

The need to measure poverty

Policymakers must continue to follow the twofold strategy of letting the economy grow fast and attacking poverty directly through poverty alleviation programmes

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In June 2012, the government of India appointed a committee to take a new look at the methodology for measuring poverty. The committee submitted its report towards the end of June 2014. The purpose of this article is to briefly explain the approach taken by this committee.

Growth is not the sole objective of economic policy. It is necessary to ensure that the benefits of growth accrue to all sections of society. Eradication of poverty is thus an important objective. Human beings need a certain minimum consumption of food and non-food items to survive. However, the perception regarding what constitutes poverty varies over time and across countries. Nevertheless, there is a need for a measure of poverty. Only then will it be possible to evaluate how the economy is performing in terms of providing a certain minimum standard of living to all its citizens. The measurement of poverty, therefore, has important policy implications.

History of studies

In India, we have had a long history of studies on the measurement of poverty. There are, in fact, many approaches to it. Some analysts focus on deprivations in terms of health, education, sanitation or housing, but there are many problems associated with this approach including difficulties in aggregating deprivations on several scores derived from different sources. Perhaps the best approach is to look at it in terms of a certain minimum consumption expenditure per person or preferably per household. Any household failing to meet this level of consumption expenditure can be treated as a poor household. This minimum level of consumption expenditure can be derived, in turn, in terms of minimum expenditure on food and non-food items. Minimum food consumption is related to fulfilling certain nutritional standards. However, minimum non-food consumption is more problematic.

Based on the analysis presented in the report, the monthly per capita consumption expenditure of Rs.972 in rural areas and Rs.1,407 in urban areas is treated as the poverty line at the all-India level. This implies a monthly consumption expenditure of Rs.4,860 in rural areas or Rs.7,035 in urban areas for a family of five at 2011-2012 prices. This level of private expenditure has to be seen in the context of public expenditure that is being incurred in areas like education, health and food security. The actual 'well-being' of the household will be higher than what is indicated by the poverty line. Based on the methodology outlined in the report, the poverty ratio at the all-India level for 2011-2012 is 29.5 per cent. Working backwards, this methodology gives the estimate for 2009-2010 at 38.2 per cent.



URBAN POVERTY: Any household failing to meet a certain minimum consumption expenditure can be treated as a poor household. Picture shows a stretch of Dharavi slum in Mumbai. — PHOTO: AP

This is in contrast to the 21.9 per cent as estimated by the Tendulkar Committee methodology for 2011-2012 and 29.8 per cent for 2009-2010.

Rural and urban poverty baskets

Are there conceptual problems associated with the new poverty line? Our group has gone back to the idea of separate poverty line baskets for rural and urban areas. This stands to reason. This is also consistent with the way we have derived the poverty line. Basically, there are three components in the poverty line: the food component, the normative level of expenditure for essential non-food items such as education, clothing, conveyance and house rent, and behaviourally determined expenditure for other non-food items. The group has been criticised for going back to calorie norms. The new poverty line is not limited only to calorie intake but also extends to fats and proteins. It is true that there is no direct correlation between calorie and nutrition. There are many other factors which contribute to nutrition. But taken in conjunction with other factors mentioned in the report, relating minimum food consumption to calorie, fat and protein requirements appears to be a reasonable approach. Without such norms, the minimum level may turn out to be arbitrary. The Tendulkar Committee itself did not abandon calorie norms. It took the urban poverty basket as given. It also claimed that the poverty line it recommended ultimately satisfied the norms of the U.N. Food and Agriculture

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Organization. The introduction of norms for certain kinds of non-food expenditures by our group is an innovation. It is a simple recognition of the fact that these expenditures constituted a significant part of total consumption. In the absence of any other normative criteria, the median fractile class expenditures were treated as the norm. In fact, non-food consumption as a proportion of total consumption has been steadily rising. That is why the group decided to take a new look at the basket rather than updating the old basket for price changes.

The concept of poverty

Poverty is easy to perceive but difficult to be precise about. There is a need to distinguish the rural poverty line from the urban poverty line and then a need to work out State-specific poverty lines. While viewing the problem over time, the appropriate price index also becomes an issue. All of these have to be done in a consistent way. That is why though conceptually simple, measuring poverty is not that easy. The frequently used World

Bank measure of poverty has no strict methodological roots. Instead of going for an absolute poverty line, one can think in terms of relative poverty. One can define the poverty line in terms of median or average consumption expenditure. The group has done that and reported the results in one of the chapters.

The methodology adopted by the group on poverty is based on sound principles. However, as the group has clearly indicated, this measure is not considered as an appropriate basis for determining entitlements under various programmes. Each programme that focusses on a particular kind of deprivation may have to choose that criterion which is most appropriate. But to obtain a general picture of progress in the country, a suitable measure on poverty is useful. Poverty is not the same as hunger. Hunger is worse. Nor does the poverty line measure a comfortable standard of living. It represents the absolute minimum. Obvious policies should work towards not only reducing the number of people below that line but also ensuring that people generally enjoy a much higher standard of living.

Numbers do indicate that the poverty ratio in India is coming down, though it may remain at a high level. Policymakers must continue to follow the twofold strategy of letting the economy grow fast and attacking poverty directly through poverty alleviation programmes.

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