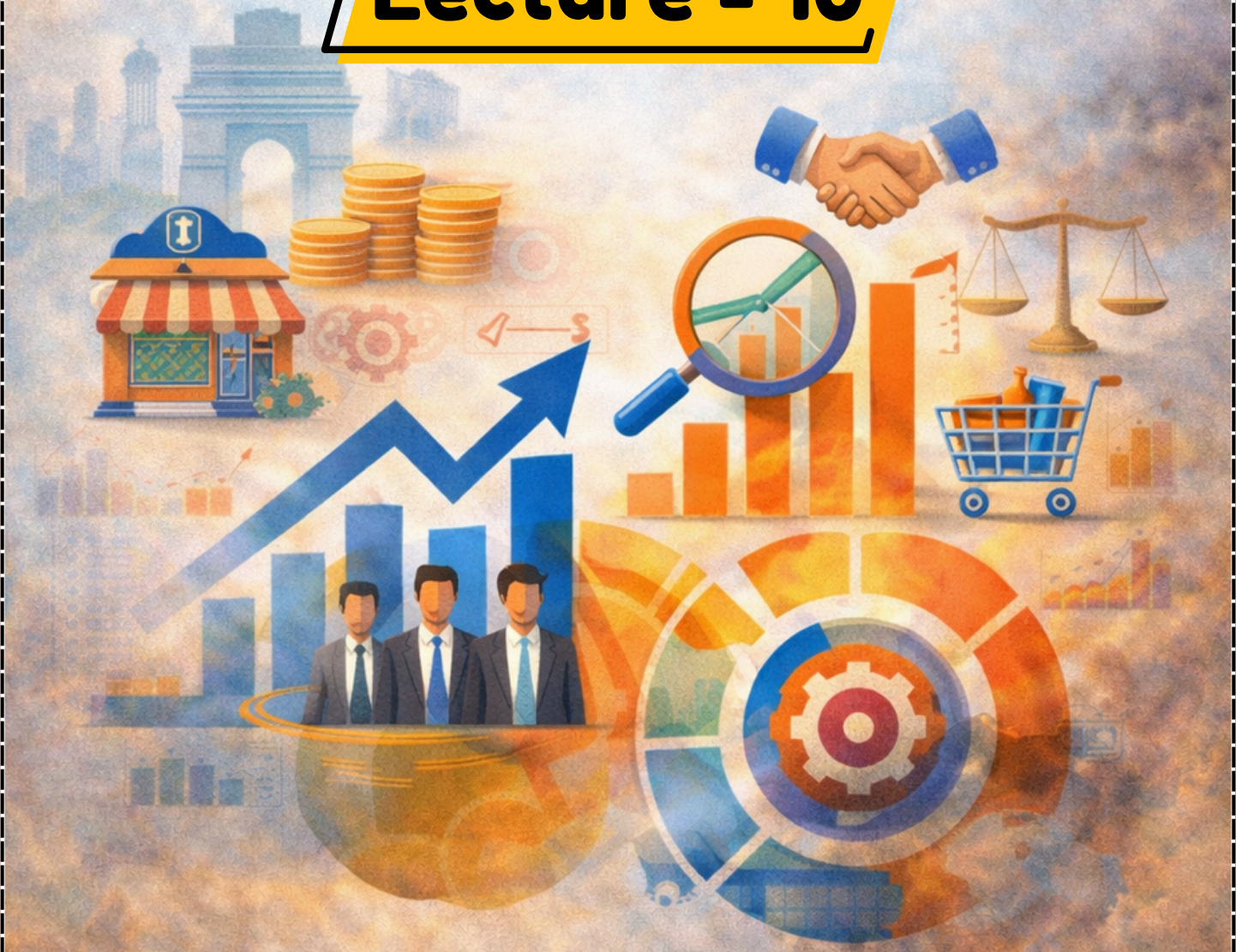
PARMAR SSC

POVERTY

Lecture - 10



BY PARMAR SIR

FUNDAMENTALS OF POVERTY

- Poverty is a state or condition in which an **individual lacks the financial resources** and essentials for a basic standard of living.
- It is not just about money; it can have diverse environmental, legal, social, economic, and political causes and effects.

Types of Poverty

1. Absolute Poverty

- A condition where individuals lack basic necessities like food, clean water, shelter, clothing, healthcare, and education.

2. Relative Poverty

- A condition where individuals have significantly lower income or resources compared to the average income level of their society.

