

ECONOMIC REFORMS: POVERTY AND INEQUALITY

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1. INTRODUCTION:

Poverty alleviation has been on the national policy agenda for more than 50 years. The importance of reduction in poverty has been emphasized in all 5 year plans particularly since 5th five years plan. Even after 50 years of effort more than 250m(1/4 of total population) remain poor. There has been, however, a considerable debate in India since the initiation of reforms about the adverse impact on poor. Then , What is poverty ? A society is unable to fulfill the basic necessities of life (food , clothing and shelter). A society is deprived of minimum level of living and continuous at a bare subsistence level. In India, the general definition of poverty is minimum level of living rather than reasonable level of living . An average person in USA is able to afford a much higher level of living than in India. There are two types of poverty. Absolute poverty ---- physical quantities are determined for subsistence level and then convert them into monetary terms with price quotations. The population whose level of income / expenditure is below the figure is considered to be below the poverty line. Relative Poverty---Income distribution in different groups is estimated and then compare top 5 to 10 percent with bottom 5 to 10 percent.*

2. CRITERIA FOR DETERMINING POVERTY LINE:

The Planning Committee Expert Group appointed a committee under the chairmanship of Prof D.T. Lakdawala for determining criteria for poverty line and the committee submitted its Report in 1993. The recommended criteria covers:

- A. Measurement
- B. Choice of Base Year
- C. Updating Poverty Line
- D. Choice of Deflator

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A. MEASUREMENT:

Poverty Line is based on a monthly per capita expenditure of Rs 49 as rural poverty and Rs 57 as urban poverty line at 73-4 prices. The per capita expenditure was based on recommended per capita daily intake of 2400 calories in rural areas and 2100 calories in urban areas.

B. CHOICE OF BASE YEAR:

1973-74 may be considered as Base year since much systematic work has already been done with base 1973-74

C. UPDATING POVERTY LINE:

For Updating poverty line state specific CONSUMER PRICE INDEX is needed. In rural areas CPIAL and in urban areas CPIIW/CPINM should be used.

$$\begin{array}{l} \text{Z value} \\ \text{(Poverty Line for current Year)} \end{array} = \text{Co-efficient of inflation} \times \begin{array}{l} \text{z value} \\ \text{(Poverty Line for Base Year)} \end{array}$$

$$\text{Co-efficient of inflation} = \frac{\text{CPIAL(Current Year)}}{\text{CPIAL (base Year)}}$$

D. CHOICE OF DEFLATOR:

Disaggregated commodity indices for CPIAL to update rural poverty line and weighted commodity indices for CPIIW/ CPINM to update urban poverty line would be realized upon. Accordingly, the Expert Group has estimated the proportion and no of poor below the poverty line.

3. MEASUREMENT OF POVERTY:

Measuring poverty helps policy; makers target resources to reduce poverty and helps them and others to assess progress in reducing poverty. To study three different aspects of poverty-- incidence /shortfall /poverty severity Three different measures of

poverty – Head Count Ratio (HCR)/ Poverty Gap Ratio (PGR) / Squared Poverty Gap (SGP) are used.

HCR (Po) It measures incidence of poverty. It indicates proportion of population under BPL. However, it makes no distinction within the broad category of poor. It ignores how poor the poor are ? It remains unchanged when poor becomes poorer or move upward on income ladder.

Formulae for HCR= Q/N

Q = no. Of poor

N =total population

POVERTY GAP RATIO (P1)

It measures that / short-fall of poverty

- It is the aggregate short-fall of income of all poor from the poverty line.
- In this method, each poor person is weighted by his proportionate short-fall of income below the poverty line indicating how poor he is?
- Therefore, the transfer of resources required to indicate poverty completely could be assessed with this index .

SGP (P2)

It measures severity of poverty. It assigns specific rank order to individual according to the extent of poverty. Sen.'s Modified Index takes into consideration income inequality among poor. In this method, lower is the value closer is the distribution to the poverty line and vice versa. In this method each poor persons is weighted by the square of his proportionate shortfall below the poverty line indicating how poor he is?

ESTIMATION OF POVERTY:

While there are many alternative ways of measuring poverty and While there are also non-income dimensions to poverty we employ the commonly used measure ie HCR to indicate the proportion of poor . The poverty line should be adjusted for changes in inflation and relative prices over time.

