

Some Pros and Cons of Changing Scenario in Agriculture and Social Sector in India with reference to poverty alleviation and Economic Development

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Introduction:-

Poverty imposes an oppressive weight on India, especially in the rural areas where almost three out of four Indians and 77 percent of the Indian poor live. Although poverty has been reduced during the past four decades, it remains painfully high. Because of India's rapid population growth rate, even that advance, however, has not been sufficient to reduce the absolute number of poor, which increased from around 200 million in the 1950s to 312 million in 1993-94. This leaves India with the largest concentration of poor people in the world, particularly in the villages — fewer than 5,000 people — where 60 percent of all Indians live. Staggering as the overall numbers remain — 240 million rural poor and 72 million urban poor — they do not tell the full story of change. Social indicators of well-being, for instance, record a history of progress that has, like the decline of poverty itself, been steady but slow.

Among those indicators, three illustrate this point. Infant mortality rates, as one example, fell from 146 deaths per thousand births in the 1950s to 80 at the start of this decade. Nevertheless, the Indian rate is still high and two Indian states, Orissa (124 per thousand in 1991) and Madhya Pradesh (117 per thousand in 1991), even recorded proportionally more infant deaths than the sub-Saharan average (104 per thousand in 1991). Life expectancy at birth, now twice the 30 years that was the Indian average in 1947, remains well below that of China (69 years.) Adult literacy rates for Indian males (64 percent) and for females (39 percent) in 1991 were almost identical to those for sub-Saharan Africa and far behind those in China — 96 percent for men, 85 percent for women — ten years earlier. The Planning Commission defines poverty lines as a per capita monthly expenditure of Rs. 49 for the rural areas and Rs. 57 in urban areas at 1973-74 all-India prices. These poverty lines correspond to a total household per capita expenditure sufficient to provide, in addition to basic non-food items — clothing, transport — a daily intake of 2400 calories per person in rural areas and 2100 in urban areas. Individuals who do not meet these calorie norms fall below the poverty line.

Evolution of Poverty in India

The most recent (1993-94) household survey conducted by the National Sample Survey Organization and based on the poverty lines calculated by the World Bank, reveals that 36.7 percent of India's rural population and 30.5 percent of its city-dwellers lived in poverty—a national average of 35.0 percent. What is important is that as average Indian living standards rose during the 40 years since 1951 and particularly after the mid-1970s, the poor did not get poorer.

The magnitude of decline in poverty of the last two decades is significant but not dramatic. While the decline of poverty since the early 1970s has been sizable (from an incidence of 56 percent to 35 percent in 1993-94), India's progress in fighting poverty has been modest when compared with some of its Asian neighbors. Between 1970 and 1993, for example, the proportion of Indonesia's population living in poverty dropped from 58 to 8 percent, an annual decline of nearly 10 percent. As of 1993-94, India's poverty continues to be predominantly rural although rural poverty declined faster than urban poverty over 1951-88. Moreover, the decline in national poverty seems to have been driven mostly by the decline in rural poverty — not surprising given that 74 percent of India's population lives in rural areas. Many studies suggest that the poor perceive themselves to be better off now than in previous decades. However, these studies also point to pockets of increasing impoverishment.

Incentives and Regulatory Framework

The reforms India started in 1991 hold the promise of considerable improvements in the living standards of the country's 300 million poor. During the last few decades, India's inward-looking and public sector driven industrialization strategy led to rates of growth and poverty reduction far more modestly than those witnessed elsewhere in the world, particularly in South East Asia. The economy has responded well to the reforms, and the government has made it an explicit objective to accelerate the development of the country's human resources. The last five years have shown the rates of growth that India could achieve with market oriented development policies and a better integration with the world economy. There is much that remains to be done to sustain this growth. Reforms are particularly needed to reduce the country's persistently high fiscal deficits, overcome its tremendous infrastructure problems, improve the efficiency of its financial system, and liberalize parts of the economy that remain heavily regulated — such as agriculture, small scale industry and urban land markets. By maintaining its commitment to economic liberalization, and redirecting towards infrastructure, health, and education the large resources now absorbed by subsidies inter-alia for power, irrigation, and fertilizers, India can give its long battle to reduce poverty a new impetus.

Safety Nets

There is little evidence that anti-poverty programs have yielded gains in the living standards of the poor commensurate with the significant resources that the country allocates to such programs. Many recipients of their benefits are widely recognized as amongst the poor. At the same time, many of the poorest people do not use these programs while many of the non-poor benefit from them. There is a consensus that public works programs have been among the most successful attempts at reaching the poor. India therefore urgently needs to formulate an anti-poverty strategy that is fiscally sustainable and more finely targeted to those who truly cannot benefit from the opportunities offered by growth. To increase their cost effectiveness and extend their outreach to the very poor, safety nets need to be targeted to those who either cannot participate in the growth process or face continuing exposure to risks, which are outside of their control. Rural households are largely uninsured against agricultural yield shocks, for example.

