Growth and Poverty –Issues, Myth and Challenges

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Abstract

In more than half century since its Independence, India has accomplished many notable social and economic achievements. Among these are the eradication of widespread famine, a reduction in population growth, some lowering of caste barriers to economic opportunity and the creation of a large pool of technical and scientific talent. While it has also managed to reduce poverty in that period, only since 1975, when growth accelerated, has the decline been fairly steady. India's progress in fighting poverty has been modest when compared with some of its Asian neighbours. Between 1970 and 1993, for example, the proportion of Indonesia's population living in poverty dropped from 58 to 8 percent, an annual decline of nearly 10 percent. India's poverty continues to be predominantly rural although rural poverty declined faster than urban poverty. Moreover, the decline in national poverty seems to have been driven mostly by the decline in rural poverty.

The real issue in establishing a development strategy is whether growth and distribution are independent of each other or, strongly inter-related. Is it the case for instance that faster growth tends to reduce inequality or on the contrary, to increase it? Could too much inequality in a given country act to slow down or, to accelerate growth? All these questions have concerned economists in the last decades and probably will keep doing so for the years to come. Therefore, while preparing a development strategy for our nation, the main issue before the economists is whether to focus on increasing growth or by reducing poverty or by removing inequality or removing unemployment.

Thus, unemployment, poverty and inequality are the major challenges that economy is facing at present. Unemployment, poverty and inequality do effect our sustainable economic growth of nation. Economic reforms, changes in industrial policy and better utilization of available resources are expected to reduce the problem of unemployment and poverty that results from them. Generation of employment opportunities and equality in income distribution are two factors that are of utmost importance to deal with the problem of poverty and unemployment. India therefore urgently needs to formulate an anti-poverty strategy that is fiscally sustainable and more finely targeted to those who truly cannot benefit from the opportunities offered by growth. According to Galbraith - "We now get the larger part of our industrial growth not from more capital investment but from investment in men and improvements brought about by improvement men". Economists are of the view that it is the lack of investment in human capital that has been responsible for slow growth of LDCs. The vicious circle of poverty can be broken only by investment in man. Neighbouring countries in Asia that have combined pro-growth development policies with investments in the health and education of their people have seen economic growth and poverty reduction. By maintaining its commitment to economic liberalization, and redirecting towards infrastructure, health, and education the large resources now absorbed by subsidies inter-alia for power, irrigation, and fertilizers, India can give its long battle to reduce poverty a new impetus.

In more than half century since independence, India has accomplished many notable social and economic achievements. Among these are the eradication of widespread famine, a reduction in population growth, some lowering of caste barriers to economic opportunity and the creation of a large pool of technical and scientific talent. While it has also managed to reduce poverty in that period, only since 1975, when growth accelerated, has the decline been fairly steady. The centrality of growth is that the rates of growth that India could achieve was due to its market oriented development policies and a better integration into the world economy. This is a promising development because the last few decades have shown the extent to which the poor stand to gain from acceleration in growth. The latter widens opportunity, provides the resources needed to invest in human development, and creates the very foundation that will increase returns to human capital — and thus families' willingness to send their children, including girls, to school.

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Growth is essential for reduction in unemployment, poverty and inequality in income. This is possible if:

Wages of the lowest paid rise faster than the average wage.

Government benefits, such as; unemployment benefits, sickness benefits and pensions are increased in line with average wages.

Economic Growth creates job opportunities, which reduce the level of unemployment.

Government should thus increase the growth of nation for removing the problem of poverty and inequality. But the government support is not enough to raise the standard of living of our country like that of other developed nations. We at times think that problem poverty is only being hungry, less clothing and homeless. The poverty of being unwanted, unloved and uncared for is the greatest poverty.

Poverty reduction in a given country and at a given point of time is fully determined by the rate of growth of the mean income of the population and the change in the distribution of income. As the problem Unemployment leads to financial crisis and reduces the overall purchasing capacity of the nation which results in poverty, increasing economic growth of the nation helps in reducing poverty and income inequality to little extent by changing income distribution.

