

Lecture 3, July 10, 1998: Poverty Alleviation¹

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Eradication of poverty has long been the overarching objective of Indian Economic Development. Of course, the early classic study on Indian poverty is Dadabhai Naoroji's (1901), Poverty and Un-British Rule in India. The National Planning Committee chaired by Pandit Nehru stated in 1948 that the objective of planning, "was to insure an adequate standard of living for the masses; in other words, to get rid of the appalling poverty of the people...the irreducible, in terms of money, had been estimated by economists at figures varying from Rs. 15 to Rs. 25 per capita per month" (Nehru 1946, pp. 402-403). This figure quoted by Panditji was at prices prevailing prior to the second world war. As such the committee's poverty line was considerably more generous than the consumption expenditure of Rs. 20 per capita at 1960-61 prices that would be set as the rural poverty line by the Planning Commission in 1960.

All the pre-independence plans for Indian development, including those of the National Planning Committee, Sir M. Visveswaraya, the Indian Federation of Labour and a group of Bombay businessmen, identified poverty as the central problem of the Indian economy. The authors of the Bombay Plan also proposed a poverty line at about Rs. 75 per capita income per year at prewar prices, a much more modest poverty line than that proposed by Panditji's committee.

This history enables me to make two points: the first is the obvious failure to achieve our modest poverty reduction targets and to attain the needed growth. Thus even after nearly 50 years of planning since independence, more than a third of our population (36% in 1993-94, according to World Bank 1998b, p. 1) still has a monthly consumption below our extremely modest poverty line. In terms of absolute number, there were 320 million poor in 1993-94 or roughly double the number of 164 million in 1950. Second, contrary to the assertion by western economists and agencies such as UNDP that developing countries were fixated on income growth and neglected poverty alleviation and human development, in India the objective has never been growth per se but only growth as an instrument for poverty alleviation.

The remarkable paper, prepared in 1962 at the Perspective Planning Division of the Planning Commission under the leadership of the late Pitambar Pant (Srinivasan and Bardhan 1974, pp. 2-38), defined the poverty line at a consumption expenditure of Rs. 20 per capita at 1960-61 prices, and envisaged eradicating poverty in 15 years from 1960-61. The paper explicitly argued for rapid growth as the instrument for poverty alleviation, while at the same time recognizing the need for redistributive transfers for those poor who, for various reasons, were either unconnected or weakly connected, with income generation processes in the economy. The growth target of national income set in this paper was 7% per year for the decade 1966-76. Earlier, Sir M. Visveswaraya had proposed the doubling of national income in 10 years, which implied a 7% annual rate of growth. Panditji's committee wished to

¹I have drawn from my conversations with Martin Ravallion at the World Bank on the ongoing research on poverty alleviation in India at the Bank, in particular its latest (World Bank 1998b) poverty assessment.

at least double, if not triple, national income in 10 years. The Bombay Plan aimed to double per capita income in 15 years, which would have meant an annual growth rate of about 6% in national income given the then rate of growth of the population of about 1% a year. In the post independence era, except for the modest first five year plan, every other five year plan envisaged more than 5% growth in national income per year. But none of these goals were reached. The average rate of growth achieved in the 47 years since we began planning in 1950 is about 4%. For the three decades until the beginning of the sixth plan in 1980-81, the average rate of growth was even less at 3.5% per annum, the infamous Hindu rate of growth.

