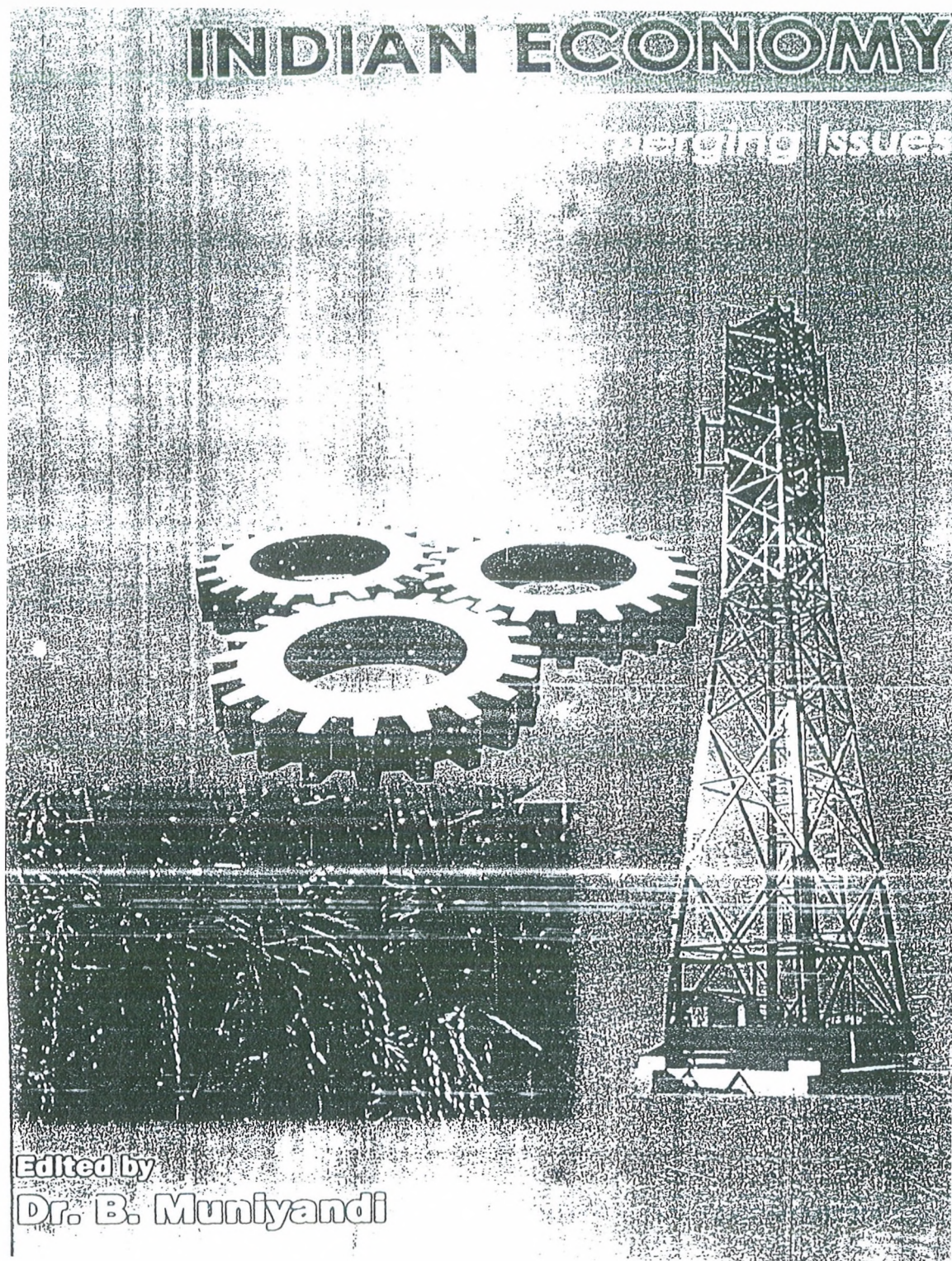


INDIAN ECONOMY

Emerging Issues



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IMPACT OF ECONOMIC REFORM ON POVERTY IN INDIA – A REVIEW OF CRITICAL METHODOLOGICAL ISSUES ON POVERTY MEASUREMENT

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INTRODUCTION

The Indian economy is the 12th largest in USD exchange rate terms. India is the second fastest growing economy in the world. India's GDP has touched US\$1.25 trillion. The crossing of Indian GDP over a trillion dollar mark in 2007 puts India in the elite group of 12 countries with trillion dollar economy. The tremendous growth rate has coincided with better macroeconomic stability. India has made remarkable progress in information technology, high end services and knowledge process services. It is the outcome of the economic reform of 1991.

But the impact of economic reform was not inclusive in nature. The poverty has not been reduced in all the states. Still the poverty and unemployment were the chronic economic deceases of Indian Economy. Though the official estimates indicate declining trend in the poverty, there was widespread criticism in the estimation of poverty by the planning commission. Further the government using the Commission's estimates has been claiming large reduction in poverty in both rural and urban India under economic reforms, even though the unemployment situation was getting worse, food grain consumption and cloth consumption were falling, average calorie intake as well as protein intake showed decline and there was considerable agrarian distress. Moreover, human development, India, already pathetically low at rank of 124 (out of 177 countries) in 2000, fell to 127 in

specific objectives of the study are as under

Objectives

1. To analyse the trends in the official poverty in India before and after economic reform.
2. To assess the poverty estimates based on different methodology by the economists and find out the impact of economic reform on poverty.

