

## Inclusiveness in Poverty Reduction in India: A Great Leap Forward?

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The growth story of Indian Economy has been significant in the recent years. But in terms of poverty reduction India is lagging behind and it has lot more to do. India's performance is dismal with regard to the Multidimensional Poverty Index introduced by UNDP in its Human Development Report 2010. This is an attempt to evaluate the findings of the expert groups on the measurement of poverty and to analyse how far we have achieved our target of inclusiveness in poverty reduction.

The inclusiveness in poverty reduction has become a widely debated issue among the policy makers in the past decade across India. At the national level there has been no consensus on the best alternative for a set of option to reduce the poverty in the country. Making growth inclusive by addressing the widespread poverty is a key challenge for India. As India's Twelfth Five Year Plan (2012-2017) comes into force, the policy makers are confronted with the challenge of ensuring growth that is sustainable and inclusive which can be translated as a vehicle for reducing poverty and improving living standards of the population, especially those belonging to the lowest quartile of the economy.

The importance of inclusive growth is well acknowledged among the policy makers. The approach paper of 11th Five Year Plan adopted in December 2006 describes the need for inclusive growth in its discussion. The approach plan points out that the growth oriented policies should be combined with policies ensuring broad based per capita income growth, benefiting all sections of the population, especially those who have thus far remained deprived. Inclusive growth implies participation in the process of growth and also sharing of benefit from growth. Thus inclusive growth is both an outcome and a process [1]. Under the absolute definition, growth is considered to be pro poor as long as poor benefit in absolute terms, as reflected in some agreed measure of poverty [2].

The recent decline in the headcount ratio of poverty from 37.2% in 2004-05 to 29.8% in 2009-10 has been a reason for celebration [3]. The numbers do indicate that the poverty ratio in India is coming down even though it may remain at a high level [4]. The Planning Commission's recent press report claiming that the overall number of poor households declined from 37 per cent in 2004-05 to around 22 per cent in 2011-12 has also invited criticism from several quarters. Civil society is not happy with the low poverty cut-off line of Rs 27 per day per capita for rural areas and Rs 33 for urban areas at 2011-12 prices, as it is difficult to meet one's basic expenses and survive on such an inadequate income. The present methodology for determining poverty based on consumption expenditure is certainly flawed, and leads to under-reporting of the actual number facing acute deprivation. The estimates for the number of poor should be reworked by taking into account their deprivations and living conditions, such as access to basic services, shelter, public health, and education [5].

The Rangarajan expert group on poverty measurement has done a great deal of hard and useful work. In its recent report, the group probes a wide range of critical issues - how to set poverty lines, the choice of price indexes for poverty comparisons, the discrepancy between National Sample Surveys (NSS) and the National Accounts Statistics, and more [6]. It has also looked into the methodology of poverty estimation of other countries. Most of the developing countries use a consumption basket-based poverty line. Developed countries generally use the concept of relative poverty [7]. Ending

poverty is a major concern even in a developed world like U.S. Many in India will have difficulty in understanding poverty in the U.S, where the measurement and nature of poverty are very different from what people in India generally associate the term 'poverty' with. The poverty line in the U.S is estimated on the basis of income necessary to have enough food, clothing, shelter and other necessities of life. A family of four is considered to be living below the poverty line if its income is less than \$23,850 per annum. If you multiply this with the existing foreign exchange rate of 61.59, it will be over Rs. 14 lakh. Using this definition, the poverty rate in 2013 was estimated at 15.4 per cent and the number of people living below the poverty line was over 46 million — one out of seven persons in the U.S. is poor. This figure will be about the same when we include income transfers from the government (The Hindu January 29, 2015). However, if we look at the Indian data the proportion of population with consumption as a fraction of the median remains largely invariant over time [7].

Often, a country's performance in reducing poverty may turn out to be very different depending on whether multidimensional poverty or income poverty headcount ratios are used. In India, poverty is measured in terms of household per capita consumption expenditure. Poverty lines, determined by the government for each Indian state are updated regularly. The latest poverty lines are based on the recommendations of the Tendulkar Committee Report (2009). At the national level, poverty line for rural population is Rs. 446.68 while for urban population it is Rs. 578.8. Based on these poverty lines, 37.2% of India's total population was poor in 2004-05. In rural India, poverty was higher (41.8%) than in urban areas (25.7%). The Tendulkar Committee also updated the poverty lines for 1993-94 to allow comparisons to be made between the two periods. On the basis of these figures, it is possible to conclude that poverty headcount ratio for all India declined from 45.3% in 1993-94 to 37.2% in 2004-05. Thus, based on these figures one can safely conclude that growth in India has been pro-poor, as poverty has declined since 1993-94. Not everyone accepts this conclusion, however. The critics question the methodology used in the official estimates and argue that the actual number of poor is significantly higher than the official estimates and that poverty had actually increased between 1993-94 and 2004-05 [8].

While the trend in the reduction of poverty from 45.3% in 1993-94 to 37.2% in 2004-05 and then to 29.8% in 2009-10 is not surprising, the extent of the decline has opened up a debate on the factors that have led to it. The numbers themselves may be debatable but they are reflective of a broader trend. One theory is that this is the outcome of the trickle-down impact of the record growth witnessed in the first

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decade of the new millennium. This growth, though, has not been accompanied by a commensurate rise in employment, implies that its benefits have not really trickled down. Still, the growth did result in higher revenue, enabling the government to fund a large social sector spending programme. This programme, which included schemes such as the rural job guarantee one, played a significant part in reducing India's poverty levels, alternative theory says.

The two theories in some way mirror the ongoing debate between Nobel Laureate Amartya Sen and Columbia University economist Jagdish Bhagwati- while Sen makes a case for integrating development expenditure with growth to combat poverty, Bhagwati argues that rapid growth should be the priority, with resulting trickle-down taking care of the underprivileged. However, empirical evidence inconclusive on whether trickle down effects of growth caused the rapid poverty reduction.

To obtain a general picture of the progress of the country, a suitable measure on poverty is useful. Poverty is not same as the hunger. It represents the absolute minimum. Obviously, policy should work towards not only to reduce the number of people below that line but also ensure that the people in general enjoy a much higher standard of living [7]. For this it is important to supplement expenditure- based poverty estimates with other indicators of living standards, relating for instance to nutrition, health, education and the quality of environment. Perhaps the time has come to abandon the elusive search for a technical method of deriving a poverty line that can be interpreted, in some normative sense, as the minimum cost of dignified living.

What emerges from all this is that in India poverty line is not just a

statistical benchmark- it also has a policy purpose. Due to this fact the recent reduction in poverty is far from inclusive and hence remains illusive. The estimation of poverty line remaining a challenge in India due to the undergoing structural changes, the expert groups and commentators has failed to address it [9]. Hence, reexamining of poverty line by various committees must take into account the disparities, the subsistence norm as well as changing costs to offer a better solution for inclusiveness. After all, the policy recommendations are not a product dreams; it must be brought into the public sphere and reshaped by democratic processes.

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