Poverty Strategy

In the half century since its independence, India has accomplished many notable social and economic achievements. Among these are the eradication of widespread famine, a reduction in population growth, some lowering of caste barriers to economic opportunity and the creation of a large pool of technical and scientific talent. While it has also managed to reduce poverty in that period, only since 1975, when growth accelerated, has the decline been fairly steady. The pace, moreover, remains both slow and uneven faster in the southern states than the northern ones, and more likely to empower men than women. Government efforts to reduce poverty through direct anti-interventions have yielded mixed results. Many of those programs, in fact, have missed their supposed target the poor and delivered their benefits to the economically more advantaged. As India moves ahead with the economic liberalization that has yielded a higher platform for growth and therefore the potential for a higher level of welfare, it has an opportunity to reexamine its approach to reduce poverty.

Measuring progress

Thus far the discussion has focused on putting order in the sometimes confusing web of internationally agreed development commitments. In this section, the discussion will be centred on the actual trends towards the achievement of some of these goals and the prospects up to 2015.

Table presents the latest World Bank estimates and projections of poverty (less than US\$1 per day). The data show that progress towards the 2015 target is being made. At the global level, poverty has declined both in absolute numbers (if only marginally) and in relative terms.

Review of Literature

Reflecting the recent evolution of thinking about poverty (Kanbur and Squire, 1999), all agencies now define poverty as having multiple dimensions. Poverty is not seen as simply lack of income or consumption: it includes deprivation in health, education, nutrition, security, power and more. It is also widely accepted that these dimensions of deprivation interact with and reinforce each other.

IFAD's Rural Poverty Report 2001 (IFAD, 2001) discusses these problems at greater length. Three categories of poverty measures are defined: a scalar approach (using a single indicator for a single dimension, e.g. income or consumption); a multidimensional-indexed approach (several indicators are combined into a single indicator); and a vector approach in which several indicators are used to classify people according to each indicator. UNDP's approach is different. The multidimensional definition of poverty is key to their human poverty approach, which focuses "not on what people do or do not have, but on what they can or cannot do". This approach is reflected in their choice of a poverty indicator. UNDP's human poverty index combines "deprivation in a long and healthy life", "deprivation in knowledge", and "deprivation in economic provisioning, from private and public income".

Strategies for poverty reduction: the quest for pro-poor growth

Starting from similar definitions of poverty, most of the documents reviewed here broadly agree on the basic determinants of poverty, and on the issues that well-conceived poverty alleviation policies should tackle. Most strategies now include topics such as institutions and access to markets, human and social capital, empowerment, decentralization, democracy, accountability and governance, international finance and trade, technology, the environment, social policies and aid.

Economic growth is considered central in all the strategic documents surveyed. This is neither new nor surprising. What is new, though, is the range of issues that are now required for achieving sustained growth. In the World Bank report (World Bank, 2000b, p. 49) divergences in growth rates are said to depend on the interaction among a range of factors including initial conditions, policy choices, external shocks and even "no small measure of good luck". The World Bank document also discusses the roles of education, life expectancy, population growth, trade openness and sound macro policies, institutions, ethnic fragmentation, geography and environmental degradation as determinants of growth and its sustainability.

Strategies for poverty reduction: the role of inequality

The World Bank's recipe focuses on win-win measures that are both growth enhancing and equalizing, such as improving the poor's access to land, basic education and health. However, the World Bank's position on policy measures that may involve a trade-off between a little less but more equal growth is not spelled out clearly. UNDP's main criticism of traditional antipoverty strategies is that they did not properly link policies to promote economic growth with social policies addressing poverty concerns. Although its flagship report lacks specific policy suggestions on the issue, UNDP clearly affirms that "many poverty programmes do not adequately address inequality". In particular, it stresses that they "rarely deal with inequality in the distribution of land, which continues to be the most important asset of the rural poor", and that "in some regions with high inequality ... economic growth cannot be accelerated enough to overcome the handicap of too much income directed to the rich" (UNDP, 2000b, p. 42-3).

Strategies for poverty reduction: does agriculture matter?

The role of agricultural growth in alleviating poverty has attracted wide attention. This is hardly surprising as most of the world's poor still live in rural areas. This section focuses only on how the reports reviewed see the role of agricultural growth in poverty reduction. IFAD's approach explores the issue in greater detail, and also takes a more distinct position. It points in particular to food staples production as the subsector with the greatest potential for rural poverty reduction. IFAD's argument is based essentially on (i) the large share of food (and particularly staple food) in the total consumption of the poor; (ii) the large share of calories the poor derive from staple food consumption; and (iii) the large share of income the poor derive from staple food production. The other strategic documents reviewed do not share this focus on staple food production.⁴

Two new issues: empowerment and participation

Issues such as growth, inequality and the role of agriculture have always featured prominently in the development debate. What is new in the current wave of poverty reports is the focus on empowerment and participation. All three agencies stress the importance of empowerment of the poor, and encourage their participation in the poverty reduction process. UNDP has a similar understanding of the matter in that it includes "participating fully in the life of the community" as one of the dimensions of poverty and "empowering the poor" as one of the key elements of the "new generation of poverty programmes" it calls for. Unlike the World Bank and IFAD, however, UNDP puts more stress on issues such as governance, fighting corruption and decentralization than on empowerment per se. The "means" aspect of empowerment is emphasized more than the "goal" aspect. Empowerment is, for instance, seen as an essential tool for achieving more effective targeting in poverty alleviation programmes.⁵