It is this massive failure to achieve rapid growth that is the root cause of our failure to eliminate poverty. The World Bank (1997, Table 2.1) reports that the poverty head count ratio goes down by almost 1% for every 1% increase in net domestic product (NDP) per capita. Had per capita NDP grown by 5% per year since 1950-51, per capita NDP in 1997-98 would have been 10 times that for 1950-51. Other things remaining the same, given a unitary elasticity, head count poverty ratio now would have been about 4.5% in 1997-98, 1/10th its 1950-51 value of around 45% (World Bank 1998b, p. 1). Alternatively, if poverty is to be halved in 10 years from its 1993-94 value of 36%, per capita income has to double in 10 years or grow by 7.1% a year. The analysis of Demery and Walton (1998) using cross-country regressions, rather than time series analysis of Indian data, and an international poverty line consumption of \$2 a day suggest that for halving India's poverty would require a 5% growth rate per capita per year between 1990 and 2015. We need not take these calculations literally to argue the vital importance of considerably accelerating our rate of growth if we wish to make a serious dent on the appalling poverty of our people. The quality or character of growth, and not simply its rate, is also crucial for poverty alleviation: growth has to enhance the prospects of the poor. Before discussing policies that will accelerate growth and ensure that it encompasses the poor, let me just say here that in East Asia, until the recent crisis, growth was both rapid and poverty reducing.

Apart from the tried and tested policy of rapid and shared growth, other poverty alleviation policies include transfers of various kinds and policies that augment the earned income of poor households. The two main transfer programmes in India are the Public Distribution System (PDS) and the provision of Integrated Child Development Services (ICDS). Other transfers include pensions to widows and elderly. There are several income-augmenting programmes: the Integrated Rural Development Programme (IRDP), Development of Women and Children in Rural Areas (DWCRA), Training of Youth and Self-employment Programmes (TRYSEM) and two public works programmes for employment generation, namely Jawahar Rozgar Yojana (JRY) and the Employment Assurance Scheme (EAS). Area based programmes include Drought Prone Areas Programme (DPAP) and Watershed Programmes. Some of these programmes overlap with each other.

The first important point to note is that in 1997-98 spending by the central government on all major poverty alleviation and basic needs programmes, narrowly defined, taken together accounted for 8.9% of central plan budgetary expenditure (World Bank 1998b, Table 4.1) or a modest 1.45% of GDP.² The situation is unlikely to have changed much in the five years since. In addition, more than a

²If we define poverty alleviation programmes broadly enough to include outlays on rural and area development and social under state plans, the expenditures would naturally be much larger. I do not think such a broad definition is warranted—it almost amounts to including any development

third of this expenditure is accounted for by the untargeted food subsidy of the PDS. Thus it would be a distortion to say that a lot has been spent on anti-poverty programmes-in the same year, 1997-98, the central government alone spent nearly 0.84% of GDP on explicit subsidies other than food, including the subsidy on fertilizers (World Bank 1998a, Table A4.11). Implicit subsidies of the centre, and the explicit and implicit subsidies of state governments, have to be added to this figure.

The further important point is that even the meager expenditures on anti-poverty programmes were largely mis-spent and cost-ineffective. It is as if one were pouring a little water into a leaky bucket; obviously not much would remain in the bucket. The study of Radhakrishna and Subbarao (1997) is very revealing. They find that in 1986-87, the PDS and other consumer subsidy programmes accounted for less than 2.7% of the per capita expenditure of the poor in rural areas and 3.2% in the urban areas. The impact on poverty and nutritional status of the population was minimal. The PDS had at most brought down the poverty ratio to 38% from 40% that year, a small reduction indeed. What is even more disturbing, the abolition of PDS would have had a negligible impact in the rural areas where more than three-fourths of the poor live. The cost of the transfer through PDS and other subsidies was very high. The World Bank (1998b, Table 4.2, p. 39) reports that the participation of the poorest quintile in the population in PDS as compared to the average is lower at 92% and the next two quintiles participate at a slightly higher rate than the average. Even the marginal odds of participation, that is the gain for each quintile following a rupee increase in aggregate spending on PDS, is only 1.06 for the poorest quintile as compared to the richest quintile's 0.81 (ibid, Table 4.3, p. 41). Thus PDS subsidies are not particularly pro-poor in their incidence. The central government alone spent more than 4.25 rupees to transfer one rupee to the poor. Combining central and state government expenditures, in Andhra Pradesh it took 6.35 rupees to transfer one rupee to the poor. The most cost-effective scheme was ICDS which cost 1.80 rupees to transfer one rupee to the poor.

