacity of the economy. Trade can thus serve as an engine of growth for the whole economy.

What we have established so far is that trade will benefit the poor as long as there is rapid growth in India's industrial productivity. This however, has not happened, largely because of the regulatory regime that is stifling Indian industry. The policies that have been so successful in diversifying the economy have failed to generate rapid productivity growth on a sustained basis. Diversifying the economy amounts to introducing new productive activities. This is not difficult in a country like India, with its pool of educated manpower among its elite. Entry into an industry guarantees monopoly profits for a prolonged period because the licensing system which sanctioned the first licenses is also likely to discourage competition by not granting licenses to other firms.
This system is similar to a feudal order conferring a right to collect taxes. There will always be people willing to accept such a privilege. It is immeasurable more difficult to generate productivity growth on a sustained basis. The system must create a mountainous pressure to improve productivity. The regulatory system in India has abolished the competitive threat of extinction faced by firms which fail to innovate. Moreover, it has created incentives for entrepreneurs and managers to spend their time wastefully in rent-seeking activities. The system has created rents at the expense of rewards to effort, and with undesirable consequences.

Home to more than 175 million people spread across 1,12,000 villages and towns. Uttar Pradesh is the most populations state in India. It is also one of the poorest, despite having once seemed a pace-setter for the country’s economic and social development, reflecting a rich potential in terms of both human and natural assets. Most of the state’s farm land is in the well-watered and naturally fertile Indo-Genetic plain, and the western region’s tradition of raising wheat and sugarcane made it a strong platform for the green revolution in 1960s and
1970s, which helped UP depart from previously low levels of agricultural growth. In the decade of 1980s, the eastern and central regions registered strong advances, spurred by purposeful investments in research, extension, irrigation and marketing infrastructure. Accordingly, in the 1970s, economic growth in most sectors in Uttar Pradesh was higher than, that in the rest of India. Since then, however, growth has lagged that of country as a whole. UP has been slow to seize on the opportunities created by the liberalization of the Indian economy that began in 1991.

Reversing this loss of dynamism and the impact of that loss on the state's 60 million inhabitants who live in poverty is UP's most important challenge. Because of UP's size and level of poverty, meetings this challenge is of significance not only for UP but also for India, and indeed the world. An estimated 8 percent of the world's poor live in UP alone.

Poor people live without fundamental freedoms of action and choice that the better of take for granted. They often lack adequate food and shelter, education and health, deprivations that keep them from leading the kind of life that everyone values.
They also face extreme vulnerability to ill health, economic dislocation, and natural disasters. And they are often exposed to ill treatment by institutions of the state and society and are powerless to influence key decisions affecting their lives. These are all dimensions of poverty.

OBJECTIVE

POVERTY

The poverty in India, its causes, nature and measures for its eradication has been subjects of long debate. In the colonial period, our main pre-occupation on the topic was with the ‘Poverty of India’. This was traced in exploitation and unequal changes under the imperial power. After independence, the instruments of policy became national and the debate shifted inward to address poverty within India. Poverty reduction has become a prominent objective of social and economic development in India. It has found expression in plans, policy statements and programmes. Poverty has thus been an intensely practical concern in which research and policy have interacted. Under the broad
head of research and policy on poverty different steps have been taken from time to time by the government at the centre and state levels to monitor the poverty. A number of methodological issues have been raised in respect of the estimates of poverty released by the Planning Commission.

POVERTY MONITORING

Poverty estimates have shown that the gap between U.P. and the rest of India continued to remain almost same, with percentage of population below poverty line as 31.2 in the state against 26.10 at all India level during the year 1999-2000. The rate of poverty reduction in the state is directly linked to the poor growth performance of the state in the recent years. In addition to the low rates of growth, the state has also been faced with high and rising fiscal deficits in recent years. The rationale of the poverty monitoring lies in the answer to a question – does overall economic growth reduce poverty, i.e., is there a trickle down mechanism. Thus, the process of poverty monitoring examine whether
the benefits of growth are percolated to the poorer strata of the society or not. The poverty monitoring has been a continuous process in the state.

Looking at the growth performance of the state’s economy as observed in 1997-98 (2.3 per cent) and 1998-99 (3.6 per cent) and as expected 4 per cent in 1999-2000, the situation that emerges is not quite encouraging viewed against the targeted annual growth rate of 7 per cent.

In case of all-India, the composition of growth has been such that it is largely led by the industrial and service sectors, both of which have a typical ‘urban bias’ so that the growth process is likely to have benefited the urban areas more than the hinterlands of India wherein reside the poor masses. Almost similar trends are revealed from the growth pattern of the state’s economy. The observed growth rates during the first two years and also the expected growth rate during the third year of the Ninth Plan indicate a lower growth rate in the
agriculture sector in comparison to the industrial and service sectors.