Trends in Poverty

Poverty is one of the main issues, attracting the attention of sociologists and economists. It indicates a condition in which a person fails to maintain a living standard adequate for a comfortable lifestyle. Though India boasts of a high economic growth, it is shameful that there is still large scale poverty in India. Poverty in India can be defined as a situation when a certain section of people are unable to fulfill their basic needs. India has the world's largest number of poor people living in a single country. Out of its total population of more than 1 billion, 350 to 400 million people are living below the poverty line. Nearly 75% of the poor people are in rural areas, most of them are daily wagers, landless laborers and self employed house holders. There are a number of reasons for poverty in India. Poverty in India can be classified into two categories namely rural poverty and urban poverty. The table-1 shows the trends in rural and urban poverty in the pre reform period.

Table 1 : Incidence of Poverty (Percent of Population below Poverty Line)

CATEGORY	1972-1973	1977-1978	1983-84	1987-1988
Uniform Recall Method				
Rural	54.1	51.2	40.1	33.4
Urban	41.2	38.2	28.4	20.1
All India	51.5	48.3	48.3	29.9

Source : Economic Survey, Various Issues.

Precisely the contrary has been shown to hold for certain types of investment essential for an irrigation-dependent agriculture like India's such as irrigation projects of all types. Private tube-well investment is profitable only where the water table remains high owing to seepage from state-built canal irrigation systems, and where community integrated watershed management (planting trees and using check-dams) is encouraged with state help. Private over-exploitation of ground water has now reached a crisis point in many states in India, with the water table falling rapidly and with even the richest farmers unable to reach water after investing heavily in deep bore-wells and submersible pumps. Other infrastructure investment such as rural power projects, roads, bridges, school buildings, clinics and so on, are never undertaken by private investors but are vital for stimulating development and providing livelihoods both directly to those employed in building them and through the important multiplier effects on employment and incomes, of the increased wage incomes being spent on simple consumer goods and services within the villages. The market for machine made textiles and other goods also thereby expands.

The net result of the unwise cut-back of public investment and in RDE has been a slowing of the rate of output growth—both food grain and non-food grain growth rates almost halved in the nineties compared to the pre-reform eighties, and both have fallen below the population growth rate even though this too is slowing down. This has led to declining per capita output during the nineties, for the first time since the mid-sixties agricultural crisis, which however had been short-lived, whereas per head agricultural output continues to fall today even after a decade. The Agricultural Universities had earlier played a major role in developing and helping to disseminate new crop varieties, and the cut in funding for research in these Universities by affecting the search for better rain-fed crop varieties, has also contributed to the deceleration in the growth of yields. With increasing use of land for commercial and residential purposes, the gross sown area in India has remained static since 1991, so it is only through yield rise that output growth can be maintained and it is here that the failure is evident. The combination of decline in state RDE and the near-halving of agricultural growth has produced a major crisis of rising unemployment. There is both fast growing open unemployment and a fall in number of days employed of the work force during the economic reform period. Even with constant labour coefficients (labour days used per unit of crop output) a near halving of employment growth was to be expected given the decline in crop output growth, but the decline in jobs has been even more as mechanization especially of harvesting and use of herbicides has led to falling labour coefficients. Furthermore the rural non-farm employment growth, which was robust in the 1980s owing to reasonably high state RDE, had declined in the nineties. The ratio of labour force to population, or the participation rate, has declined (lower participation rate reflects difficulty of finding work), the

10 of work force resources deployed cause unemployment has been growing at over 5% annually. The elasticity of employment with respect to output was 0.7 during 1983 to 1993-4 but has declined to 0.01 or virtually zero, taking the reforms period 1993-4 to 1999-00. No-one should imagine that unemployed rural workers are migrating and finding employment in industry: there have also been massive job losses in manufacturing during the reform period and the share of the secondary sector in GDP has fallen from 29 to around 22 percent during the nineties, in short India has seen de-industrialization. The agricultural depression has reduced the share of agriculture in GDP from about a third at the beginning of the nineties to just over a fifth a decade later, but the labour force and population dependent on agriculture has hardly fallen reflecting decline in per head incomes. Thus both the material productive sectors have declined and the only sector which has ballooned in an abnormal manner is the tertiary or services sector which now accounts for over half of GDP. Only a small proportion of the services sector comprises IT-enabled high income services, business process outsourcing, domestic tourism services and the like. The major part in employment terms, is still low-productivity activities in which the rural displaced workers stagnate at low income levels, servicing the requirements of the upper income elites who have been improving their real income position fast. Disposable incomes have risen even faster for this segment since a part of the neo-liberal reforms include reduction in direct tax rates. Advanced countries usually have this upper-income 10 to 15 percent minority of Indians in mind when they demand market access for their manufactures and agricultural products, and no doubt 100 to 150 million people is a large potential market. But the situation of the vast majority of the mainly rural population who do not merely stagnate at low income levels but whose position is considerably worse today than a decade earlier, cannot be ignored: a potentially highly destabilizing situation is in the making. While income and employment reduction through deflationary policies is the first main reason for loss of purchasing power in rural India, the second main reason is the unwise opening to global markets through full trade liberalization at a time from the mid-1990s, when global markets went into recession and primary product prices started falling—a fall which continues to this day.