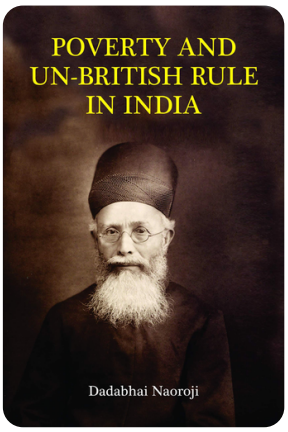
3. Subjective Poverty

- A condition based on personal perceptions of economic well-being. Individuals feel poor, despite their income level, influenced by societal comparisons, personal expectations, and psychological factors.

POVERTY ESTIMATION IN INDIA

- In India, poverty is measured by checking a person's income or consumption level. If their income or consumption is less than a set minimum amount, they are considered Below the Poverty Line (BPL).
- Poverty estimation in India is carried out by NITI Aayog's task force through the calculation of the poverty line based on data captured by the National Sample Survey Office (NSSO) under the Ministry of Statistics and Programme Implementation (MoSPI).

PRE-INDEPENDENCE ESTIMATION



- Dadabhai Naoroji through his book, "**Poverty and Unbritish Rule in India**" made the earliest estimation of poverty line (₹16 to ₹35 per capita per year).
- He was the first person to give estimation of National Income of India.
- He used the concept of a "**Prisoner's Menu**" (cost of living in jail-basic flour, rice, dal) to calculate subsistence costs.

NATIONAL PLANNING COMMITTEE (1938)

- It was set up by Subash Chandra Bose under the chairmanship of JL Nehru.
- The National Planning Committee (NPC) of 1938 estimated the poverty line at ₹15 to ₹20 per capita per month.
- This estimate was based on a minimum standard of living which implicitly included nutritional requirements.

THE BOMBAY PLAN (1944)

- It was a set of proposals by influential business leaders in Bombay for the development of India.
- Poverty line was suggested as: ₹75 per capita per year.

POST-INDEPENDENCE ESTIMATION

VM Dandekar and N Rath (1971)

- It was the first systematic assessment of poverty in India, based on National Sample Survey Office (NSSO) data.
- It was an Expenditure based Poverty line estimation.
- It is adequate to provide 2250 calories per day in rural and urban areas.

Alagh Committee (1979)

- The Planning Committee constituted Alagh Committee under the chairmanship of YK Alagh.
- He constructed a poverty line for rural and urban areas on the basis of nutritional requirements and related consumption expenditure.
  1. **Rural:** 2400 calories → Rs 49.09 per month
  2. **Urban:** 2100 calories → Rs 56.64 per month

Lakdawala Committee (1993)

- This committee defined the poverty line on the basis of household per capita consumption expenditure.
- The committee used Consumer Price Index-Industrial Workers (CPI-IW) and CPI-AL (Consumer Price Index for Agricultural Laborers) for estimation of the poverty line. It made few suggestions:
- Consumption expenditure should be calculated based on calorie consumption as earlier.
- State specific poverty lines should be constructed.

Tendulkar Committee (2005)

- Tendulkar Committee was set up in 2005 to address the shortcomings of previous methods and submitted its report in 2009.
- It computed poverty line based on Purchasing Power Parity in terms to ₹33 per day.

Recommendations:

1. It recommended to shift away from calorie based model and made poverty line broader.
2. Incorporation of private expenditure on health and education.
3. It replaced the uniform reference period (URP) with the mixed reference period (MRP) to estimate poverty in India.

30 Days Recall: For food and frequent items.
365 Days Recall: For infrequent non-food items (clothing, footwear, durables, etc.).

- According to Tendulkar Committee, the poverty line for 2011-12 was set to:
  1. Rural: ₹816 per capita per month.
  2. Urban: ₹1,000 per capita per month.
- **According to Planning Commission, the % of people below poverty line is:**
  - Rural Poverty: 25.7%
  - Urban Poverty: 13.7%
  - Overall Poverty: 21.9%

Rangarajan Committee (2012)

- Rangarajan committee include three components in poverty baskets: food items, essential non-food items, and behaviorally determined non-food items.
- In addition to calories intake it also include other nutrients like protein and fat.
- It introduced Modified Mixed Reference Period (consumption and expenditure was computed on weekly, monthly, and yearly basis). The poverty line was recommended (reports submitted in 2014) as:
  1. **Rural:** ₹972 per capita per month.
  2. **Urban:** ₹1407 per capita per month.

