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POVERTY AND INEQUALITY IN INDIA – A REVIEW

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Abstract:

This paper aims to give a new set of integrated poverty and inequality estimates for India and Indian states for 1987-88, 1993-94 and 1999-2000. The poverty estimates are roughly consistent with independent substantiation on per capita expenditure, state domestic product and real agricultural wages. They demonstrate that poverty decline in the 1990s preceded more or less in line with earlier trends. Regional disparities increased in the 1990s, with the southern and western regions doing much better than the northern and eastern regions. Economic inequality also increased within states, especially within urban areas, and between urban and rural areas. We momentarily observe other development indicators, relating for instance to health and education. Most indicators have continued to improve in the nineties, but social progress has followed very diverse patterns, ranging from accelerated progress in some fields to slow down and even regression in others. We find no support for sweeping claims that the nineties have been a period of 'unprecedented improvement' or 'widespread impoverishment'

Key Words: *Poverty, development, development indicators, Poverty estimates, capita income, per capita-expenditure etc.*

Poverty trends in India in the nineties have been a matter of extreme controversy.[1] The debate has often engendered more heat than light, and confusion still remains about the extent to which poverty has declined during the period. In the absence of convincing evidence, extensively divergent claims have flourished. Some have disputed that the nineties have been a period of extraordinary improvement in living standards. Others have asserted that it has been a time of widespread impoverishment.[2] Against this background, this paper gives a reassessment of the evidence on poverty and inequality in the nineties.

Up to now, the arguement on poverty in the nineties has emphasised overpoweringly on changes in the 'headcount ratio' – the proportion of the population below the poverty line. Consequently, we start with a reassessment of the proof on headcount ratios and related poverty indexes, based on National Sample Survey (NSS) data. In particular, we present a new series of internally consistent poverty indexes for the last three 'quinquennial rounds' (1987-88, 1993-94 and 1999-2000). The broad picture emerging from these revised estimates is one of sustained poverty decline in most states (and also in India as a whole) during the reference period. It is important to note, however, that the increase in per capita expenditure associated with this decline in poverty is quite modest, e g, 10 per cent or so between 1993-94 and 1999-2000 at the all-India level.

Poverty Indexes in the Nineties:

We start with an examination of household per capita consumption and the associated poverty estimates. Consumption is only one element of well-being, but it is an important element, and much interest is rightly attached to the Planning Commission's periodical estimates of poverty-based on National Sample Survey data. The most widely-used poverty indicator is the 'headcount ratio' (hereafter HCR), i e, the proportion of the population below the poverty line.

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The latest year for which relatively not controversial HCR estimates are available is 1993-94, corresponding to the 50th Round of the National Sample Survey, a 'quinquennial' round. This round was followed by a series of so-called 'thin rounds', involving smaller samples and somewhat different sampling designs; indeed, in the last of these, the 54th Round, the survey was only in the field for six months rather than the regular year and is therefore most improbable to be comparable with any preceding survey. These slight rounds suggested not only that poverty remained more or less unaffected between 1993-94 and the first six months of 1998 (the reference period for the 54th Round), but also that average per capita expenditure languished during this period of rapid economic growth. This is very difficult to square with independent evidence, e g, from national accounts statistics. As things stand, we do not have a good understanding of why the slight rounds give what appear to be abnormal results, and until that mystery is resolved, our confidence in our other results must remain qualified.

Proposed Adjustments:

This paper presents a new series of consistent poverty estimates for the most recent quinquennial rounds (1987-88, 1993-94 and 1999-2000).[3] Essentially, these occupy four major disappearances from the official estimates. First, an endeavour is made to 'adjust' the 55th-Round estimates to attain comparability with the earlier rounds. Second, we use ameliorated price indexes to update the 'poverty line' over time, and to derive state-specific poverty lines from the all-India poverty line. Third, a similar method is used to derive an explicit estimate of the suitable gap between rural and urban poverty lines (in contrast with the often implausible ruralurban gaps that are implicit in the official estimates). Fourth, in addition to the corrected 'headcount ratios', we present estimates of a potentially more informative poverty indicator, the 'poverty-gap index'. Each of these departures calls for further discussion.

The possibility of 'adjusting' the 1999- 2000 poverty estimates arises from the fact that the 55th Round questionnaire retained the '30-day recall' (and 30-day recall only) approach for a number of items such as fuel and light, non-institutional medical care, and large categories of miscellaneous goods and services. Further, it turns out that expenditure on this intermediate group of commodities is highly correlated with total expenditure.4 Expenditures on these comparably surveyed goods can therefore be used to get an idea of trends in total expenditures, and hence, of trends in poverty.