The economic impact of hunger

It is necessary to define some frequently used terms. The definitions used here correspond to those used in FAO (1999a). The term "undernourishment" is used to describe the status of persons whose food intake does not provide enough calories to meet their physiological requirements on a continuing basis.⁶ An alternative approach is to assess nutritional status through the physiological outcomes of poor nutrition. The term "under nutrition" is used here to describe the status of persons whose heights and weights lie below the lower limits of the ranges established for healthy people. It is critical to note that poor anthropometric status is the outcome not only of insufficient food intake but also of sickness spells. Infectious diseases tend to raise nutritional needs and lower the capacity to absorb nutrients. Food intakes that are adequate for a healthy person may be inadequate for someone in poor health, leading to weight loss in adults and children and growth retardation in growing children. Thus anthropometric measures incorporate information about food consumption as well as health inputs.

Nutrition and Productivity.

The higher its value, the greater the capacity of the body to convert energy in the tissues into work. Here is the crux of the matter: clinical tests suggest that the maximal oxygen uptake per unit of muscle cell mass is more or less constant in well-nourished and mildly undernourished people. Since lean body mass is related to muscle cell mass, it follows that a higher BMI implies a higher maximal oxygen uptake and hence greater work capacity. Also, if two people have the same BMI, the taller of the two has more lean body mass, and hence higher maximal oxygen uptake and work capacity. Studies also suggest that maximal oxygen uptake depends on the concentration of hemoglobin in the blood. Since that depends on iron intakes, the connection between iron-deficiency anemia and low productivity is also explained.

Nutrition and school performance

Considering the importance of nutrition in human development, there is a relative dearth of studies focusing on the role of the different malnutrition aspects on cognitive achievement among children in developing countries. Nevertheless, there is sufficient empirical evidence to indicate that early childhood nutrition plays a key role in cognitive achievement, learning capacity and ultimately household welfare. Available studies have shown that low birth weight, protein energy malnutrition in childhood, childhood iron-deficiency anaemia and iodine deficiency are all linked to cognitive deficiencies and the effects are more or less irreversible by the time a child is ready to go to school (Horton, 1999, p. 249).

Income growth and hunger

However, Alderman et al. (2001) show that the WFS target is unlikely to be met without robust income growth, and not through income growth alone. They assert that “a combination of growth and specific nutrition programs will be needed”. It is reasonable to say that while income growth has a substantial impact on under nutrition, taken alone it will not take care of the problem. The reasons for this are as follows. Nutritional status is the outcome of food intakes as well as health inputs. Therefore the solution to under nutrition is increased intakes of calories and micronutrients or better health and sanitation, safe drinking-water, etc. or both. Private income growth is not guaranteed to improve nutrition for several reasons. First, household income growth does not necessarily lead to increased calorie intakes. Second, some inputs into nutrition are public goods. Better health requires public investments. Third, since private investments in nutrition have a long-term payoff, private capital markets are unlikely to finance this investment if collateral cannot be provided. Fourth, parents are likely to under invest in nutrition of girls, particularly in those countries in Asia where sons are more highly valued.

Although income growth, certainly at low levels of per capita income, will lead to growth in calorie consumption, the magnitude of this effect is unclear. A vast number of studies have attempted to measure the elasticity of demand for calories,⁸ i.e. the percentage increase in calorie consumption associated with a 1 percent increase in income. In a seminal study, Reutlinger and Selowsky (1976) came up with estimates of the income elasticity of demand for calories that ranged from 0.15 to 0.30 for households at the calorie requirement level. Subsequent studies produced elasticity estimates ranging from 1.2 to as low as 0.01.

In recent years, with the important exception of Subramanian and Deaton (1996) who obtained an estimate of about 0.45, most researchers have obtained low to very low elasticities, in the range of 0.01 to 0.15.

Behrman and Deolalikar (1989) provide an explanation for the finding that these elasticities are low. Their hypothesis is that there is a strong demand for more variety in foodstuffs and that this demand manifests itself even at relatively low income levels. This hypothesis was tested on the data set used for the University of Pennsylvania International Comparison Programme (ICP) project, which had data on prices, quantities and purchasing power parity incomes from 34 countries for 1975 and 60 countries for 1980. Nine food groups were covered, i.e. the degree of aggregation was quite high. As food budgets increased from very low levels, there was a very pronounced increase in the demand for food variety (Behrman and Deolalikar, 1989, p. 671)

Agricultural and rural non-farm growth

Pro-poor income growth is thus a necessary but often insufficient condition to reduce hunger within a reasonable time span. Without direct public measures to alleviate the most pressing and transient problems, income growth will only gradually solve the problem of hunger. But to finance direct public measures, income growth is needed.