TRENDS IN POVERTY REDUCTION

- **2004-2005:** 407 million people were poor (37.2% in BPL)
  → Rural (41.8%) and Urban (25.7%)
- **2011-2012:** 270 million people were poor.
- **1993-94 to 2004-2005:** Poverty declined by 0.74% per year.
- **2004-2005 to 2011-2012:** Poverty declined by 2.4% per year.

STATE-WISE POVERTY (2011-2012)

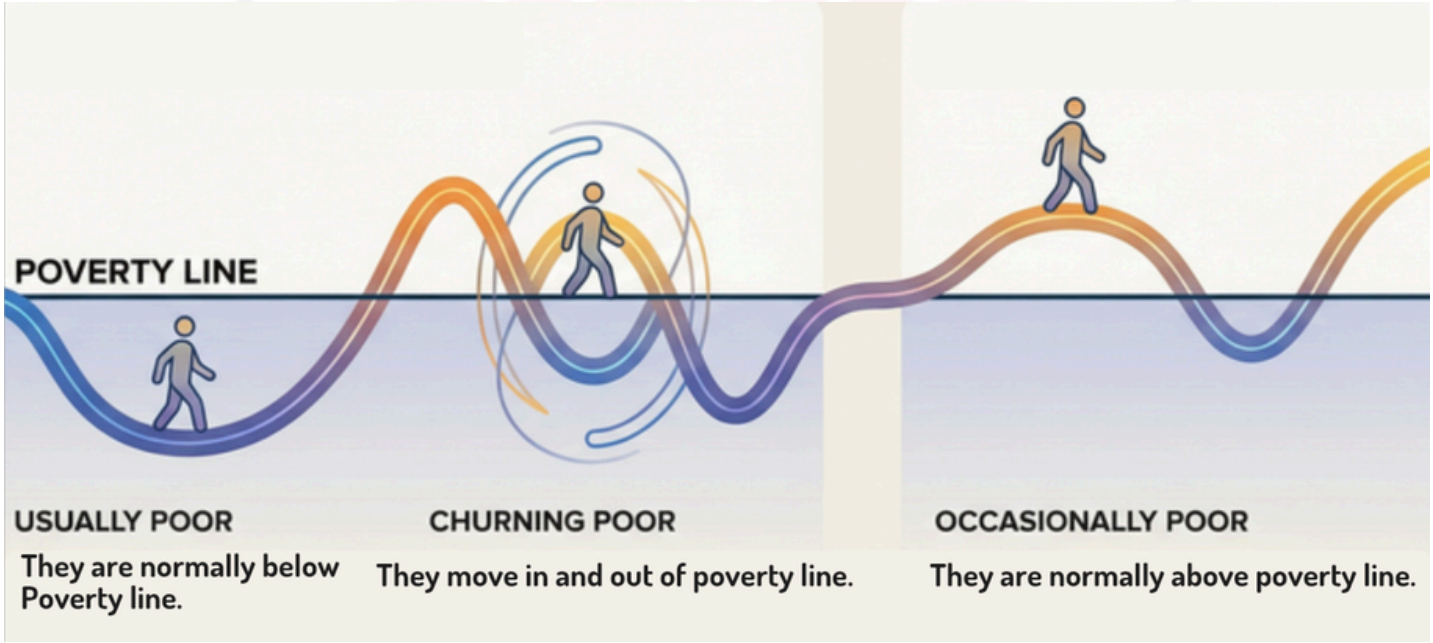
Highest Poverty Rate:

- 1. Chhattisgarh (39.9%)
- 2. Jharkhand (37%)
- 3. Bihar (33.7%).

Lowest Poverty Rate:

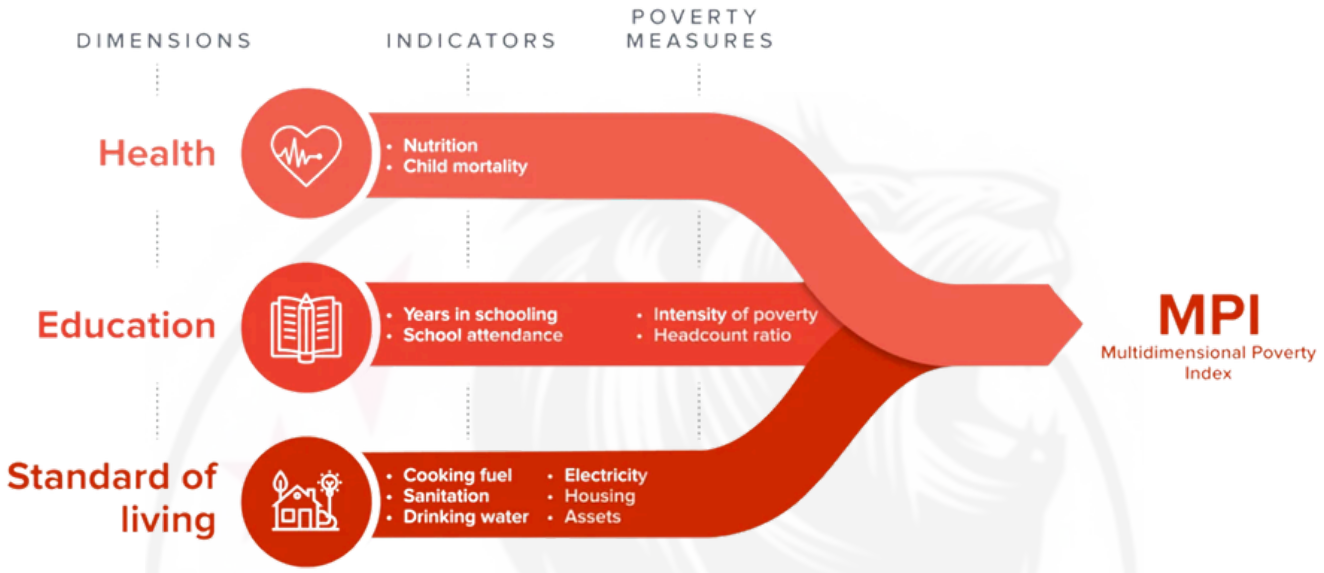
1. Goa (5.09%)
2. Kerala (7.1%).

TYPES OF POVERTY



MULTIDIMENSIONAL POVERTY INDEX (MPI)

- The MPI concept was introduced in 2010 by United Nations Development Programme
- (UNDP) and Oxford Poverty and Human Development Initiative (OPHI).
- It uses 10 Health indicators over 3 key dimensions, Education, Health and Standard of living to determine the incidence and intensity of poverty experienced by a population.