The deeply disturbing feature of the current thrust for liberalizing trade is that it has been taking place within an investment-reducing, deflationary regime. As soon as trade was liberalized from 1991, within a few years, 8 million hectares of food-growing land were converted to exportable crops leading to a fall in per head food grain output, but farmers did not benefit since their exposure to steeply falling global primary prices from mid-decade plunged them into spiralling farm debt and insolvency. Nearly nine thousand recorded farmer suicides in India since 1998 are only the tip of the iceberg—there is a pervasive agrarian crisis and food grain

only in 1973-74 using the 28th Round NSS data, a date three decades in the past. For that year at prices then prevailing, the rural and urban poverty lines were Rs.49.09 and Rs. 56.64 per capita per month, since at these expenditures the 2400 rural and 2100 urban calorie intake norms were satisfied. It was found that 56.4 percent of the rural and 49 percent of the urban population were below these poverty lines. There was no official attempt to update the poverty lines on the basis of the available current norm. It is a curious matter of chance that poverty lines were Rs.49.1 and Rs 56.6 while the corresponding poverty percentages were 56.4 and 49.181 information on what expenditure was actually required to meet the nutrition norm. Rather, the three decade old poverty lines (Rs 49.1 and Rs.56.6, rural and urban), were simply adjusted upwards by using a price-index, while assuming an invariant 1973-74 consumption basket. The adjusted poverty line was then applied to the cumulative distribution of persons by expenditure groups, in current NSS data to obtain the 'poverty percentage'. Thus the current data was, and is being used selectively, with only the distribution of persons by expenditure classes being used, and the associated energy intake part being ignored completely. The declining energy intake corresponding to official poverty estimates are never mentioned, nor do academics following the same method ever mention the lowered calorie intake corresponding to their estimates (vide the papers in *Economic and Political Weekly*, 2003, special number tendentiously titled 'Poverty reduction in the 1990s').

Academics writing earlier (R. Nayyar 1991) however, had estimated poverty both by direct inspection of current data and by the official method, and had explicitly noted that the official poverty estimate diverged more and more over time from the much higher poverty percentages yielded by current data. As the base year of the official method gets further back in time the divergence has assumed absurd proportions. In 1993-4 the official price index adjustment method gave a rural poverty line of only Rs.205, and 37.3 % were below it in the 50th Round distribution of persons by expenditure groups, and so deemed to be 'in poverty', but the fact that at this poverty line only 1,970 calories per diem could be accessed (over 400 calories below the RDA) was never mentioned. Inspecting the same current 50th Round data showed that 74.5% of persons had an intake below the RDA of 2400 calories, because their Globalization and the Washington Consensus 182 monthly expenditure was below the Rs.325 at which the nutrition RDA could be accessed. Mehta, and Venkataraman (2000) pointed out for the 50th Round data, this large divergence between the results of applying the official definition, and following the official price-adjustment procedure, in a short but significant paper. They do not refer to Nayyar (1991) who had already pointed out the divergence for earlier Rounds and had also analysed state-wise divergence, but unfortunately her book had not been accorded the importance it deserved. In 1999-2000 as we already noted the official

estimate gives only 27.4 percent in poverty, because these are the persons spending below the price-index adjusted official poverty line of Rs.328, but again the further lowering of the associated energy intake standard to 1890 calories, over 500 calories per day below RDA, is never mentioned. The same current 55th Round data shown in Table 8 continues to give 74.5 percent of persons actually in poverty, namely with intake below 2400 calories because their expenditure was below the Rs.570 required to access the RDA. (However, greater poverty depth is seen by 1999-00, with more of the population moving below 2100 calories as compared to 1993-94, and 3 percent more being below 1800 calories). Thus in 1993-4 the official method had left out 37.2 percent of the total rural population who were actually poor, while by 1999-2000 the official method was leaving out 47.4 of the total rural population or around 350 million persons who were actually poor.

CONCLUSION

There was widespread criticism that the Planning Commission was producing unrealistically low poverty estimates. Further the government using the Commission's estimates has been claiming large reduction in poverty in both rural and urban India under economic reforms, even though the unemployment situation was getting worse, food grain consumption and cloth consumption were falling, average calorie intake as well as protein intake showed decline and there was considerable agrarian distress. These official claims of poverty reduction were based on an incorrect method of poverty estimation and in reality, poverty has been rising under reforms in both rural and urban areas, with the rural situation worsening more. By 2004-5 nearly two-thirds of urban persons were in poverty, unable to spend enough to obtain even a modest nutrition standard of 2100 calories energy daily while the rural population similarly was not able to afford the official rural nutrition norm of 2400 calories and the poverty had reached 87 percent, the highest ever in three decades.

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