Redefining Poverty

This article is based on editorial **"Rethink poverty — and policy"** that appeared in The Indian Express on 29 June 2019. It talks about the need to redefine poverty in India and subsequent changes in policy.

India witnessed an astonishing **poverty decline between 2011-12 and 2016-17** (as per the Tendulkar poverty line of Rs 44 per person per day in 2017-18 prices, just 4.5 per cent of the population is below the poverty line). Also as per various scholars, a**gricultural growth is thrice more effective than any other means of poverty alleviation.**

Poverty is no longer about food, hence there is a need for government to strive to free up our food producers rather than keeping them as prisoners of policy. Time has arrived to rethink poverty: Policymaking should concentrate on what causes growth, not what causes poverty to decline.

Why there is a need to review defining poverty in India?

- Policymaking on poverty in **India considers food consumption as the ultimate criterion of poverty.** Hence, India built up an elaborate ecosystem of food production, consumption, and distribution.
    - But this ecosystem is biased against the poor farmer, as the Essential Commodities Act, Food Corporation of India, and Agricultural Produce Marketing Committee all work against the interest to the farmer.
    - Time has come to dismantle this ecosystem —, against climate change mitigation and also against efficient use of water and energy.
- **Poverty is now not just about food but living standards —** sanitation, housing, piped water, electricity, education, health, and jobs. And on each of these elements, the focus should shift to quality, not quantity.
- Since **poverty is a dynamic concept,** so it is not fair to define poverty in absolute terms, rather it must be defined in relative terms.
    - Most European nations have a relative definition of poverty — that is, a fixed

    proportion of the median income.
  - India should move towards that by the end of 2024, as India will likely be a $5 trillion economy by that time.
- But before India moves to a relative definition, India should forthwith move towards an **updated poverty** line, a poverty line consistent with our income status today as a lower-middle income country (as India is no longer a poor economy, as it was in the 1990s).

Also, this record decline in poverty came in the middle of demonetisation, GST, two drought years, and lower than potential GDP growth. Reason for this astonishing feat can be attributed to better targeting of government programmes (made possible by expanded and extensive use of direct benefit transfer (DBT).

How to balance welfare v/s economic growth?

- The Indian economy requires **adequate investments in critical areas** such as road, railways and water. Therefore, the government needs to rationalise its expenditure and tax rates to ensure the reallocation of resources.
- Though India's pace of poverty reduction has improved over the last five years, it can be augmented through a **targeted basic income policy** which will free up resources for other sectors of the economy.
- The new approach towards poverty alleviation should involve targeted income transfers.
  - Under the targeted basic income programme, the government transfers the **poverty gap** (the difference between per capita consumption of the household and the poverty line faced by the household) into the bank account of the poor
  - The poverty gap is defined as the ratio of average per capita consumption of the poor to the poverty line.
  - In 2011–2012, the average per capita expenditure of the poor was Rs. 708 per person per month and the poverty line was Rs. 847.
  - With perfect targeting (that is, complete knowledge of who is poor and by how much), a transfer of Rs. 139 per person per month (or Rs. 1,668 a year) would enable the target of zero percent Tendulkar poverty to be reached.
- Whereas with the current level of government spending in PDS, MGNREGA, food subsidy, the government spends about Rs. 58,000 a year to bring one person out of poverty.
- In 2011–2012, there were approximately 250 million Tendulkar Line poor in India. Achievement of zero poverty would require only an expenditure of under Rs. 42,000 crore, or less than 0.5 per cent of GDP.

Since for any society, two concerns are paramount—economic growth and improvement in the well-being of the poor. Growth is needed to finance redistribution. This redistribution typically takes two forms—productive investment, for example, the financing of infrastructure, expenditures on health and education, and simple transfers of income.

But given scarce capital and developmental nature of the Indian economy, it is imperative that Policymaking should strive to make the best use of every single rupee, For that to happen, issues must be looked to be resolved from a qualitative perspective rather than only quantitative perspective, and in this route it is best to start by redefining -What is poverty!

Drishti input

India has done remarkably well in poverty reduction, but as India aspires the status of global power, it needs to redefine poverty and make subsequent changes in policymaking. Commen