The answer lies in the fact that economic growth, reduction in poverty and inequality reduction are all outcomes of the same deeper processes (Srinivasan, 2000, makes this point forcefully). If these are such as

to increase the returns to the assets possessed by the poor then economic growth and poverty reduction will be seen to go together. On the other hand if the process favours assets possessed by the wealthy then they will not. Hence the sectoral composition of growth is important; it matters greatly for poverty and hunger alleviation, in which sector overall economic growth originates.

Timmer (1997) found that in countries with highly skewed income distribution, growth reaches the poor with difficulty, whether it originates from increases in agricultural or non-agricultural productivity. According to some estimates, high-inequality countries would need twice as much growth as low-inequality countries to achieve the same reduction in poverty levels (Hammer, Healey and Naschold, 2000).

Good econometric evidence of a positive relationship between agricultural growth and poverty alleviation is available from India, which has had a long period of sustained agricultural growth starting from the early 1970s. The most detailed study is by Datt and Ravallion (1998), who relate differences in poverty reduction to differences in agricultural growth rates for different Indian states. Since macroeconomic, trade, sectoral and social policies apply to the whole of India and so are all held fixed, the “pure” effect of agricultural growth on poverty reduction can be isolated.

The main point of the Datt and Ravallion (1998) paper is the following. From the early 1970s, when growth in agricultural yields in India became strong, poverty as measured by the squared poverty gap index began to decline. The squared poverty gap index does not merely count the number of people whose incomes are below the poverty line. It also measures how far below the poverty line their incomes are, and gives progressively higher weights to incomes the further they are below the poverty line. Not only did the number of people in poverty decline, as measured by the headcount index, but poverty also became less severe, i.e. the consumption of the poorest of the poor also increased. The claim that agricultural yield growth bypassed the poorest cannot be supported on the basis of this finding.

Agricultural growth puts money initially into the hands of those who own land. Its impact on poverty depends on whether this income is spent on goods and services that are supplied locally, or on imports. The poor will not benefit if it is not spent locally, on goods and services provided by the RNF sector. But this is what may happen when there are marked inequalities in landownership and the initial increase in agricultural income is concentrated in a few hands.

Bautista's (1995) case study in the Philippines illuminates these issues. He points out that over the period 1965-80, crop production in the Philippines grew at a rate of 5.2 percent p.a. and livestock at a rate of 6.4 percent, among the highest growth rates in Asia. The growth of crop production was evenly shared between rice and non-traditional export crops. These high growth rates were at least partly a result of a sevenfold increase in real government expenditure on agriculture, the bulk of which was devoted to irrigation that took half of all agricultural investment by 1980. This was at the cost of investments in rural roads whose share dropped to barely 2 percent of agricultural expenditure. At the same time, human development was exceptionally good in the Philippines, with rates of literacy, infant mortality and life expectancy all either better or comparable with its neighbours in Southeast Asia. Despite all this, there was no significant reduction in poverty.

The primary reason was that the income gains from agricultural growth were highly concentrated. First, where rice farmers were concerned, only those who had access to irrigation could benefit. Despite all the investment in irrigation, only 18 percent of arable land was irrigated by 1980. Second, subsidies on credit and fertilizers were pocketed by large farmers who also enjoyed better access to infrastructure. Large farmers also enjoyed implicit subsidies – through low tariffs, an overvalued exchange rate and a low interest rate – on imported farm machinery that displaced landless agricultural labourers. The consequences were clear: “Income gains were concentrated in the already more affluent segment of the rural population. As a result, rural consumption favored capital-intensive products and imported goods rather than labor-intensive, locally produced goods ... Accordingly the rate of labor absorption in both agriculture and

industry was very low, and given the rapid expansion of the labor force, it prevented real wage rates from moving upward.

The transition countries in Eastern Europe and Central Asia present a different picture. A big surge in poverty occurred in the region after 1990 (the base year for the target). Most of these countries were then on the brink of a recession after the collapse of the centrally planned regimes and the beginning of the transition towards market economies. The first years of the transition recorded substantial increases in poverty rates across the region (Milanovic, 1998) that has since been only partially reversed. Achieving the target would require faster poverty reduction than at present.

Another possibility is to measure current nutrition through calorie intakes. Here also Strauss (1986) and Thomas and Strauss (1997) reported significant impacts of increased calorie consumption on farm output and wages.

The role of micronutrient deficiencies in reducing work capacity has also received increased attention lately. Horton (1999) states that “Studies suggest that iron deficiency anaemia is associated with a 17 percent loss of productivity in heavy manual labour, and 5 percent in light blue-collar work (studies cited in Ross and Horton 1998)”.

Strauss and Thomas (1998) present a succinct and illuminating review of the impact of adult stature and BMI on productivity through an analysis of two data sets from the United States and Brazil. They found that adult stature is positively correlated with wages in both countries, but the effect is strong in Brazil and weak in the United States. However, stature is also positively correlated with education. The suspicion naturally arises as to whether the seeming effect of stature on wages is simply a reflection of the fact that taller people are also better educated. Since it is widely accepted that better education does lead to higher wages, perhaps that is the underlying cause of the dependence of wages on stature. However, Similarly, it has been estimated that 45 percent of all deaths in developing economies in 1985 can be attributed to infectious and parasitic diseases such as diarrhoea and malaria, while these diseases account for about 4.5 percent of all deaths in industrial countries. Based on research on the European past, Fogel (1994) finds that improvements in stature and BMI explained “over 80 percent of the decline in mortality rates in England, France and Sweden between the last quarter of the eighteenth century and the third quarter of the nineteenth”.

