

An Analysis of Poverty and Economic Growth

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I. INTRODUCTION

As per the article published by Times of India “urban poverty in India is over 25 percent; some 81 million people live in urban areas on incomes that are below the poverty line. At the national level, rural poverty remains higher than urban poverty, but the gap is closing. By 2030, urbanisation in India is projected to reach 50 percent. Urbanisation is taking place at a faster rate in India. Population residing in urban areas in India, according to 1901 census, was 11.4%. This count increased to 28.53% according to 2001 census, and crossing 30% as per 2011 census, standing at 31.16%.”

The 2018 Multidimensional Poverty Index released by UN Oxford Poverty and Human Development Initiative(OPHI) said that in India, 271 million people moved out of poverty between 2005/06 and 2015/16. The poverty rate in the country has nearly halved, falling from 55 per cent to 28 per cent over the ten-year period.

As per World Bank's report on India's poverty profile 1 in 5 Indians is poor.80% of India's poor live in rural areas and the poverty rate in urban areas is 14% and that in rural areas is 25%. Self employment and casual labour is the main source of income of urban poor. In cities having population more than 1 million 6% of them are poor and poverty is the highest among the STs i.e.43%.

The Free press journal tells that as of May 2018, India has 73 million people living in extreme poverty, as against 87 million in Nigeria. The total number of poor in the world in 2018 is estimated to be about 640 million, which means India now has roughly 11 per cent of the world's poor. In about 10 to 12 years, India has reduced the number of absolute poor from 270 to 73 million. At this rate, by 2022, poverty, as defined thus, would have virtually vanished from India. This achievement is very impressive and puts India on par with its Asian peers.

As per the My INDIA blog at present, 28.5% of the Indian population lives below the poverty line. In the category of poor falls the people whose daily income is less than 33 rupees a day in cities and 27 rupees a day in villages. 60% of the poor still reside in the states of Bihar, Jharkhand, Odisha, Madhya Pradesh, Chattisgarh, Uttar Pradesh and Uttarakhand. The reason for these states to be in the category of the poorest state is because 85% of tribal people live there. Also, most of these regions are either flood-prone or suffer from calamities.

The IndiaSpend journal says thatMadhya Pradesh and Orissa did well in bringing down urban poverty rates by 12.2 percentage points and 11.7 percentage points respectively over 2004-09. However, in Assam and Jharkhand urban poverty rates went up over the same period.The number of poor people in urban areas, however, went up in Assam, Bihar, Gujarat, Jharkhand, Uttar Pradesh and West Bengal over 2004-09.

As per the World Economic Forum Today, one in six urban citizens in India live below the poverty line. Every 8th urban child in India lives in the slum. More than 8.1 million children live in the slum. Around 47% of the children of the urban poor are malnourished.

The International Research Journal of Social Sciences says that more than 80 percent of urban poor belong to the category termed as self-employed people or casually employed. The wage employment is available to merely 20 percent of those urban poor. This has restricted their access to institutional and market finance in a bid to reduce poverty.The proportion of urban poor in relation to rural poor has gone up from 1: 4.5 during the year, 2004-05 to 1: 2.73 in 2005-16.

As per the trading economics article 24% of urban population are living in slums and in the last 10 years there has been a reduction in urban poverty from 32% to 14%. Poverty headcount ratio at urban poverty line (% of urban population) in India was reported at 13.7 % in 2011,

According to the Government of India Press Information Bureau the proportion of India's poor in the total population has fallen both in urban and rural areas, especially during the 2000s. However, the absolute number of the urban poor is increasing. In addition, inequality in urban areas is typically higher than in most rural areas. The depth of poverty (as measured by the poverty gap) is higher in urban areas when compared to rural areas⁴. In Indian cities, the incidence and depth of poverty varies with city size, nature of employment, gender, migration status, caste, and levels of education.

As per the Indian Express India appears to be on the track for the fastest reduction in poverty in period between 2011-12 and 2017-18. The poverty is declining at the rate of 100 people per minute. 78% of the

population was in absolute poverty in 2004-05 which reduced to 65% in 2011-12, which further reduced to 42% in 2017-18.