The rural-urban disparity in consumption has now been assumed to be 1.4 against 1.3 for the terminal year (2001-02) of the Ninth Five Year Plan.

Based on the aforesaid assumptions, the estimates of poverty for 2001-02 are worked out in the State Ninth Five Year Plan. According to these, the percentage of poverty in the state would come down to about 36 per cent in 2001-02 from 41.2 per cent in 1996-97.

The corresponding reduction in poverty in rural areas would be 37.8 per cent from 42.6 per cent, whereas in the urban areas it would come down to 29.4 per cent from 35.1 percent. On account of reduction in the incidence of poverty, the number of persons below the poverty line would reduce to 638.8 lakh from 656.5 lakh at the beginning of the Plan. Besides, the number of persons below the poverty line in rural areas would come down to 530.1 lakh and that in
urban areas to 108.7 lakh in 2001-02 from 539.7 lakh and 116.8 lakh respectively in 1996-97.

POVERTY AND SOCIAL MONITORING

Under the existing set up of poverty monitoring, it was realised that as a result of slow down in economic growth process, proper attention could not be given towards expenditures in social sectors. As a result of this, there has been a marked deterioration in the quality of service delivery in the state. In order to mobilise greater share of resources for basic social services, improve the quality of service delivery and enhance the access of the poor to such services as the need of poverty and social monitoring was felt. In view of this, the Poverty and Social Monitoring in U.P. was initiated under the umbrella of a comprehensive reform programme known as “U.P. Fiscal and Public Sector Restructuring Programme” (UPFPSRP) funded by the World Bank. While the primary objective of the reform programme has been to address the financial crisis facing the government, the reform programme is also expected to have
a significant impact in terms of rising incomes and reducing poverty in the state. But the actual impact of macro reform measures on the poor are complex and often difficult to anticipate. In order to have an assessment of the impact of the broad reform programme on the poor and weaker elements of society need is felt that government puts in place an effective monitoring system. In view of this, a technical assistance proposal for Poverty and Social Monitoring System (PSMS) project was launched with the World Bank's assistance.

The PSMS is meant for providing information on the impact of reform measures on the poor and other risk groups. The aim of monitoring system is to provide information to policy makers at all levels of government so that they can make better informed decisions regarding poverty reduction and social development initiatives.

**CALORIE NORM**

Initially the Official estimates were based on a calorie norm of 2400 calories per capita per day for rural areas and
2100 calories per capita per day for urban areas. The poverty line for the base year 1973-74 has been taken as the per capita expenditure level at which these calorie norm have been met, on an average, for the country as a whole.

POVERTY LINE IN THE BASE YEAR

The Task Force (1979) defined the poverty line as the per capita expenditure level at which the calorie norms were met on the basis of the all-India consumption basket for 1973-74. This was equivalent to Rs.49.0 and Rs.56.4 per capita per month for rural and urban areas respectively at 1973-74 prices.

DEFLATORTS

The study group in 1984 recommended the use of a price index appropriately weighted by the consumption basket of the poor as an index for reflecting price changes relevant to the poor. The implicit private consumption deflator from NSA was used for adjusting the poverty line for the years 1977-78, 1983-84 and 1987-88.
The Adjustment Procedure for Estimating Poverty Population

In order to arrive at the estimates of the number of poor, Planning Commission has been making adjustment in the National Sample Survey (NSS) data on the distribution of households by the consumption expenditure levels. The procedure has been to adjust the expenditure levels reported by the NSS uniformly across all expenditure classes by a factor equal to the ratio of the total private consumption expenditure obtained from the National Accounts Statistics (NAS) to that obtained from the NSS. The old NAS series was used for deriving the adjustment factor for the estimates upto year 1983 and the New NAS series has been used for the 1987-88 estimates.

The poverty population is, thus, estimated by applying the updated poverty line to the corresponding adjusted NSS distribution of households by the levels of consumption expenditure.
THE EXPERT GROUP REPORT

The Expert Group Report set out an alternative methodology for the estimation of poverty and provided estimates of poverty at the national and state level from the quinquennial consumer expenditure survey of the National Sample Survey (NSS) using the state specific poverty lines. The Expert Group made estimates of poverty for the years 1973-74, 1977-78, 1983 and 1987-88. The most important points of departure between the Expert Group recommendations and the Task Force methodology were:

Giving up adjustments of the NSS data on the basis of the estimate of private consumption given in the National Accounts Statistics (NAS). The adjustment ratio recommended by the Task Force in 1979 was only around 10 per cent. Now the adjustment ratio has gone up about 40 per cent. The difference in the level of poverty in the official estimate and the Expert Group estimate is largely due to the adjustment factor.