Raise Growth, Reduce Poverty

Time now to think of universal supplementary income in the fight against poverty

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Poverty is in the news again with the 2019 Economics Nobel going to Banerjee, Duflo and Kremer. While it is important to know how policies operate at grassroots level, we must not overlook the relevance of macroeconomic policies in ameliorating poverty. In this context, a twofold approach is needed.

First, growth is important. Growth can reduce poverty in two ways. It does affect all sections of the society. However, the extent to which the bottom deciles of the population will benefit will depend upon how fast and inclusive the growth is – thus composition of growth also matters. Besides, strong growth increases the resources available to public authorities and this will enable them to increase social sector expenditures.

In the post-reform period, poverty ratio in India, based on Tendulkar methodology, declined 0.74% per annum during 1993-94 to 2004-05 while it declined 2.18% during 2004-05 to 2011-12. In fact, the number of poor came down by 137 million in the latter period. According to Rangarajan Committee methodology, the decline between 2009-10 and 2011-12 is 92 million, which is 46 million per annum.

The impact of higher growth on poverty reduction can also be seen from the decile-wise growth in per capita consumption expenditure. A comparison of the growth rate of per capita consumption (in real terms) during the periods 1993-94 to 2004-05 and 2004-05 to 2011-12 shows that the average growth of per capita consumption of the top five deciles is more than that of the bottom five deciles. However, the ratio of the average growth rates of the two periods is higher for the bottom five deciles as compared to the top five.

Faster reduction in poverty is true even if we take multidimensional poverty index (MPI). According to the Report of the Global MPI, 2018, India has made momentous progress in reducing multidimensional poverty. The incidence of multidimensional poverty was almost halved between 2005-06 and 2015-16, climbing down to 27.5%. Within 10 years, the number of poor people in India fell by more than 271 million.

Thus, whether we look at consumption based poverty or MPI, poverty declined faster during the high growth period. It may be noted that real per capita GDP growth was 7.0% per annum during 2004-05 to 2011-12 as compared to 4.4% per annum during 1993-94 to 2004-05.

The pattern of growth matters for reduction of poverty. Agricultural and rural growth is important for raising the incomes of bottom deciles. Agricultural sector recorded highest growth rate of 4.2% per annum during 2004-05 to 2011-12. Construction sector also generated a lot of employment. Rural real wage growth was higher than the earlier periods. One could see rise in incomes of farmers, landless labourers and other rural non-farm workers. These factors had significant impact on poverty reduction.

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In the post 2011-12 period, we do not have data to examine trends in poverty as government is yet to release the consumer expenditure data for the recent period. But, during the period 2011-12 to 2018-19, GDP growth and agriculture growth were lower than those of the earlier period. Terms of trade were not in favour of agriculture and rural wage growth declined. The economy showed a GDP growth rate of 5% in the first quarter of FY20 and it is expected to be around 6% for this fiscal year. We have concerns about the behaviour of the poverty ratio in the light of the slowing down of growth recently.

Recently, there has been a lot of discussion on universal basic income (UBI) in India. On UBI, it is necessary to decide first whether the income supplements should be 'universal' or limited to certain easily identifiable groups. Most of the calculations involving the provision of income to one and all are beyond the capabilities of present central government budget, unless the basic income is fixed at too low a level. It is extremely difficult to cut the so called implied subsidies or hidden subsidies in order to fund resources, as some proponents argue. These supports range from subsidised bus fares to subsidised power tariff.

This is not to deny that there is scope for reduction of subsidies. The attempt must be to think in terms of reducing the number of beneficiaries through easily definable criteria. Elaborate exercises for identification will defeat the purpose. It is true that a universal scheme is easy to implement. Strict targeting will run into complex problems of identification and lead to exclusion and inclusion errors.

Basic income must be turned essentially into a supplemental income. One alternative to determine the required income supplement can be from the Rural Employment Guarantee Scheme. The total annual income supplement can be equivalent to 100 days of the wages prescribed under MGNREGA, equivalent to Rs 20,000 per year. What is feasible as a scheme is one which limits the total expenditure to around 1.5-2% of GDP which is between Rs 2 and 3 lakh crore, one half of which can come from phasing out some existing expenditures and the other half from fresh revenue raising.

We need to evolve a criterion, which can restrict the total cost to this amount. Perhaps, one way of doing it will be to limit it to all women above a certain age, say, 30, with a request for the better off to forego the income supplement.

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