



THE SIMMERING DEBATE OVER POVERTY RATE

The Great Indian Poverty Debate is back, with several estimates trying to fill in the gap created by the absence of official data

Maitreesh Ghatak & Rishabh Kumar
feedback@livemint.com
LONDON/BOSTON

As the 2024 elections approach, taking stock of the economy after a decade-long rule of the government led by Prime Minister Narendra Modi becomes a natural talking point. Over the last year, that could be a reason why a debate about India's poverty rate—dubbed the Great Indian Poverty Debate 2.0—has started and shows no sign of being settled.

As is well known, the main issue is that appropriate data has not been published by India's statistical agencies since 2011-12. The government simply decided not to publish the National Sample Survey Consumer Expenditure Survey results for 2017-18, which, from the analysis of the leaked version of the report, does lend credence to the suspicion that it was because the results would have shown an increase in poverty relative to 2011-12.

According to the World Bank's earlier \$1.90 PPP per day line that defines extreme poverty, 23% of India's population was poor in 2011-12, the last estimate we have using official data. The headcount rate for the intervening period is fuzzy. In the absence of official survey data, all the new estimates of poverty that have been proposed are by necessity 'synthetic'—using different data sets and assumptions to make the sample comparable with earlier National Sample Survey numbers—and this makes convergence of views difficult and is likely to keep the debate alive in the foreseeable future.

Under these circumstances, what is a reasonable range within which we can say with some confidence that the current poverty figure would fall? What kind of "smell" tests can one subject various estimates of poverty to, using other economic indicators that are likely to be correlated with it?

Poverty headcounts are measured as the fraction of population (headcount) below a certain pre-determined monetary living standard (the poverty line). The World Bank compares countries using its universal line as a cutoff for extreme poverty, but national authorities in each country also produce their own lines. The Indian government favours the poverty line proposed by the Tendulkar Committee according to which 22% of the population was in poverty in 2011-12.

SHARP DECLINE?

The ongoing Great Indian Poverty Debate 2.0 was triggered by a set of calculations that appeared last year. In an IMF working paper, Surjit Bhalla, Karan Bhasin and Arvind Virmani took the last official data from 2011-12, and assuming that per-person consumption grew at the same rate as the national accounts consumption figures—an assumption that has been questioned almost universally—estimate India had eliminated extreme (\$1.90 adjusted for purchasing power parity) poverty just before the pandemic started.

Soon after, a World Bank working paper used a private household survey, the Consumer Pyramids Household Survey (CPHS) carried out by the Centre for Monitoring of the Indian Economy—whose representativeness of the poor has been questioned—to show that while poverty went down very sharply between 2011-12 and 2019-20, at around 10%, it was far from eliminated. In an unusual move, the World Bank has absorbed these results from private sector data on its new poverty website.

A new development over the last few weeks has deflected from the main thrust of this debate. At a paper presented at Columbia University (not yet in the public domain), the former head of NITI Aayog, Arvind Panagariya, argues that even the pandemic did not arrest the trend decline in poverty, contradicting findings that use the CPHS. But Panagariya himself states that his findings are mostly targeted at the period just before and after the start of the pandemic. Panagariya uses a completely different (albeit nationally representative and official) data set—the

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Periodic Labour Force Survey (PLFS)—published by India's National Statistical Office and not the World Bank poverty lines and does not tie his findings to the IMF and World Bank studies mentioned earlier. Thus, for the purposes of the ongoing poverty debate, the results of this paper are less relevant for the question of structural decline of poverty in India.

EVIDENCE FROM AGRICULTURE

From an academic standpoint, and in the absence of iterations of the same data,



File photo of a family in rural India. The country's poor are mostly concentrated in rural parts.

the burden of proof on researchers is twofold: first, they must show a trend in poverty headcounts—which the authors of the IMF and World Bank working papers do, using a substitute for appropriate data—and secondly, they need to show that the fall in poverty is backed up by other indicators of living standards or engines of poverty reduction, such as growth in productivity or real wages. We believe this second condition has not been fulfilled by any of the contributions to this ongoing poverty debate.

It is a well-known fact that poverty reduction is a low-hanging fruit at the beginning of the growth process, as the modern sector draws in labour from the traditional sectors, but not so much once some amount of poverty has already been eliminated given the inevitable drag of the vast reservoir of surplus labour. Therefore, it is easier to get an economy's poverty headcount down from 50% to 20%, but it takes a lot more targeted effort via redistribution to achieve further reduction—for instance, the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) had a clear and sharp effect of cutting poverty in the late 2000s—or by absorbing the pool of surplus labour fast enough to raise real wages.