Modern evidence from a number of Asian countries is presented in Horton (1999). As many as 2.8 million children and close to 300000 women die needless deaths every year because of malnutrition in these countries. Also noteworthy is the fact that anaemia is responsible for 20 to 25 percent of maternal deaths in most of these countries. This last observation points to the importance of micronutrient deficiencies in malnutrition. Iron deficiency is also associated with malaria, intestinal parasitic infestations and chronic infections.

The World Bank baseline scenario reported is based on the assumption of somewhat higher economic growth than in the past. In fact, the World Bank in its penultimate (2001) report stressed that “if policies are inadequate to achieve more than the slow growth of the 1990s, then the number of people living in extreme poverty would remain near current levels for the next 15 years”.

In a recent study, Demery and Walton (1999) show that if per capita growth continues along the path recorded during the 1990-95 period the poverty target will be met, as poverty would be reduced by more than half in large countries such as India, China, Indonesia and Brazil. However, 22 out of their sample of 36 countries will fall short of the poverty reduction target.³

Table 1.1 also presents the baseline scenario for the future as developed by the World Bank (2001c). These forecasts suggest that the world as a whole is roughly on track to reach by 2015 the MDG of halving the proportion of poor people.

Table 1.1						
World Bank estimates and projections of poverty						
	1990	1999	2015	1990	1999	2015
	Million persons			% of population		
Developing countries	1269	1134	749	32.0	24.6	13.2
Sub-Saharan Africa	242	300	345	47.7	46.7	39.3
Near East/North Africa	6	7	6	2.4	2.3	1.5
Latin America and the Caribbean	74	77	60	16.8	15.1	9.7
South Asia	495	490	279	44.0	36.9	16.7
East Asia	452	260	59	27.6	14.2	2.8
Transition countries	7	17	4	1.6	3.6	0.8
Total	1276	1151	753	29.0	22.7	12.3
idem excl. China	916	936	700	28.1	24.5	14.8

Source: Adapted from World Bank (2001c), Table 1.8. The definition of regions is not always identical to that used in this study, e.g. Turkey is not included in the developing Near East/North Africa and South Africa is included in developing sub-Saharan Africa.

The global data hide huge discrepancies between and within regions. East Asia may achieve the target early in the new millennium. South Asia made considerable progress in percentage terms during the 1990s, and achieving the goal of halving US\$1/day poverty is deemed feasible.

Infrastructure Development

Rapid growth in a globalized environment requires a well-functioning infrastructure, including especially electric power, road and rail connectivity, telecommunication, air transport and efficient ports. India lags behind east and southeast Asia in these areas. These services were traditionally provided by public sector monopolies, but since the investment needed to expand capacity and improve quality could not be mobilized by the public sector, these sectors were opened to private investment, including foreign investment. However, the difficulty in creating an environment that would make it possible for private investors to enter on terms that would appear reasonable to consumers, while providing an adequate risk-return profile to investors, was greatly underestimated. Many false starts and disappointments have resulted¹.

- The greatest disappointment has been in the electric power sector, which was the first area opened for private investment. Private investors were expected to produce electricity for sale to the State Electricity Boards, which would control transmission and distribution. However, the State Electricity Boards were financially very weak, partly because electricity tariffs for many categories of consumers were too low and also because very large amounts of power were lost in transmission and distribution. This loss, which should be between 10 to 15 percent on technical grounds varies from 35 to 50 percent. The difference reflects theft of electricity, usually with the connivance of the distribution staff. Private investors, fearing nonpayment by the State Electricity Boards, insisted on arrangements that guaranteed purchase of electricity by state governments with additional

guarantees from the central government. These arrangements attracted criticism because of controversies about the reasonableness of the tariffs demanded by private sector power producers. Although a large number of proposals for private sector projects amounting to about 80 percent of existing generation capacity were initiated, very few reached financial closure, and some of those that were implemented ran into trouble subsequently. Because of these difficulties, the expansion of generation capacity by the utilities in the 1990s has been only about half of what was targeted, and the quality of power remained poor, with large voltage fluctuations and frequent interruptions.

Public Expenditure on Social Sector and Rural Development

- In the view of Saxena (2001) has documented the many problems with existing delivery systems of most social sector services, especially in rural areas. Some of these problems are directly caused by lack of resources, as when the bulk of the budget is absorbed in paying salaries, leaving little available for medicines in clinics or essential teaching aids in schools. There are also governance problems, such as nonattendance by teachers in rural schools and poor quality of teaching. Part of the solution lies in greater participation by the beneficiaries in supervising education and health systems, which in turn requires decentralization to local levels and effective peoples’ participation at these levels. Non government organizations can play a critical role in this process. Different state governments are experimenting with alternative modalities, but a great deal more needs to be done in this area².