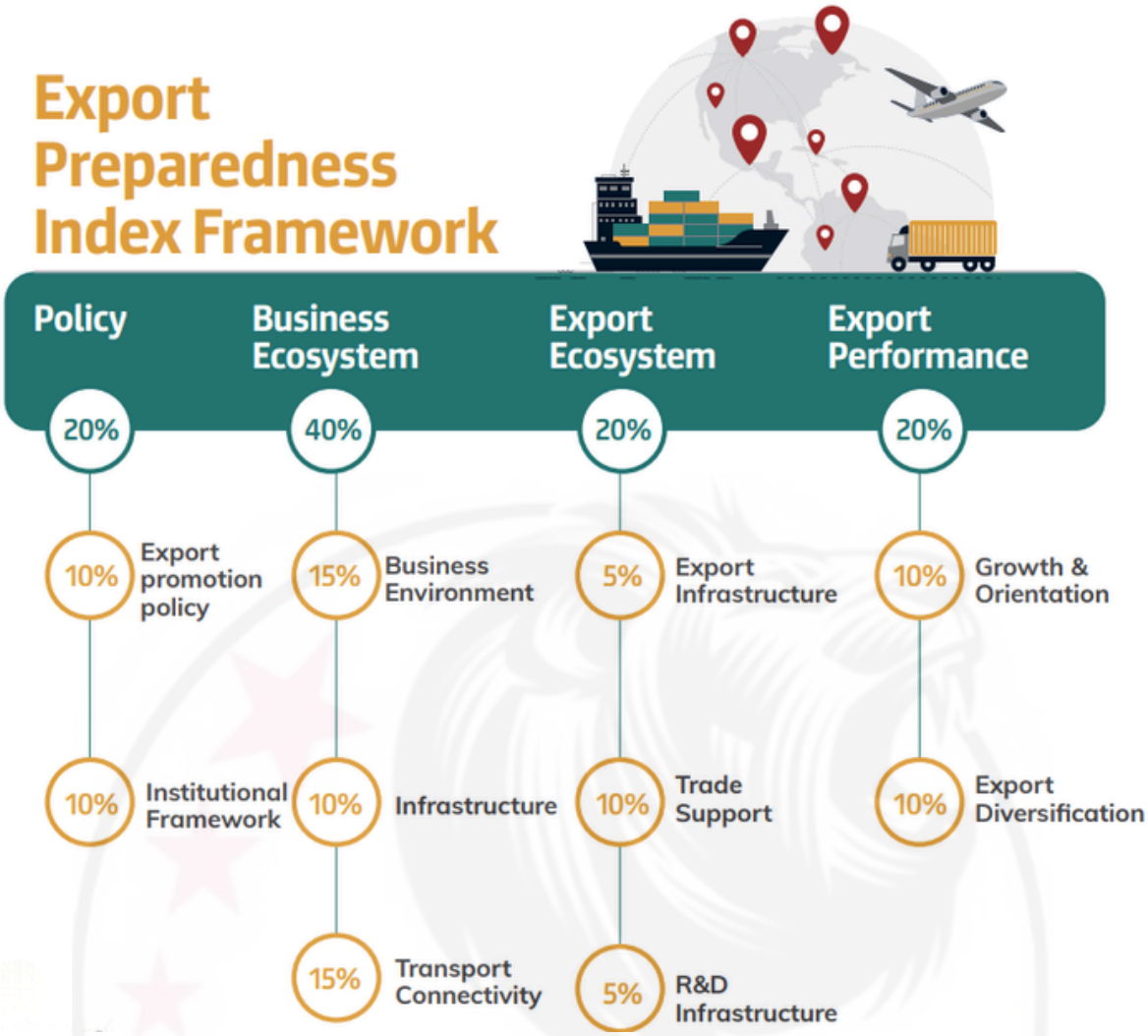


Structure of the Global Multidimensional Poverty Index

- NITI AAYOG launched a report in November 2021 → National Multidimensional Poverty Index (MPI), that measures poverty in India using 12 indicators.
- Based on the National Family Health Survey (NFHS) data.
- **In recent scenario:**
  - Multidimensional poverty in India has declined since 2005-2006 as measured by National MPI.
  - According to the NITI Aayog, 24.82 crore people have escaped multidimensional poverty in India in the last 9 years.
  - **Uttar Pradesh:** Largest number of people lifted out of poverty since 2005-2006.
  - **Highest MPI (Most Poverty):** Bihar.
  - **Lowest MPI (Least Poverty):** Kerala.

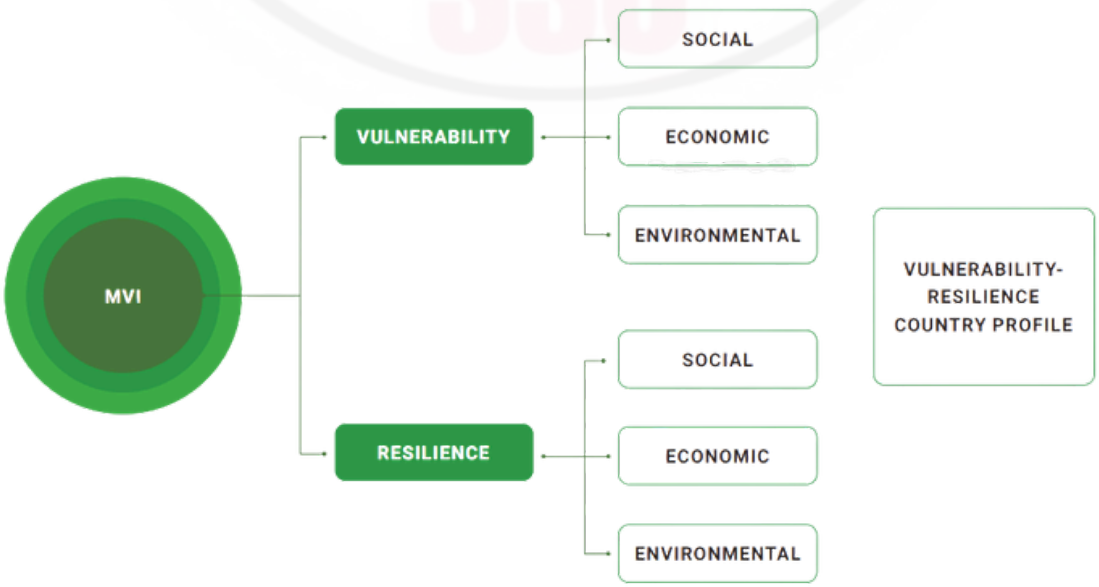
EXPORT PREPAREDNESS INDEX (EPI)

- **Publisher:** NITI Aayog.
- **Structure:** 4 Pillars.



