Rising poverty - Pandemic-Induced Disparities

Why in news?

- A new study by the Pew Research Center estimates that the COVID-19 pandemic has had a disproportionately deleterious impact on living standards in India and China in 2020.
- The report uses World Bank projections of economic growth to estimate the impact of COVID-19 on Indian incomes.

What are the highlights of the report?

- The lockdown triggered by the pandemic resulted in shut businesses, lost jobs and falling incomes.
- This plunged the Indian economy into a deep recession.
- However, China managed to avoid a contraction, although growth slowed.
- Resultantly, Chinese incomes remained relatively unshaken.
- **Middle class** - The report defines the middle class as people with incomes of approximately Rs. 700-1,500 or $10-20 per day.
- The middle class in India is estimated to have shrunk by 3.2 crore in 2020 as a consequence of the downturn.
- This is if compared with the number it may have reached without the pandemic.
- In other words, India’s middle class may have shrunk by a third due to 2020’s pandemic-driven recession.
- In comparison, there was just a 2% drop in the middle class population in China.
- **Poor** - The number of poor people earning less than Rs. 150 per day has more than doubled, from almost 6 crore to 13.4 crore in India.
- This accounts for nearly 60% of the global increase in poverty.
- The report also noted the record spike in MGNREGA participants as proof that the poor were struggling to find work.
- **Low income group** - The vast majority of India’s population fall into the low income tier, earning about Rs.150 to 700 per day.
- This group shrank from 119.7 crore to 116.2 crore per day, with about 3.5 crore dropping below the poverty line.
- Besides, the richer population who earn more than Rs. 1,500 a day also fell almost 30% to 1.8 crore people.

What is the overall impact?

- In all, in India's case, the sharp economic contraction has pushed as many as 7.5 crore people into the ranks of the poor.
- In contrast, the figure is about 10 lakh in China, whose economy slowed but continued to post growth.
- China's middle class is likely to see a miniscule dip of just one crore.
- In absolute terms, the number of poor in India is posited to have swelled to 13.4 crore.
- This would reverse the gains made in the preceding 9 years when India cut the number of poor by more than three-fourths to an estimated 7.8 crore in 2019.

Why is it a serious concern?

- Pew warned that the situation may actually be worse than estimated.
- The methodology in this analysis assumes that incomes change at the same rate for all people.
- If the COVID-19 recession has worsened inequality, the increase in the number of poor is likely greater than estimated in this analysis.
- Also, the decrease in the number belonging to the high income group is likely less than estimated.
- The middle class may have shrunk by more than projected.

What is the significance?

- The Pew assessment acknowledges the multiple assumptions that inform the study.
- These include varying base years for income/consumption figures, with India's from 2011 and China's from 2016.
- Nevertheless, the study serves as a stark reminder of the economic disparities, both within India and at a comparative level with its northern neighbour.
- The report once again spotlights the widening inequality in India, exacerbated by the pandemic.
- Notably, the lower income populations have disproportionately borne the brunt of job and income losses in the wake of the lockdowns.
- The fiscal policy response to redress this precarious situation has also been underwhelming.
- This is especially true when viewed from the perspective of the pre-pandemic tax cuts for corporates done in an attempt to revive private investment.

How does the future look?

- The number of COVID-19 cases is once again rising across the country.
- Given this, there is a clear and present danger that any nascent economic recovery could be hindered even before it gains traction.
- More worryingly, the number of those sliding into poverty could jump dramatically.
- The government’s policy responses would well have to deal with the ‘lives versus livelihoods’ dilemma.

Source: The Hindu