Impact on Poverty

- For the poverty calculations the study has assumed poverty in the rural sector to be 28.2 % and 25.6 % for the urban sector. The respective poverty line of INR 356 and INR 538 (Planning commission) for rural and urban sector has been updated till 2008-09 using consumer price index to update the poverty line. Monthly per capita expenditure is assumed to grow at the same rate as that of the poor category of household income. The poverty declines by 2.4 % for the rural sector and 1.8 % for the urban sector in the historical period. However, in the year 2009-10 poverty increases by 1.4 % and 1.3 % respectively for the rural and urban sectors due to lower growth in the income of the households. Poverty increases in the following years but at a slower rate as the growth in the economy starts picking up and for the rural sector it again decreases in the year 2011-12, where as the urban poverty keeps on increasing at a slower pace in the base period

Years	Historical(2006-08)	2009-10	2010-11	2011-12
Rural	-2.39	1.39	0.76	-0.46
Urban	-1.82	1.33	1.30	0.07
<i>(Scenario 2)</i>				
Rural	-2.39	2.42	1.83	0.47
Urban	-1.82	1.67	1.60	0.08

Note: (-ve) sign denotes decrease in poverty and (+ve) sign denotes increase in poverty
 Source: IDF calculations.

Social Sector Development in Health and Education

- The majority of them are small and medium-sized firms and only three employ more than thousand workers. All except one are privately owned and only two firms are partially foreign-owned. The competitiveness study revealed that the textile sector, especially cotton textiles, was one of the least profitable industries, in spite of being strongly tariff protected and in spite of its success in export markets. This apparent contradiction can be explained by two further observations: First, de-facto protection based on price comparison was significantly lower than the nominal tariff. Second, in spite of relatively low production

cost, the industry has been submitted to intense competition with imports under the reforms, especially due to imports from China. Garments, on the other hand, are in the middle range of profitability. While cotton textiles have seen their share in GDP decline, the share of wool & silk products, as well as that of garments, has increased. While textile products occupy the second rank in Indian exports, garment exports have held fourth rank in the late 1990s. The ratio of exports to output has gone up in the combined three textile branches, from 15% in 1987/88 to 25% in 1997/98, while it has gone down in clothing. Finally, employment in textiles has grown less rapidly than in other manufacturing (at about 1%), but in clothing it has grown at 10%, significantly above the manufacturing average of 2.2%. Labour productivity rose by 7.5% in textiles, but only 5.5% in clothing³.

Impact on employment and Poverty at the macro level – using growth elasticity approach

- After gaining a glimpse at the impact on the most vulnerable industries we now turn to assessing the likely overall impact on employment and poverty. To judge the impact of the financial crisis on employment generation this paper projected employment losses by using the elasticity of employment with respect to changes in GDP growth. The underlying assumption behind this approach is that employment elasticity based on historical data can be used to measure future change in employment. In normal times, this is a fair assumption, as the employment elasticity is likely to be stable. However, in a recessionary economy, due to a number of cost cutting measures taken by the affected sectors, the employment elasticity may not remain stable. In this context, the estimates coming from this approach need to be interpreted carefully.
- For this exercise, we assume two growth scenarios: For the first and baseline scenario, we assume that India’s GDP will be about 8% both in 2009 and 2010 (pre-crisis scenario). For the second scenario, we assume that India’s GDP will be about 5.4% in 2009 and 6.5% in 2010 mainly due to the global financial and economic crisis (post-crisis scenario). These assumptions are in line with projections made by ADB, IMF and others for India during the pre-and post-crisis period. Our attempt here is to assess how employment situation in India might change under these two different growth scenarios. Using these GDP projections for 2009 and 2010 and combining them with the employment elasticity of 0.38. It appears that because of the financial crisis, the employment will fall by about 8 million in 2009 and 12 million in 2010 (see Table 1.2). These estimates are in line with ILO figures on unemployment rate for 2008 and projected figures on unemployment rate for 2009 (ILO 2009).

Table 1.3 : Employment Projection for India Employment in Millions

Year	Scenario 1 (pre-crisis scenario) with the assumption of GDP growth of 8% in 2009 and 2010	Scenario 2 (crisis scenario) with the assumption of GDP growth of 5.4% in 2009 and 6.5 % 2010	Loss in Jobs in million
2006	465.0	465.0	n/a
2007	474.7	474.7	n/a
2008	489.1	488.0	1.1
2009	504.1	496.5	7.6
2010	519.6	507.2	12.4

- Note: Annual rate of employment (increase is 2.74 %, average GDP Growth during 1999 – 2007 is 7.12 %, and based on the above, while the average employment elasticity growth is 0.384.)
- These numbers only tell us about potential employment loss, but as we have seen in the survey’s presented in the previous section, decline in wages due to reduced working hours seems to be severe problem in the major exports-oriented manufacturing industries compared to job losses or lack of new jobs. Consequently the number of the working poor, which is already high in India, is likely to go up further in the crisis situations. These are people who still have some employment but do not make enough and fall into poverty. Available data show that there is significant increase in casual labour in India, which has reduced the bargaining position of the employees considerably.