Adjusted Estimates:

The new estimates of the headcount ratios together are given with the official estimates going back to 1973-74. The completely adjusted figures are lower right through because we treat the rural poverty line in the 43rd Round as our baseline so that, with larger rural-urban gaps in the poverty estimates, we estimate lower poverty overall. If instead, we had considered the urban poverty line as base, the adjusted figures would have been higher than the official figures. From 1987-88 to 1993-94, the adjusted headcount ratio falls more speedily than the official headcount; this is because our price deflators are mounting less speedily than the official ones. From 1993-94, the adjusted figures fall more slowly because the effects of the price adjustment are more than offset by the correction for questionnaire design. The estimates for the thin rounds – which look very different – are included to remind us of the residual uncertainty about our conclusions, and will be discussed further.

Regional Contrasts:

For interpretation and comparison of poverty declines over time, it is helpful to supplement the poverty indexes with information on the growth rate of average per capita consumption expenditure (hereafter APCE).

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State-specific estimates of APCE growth between 1993-94 and 1999-2000, where states are graded in ascending order of APCE growth for rural and urban areas combined.[4] Here, a astonishing regional pattern emerges: except for Jammu and Kashmir, the low growth states constitute one contiguous region made up of the eastern states (Assam, Orissa and West Bengal), the so-called BIMARU states (Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh), and Andhra Pradesh. The high-growth states, for their part, consist of the southern states (except Andhra Pradesh and Telangana), the western states (Gujarat and Maharashtra) and the northwestern region (Punjab, Haryana and Himachal Pradesh). Additionally, it is interesting to note that this pattern is convincingly consistent with independent data on growth rates of per capita 'state domestic product' (SDP). With a couple of exceptions on each side, all the states in the 'low APCE growth' set had comparatively low rates of per capita SDP between 1993-94 and 1999-2000, and on the contrary, all the states in the 'high APCE growth' set had comparatively high annual growth rates of per capita SDP (the correlation coefficient between the two series is 0.45).[5]

Agricultural Wages:

Agricultural wages give an important source of further information on poverty. There are, actually, two ways of thinking about the relevance of this information. First, real agricultural wages are highly correlated with standard poverty indexes such as headcount ratios: where poverty is higher, wages tend to be lower, and vice versa. Dependent on this statistical association, real wages can be utilized to give some information about other poverty indexes. Second, it is also possible to think about the real wage as a rough poverty indicator in its own right. The idea is that, if the labour market is competitive (at least on the supply side), then the real wage determines the 'reservation wage', that means the lowest wage at which labourers are prepared to work. This has direct palpable value as a signal of the deprived situations in which people live (the more frantic people are, the lower the reservation wage), independently of the indirect palpable value arising from the statistical association between real wages and standard poverty indexes such as the headcount ratio.

Elaborate information on agricultural wages is accessible from Agricultural Wages in India (AWI), an annual publication of the Directorate of Economics and Statistics, Ministry of Agriculture. The data primarily come in the form of districtspecific money wages.[6] These are typically cumulative by means of the numbers of agricultural labourers in different districts as weights, and shrieked using the Consumer Price Index for Agricultural Labourers (CPIAL). The quality of this information is not exclusively clear, but available evidence recommends that it is enough for the purpose of broad comparisons.[7]

The 'EmploymentUnemployment Surveys':

The National Sample Survey's 1993-94 and 1999-2000 employment-unemployment surveys (EUS) also include consumer expenditure data. These can be employed for further analysis of poverty trends. This task has been undertaken in a recent paper by Sundaram and Tendulkar (2002). They take cognizance of that the consumption survey in the 1999-2000 EUS employs the traditional 30-day reporting period, but diverges from the standard questionnaire by only asking an abbreviated set of questions. However, the authors observe that, in those cases where the questions have comparable coverage, the means from the EUS, employing the traditional 30-day reporting period, are typically close to those from the 30-day questionnaire in the main consumption survey. Based on this communication, they argue that the 30-day questions in the main 1999-2000 survey were not much disfigured by the seven-day questions that were asked alongside them. In this version of events, the major source of incomparability between the 55th and 50th Rounds is not

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the defect of the 30-day questions, but rather the revised treatment of the low headcount ratios in various states was 0.79 in absolute value, rising to 0.91 if Kerala is excluded. In 1993-94, the correlation coefficient was 0.87 in absolute value, with or without Kerala. Interestingly, if 'official' HCRs are used instead of our adjusted HCRs, the correlation coefficients come down quite sharply (e g, from 0.91 to 0.73 in 1999-2000 and from 0.87 to 0.54 in 1993-94, without Kerala in both cases). This can be tentatively regarded as a further indication of the plausibility of the proposed adjustments. Given the keen association between real wages and rural poverty, the growth rates of real wages over time offer helpful supplementary evidence on poverty trends. According to recent estimates based on AWI data, real agricultural wages were growing at about 5 per cent per year in the eighties and 2.5 per cent per year in the nineties.[8] Hence the real agricultural wages were growing considerably faster in the eighties than in the nineties. But even the reduced growth rate of agricultural wages in the nineties, at 2.5 per cent per year, points to momentous growth of per capita expenditure among the poorer sections of the population and reinforces our earlier findings on poverty reduction. In fact, this decreased growth rate is a little higher than the growth rate of average per capita expenditure (1.5 per cent per year) that maintains our estimated declines of rural headcount ratios and headcount indexes between 1993-94 and 1999-2000.