MULTIDIMENSIONAL VULNERABILITY INDEX (MVI)

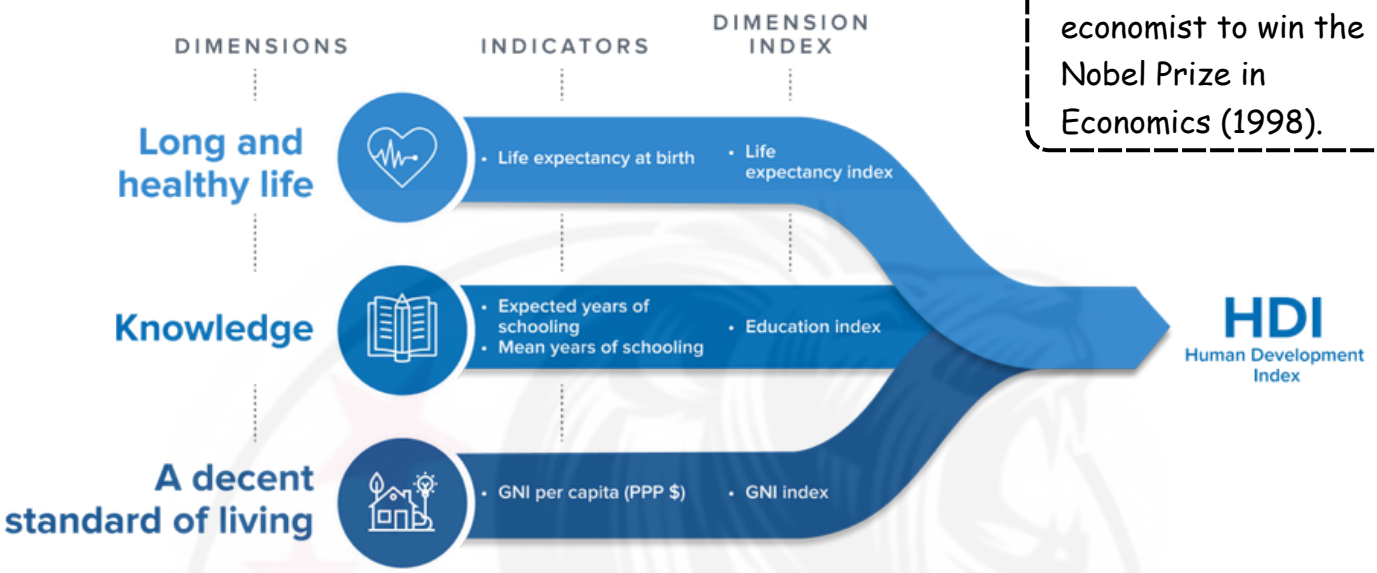
- **Publisher:** UNGA (United Nations General Assembly).
- **Focus:** Measures structural vulnerability and lack of structural resilience across three dimensions: Economic, Environmental, and Social.



HUMAN DEVELOPMENT INDEX (HDI)

- Origins: Created in 1990 by Mahbub ul Haq (Pakistani Economist) and Amartya Sen (Indian Economist).

First Indian economist to win the Nobel Prize in Economics (1998).



HEAD COUNT RATIO (HCR)

- The head count ratio (HCR) is the percentage of a population that lives BPL.
- It's also known as the poverty headcount index.

$$Head\ Count\ Ratio = \frac{No.\ of\ multidimensionally\ poor\ people}{Total\ population}$$

THE SUSTAINABLE DEVELOPMENT GOALS (SDGs)

- Before SDGs, the world followed the Millennium Development Goals (MDGs), which had a target deadline of 2015.
- In 2015, member countries of the United Nations adopted the SDGs in New York.
- **Adopted:** 2015.
- **Effective From:** 1st January 2016.
- **Target Year:** 2030.
- There are 17 Goals and 169 Targets aimed at ending poverty, protecting the planet, and ensuring prosperity.



MARGINAL PROPENSITY TO CONSUME (MPC)

- Marginal Propensity to Consume (MPC) refers to the portion of additional income that a person spends on consumption rather than saving. It measures how much consumption increases when income rises by one unit.
- MPC is dependent on the income level as it may vary with income levels (MPC is lower at higher income levels).

$$MPC = \frac{\text{Change in Consumption } (\Delta C)}{\text{Change in income } (\Delta Y)}$$

MPC value: 0-1

E.g. If income rises by Rs. 10,000 and spending increases by Rs. 1,000, then:

$$MPC = \frac{1000}{10000} = 0.1$$

- An MPC indicates that people are more likely to spend a larger portion of their additional income, leading to a greater increase in overall expenditure in the economy.