- Similarly we have attempted to assess the impact of the financial crisis on poverty reduction in India through the poverty elasticity approach. Using two different GDP growth scenarios indicated above for 2009 and 2010 and combining them with the poverty elasticity⁴ of -0.59 for India.
- Poverty incidence (based on national poverty line) continued to decline, but rate of poverty reduction is slowing down; and 5 million more people will remain in poverty in 2009 than was expected in 2008; by 2010, this figure goes up to more than 8 million.

Causes of Poverty

High population growth rate is one of major reasons of poverty in India. This further leads to high level of illiteracy, poor health care facilities and lack of access to financial resources. Also, high population growth affects the per capita income and makes per capita income even lower. It is expected that population in India will reach 1.5 billion by 2026 and then India will be the largest nation in the world. But India's economy is not growing at the same pace. This means shortage of jobs. For this much population, near about 20 million new jobs would be required. Number of poor will keep on increasing if such a big number of jobs won't be created.

Causes of Poverty in India

At present, 29.8% of the Indian population lives below the poverty line. In the category of poor falls the people whose daily income is less than 28.65 rupees (56 cents/35p) a day in cities and 22.42 rupees (44 cents/33p) a day in villages.

Household expenditure is considered to calculate the poverty count in India. In this purchasing power of people for buying food and buying capacity for some non-food items is calculated. Though the condition in cities is more or less the same but the rural welfare programs have really helped the people in rural India. With these efforts there has been seen a decrease in the poverty in rural India at faster pace than their urban counterparts.

According to the Global Hunger Index Report 2012 by the International Food Research Institute, India ranks 65 in Global Hunger Index. Though there is no shortage of food production in India, our nation still has the highest percentage of underweight children under five. India is working hard to become a superpower in 2020, but what about these poor in India as our nation still lags behind in improving GHI.

International poverty line stands at \$ 1.25 per day and in 2010, 32.7% of the total population in India was below this line. According to 2011 poverty Development Goals Report, poverty in India is expected to drop by 22% in 2015.

Ever increasing prices of even basic commodities is another reason of poverty. A person below the poverty line finds it difficult to survive. Caste system and unequal distribution of income and resources is another reason of poverty in India.

Apart from all these, unskilled workers are paid very low in spite of hard work they put daily. The problem lies with the unorganized sector as owners do not bother the way their workers live and the amount they earn. Their area of concern is just cost-cutting and more profit. Because of the number of workers looking for a job is higher than the jobs available, unskilled workers have no other option but to work for less money. The government should really find a way to impose minimum wage standards for these workers. At the same time, the government should ensure that this is implemented well.

Poverty must be eradicated from India as every person has the right to live a healthy life.

The Congress party after claiming that its social policies over the last nine years had helped bring down poverty in the country now seems to have done a volte face.

The consumption expenditure in order to avoid poverty is set at Rs 816 per person per month in the rural areas and Rs 1,000 per person per month in the urban areas. For a family of five people, this amounts to Rs 4,080 per month in rural areas and Rs 5000 per month in urban areas.

Interestingly, the Tendulkar committee poverty line was an improvement on the earlier poverty line which only took into account the expenditure required to consume an identified number of food calories. For rural India this number was 2,400 calories. For urban India this number was at 2,100 calories. Anyone consuming less than this was deemed to be poor.

The Tendulkar committee made the poverty line multidimensional, by considering several other expenditures other than just food. An immediate impact of this was that the poverty ratio for 2004-05, went up from 27.5 percent to 37.2 percent of the total population. From that level, the poverty ratio has come down to 21.9 percent in 2011-12.

So prima facie this sounds good. The trouble crops up when Rs 816/Rs 1000 per month is converted into expenditure per day. Assuming 30 days in a month, this expenditure comes to Rs 27.5 per day for the rural areas and Rs 33.33 for urban areas. Hence, anyone whose expenditure per day is less than these amounts is categorised as poor.

Of course these gentlemen were trying to justify the unjustifiable. Rs 27-33 per day expenditure as a cut off for poverty are too low. But the argument is not as simple as that. As we saw the current poverty line is an improvement on the earlier line. There has been a lot of criticism of the late Suresh Tendulkar, who headed the committee that redefined the poverty line. Standard, "The late Suresh Tendulkar, who redefined the line some years ago, has come in for unfair criticism - because he actually raised the poverty line substantially. The simple solution it seems is to increase the poverty line. But as this writer explained earlier, increasing the poverty line has its own serious repercussions.

And this fall in poverty, irrespective of where we set the poverty line at, has been substantial. As Swaminathan Aiyar wrote in The Times of India, "India has just reduced its number of poor from 407 million to 269 million, a fall of 138 million in seven years between 2004-05 and 2011-12 . This is faster than China's poverty reduction rate at a comparable stage of development, though for a much shorter period."

The centrality of growth

The last five years have shown the rates of growth that India could achieve with market oriented development policies and a better integration into the world economy. This is a promising development because the last few decades have shown the extent to which the poor stand to gain from acceleration in growth. The latter widens opportunity, provides the resources needed to invest in human development, and creates the very foundation that will increase returns to human capital — and thus families' willingness to send their children, including girls, to school, have fewer of them, or in multiple other ways, invest in their future.