Poverty has been in existence since immemorial time but the description interpretation and methodology to measure the incidence of poverty has changed from time to time with economic development. Poverty is a very complex phenomenon although poverty and poor looks very simple it is not very easy to estimate. Poverty has been hijacked by economists and has been exposed by them by taking income and consumption without taking into account sensitivity.

Poverty is more a social phenomenon than economic in which a section of the society is unable to fulfill even its basic necessities of life. When a substantial segment of a society is deprived of the minimum level of living and continues at a bare subsistence level, that society is said to be plagued with mass poverty. Although the definition of poverty differs from country to country, but all of them are conditioned by the vision of minimum or good life obtaining in society e.g. concept of poverty in USA would be significantly different from that in India because the average person is able to afford a much higher level of living in the United States.

Poverty Line in 2006 Annual Family Income

US $20,650(family of 4)

India $107(Rs.4800/annum-i.e. Rs.400/math) for family of 5

BPL is an economic benchmark and threshold used by GOI to identify households in need of govt. assistance and aid.

Poverty in India is widespread, and a variety of methods have been proposed to measure it. (Erenstein, 2011) Different Criteria Used For Identification of BPL:

1. Dandekar and Rath's Criteria

Estimated poverty on the basis of calorie intake

2400 cal-------rural

2100 cal------urban

The cost of grains (about 650gms) that fulfill this calorie requirement was calculated.

This cost was the poverty line

YEAR	**Per Capita monthly expenditure To buy minimum calorie requirement)**	
	RURAL	URBAN
1965 (base yr 1960 61)	Rs.15	Rs.22.50
1978 (base yr-1973)	Rs.61.80	Rs.71.30
2005 (Less than Rs.10/day USD 0.22)	Rs.276	Rs.296
2007	Rs. 368	Rs. 560

2009 (Tendulkar Committee)	Rs.816/month Or Rs. 27/Day	Rs.1000/month Or Rs.33/Day
2009 (Rangarajan Report)	Rs.972/month Or Rs. 32/Day	Rs.1407/month Or Rs. 47/Day

II. World Bank Criteria

		% of population BPL
Early 1990s	minimum earning required (to live APL) \$-365/yr i.e. \$-1/day/person	75%
CRITERIA REVISED Reason: Higher Cost of Living (In 2005)	\$-1.25/day	42% (456 million)
In 2014	\$1.78/day(on 2011 PPP basis)	
In 2015	\$1.90/day	
Nov. 2017	World Bank started : 2 International Poverty Line: Lower Middle Income Line: \$3.20/day Upper Middle Income Line: \$5.50/day	India falls in Lower Middle Income Line 60% Population are Below Poverty Line

III. United Nations Development Programme (UNDP)

It uses a different measure of poverty which suggests that 61.5% of the people in India are actually poor. The gauge Capability Poverty – a concept originally mooted by Amartya Sen – is different from income poverty in that it measures not incomes, but the capability of an individual. According to Amartya Sen Not only calorie intake but also human factor should be taken into consideration.

The Capability Poverty Measure (CPM) comprises three broad elements:

1. The proportion of children under five who are underweight. This is correlated with the capability to be well-nourished and healthy.
2. Proportion of births unattended by trained health personnel.
3. Female illiteracy rate for women over 15.

To construct CPM, these three measures are combined in the form of simple arithmetic mean of each. The result expresses the percentage of a country's population that is capability-poor.

IV. Human Development Report (1990) HDR (1997)

HDR States – "Income is a means, with human development the end". It redefined measures of human development and developed 3 measures:

1. Human Development Index (HDI)
2. Gender related Development Index (GDI)
3. Human Poverty Index (HPI)

According to Sen, we should be not only concerned with the number of people living below the poverty line but also with the amount by which the income of the poor fall short of the specified poverty level and bigger the short fall from the poverty level, greater should be the weight per unit of that short fall in the poverty measure.