Estimation of poverty by the Expert Group (Lakdawala Committee, 1993)

An Expert Group on ‘Estimation of Proportion and Number of Poor’ was constituted under the Chairmanship of Professor D.T. Lakdawala, former Deputy Chairman of Planning Commission, to look into the methodology for estimation of poverty and re-define the poverty line, if necessary. The Expert Group submitted its report in 1993. However, the Expert Group further recommended that the state –specific poverty lines be worked out.

This was done in two steps. The first was to work out State-specific poverty line for the base year 1973-74 by taking the standardized commodity basket corresponding to the poverty line at the national level and valuing it at the prices prevailing in each state in the base year.

The second step was updating the poverty line to reflect current prices in a given year by applying state-specific consumer price indices. Another important recommendation of the Expert Group was to abandon the pro-rata adjustment of NSS based total household consumption expenditure to NAS based total private consumption expenditure (The gap between the two had widened overtime).

The Expert Group observed that it was better to rely exclusively on the NSS for estimating the poverty ratios. The Government of India accepted the recommendations of the Expert Group with minor modifications in 1997. The poverty estimates from 1973-74 to 2004-05 based on the methodology recommended by the Expert Group are given in the table below:

Table 1: Poverty estimates as per the Lakdawala group

Year	Poverty Ratio (%)			Number of Poor (in Million)		
	Rural	Urban	Total	Rural	Urban	Total
1973-74	56.4	49.0	54.9	261.3	60.0	321.3
1977-78	53.1	45.2	51.3	264.3	64.6	328.9
1983	45.7	40.8	44.5	252.0	70.9	322.9
1987-88	39.1	38.2	38.9	231.9	75.2	307.1
1993-94	37.3	32.4	36.0	244.0	76.3	320.3
2004-05	28.3	25.7	27.5	220.9	80.8	301.7

Source: Planning Commission

Tendulkar Committee (2009)

An expert Group headed by Professor Suresh D. Tendulkar was constituted in 2005 to review the methodology for official estimation of poverty and recommend changes in the existing procedures. The Committee submitted its report in 2009. In comparison with the procedure suggested by the 1993 Expert Group and used in the official poverty estimates, Tendulkar Committee’s approach made four major departures, which, in their view constituted significant improvements over the existing official poverty estimation procedure; consciously moving away from calorie anchor; recommending to provide a uniform ‘poverty line basket’ (PLB) to both the rural and urban population; recommending a price adjustment procedure that is predominantly based in the same data set that underlies the poverty estimation, and incorporating an explicit provision in price indices for private expenditure on health and education. Worked out as per Tendulkar Committee recommendations, the all – India HCR for both the rural and urban areas for the years 1993-94, 2004-05 and 2009-10 are given in table 2.

Table 2: Percentage of Poor based on the methodology recommended by Tendulkar Committee

Poverty Ratio (%)			
Year	Rural	Urban	Total
1993-94	50.1	31.8	45.3
2004-05	41.8	25.7	37.2
2009-10	33.8	20.9	29.8

Source: Tendulkar Committee Report and Press Note, Planning Commission

The following table shows the number and percentage of people below the poverty line by the respective states in both rural and urban areas as per Tendulkar methodology . In the state of Manipur urban poverty is the highest i.e 32.89% and is lowest in Sikkim i.e. 3.66%.

Table 3: Number and Percentage of Population below poverty line by states - 2011-12(Tendulkar Methodology)