The fundamentals of India's economy are less dynamic than often assumed. India's poor are mostly concentrated in rural parts, and especially in the poorest (and most populous) states whose per capita income growth has continued to lag behind the top five richest states of India. The share of India's rural population reduced by a mere three percentage points between 2011 and 2020 and at present stands slightly below two-thirds of total population. In nearly every country where poverty has been eradicated by industrialization, we usually observe a sharp and continuous reduction of the share of agriculture in GDP. In India, the share of agriculture declined sharply from the early 1990s through to 2004 but has remained stuck at 16-17%

ever since. The decline in share of agriculture in the total labour force has also been modest—it stands at 43% at present, starting with just around 50% in 2011. Among other fast-growing emerging economies in Asia (China, Bangladesh, Vietnam), India's agricultural share of GDP is the highest. In fact, during the pandemic years, there was a temporary increase in agriculture's share of GDP. In addition, given that there has been no significant increase in agricultural productivity or real wages of agricultural work-

ers over the last decade, we can conclude that in rural areas, where the majority of the population resides, living conditions are relatively stationary and less indicative of a period of transformational poverty decline.

THE OTHER NARRATIVE

Interestingly, and in contrast to the narrative of Indian poverty's demise, the alternative narrative—stable, or even increasing poverty—is based on estimates which use official and nationally representative data. Prमित Bhattacharya and Sriharsha Devulapalli calculated overall headcount poverty in India at 23% in 2017-18 based on the leaked version of the NSS report that used the Tendulkar line, a marginal increase relative to the figure of 22% in 2011-12. Rural poverty, according to this estimate, increased from 26 to 30%, thus overwhelming a strong decline in urban poverty owing to the weight of the rural population.

Santosh Mehrotra and Jajati Parida derived consumption per-person from the PLFS dataset (the same as Panagariya) and found a slight increase in poverty headcounts (from 22% to 26% over 2011-12 and 2017-18) using the Tendulkar poverty line. Strikingly, using the World Bank's \$1.90 PPP poverty line on the same survey, we get 23% headcount poverty for 2017-18. All these estimates are closer to 23% headcount poverty as per the 2011-12 World Bank estimates.

A natural response to these issues is the often-touted claim that the government has increased welfare support to the poor in recent years. Here, Bhalla et al's own highly optimistic poverty decline itself shows that the public distribution system (PDS) only reduced (by a couple of percentage points) the level, not the trend, in headcount poverty. That is, with PDS, the fraction below the poverty line reduces by a few percentage points in the same year, but the rate of poverty decline stays roughly the same over time. There was certainly a slight upward improvement from the predicted trend during 2020, when rations were increased, but from a structural perspective, there was no causal effect on poverty decline.

HUNGER AND DEPRIVATION

So far, we have argued that the engine of poverty reduction is invisible. But perhaps the same engine had brute force capacity to lift the living standards of the poor. Such downstream effects of lower poverty incidence should be visible in the population by some external metric. Here, again, we see little evidence in the basic standards of living for the entire population. In 2022, leading government officials