Statistical System

The reduction of poverty has been a major concern of the Government of India since independence in 1947. As such the analysis of poverty enjoys a long-standing tradition with an extremely rich literature and data base. India has one of the longest series of national household surveys — spanning over 40 years — suitable for tracking living conditions of the poor over time. In many respects, India therefore stands out from other countries in terms of its tradition of data collection and its pioneering of many of the techniques of data analysis, which have now become common currency throughout the world. However, access to household survey data remains highly restricted. There are an enormous number of urgent questions such as those relating to the incidence analysis of public expenditure that could better inform policy in the future if such data were accessible.

"These reforms could significantly reduce poverty and potentially allow India to achieve an average GDP growth rate of 7.8 per cent between 2012 and 2022," MGI said in a report titled 'From poverty to empowerment: India's imperative for jobs, growth, and effective basic services'.

The report estimated that on an average, just half of the public money spent on basic services actually reaches the people as real benefits.

If the current slow pace of growth continues and no major reforms are undertaken, more than one-third of the population would remain below the Empowerment Line in 2022 and 12 per cent would remain trapped in extreme poverty," said Shirish Sankhe, director McKinsey & Member of MGI Council. Public spending on basic services needs to grow at 6.7 per cent annually, nearly doubling from Rs.570,000 crore in 2012 to Rs. 1,088,000 crore in 2022, the report said. Delivery of basic services can be enhanced from 50 per cent per cent to 75 per cent by private and social sector partnership, community participation, use of technology to streamline operations and monitoring of outcomes, it added.

Conclusion

The Indian agriculture has two main roles to play in the overall economy; first of providing food to the mass within the economy, and the second, to provide the commodities - food grains, fibers, oilseeds and other cash crops that make the inputs to the industries in the economy as well as the stuff that would earn the foreign exchange. In an economy where no less than the one third of the population is below poverty line, the first role of the Indian

agriculture is not to be brushed aside in the dazzle of the flourishing multinationals-led industries and the drizzle of the foreign lucre⁵.

In the 1990s, food grain output in India fell below the population growth rates. The last time such a situation occurred was in the 1960s. The opening up of Indian agriculture to trade boosted the demand for non-food crops for export. Although total agricultural output still rose during the 1990s, liberalization reversed the recovery the country was making in per capita food availability, undermining the food security of the country. Within the first half of the 1990s, growth of food output had decelerated to 1.7 per cent compound every year. During the same period population grew at 1.9 per cent compound every year. The thrust on exports of agricultural produce has resulted in a significant change in cropping patterns. Indian producers have been diverting more and more cultivable land from food grains and pulses to the production of oilseeds, cotton, horticultural crops, prawn culture, animal husbandry etc. In addition, the land on which no well-defined property rights exist are being fenced off and export crops are being sown either directly by the agri-businesses or by farmers they contract. A rapid increase in prawn culture has made many nearby plots saline and unsuitable for cultivation, forcing their owners into the ranks of the landless labour. Rapid growth of exports of animal products implies that a greater proportion of the declining grain output is being used as fodder. Area under food grain cultivation in 1999-2000 was 4.6 million hectares less than in 1990-91. The most severe decline has been in coarse grains and pulses, which are the main food grains of the poor. Gross area under coarse grains fell by almost 6.8 million hectares between 1990-91 and 1999-2000. For pulses the area fell by 2.4 million hectares. However, area under rice in 1999-2000 was 1.9 million hectares higher than in 1990-91 and area under wheat went up by 4.4 million hectares during the same period⁶.

These reforms have created a very different competitive environment for India's industry than existed in 1991, which has led to significant changes. Indian companies have upgraded their technology and expanded to more efficient scales of production. They have also restructured through mergers and acquisitions and refocused their activities to concentrate on areas of competence. New dynamic firms have displaced older and less dynamic ones: of the top 100 companies ranked by market capitalization in 1991, about half are no longer in this group. Foreign investment inflows increased from virtually nothing in 1991 to about 0.5 percent of GDP. Although this figure remains much below the levels of foreign direct investment in many emerging market countries, the change from the pre-reform situation is impressive. The presence of foreign owned firms and their products in the domestic market is evident and has added greatly to the pressure to improve quality.

India's share in world exports, which had declined steadily since 1960, increased slightly from around 0.5 percent in 1990-1991 to 0.6 percent in 1999-2000, but much of the increase in world market share is due to agricultural exports. India's manufactured exports had a 0.5 percent share in world markets for those items in 1990, and this rose to only 0.55 percent by 1999. Unlike the case in China and southeast Asia, foreign direct investment in India did not play an important role in export penetration and was instead oriented mainly toward the domestic market. One reason why export performance has been modest is the slow progress in lowering import duties that make India a high-cost producer and therefore less attractive as a base for export production. Exporters have long been able to import inputs needed for exports at zero duty, but the complex procedure for obtaining the necessary duty-free import licenses typically involves high transactions cost and delays.

The main reason why public investment in rural infrastructure has declined is the deterioration in the fiscal position of the state governments and the tendency for politically popular but inefficient and even inequitable subsidies to crowd out more productive investment.

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