S.No.	States	Rural		Urban		Total	
		%age of Persons	No. of Persons (lakhs)	%age of Persons	No. of Persons (lakhs)	%age of Persons	No. of Person (lakhs)
1	Andhra Pradesh	10.96	61.80	5.81	16.98	9.20	78.78
2	Arunachal Pradesh	38.93	4.25	20.33	0.66	34.67	4.91
3	Assam	33.89	92.06	20.49	9.21	31.98	101.27
4	Bihar	34.06	320.40	31.23	37.75	33.74	358.15
5	Chhattisgarh	44.61	88.90	24.75	15.22	39.93	104.11
6	Delhi	12.92	0.50	9.84	16.46	9.91	16.96
7	Goa	6.81	0.37	4.09	0.38	5.09	0.75
8	Gujarat	21.54	75.35	10.14	26.88	16.63	102.23
9	Haryana	11.64	19.42	10.28	9.41	11.16	28.83
10	Himachal Pradesh	8.48	5.29	4.33	0.30	8.06	5.59
11	Jammu & Kashmir	11.54	10.73	7.20	2.53	10.35	13.27
12	Jharkhand	40.84	104.09	24.83	20.24	36.96	124.33
13	Karnataka	24.53	92.80	15.25	36.96	20.91	129.76
14	Kerala	9.14	15.48	4.97	8.46	7.05	23.95
15	Madhya Pradesh	35.74	190.95	21.00	43.10	31.65	234.06
16	Maharashtra	24.22	150.56	9.12	47.36	17.35	197.92
17	Manipur	38.80	7.45	32.59	2.78	36.89	10.22
18	Meghalaya	12.53	3.04	9.26	0.57	11.87	3.61
19	Mizoram	35.43	1.91	6.36	0.37	20.40	2.27
20	Nagaland	19.93	2.76	16.48	1.00	18.88	3.76
21	Odisha	35.69	126.14	17.29	12.39	32.59	138.53
22	Punjab	7.66	13.35	9.24	9.82	8.26	23.18
23	Rajasthan	16.05	84.19	10.69	18.73	14.71	102.92
24	Sikkim	9.85	0.45	3.66	0.06	8.19	0.51

25	Tamil Nadu	15.83	59.23	6.54	23.40	11.28	82.63
26	Tripura	16.53	4.49	7.42	0.75	14.05	5.24
27	Uttarakhand	11.62	8.25	10.48	3.35	11.26	11.60
28	Uttar Pradesh	30.40	479.35	26.06	118.84	29.43	598.19
29	West Bengal	22.52	141.14	14.66	43.83	19.98	184.98
30	Puducherry	17.06	0.69	6.30	0.55	9.69	1.24
31	Andaman & Nicobar Islands	1.57	0.04	0.00	0.00	1.00	0.04
32	Chandigarh	1.64	0.004	22.31	2.34	21.81	2.35
33	Dadra & Nagar Haveli	62.59	1.15	15.38	0.28	39.31	1.43
34	Daman & Diu	0.00	0.00	12.62	0.26	9.86	0.26
35	Lakshadweep	0.00	0.00	3.44	0.02	2.77	0.02
	All India	25.70	2166.58	13.70	531.25	21.92	2697.83

Comparison between Tendulkar Methodology and Lakdawala Methodology-

In order to have a two point comparison of changes in head count ratio, the Expert Group has again re-estimated poverty ratio for 1993-94. The head count poverty ratio for 1993-94 and 2004-05 as released earlier by the Planning Commission on the basis of Lakdawala Methodology and also by using by the Tendulkar Methodology are shown in the table.

It is observed that as per Lakdawala methodology, the poverty ratio in general in India declined from 36.0 per cent in 1993-94 to 27.5 per cent in 2004-05 showing poverty reduction to the extent of 8.5 per cent. But as per Tendulkar methodology, the same poverty ratio declined from 45.3 per cent in 1993-94 to 37.2 per cent in 2004-05 showing poverty reduction of 8.1 per cent. However, in respect of both these two methodologies, the extent of poverty reduction is not much different.

Table 4- Comparison between Lakdawala methodology and Tendulkar methodology-

	<i>Earlier estimates (URP) based on the Lakdawala methodology</i>		<i>Estimates (MRP) based on the Tendulkar methodology</i>	
	<i>1993-94</i>	<i>2004-05</i>	<i>1993-94</i>	<i>2004-05</i>
Rural	37.3	28.3	50.1	41.8
Urban	32.4	25.7	31.8	25.7
Total	36.0	27.5	45.3	37.2

Source : Planning Commission.

URP—Uniform Reference Period, MRP—Mixed Reference Period.