AUTONOMOUS EXPENDITURE

- It is the spending that occurs regardless of the level of income in an economy.
- It is independent of income.

$C = A + cY$

A: Income-independent consumption

cY: Income-dependent consumption

- c: Marginal propensity to consume
- Y: Level of income

C: Total consumption

$$\text{Savings} = 1 - c$$

$$\text{Multiplier} = \frac{1}{1 - c}$$

SPECIAL ECONOMIC ZONES (SEZ)

- To promote exports, attract investment, generate employment, and earn foreign exchange.
- **Policy Announced:** 2000.
- **SEZ Act Enacted:** 2005.
- Asia's first Export Processing Zone (EPZ) was set up in Kandla, Gujarat in 1965.

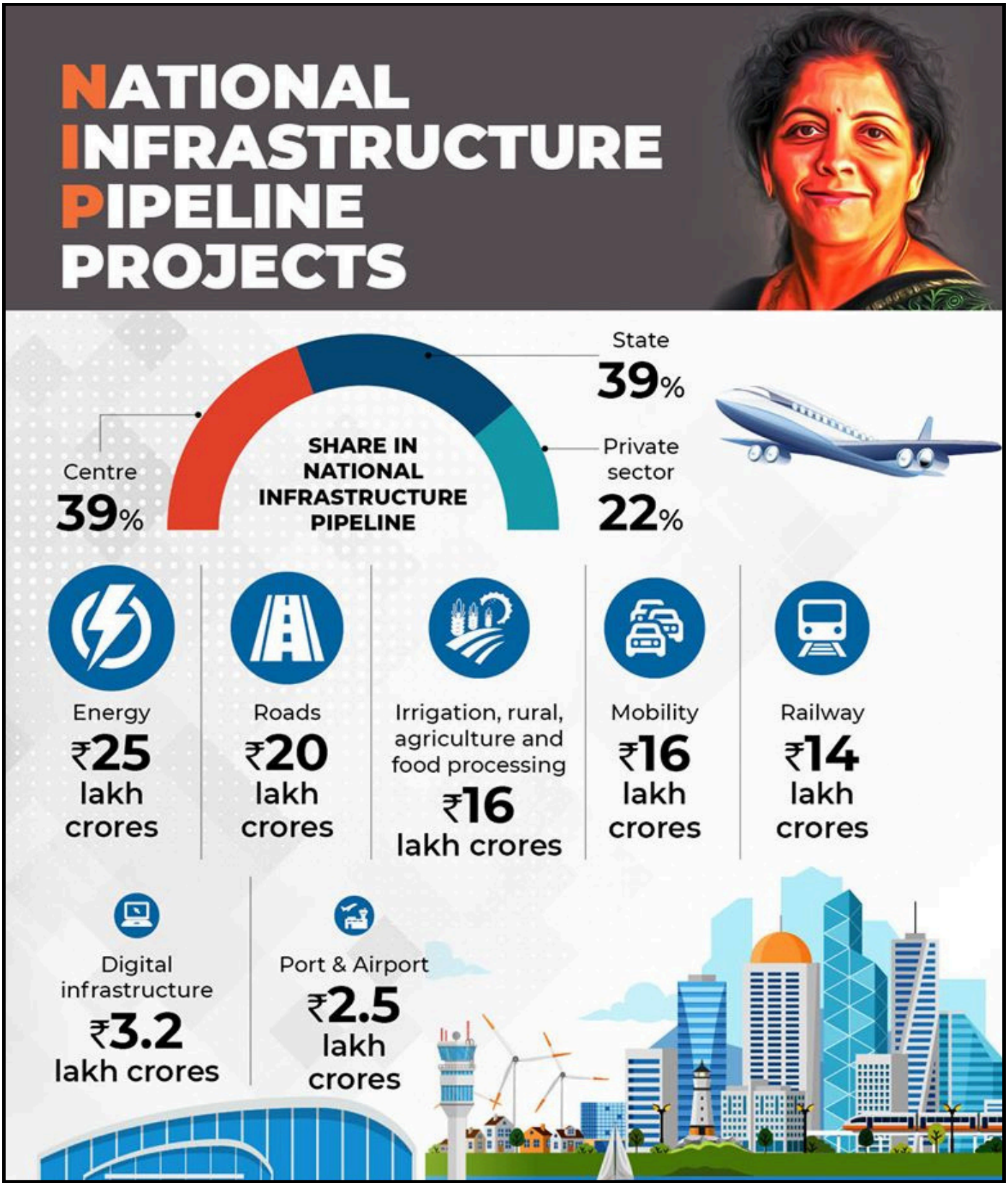
Challenges:

- **MAT (Minimum Alternate Tax):** Imposed on SEZ developers and units, reducing their attractiveness.
- **Sunset Clause:** Tax holidays (Section 10AA of Income Tax Act) are only available for units that started operations before April 1, 2020. Units set up after this date do not get these direct tax benefits.

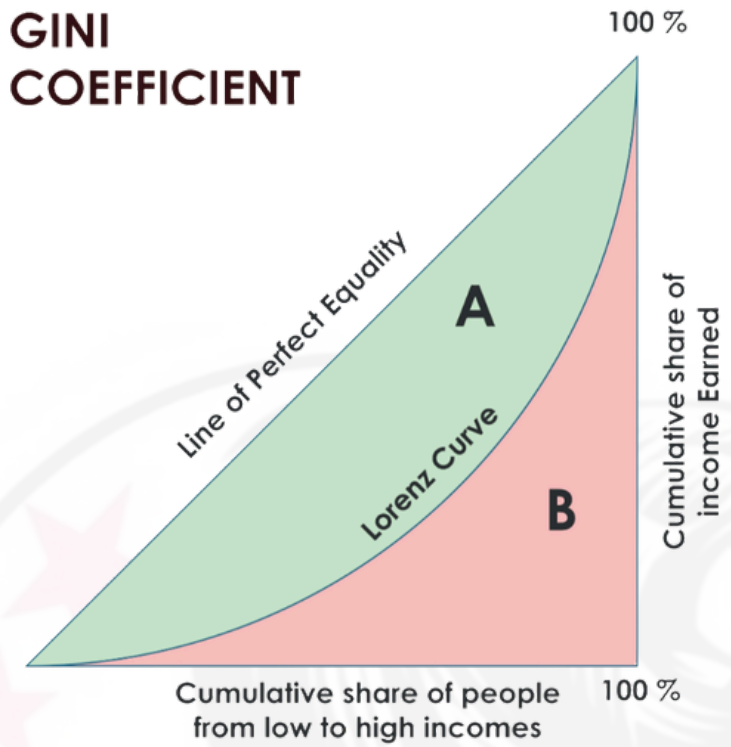


NATIONAL INFRASTRUCTURE PIPELINE (NIP)

- A government initiative to provide world-class infrastructure and improve the quality of life.
- **Duration:** 2020-2025 (5-year plan).
- **Total Investment:** Estimated at ₹111 Lakh Crore.



Inequality Measurement: Lorenz Curve



- A graphical representation of income inequality or wealth distribution.
- **Line of Equality:** A 45° diagonal line representing perfect equality (where everyone has the same income).
- The Lorenz curve lies below the line of equality. The farther the curve is from the diagonal line, the higher the inequality.

Gini Coefficient:

- Derived from the Lorenz Curve to give a numerical value to inequality.
- **Formula:** $\frac{A}{A + B}$ (Area between line of equality and Lorenz curve / Total area under line of equality).
- **Range:** 0 (Perfect Equality) to 1 (Perfect Inequality).



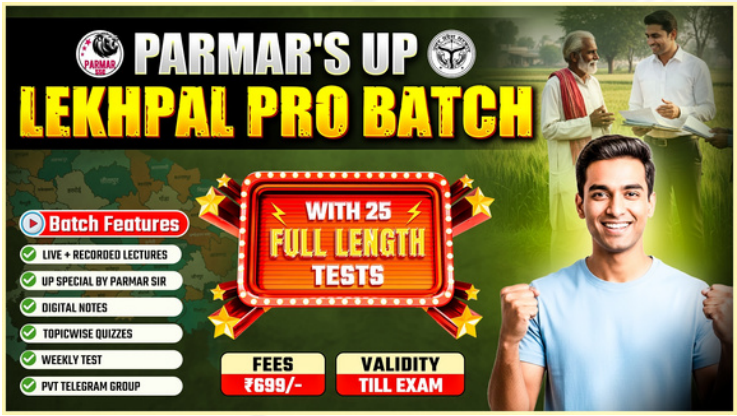


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