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WHAT

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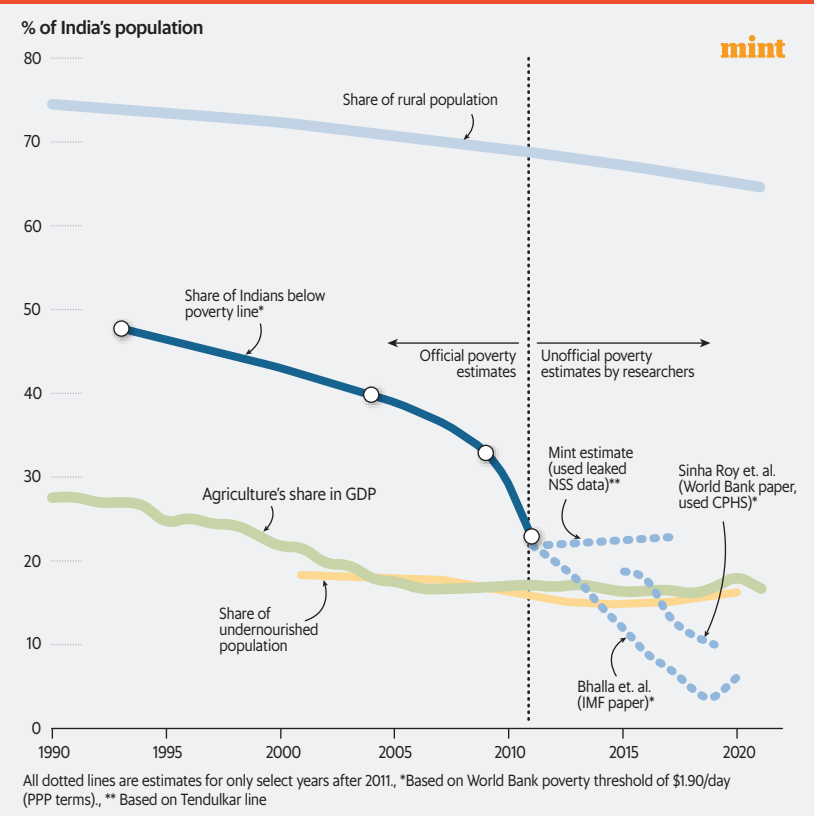
BUT

There's an alternative narrative—that India's poverty rate has remained stable, or even increased. These estimates are closer to 23% headcount poverty as per the 2011-12 World Bank estimates.

SO

The structural composition of the economy, hunger and deprivation, and the movement of migrant workers favour the narrative that the poor are not much better off than they were a decade ago.

ESTIMATES APLENTY



chastised the peer-reviewed Global Hunger Index for ranking India below other clearly impoverished countries like Afghanistan. The criticism of rankings using deprivation indices is indeed well founded in the inequality literature, but their underlying inputs are based on well-regarded data from the Food and Agricultural Organization (FAO), which give headcount incidence of deprivation and use the same consistent methodology over two decades. The Hunger Index uses only one population wide metric (the rest apply to children)—the fraction of population considered undernourished. In 2000-02, 2006-08 and 2013-15, the respective headcounts for India were 18.4%, 17.5% and 14.8% respectively. By 2019-21, there was no reported improvement—the data show that 16.3% of the population remains undernourished. Thus, if poverty did decline as spectacularly as reported, the effect somehow escaped the diets of impoverished Indians.

Individuals are considered vulnerable to poverty if their deprivations are on the margins of poverty, thus increasing their probability of falling back into poverty in the future. A 2022 calculation by UNDP and Oxford's Poverty and Human Development Initiative reports unchanged vul-

nerability to poverty (18% of the population) in India over 2005-06 and 2019-21, using official statistics published by the National Family Health Survey.

Finally, consider the opportunity-security trade-off facing the poor. If there are costs to migrating, and opportunities are sufficient in rural India—which is necessary to explain declining poverty since Indian poverty was concentrated in rural parts—then one should expect a returning migrant to remain in the countryside, rather than migrating back to the city. The 2020 lockdowns and the harsh circumstances of leaving the city should have put a stop to migration back to the city. But, as is well documented now, immediately after these lockdowns eased, there was a swift return of workers to urban India. Together with the fact that agricultural yields have been stagnant, this suggests that there was no pull factor in the agricultural sector that may have explained a rurally driven decline of poverty. The structural composition of the Indian economy, hunger and deprivation,

and the movement of migrant workers and alternative calculation of consumption per-person favour the narrative that the poor are not much better off at present than they were nearly a decade ago. Estimates which extrapolate, or use private sector data, argue that the decline was real and, to be frank, spectacular.

A wide range of estimates pegs India's poverty at between 20% and 25%, prior to the pandemic. In effect, not much appears to have changed.

and, to be frank, spectacular. Bibek Debroy, the chairman of the Economic Advisory Council to the Prime Minister of India, has calculated the poverty headcount to be 18% in 2020-21 (using the PLFS). This is closer to our overall assessment that headcounts from a wide range of estimates puts India's poverty at between 20-25% prior to the pandemic. In effect, not much appears to have changed over the last decade. Mark Twain apparently said, seeing his own obituary, that accounts of his death have been vastly exaggerated. Perhaps the same is true of Indian poverty.

Maitreesh Ghatak is professor of economics at the London School of Economics and Rishabh Kumar is assistant professor of economics at the University of Massachusetts Boston.