4. INCIDENCE OF POVERTY AND INEQUALITIES OF PERSONAL INCOME DISTRIBUTION:

The official poverty ratio for all India and major states are given in Table-1. The table shows that the rural poverty declined by about 10 percentage points and the urban poverty declined by 9 percentage points in 1990's. In almost all the states, the poverty declined in 1990's. However, the rural poverty was above 40 percent in three states viz, Orissa, Bihar and Assam and above 30 percent in three states viz; M.P,U.P, and W.B. In case of urban poverty, states such as Orissa, M.P, Bihar, U.P, etc showed higher incidence in 1999-2000. Therefore, although income poverty declined significantly at all India level, regional disparities are quite high. Commenting on the rate of decline (average annual decline) the 9th plan states that during period 1973-74 to 1993-94 the decline has been 2.05 percent in rural and urban areas and 2.09 percent for the whole country (see table -2). PGR (poverty Gap ratio) during this period declined by 3.31 percent in rural 2.71 percent in urban areas and 3.21 percent for the whole country. SPG (Squared Poverty Gap) during this period also declined by 4.38 percent and 4.13 percent in rural, urban and for the country respectively. It implies that the depth and severity of poverty has reduced faster than the incidence and that overtime there has been trend decline and clustering around poverty line.

INEQUALITIES OF PERSONAL INCOME DISTRIBUTION:

A study of poverty would be incomplete without an understanding of inequality of personal income distribution. The income distribution in different periods during 50's was estimated by N. S. Iyenger and M. Mukherjee (RBI, NCAER) and F.H. Lydall. According to Lydall and NCAER top 10 percent of the households had received about 35 percent of the income. According to RBI and Iyenger and Mukherjee top 10 percent of the household had received about 25 to 28 percent of the income. All the estimates except NCAER bottom 20 percent had received about 8 to 9 percent of the income. Further, both NCAER and RBI suggest that in 1950's the personal income distribution in urban sector was more unequal than in rural sector. World Bank estimates

for 1983, 1989-90, 1994 and 1997 relate to the distribution of household expenditure and are thus not comparable for 1975-76 which relate to distribution of income . From the table –4 , it is clear that between 1983 and 1989-90, there was very little change in expenditure distribution. Between 1989-90 and 1994 also there was little change in expenditure distribution . During the period from 1994 to 1997 the distribution of consumption expenditure became more inequitable . These were the years of liberalization policy. The share of higher 20 percent rose steeply from 39.3 percent to 46.1 percent . The inequality of incomes in 1983, 89-90, 1994 and 1997 must have been far greater than expenditure inequalities. Further, there has been a significant increase in the savings of the household sector since 1983 which reflects a rapid increase in the income of the highest 20 percent households . During the last two decades black income has increased substantially. It is grown from 20 percent of GDP in 1981 to 40 percent by 1995-96. This black income is obviously concentrated in the hands of the highest 20 percent population . If these facts are taken into consideration then we will find that the inequality of incomes has increased significantly during 1980's and 1990's.

5. PUBLIC POLICIES IN THE FORM OF SAFETY NETS :

Human poverty seems to be much higher (40 per cent) than income poverty (26 per cent) in 90s.

- Although income poverty decreased significantly at all India level still some states are having higher levels of poverty (Orissa, Bihar)
- It may be noted that economic growth and human development should go together in order to create opportunities for population.
- As mentioned earlier, Economic Growth is not correlated with some of the Human Development indicators.
- The Economic Reforms introduced in 1991 would lead to greater Economic opportunities for population .
- However, in the context of marketization there is a substantial section of society, which does not have the resources power to enter into market operation.
- Therefore, the problem of poverty is massive and there is a need to improve the conditions of poor with appropriate public policies.

(I) RESTRUCTURING PDS

- The objectives of PDS are
 - . To provide low cost, basic food stuffs to the poor
 - . To increase their nutritional status
- However, there are many problems with the present PDS. They are :
 - . Dependence of poor on PDS is only 16 per cent
 - . Pattern of distribution of grains does not related to the extent of poverty
 - . Diversion of food grains to free market
 - . Inefficient functioning of FCI
 - . Narrowing the price difference between open market and PDS

FOR RESTRUCTURING PDS THERE ARE TWO SOLUTIONS:

- Target PDS to Wage Employment programmes (JRY/EGS) because these programmes lead to self targeting
- The Panchayats should be given responsibility of identifying the poor and managing PDS

(II) RIGOROUS IMPLEMENTATION OF WAGE – EMPLOYMENT PROGRAMMES:

- In Self – Employment Programmes (IRDP) leakages are high. Where as in Wage – Employment Programmes leakages are minimum due to self-targetting.

(III) ACCESS TO INFORMATION AND SOCIAL MOBILIZATION:

- The present Anti- Poverty Programmes are programmes with out peoples participation.
- NGOs and SHGs have to be involved in poverty alleviation programmes
- Therefore, Access to information and social mobilization would help in implementing anti-poverty programmes effectively.
- The Government alone cannot provide social and economic security to population as there are limits to the capacity of administration and finance.
- Therefore, there is a need for PUBLIC – PRIVATE Partnership in tackling problems such as -

POPULATION GROWTH

UN EMPLOYMENT AND UNDER EMPLOYMENT

INCOME AND HUMAN POVERTY