

## Introduction of Poverty

### Introduction

- Poverty is a state or condition in which a person or community lacks the financial resources and essentials for a minimum standard of living. Poverty means that the income level from employment is so low that basic human needs can't be met.
- In India, 21.9% of the population lives below the national poverty line in 2011.



- In 2018, almost 8% of the world's workers and their families lived on less than US\$1.90 per person per day (international poverty line).

### Types of Poverty:

There are two main classifications of poverty:

◆ **Absolute Poverty:**

A condition where household income is below a necessary level to maintain basic living standards (food, shelter, housing). This condition makes it possible to compare between different countries and also over time.

- It was first introduced in 1990, the "dollar a day" poverty line measured absolute poverty by the standards of the world's poorest countries. In October 2015, the World Bank reset it to \$1.90 a day.

◆ **Relative Poverty:**

It is defined from the social perspective that is living standard compared to the economic standards of population living in surroundings. Hence it is a measure of income inequality.

- ◆ Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income.

According to recent reports, more than a quarter of the population living in rural areas of India is below the poverty line. Out of the total population living in the rural parts of India, 25.7% is living below the poverty line whereas in the urban areas, the situation is a bit better with 13.7% of the population living below the poverty line.

◆ **Poverty Line Calculation:**

Poverty estimation in India is now carried out by NITI Aayog's task force through the calculation of poverty line based on the data captured by the National Sample Survey Office under the Ministry of Statistics and Programme Implementation (MOSPI).

- **NITI Aayog** as a policy think tank has replaced Planning Commission, which was earlier responsible for calculating the poverty line in India.
- **Consumption Versus Income Level:** Poverty line estimation in India is based on the consumption expenditure and not on the income levels because of the following reasons:
- **Variation in Income:** Income of self-employed people, daily wage

laborers etc. is highly variable both temporally and spatially, while consumption pattern are comparatively much stable.

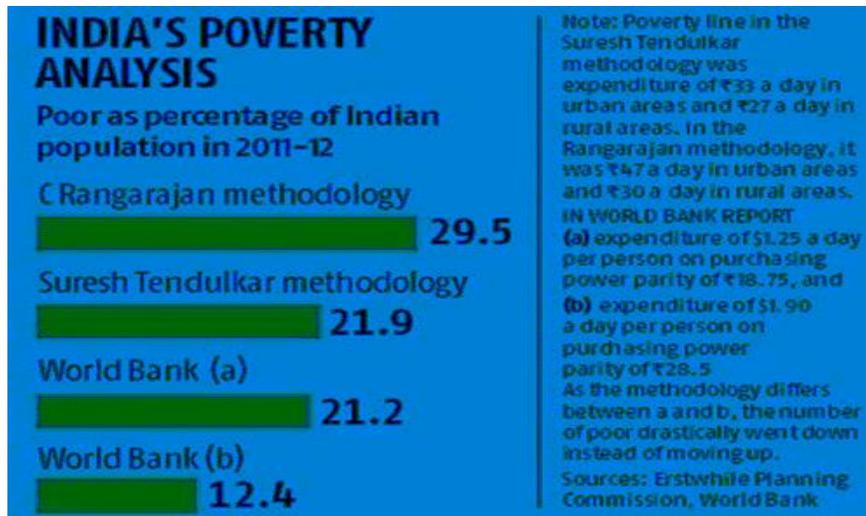
- **Additional Income:** Even in the case of regular wage earners, there are additional side incomes in many cases, which is difficult to take into account.

### **Pre-Independence Poverty Estimation**

- **Dadabhai Naoroji** through his book, "Poverty and Unbritish Rule in India" made the earliest estimation of poverty line (Rs.16 to Rs.35 per capita per year).
- The poverty line proposed by him was based on the cost of a subsistence or minimum basic diet (rice or flour, dal, mutton, vegetables, ghee, vegetable oil, and salt).
- **National Planning Committee's (1938)** poverty line (ranging from Rs.15 to Rs.20 per capita per month) was also based on a minimum standard of living perspective in which nutritional requirements were implicit.
- In 1938, the National Planning Committee was set up by Subhash Chandra Bose under the chairmanship of Jawaharlal Nehru for the purpose of drawing up an economic plan with the fundamental aim to ensure an adequate standard of living for the masses.
- **The Bombay Plan (1944)** proponents had suggested a poverty line of Rs 75 per capita per year.
- The Bombay Plan was a set of a proposal of a small group of influential business leaders in Bombay for the development of the post-independence economy of India.

### **Post-Independence Poverty Estimation**

- **Planning Commission Expert Group (1962)**, working group constituted by the Planning Commission formulated the separate poverty lines for rural and urban areas (Rs.20 and Rs25 per capita per year respectively).



- **VM Dandekar and N Rath (1971)**, made the first systematic assessment of poverty in India, based on National Sample Survey (NSS) data.
- Unlike previous scholars who had considered subsistence living or basic minimum needs criteria as the measure of poverty line, VM Dandekar and N Rath were of the view that poverty line must be derived from the expenditure that was adequate to provide 2250 calories per day in both rural and urban areas.
- **Expenditure based Poverty line estimation**, generated a debate on minimum calorie consumption norms.
- **Alagh Committee (1979)**: Task force constituted by the Planning Commission under the chairmanship of YK Alagh, constructed a poverty line for rural and urban areas on the basis of nutritional requirements and related consumption expenditure.
- Poverty estimates for subsequent years were to be calculated by adjusting the price level for inflation.

- **Lakdawala Committee (1993):** Task Force chaired by DT Lakdawala, based on the assumption that the basket of goods and services used to calculate Consumer Price Index-Industrial Workers (CPI-IW) and Consumer Price Index- Agricultural Labourers (CPI-AL) reflect the consumption patterns of the poor, made the following suggestions:
- **Consumption expenditure** should be calculated based on calorie consumption as earlier.
- **State specific poverty lines** should be constructed and these should be updated using the CPI-IW in urban areas and CPI-AL in rural areas.
- **Discontinuation of scaling** of poverty estimates based on National Accounts Statistics.

### **Way Forward**

- **Redefining Poverty lines:** Poverty lines have to be recalibrated depending on changes in income, consumption patterns and prices, as India is now a middle-income country, with an estimated per capita income of around \$9,000 in purchasing power parity.
- According to economists poverty line of \$3.20 translates into Rs.75 a day, or a 68% higher than the Tendulkar poverty line.