Planning Commission’s revised Estimates of Poverty Ratio on the basis of NSSO data, 2011-12

The Planning Commission’s revised estimates of poverty ratio based on NSSO data, 2011-12 can be seen from the following Table. The Planning Commission has revised the estimates of poverty lines and poverty ratios for the year 2011-12 following the Tendulkar methodology using the NSS 68th Round (2011-12) data from Household consumer expenditure Survey.

Accordingly, the poverty line at all India level for 2011-12 is estimated at monthly per capita consumption expenditure (MPCE) of 7 816 (Rs 27 per day) for rural areas and Rs 1000 (Rs 33 per day) for urban areas. Based on these cut-offs the proportion of people living below the poverty line in the country has declined from 37.2 per cent in 2004-05 to 21.9 per cent in 2011-12. In absolute terms there were 26.93 crore people below the poverty line in 2011-12 as compared to 40.72 crore in 2004-05.

However, this current estimate of poverty has triggered controversy among different people. Some groups argue that the poverty ratio of 2011-12 is too low and far from reality. However, the impact of economic growth, agricultural and industrial development and effect of rural uplift and rural employment schemes cannot be totally denied. Thus it is observed that over a span of seven years the incidence of poverty declined from 37.2 per cent to 21.9 per cent in 2011-12 for the country as a whole, with a sharper decline in the number of rural poor.

Table 5- Estimates of poverty by NSSO-

Year	Poverty Line (in ₹)		Number of Poor (million)			Poverty Ratio (Per cent)		
	Rural	Urban	Rural	Urban	Total	Rural	Urban	Total
2004-05	446.68	578.80	326.3	80.8	407.1	41.8	25.7	37.2
2011-12	816.00	1000.00	216.5	52.8	269.3	25.7	13.7	21.9

Source : Neeti Aayog.

RANGARAJAN COMMITTEE

The Planning Commission under the same UPA regime formulated a new expert panel in 2012 under the chairmanship of C. Rangarajan, with objectives to :

- (i) Review the poverty estimation methodology and estimate figures wef 2011-12
- (ii) update the consumption-basket poverty line
- (iii) review & suggest alternative methods of estimating poverty
- (iv) Design it in a manner to link with eligibility for taking advantage from Government's welfare schemes.

The Rangarajan Committee has adopted a different yardstick to estimate the poverty. It is based on the Household's ability to save as criteria determine poverty. Thereby, under this report a person shall be considered poor if he is unable to save. It has used NSSO data, CMIE survey report, CSO data and ICMR norms and submitted its report in 2014, published on 7th July 2014.

As per Rangarajan Committee, 29.5% population (363 million) in 2011-12 was below poverty line. Hence, 91.6 million have lifted out of poverty between 2009-10 to 2011-12 as per the report.

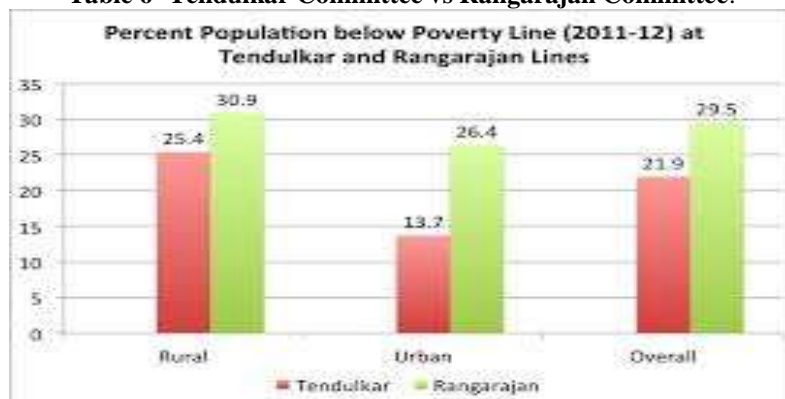
By the statistics enlisted in the Rangarajan's report as mentioned in the table above, a person earning Rs32 daily in rural areas and Rs47 daily in urban areas shall not be considered as poor. Moreover, it implies that at this level households' reach ability to save too. Even though the new report has increased the benchmark for being identified as poor as compared to Tendulkar's report, it is still considerably low.

