A poverty trend in search of an explanation

What is the issue?

A noticeable absence in the blitzkrieg of information on the economy periodically unleashed by the Union government over the past few years has been estimates of poverty.

The poverty estimates in India

- The first significant dent in poverty in India occurred in the late 1960s, while growth had begun to slow from the mid-sixties.
- The last official estimate of poverty that is comparable over time, undertaken by the Planning Commission, is for the year 2011-12.
- The reason behind this state of affairs is that we have not had a household consumption expenditure survey for a subsequent year, such a survey being the ideal basis for poverty estimation.

What is a household consumption expenditure survey?

- **Household expenditure:** It is the amount of final consumption expenditure made by resident households to meet their everyday needs, such as food, clothing, housing (rent), energy, transport, durable goods (notably cars), health costs, leisure, and miscellaneous services.
- The survey reveals the average expenditure on goods (food and non-food) and services.
- Helps generate estimates of household Monthly Per Capita Consumer Expenditure (MPCE) as well as the distribution of households and persons over the MPCE classes.

What has been the real consumption expenditure situation in India?

- A consumption expenditure survey was conducted by the National Sample Survey Office (NSSO) for 2017-18 but was rejected by the government as defective.
- A leaked version of the report showed that real consumption expenditure had fallen since 2011-12.
- It was observed that a decline in consumption is not possible when income (GDP) has grown.
- However, it was argued that a decline in consumption cannot be ruled out even in the presence of growth, for the income distribution could shift in a way that leaves those at the lower end of the distribution with less real income.
- The Union government's rejection of the report for 2017-18 has meant that we have not been able to say anything about the trend in poverty over a whole decade.

What are the recent developments?

- Two recent studies have made up for this lacuna, emerging as they do, separately, from the International Monetary Fund and the World Bank (henceforth Fund-Bank).
- The first is a working paper by Bhalla, Bhasin, and Virmani and the other is by Roy and van der Weide.
- They give us an estimate of the poverty rate for five data points after 2011-12, poverty is identified as per capita consumption of less than $1.90 per day, being the World Bank's

definition of “extreme poverty”.

- The level of poverty estimated by these two studies varies considerably.
- The one by Roy and van der Weide show twice the poverty level estimated by Bhalla et al.
- They share a common feature, which is an accelerated decline in poverty since 2011-12, with the acceleration commencing in 2014-15 in the Bhalla et al study and in 2016-17 in the former.
- With the workforce concentrated overwhelmingly in agriculture, it would be expected that wages and consumption of rural workers grew.
- Rural poverty declined steadily.
- A decline in urban poverty was to take longer, pointing to the historic role of agriculture in India.
- According to World Poverty Clock in 2021, roughly 6% of the population in India are living in poverty.

How has demonetization impacted the country’s poverty levels?

- Data from the Periodic Labor Force Survey show that the unemployment rate raised sharply after demonetization, which remained higher than in most years of the decade.
- Since inflation has been lower since 2014, real wage growth would be faster, enabling greater consumption and thus an accelerated decline in poverty.
- The annual all-India real wage growth is computed for two groups of rural men, namely non-agricultural laborers, and construction workers.
- The resulting estimates show that for non-agricultural laborers, annual real wage rate growth was either negligible or negative in four out of the five years during the period 2015-16 to 2019-20.
- For construction workers, annual real wage growth was negative in three years, barely positive in one year, and slightly over 1% in only one year.
- There appears to have taken place little real wage growth since 2015-16.
- This finding, that there has been very little real wage growth since 2015-2016, cannot be taken as a rejection of the Fund-Bank estimates of poverty.
- It does, however, underline the need for an explanation of the accelerated decline in poverty.

What is the way forward?

- The Planning Commission estimates in 1997 showed a slowing of the rate of poverty reduction soon after the reforms, resulting in a rise in the number of poor in 1993-94 for the first time in 15 years.
- The then government did not squash the study.
- The delay in undertaking a household consumption expenditure survey leaves us unsure of the trend in poverty in India in recent years.

Reference

https://www.thehindu.com/todays-paper/tp-opinion/a-poverty-trend-in-search-of-an-explanation/article65531910.ece