Three indicators are used for the construction of HDI:

i) Life expectancy at birth.
ii) Educational Attainment Index (EAI) shown by adult literacy (with two third weights) and combined enrolment ratio (primary, secondary and tertiary with one third weight) (expansion of knowledge and awareness)
iii) Real per capita GDP (PPPUS$) – standard of living index.

Countries are grouped under three categories

1. High Human Development Group – In the HDI range 0.8 and above
2. Medium Human Development Group – Countries in the HDI range 0.5 to 0.8
3. Low Human Development Group – Countries in the HDI range less than 0.5

India ranks in Medium Human Development Group. It was at No.138 in HDI in 1994. It improved its position to No.121 in 2017(out of 188 countries Norway ranks 1st)

Human Poverty Index (HPI)

HPI concentrates on deprivation in three essential elements of human life already reflected in HDI:

1. Longevity – Percentage of people expected to die before the age 40
2. Knowledge – Percentage of adults who are illiterate
3. Decent living standard – It is represented by a composite of three variables – the percentage of people with access to: a) Health services b) safe water c) Percentage of malnourished children under five.

The official measure of Indian government, before 2005, was based on food security and it was defined from per capita expenditure for a person to

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consume enough calories and be able to pay for associated essentials to survive. (Planning Commission, Government of India, 2012)

Since 2005, Indian government adopted the Tendulkar methodology which moved away from calorie anchor to a basket of goods and used rural, urban and regional minimum expenditure per capita necessary to survive. However, in 2014 the Rangarajan Committee changed the methodology which stated that it should be based on “ability to save”.

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The different definitions and different underlying small sample surveys used to determine poverty in India have resulted in widely different estimates of poverty from 1950s to 2013. In 2013, the Indian government stated 21.9% of its population is below its official poverty limit. The World Bank, in 2010 based on 2005's PPPs International Comparison Program, estimated 32.7% of Indian population or about 400 million people, lived below $1.25 per day on purchasing power parity basis. (The World Bank, 2012)

Population Below The Poverty Line (in %)

	2011-12
Planning Commission	22%
World Bank (Based on 2005 PPP 1.25$/day)	23.6%
Millennium Development Goals	21.9%
Tendulkar Report	21.9%
Rangarajan Report	29.5%

Source:Compiled by the author from various sources

The World Bank reviewed and proposed revisions in May 2014, to its poverty calculation methodology. According to this revised methodology, the world had 872.3 million people below the new poverty line, of which 179.6 million people lived in India. In other words, India with 17.5% of total world's population had 20.6% share of worlds poorest in 2013.

Inspite of differences in methodology there is a general consensus on the fact that percentage of population below poverty line has started declining due to high growth rate and poverty alleviation programmes. The magnitude of decline in poverty is significant but not dramatic, it remains painfully high. Because of India's rapid population growth rate, economic growth has not been sufficient to reduce the absolute number of poor, which increased from around 200 million in the 1950s to 872 million in 2013. This leaves India with the largest concentration of poor people in the world, particularly in the villages — fewer than 5,000 people — where 60 percent of all Indians live.

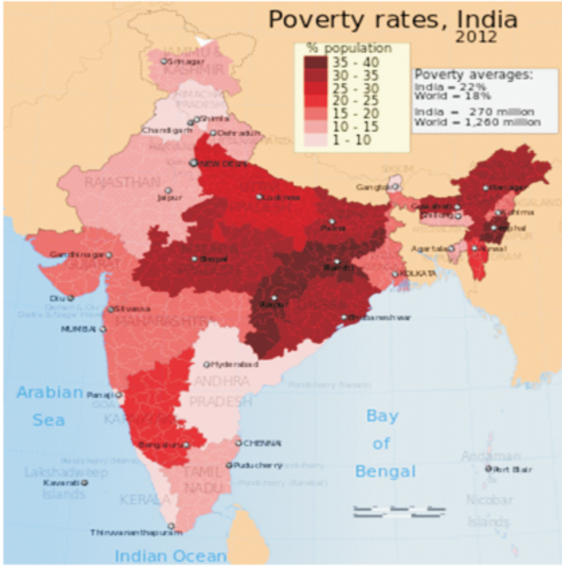
India's progress in fighting poverty has been modest when compared with some of its Asian neighbours. Between 1970 and 1993, for example, the proportion of Indonesia's population living in poverty dropped from 58 to 8 percent, an annual decline of nearly 10 percent.