Tendulkar Vs Rangarajan :

If estimates of both experts are compared, then the latest Rangarajan has increased the burden of poverty in India. When the new poverty line defined increases the population below poverty line, it must be noted that the real difference reflected in the new report is in the urban BPL figures. The urban BPL number is projected to have nearly doubled to 102.5 million based on Rangarajan's estimates, compared to 53 million based on Tendulkar's committee. Tendulkar's report estimated in 2009-10, 278.2 million people to be BPL in rural areas decreased to 216.7 million in 2011-12. Hence, 61.5 million rural population revived from poverty. While Rangarajan has portrayed that in 2009-10, 325.9 million people were BPL and by 2011-12 this figure reduced to 260.5 million. Hence, according to this there has been reduction of 65.4 million in rural poor. Further implying more reduction in poverty but still remaining a higher quantum. Similarly, for urban areas, Tendulkar report said

that in 2009-10, 76.5 million population was BPL which reduced to 53.1 million in 2011-12. Hence, overall reduction of 23.4 million. Whereas, Rangarajan has depicted that in 2009-10, 128.7 million urban people were BPL which reduced to 102.5 million in 2011-12. Hence, the overall reduction of 26.2 million. In aggregate, Tendulkar estimated poverty downfall of 84.9 million in the same period, while Rangarajan has estimated it to be 91.6 million (as shown in chart above).

Table 6- Tendulkar Committee vs Rangarajan Committee:



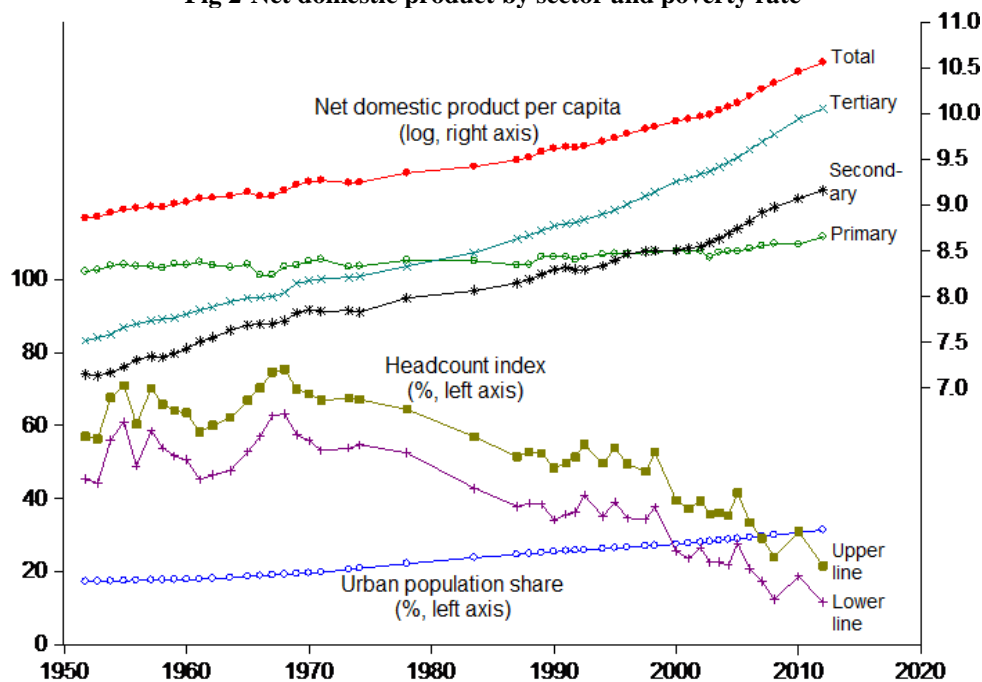
Linkage between poverty and economic growth

For the first three decades since Independence the Indian economy grew at an extremely slow pace, averaging to about 3.5 per cent per annum, popularly dubbed as the Hindu rate of growth. The National Statistical Survey Office (NSSO), which was first started in the 1950s, indicated that poverty during this period increased. Various factors were responsible for the slow growth during this period these included the rise of the tertiary sector and sluggish growth of manufacturing and agriculture. As a result of this, the benefits to the rural poor of this growth were miniscule, while on a comparative scale this rural sector-specific growth benefitted the urban poor more, these benefits were also limited. From 1951 to 1974, the percentage of its population living in poverty rose from 47 to 56 per cent. In head count terms, the number of poor people rose steadily from 171 million in 1951 to a 321 million in 1974 (Fox, 2002).