Conclusions:

A number of helpful lessons emerge from this re-examination of the evidence on poverty and inequality in the nineties. First, there is reliable evidence of progressing poverty decline in the nineties, in terms of the 'headcount ratio'. The degree of the decline, however, remains somewhat uncertain at this time. Given the methodological changes that took place between the 50th and 55th Rounds of the National Sample Survey, the official figures (implying a decline from 36 per cent to 26 per cent in the all-India headcount ratio between 1993-94 and 1999-2000) are, sternly speaking, unacceptable. We have discussed alternative estimates, based on comparable data from the two surveys. As it turns out, these adjusted estimates suggest that a large part of the poverty decline associated with official figures is 'real', rather than derived by methodological changes. While further substantiation and investigation of the adjustment procedure is required, the results have been supported by one independent study using an entirely different methodology (Sundaram and Tendulkar 2002). Additionally, the adjusted figures robust reasonably well with related evidence from the national accounts statistics, the employment-unemployment surveys, and data on agricultural wages.

Eventually, we have debated against reading these trends simply as evidence of the impact (positive or negative) of 'liberalisation'. For one thing, the impact of liberalisation is a 'counterfactual' question, and much depends on how the alternatives are specified. For another, much else has happened in the nineties, other than liberalisation. The evidence we have reviewed is of much interest in its own right, independently of the liberalisation debate. Much work remains to be done in terms of identifying the causal relations underlying the trends we have identified.

Index of notes:

(1) See Datt (1999a), Gupta (1999), Bhalla (2000a, 2000b), Deaton and Tarozzi (2000), Drèze (2000), Lal, Mohan and Natarajan (2001), Nagaraj (2000), Ravallion (2000), Sen (2000), Sundaram and Tendulkar (2000, 2001, 2002), Visaria (2000), Sundaram (2001a, 2001b, 2001c), Chandrasekhar and Ghosh (2002), Datt and Ravallion (2002), among other.

(2) On the first position, see, e g, Bhalla (2000a), Bhagwati (2001), Das (2000). On the other side,

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see Mehta (2001), Sainath (2001a, 2001b), Shiva (2001a), among others.

(3) These estimates build on earlier work by Deaton and Tarozzi (2000), Deaton (2001a, 2001b) and Tarozzi (2001).

(4) Here and elsewhere, it is useful to remember that the period between 1993-94 and 1999- 2000 was one of 'peak' economic growth for the Indian economy, with per capita GDP growing at a healthy 4.4 per cent per year.

(5) While the relative growth rates of APCE in different states are consistent with the corresponding relative growth rates of per capita SDP, the levels of per capita SDP growth tend to be higher than those of APCE growth. We shall return to this issue in the next section, with reference to the all-India figures.

(6) For details, see, e g, Acharya (1989).

(7) See, E. G., Jose (1988) and Sarmah (2000). Note that the 'real wage' estimates used here ignore inter-state differences in price levels.

(8) See Dreze and Sen (2002), p 328; on the slowdown of the growth rate of real agricultural wages in the nineties (compared with the eighties), see also Sarmah (2000, 2001)

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(2) Banerjee, A and Piketty, T (2001): 'Are the Rich Growing Richer: Evidence from Indian Tax Data', MIT, Cambridge MA, and CEPREMAP, Paris, processed. Available at http:// www.worldbank.org/indiapovertyworkshop.

(3) Bhagwati, Jagdish (2001): 'Growth, Poverty and Reforms', Economic and Political Weekly, March.

(4) Datt, Gaurav (1999a): 'Has Poverty Declined since Economic Reforms?', Economic and Political Weekly, December 11-17.

(5) Sundaram, K and Tendulkar, S (2000): 'Poverty in India: An Assessment and Analysis', draft report for the Asia Development Bank; mimeo, Delhi School of Economics, Delhi.

(6) Visaria, Pravin (2000): 'Alternative Estimates of Poverty in India', The Economic Times, June 27.

(7) Yao Shujie (1999): 'Economic Growth, Income Inequality and Poverty in China under Economic Reforms', Journal of Development Studies.

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