India's poverty continues to be predominantly rural although rural poverty declined faster than urban poverty. Moreover, the decline in national poverty seems to have been driven mostly by the decline in rural poverty.

Over the last decade, poverty has witnessed a consistent decline with the levels dropping from 37.2% in 2004-05 to 22.0% in 2011-12 out of which 25.7% of people in rural areas were below the poverty line and 13.7% in urban areas. Nearly 20 million people were pulled out of poverty every year. While experts welcomed the decline in poverty, they flagged concerns such as the comparability of the numbers. Poverty in India declined to a record 22% in 2011-12 based on the Tendulkar methodology, which was criticized for fixing poverty lines that were too low at Rs.22.42 per person per day in rural areas and Rs.28.65 in urban areas. (India Today, September 21, 2011)

The Planning Commission's calculations were stated as statistical jugglery. “This a gimmick—let them explain that if this is the rate of poverty decline then when in 1971 they gave the slogan of Garibi Hatao (eradicate poverty), even after 42 years why is poverty still a problem,” said Prakash Javadekar. The Myth is government's estimate showed poverty levels were coming down since the new poverty line for rural India is Rs 356 a month and Rs 538 a month for urban India. Those spending less were categorised as poor. This means daily bus fare of a labourer is sufficient to keep him above the poverty line.

While total overall poverty in India has declined, the extent of poverty reduction is often debated . One theory is that this is the outcome of the trickle-down impact of the record growth witnessed in the first decade of the new millennium. This growth, though, has not been accompanied by a commensurate rise in employment, implying that its benefits have not really trickled down. Still, the growth did result in higher tax revenue, enabling the government to fund a large social sector spending programme. Alternative theory viewed that these programmes, which included schemes such as the rural job guarantee one, played a significant part in reducing India's poverty levels.



Source: http://en.wikipedia.org

The two theories, in some way, mirror the ongoing debate between Professor Amartya Sen and 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 the resulting trickle-down taking care of the under-privileged.

Poverty rate map of India by prevalence in 2012, among its States and Union Territories.

Although the Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing social groups, economic groups, geographic regions, and rural and urban areas. Between 1999 and 2008, the annualised growth rates for Gujarat, Haryana, or Delhi were much higher than for Bihar, Uttar Pradesh, or Madhya Pradesh. Even after more than 50 years of independence India still has the world's largest poor person in a single country. They live on less than $1.25 / day. What is more shocking that poverty level is not uniform across India? Poverty rates in rural Orissa (43%) and rural Bihar (41%) are among the world's most extreme. On the map of poverty in India, the poorest areas are in parts of Rajasthan, Madhya Pradesh, Uttar Pradesh, Bihar, Jharkhand, Orissa, Chhattisgarh and West Bengal.

Relationship between Education and Poverty

It has been rightly said that the best way to cure poverty is education and training. More educated a person is, greater is his capability to do with existing resources and greater is his capability to generate new resources and thus faster will be the economic development of India. This is because Human resource development helps in:

1. Better use of capital goods
2. Better use of improved knowledge and
3. Modernization of attitudes.

According to Galbraith - “We now get the larger part of our industrial growth not from more capital investment but from investment in men and improvements brought about by improvement men”. Economists are of the view that it is the lack of investment in human capital that has been responsible for slow growth of LDCs.