The economy grew at the rate of 5.5 per cent in the 1980s significantly impacting the rate of poverty reduction. Using the Planning Commission's official poverty lines established in 2001, Angus Deaton has indicated that between 1994 and 2001, the rural poverty rate fell from 37.2 per cent to 30.2 per cent while urban poverty fell from 32.6 per cent to 24.7 per cent. This implies that the national poverty rate fell from 36.2 per cent to 28.8 per cent.

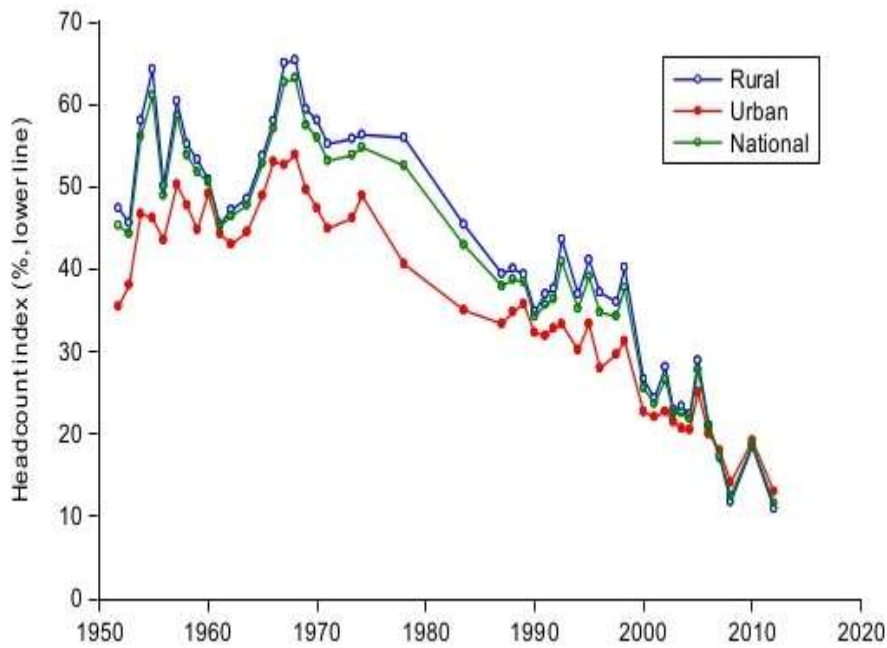
The trend decline in the national incidence of poverty for our upper line was 0.65% points per annum, accumulating to a sizable fall in the poverty rate of more than 35% points. In proportionate terms, poverty incidence declined at the rate of 1.3% per annum. Pre-1991, poverty reduction was almost entirely driven by rural growth and favourable distributional changes; the contribution of urban growth was negligible. Post-1991, rural growth, though still important, has been displaced by urban growth as the most important contributor to the observed (and more rapid) poverty reduction, even though urban growth has had adverse distributional effects. Seen through the lens of growth by output sectors, the contribution of primary sector growth has rapidly dwindled from accounting for about two-fifths of the total poverty decline pre-1991 to less than 10% of the total (and larger) poverty decline post-1991. The tertiary sector alone has contributed over 60% of the post-1991 poverty reduction. The secondary sector growth has contributed about a quarter.

Fig 2-Net domestic product by sector and poverty rate



The long-run poverty decline is evident in both urban and rural areas, and is higher for the poverty gap and squared poverty gap indices, reflecting gains to those living well below the poverty line. Rural poverty measures, that were historically higher than for urban areas, have been converging with urban measures over time, and the (distribution-sensitive) squared poverty gap index for urban India has actually overtaken that for rural India in recent years. There has been a marked urbanization of poverty in India over this period.