The vicious circle of poverty can be broken only by investment in man. Neighbouring countries in Asia that have combined pro-growth development policies with investments in the health and education of their people have seen economic growth and poverty reduction. India, however, has not accorded sufficiently high priority to the education of the poor and 33 million of its 105 million 6-to-10-years-olds are not in school. These youngsters are not offered the opportunity to develop the skills needed for upward mobility. Along with the neglect of primary education goes that of gender discrimination, which condemns a much greater proportion of girls and women to illiteracy and to ill-health. Reducing the gender inequality among the poor requires a determined effort to focus on improved health care for women, maternal health care in particular, combined with basic education. India's health system needs to put a new emphasis on basic care. Doing so will improve not only the life span and well-being of poor women and their ability to determine what family size they want, but it will also contribute to the economic health of their families, and consequently of India's society. And since poverty is not the only source of India's gender disparities, a determined government effort to eradicate such disparities is urgently needed. One of the objectives of UN Millennium Declaration for 2015 is to achieve universal completion of primary schooling and achieve gender equality in access to education.

Incentives and Regulatory Framework. During the last few decades, India's inward-looking and public sector driven industrialization strategy led to rates of growth and poverty reduction far more modestly than those witnessed elsewhere in the world, particularly in South East Asia. The economy has responded well to the reforms, and the government has made it an explicit objective to accelerate the development of the country's human resources. The last five years have shown the rates of growth that India could achieve with market oriented development policies and a better integration with the world economy. There is much that remains to be done to sustain this growth. Reforms are particularly needed to reduce the country's persistently high fiscal deficits, overcome its tremendous infrastructure problems, improve the efficiency of its financial system, and liberalize parts of the economy that remain heavily regulated — such as agriculture, small scale industry and urban land markets. By maintaining its commitment to economic liberalization, and redirecting towards infrastructure, health, and education the large resources now absorbed by subsidies inter-alia for power, irrigation, and fertilizers, India can give its long battle to reduce poverty a new impetus.

Conclusion

The real challenge is to establish a development strategy for reducing poverty which lies in the interaction between distribution and growth and not in the relation between poverty and growth on one hand; and poverty and inequality on the other; which are essentially arithmetic. It is evident from various sources that worsening of distribution tends to increase poverty. Economic reforms, changes in industrial policy and better utilization of available resources are expected to reduce the problem of unemployment and poverty that results from them. Generation of employment opportunities and equality in income distribution are two factors that are of utmost importance to deal with the problem of poverty and unemployment.

Thus, growth is essential for (income) poverty reduction under the assumption that the distribution of income remains more or less constant.

There is little evidence that anti-poverty programs have yielded gains in the living standards of the poor commensurate with the significant resources that the country allocates to such programs. Many recipients of their benefits are widely recognized as amongst the poor. At the same time, many of the poorest people do not use these programs while many of the non-poor benefit from them. There is a consensus that public works programs have been among the most successful attempts at reaching the poor. India therefore urgently needs to formulate an anti-poverty strategy that is fiscally sustainable and more finely targeted to those who truly cannot benefit from the opportunities offered by growth. To increase their cost effectiveness and extend their outreach to the very poor, safety nets need to be targeted to those who either cannot participate in the growth process or face continuing exposure to risks, which are outside of their control. Rural households are largely uninsured against agricultural yield shocks, for example. Effective safety nets that insure the rural poor against income fluctuations — such as public works programs — are essential in overcoming an important market failure.

Every kind of government expenditure is justified in the name of poor no matter whether the expenditure is on atomic energy, entertainment of VIPs, amusement park - which has no direct relevance to poverty, but everything is justified in the name of poverty eradication. It is like a theft of funds from consolidated fund of nation drawn in the name of poor. The non commitment to poverty eradication process caused the issues of poverty unsolved. The poverty as a topic of research is no more appealing to the academicians. If definition of poverty do not help in eradication of poverty through sound social security, then it is better not to define it as it does more harm to poor than any good to them. Slogan for reduction of Poverty should not be "Garibi Hatao" but "Amiri Hatao".

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