Figure 2-Poverty measures for India



Source- NBER(2016)

Table 7- Poverty measures for India

HEADCOUNT INDEX YEAR	RURAL	URBAN	NATIONAL
1950	47%	35%	45%
1960	53%	45%	52%
1970	55%	47%	53%
1980	51%	37%	52%
1990	33%	32%	33%
2000	25%	23%	24%
2010	19%	19%	19%
2020	13%	14%	13%

Source- NBER(2016)

Even though a trend decline in poverty emerged around the early 1970s, the year 1991-92—the benchmark year for economic reforms in India—there was a significant spurt in economic growth, driven by growth in the tertiary sector and to a lesser extent, secondary sector. The pace of poverty reduction also accelerated, with a 3-4 fold increase in the proportionate rate of decline in the post-91 period. The acceleration in rural poverty decline was even higher than that for urban poverty. This happened alongside a significant increase in inequality both within and between urban and rural areas, in contrast with a decline in ruralequality and no trend in urban inequality pre-91.

Post-91, urban growth has emerged as the primary driver of poverty reduction. Urban poverty has become significantly more responsive to urban growth, but (even more importantly) urban growth has become significantly more rural poverty-reducing since 1991. The early 21st century has also witnessed reduction in poverty in both urban and rural areas and the reduction is more or less same. This happened both directly, through urban growth having a larger impact on urban poverty, but even more importantly indirectly, through urban growth having a substantial impact on rural poverty. This indicates that the growth of cities, which have both bigger populations and higher productivity, has been good for poverty reduction as a whole in India. The 2018 global Multidimensional Poverty Index (MPI) released by the United Nations Development Programme (UNDP) and the Oxford Poverty and Human Development Initiative (OPHI) noted that in India, 271 million people moved out of poverty between 2005/06 and 2015/16. The poverty rate in the country has nearly halved, falling from 55 per cent to 28 per cent over the ten-year period

Thus, the role of urbanisation seen as a population shift appears to have been a mixed one. However, the urbanisation process can also be interpreted more broadly to encompass urban economic growth as well as population growth. Then our results indicate that urbanisation has played an important role in poverty reduction in post-reform India. In short, the Indian economy is changing and so is the relationship between economic growth and poverty reduction. The process of structural transformation of the economy has intensified, and with it, the traditional sources of both economic growth and poverty reduction are getting displaced. As this process

continues, the country can be expected to increasingly turn to growth in its urban and non-agricultural economy to drive future poverty reduction.

URBAN POVERTY AND ITS PROBLEMS-

People in urban areas are homeless and slum households are deprived of goodhousing, they do not have access to clean water, hygienic systems of waste disposal and live in polluted and degraded environments. Urban poverty is easily discernible through lack of security of land tenure, access to affordable shelter and basic amenities, particularly, health, education and social security. Urban poverty is linked to the aspects of social inclusion, city-wide infrastructure and basic service delivery systems, opportunities for skill development and employment, responsiveness of local governance structures and policies and programmes impacting on urban environment, Development and management. The bulk of the urban poor live in extremely deprived conditions with insufficient physical amenities like low-cost water supply, sanitation, sewerage, drainage, community centres and social services related to health care, nutrition, pre-school and non-formal education. Workers engaged in the urban informal sector form the bulk of urban poor.

Workers in this sector get low wages or if they are self-employed, their income is meagre. A large section of this population consists of low-skilled migrants from villages and smaller towns. Hence, for these people, right from the time of their entry to the city they become a part of the informal sector as they have neither the skills nor the opportunities to enter better-paid and more secure formal sector jobs. They thus move from one level of poverty, at their place of origin, to another level of poverty, at their destination. At the same time there is a growing section of workers in the formal sector who have lost their jobs and are compelled to work in the informal sector. For these people and their families this change means a reduction in their standard of living and insecure, unregulated employment.

Hence, economic growth and poverty have an intricate relationship and to eradicate the latter, sustained research initiatives are needed in the right direction.

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