The employment generation programmes, which are in principle self targeting, have the potential to be most cost effective. For example, according to the figures quoted by Radhakrishna and Subbarao (1997), in Bangladesh the leakage to the non-poor under their analogue of our PDS was as high as 70%, while in the employment oriented programmes it ranged between 0 and 36%. The cost per taka of transfer was as high as 6.55 in the former and between 1.32 and 1.49 in the latter. Unfortunately our employment programmes are far from realizing their potential. In 1993-94 JRY programmes did generate nearly 1 billion person days of employment, a third of the estimated underemployment in the country. Yet during 1992, a JRY worker got on average about 4 days of employment in a month and the worker's family in all got a little over 5 days of employment. However, the average wage of the JRY worker was higher than the prevailing wage, thereby reducing its potential for self targeting. In other words, a JRY worker was not necessarily poor--taking this mistargeting into account, it cost about 4.35 rupees to transfer one rupee to the poor through JRY.³ Still, compared to PDS, the incidence of expenditure public works (PU) and integrated rural development (IRD) programmes are much more pro-poor. The marginal odds of participation of the poorest (resp.

expenditure as poverty alleviating.

³The JRY is not even well targeted regionally in the sense the states are not allocated funds in proportion to their poverty levels.

richest) quintile in the PW and IRD programmes respectively were 1.16 (resp. 0.50) and 1.11 (resp. 0.39), as per World Bank (1998b, Table 4.3, p. 45).

The difficulty of targeting and its politicization are clearly seen in Madhya Pradesh (MP). When bureaucrats did the targeting in IRDP, they missed quite a few poor and included many non-poor, but there was an upper limit on mistargeting, namely the known proportion of poor in the area. But once the targeting was transferred to the Panchayats, the list of beneficiaries became grossly inflated--in the Sagar district of MP every household was deemed poor enough to be a beneficiary of IRDP! In some JRY programmes in Bihar, village pathways and roads had been constructed, but not by using workers from the villages themselves. In one district, wells had been repaired, and bridges built, but no respondent from the district reported being employed in these activities. In the same district it was reported by the respondents that the Pradhan in charge recorded a project had been completed in a scheduled tribe Basti while in fact it had been completed in his own upper-caste area. In another instance, the JRY programme was contracted out but the contractor did not pay the workers what was due to them.⁴

I hope I have said enough to convince you that our concern with poverty alleviation has mostly remained at the rhetorical level. The policies and public expenditures that have been explicitly poor oriented or have been justified on their poverty alleviation impacts have been modest in scale and very ineffective and costly in their execution. What about those expenditures, particularly those on health and education that could potentially help the poor? Here again the situation is dismal, as I will argue in my fifth lecture.

It is not surprising that, as compared to growth, redistributive policies contributed only modestly to the equally modest reduction in poverty alleviation over the last four decades. The World Bank (1997, Table A.5) reports that of about 17% reduction in the poverty ratio between 1951-55 and 1993-94, as much as 15% was accounted for by growth in real per capita consumption, with redistribution contributing only 2%. Accelerating growth and making it more poor-oriented are the only efficacious long-term solutions to the problem of poverty.

Turning to the issue of making growth poor-oriented, it is useful to begin with the well-known correlates of poverty in India. If one is poor in India, one is more likely to live in rural areas, more likely to be a member of the scheduled caste tribe or other socially discriminated groups, more likely to be malnourished, sick and in poor health, more likely to be illiterate or poorly educated and with low skills, more likely to live in certain states (such as the "Bimaru" states of Bihar, Madhya Pradesh and Uttar Pradesh, and also Orissa) than in others, more likely to be a landless agricultural worker, wage earner or a marginal farmer and so on. Also the inequalities in education and health, mortality and morbidity, between males and females, particularly children, are higher among the poor than among the non-poor. What all these mean is that a pro-poor growth strategy will create rapidly expanding job opportunities in the rural areas in particular, on farm and off farm. It will emphasize the accumulation of human capital by the poor by addressing the inefficiencies and inequities in the health and education

⁴In emphasizing poor targeting, I do not mean to ignore the potential for greater impact from current programmes through greater participation of the poor in their design and implementation, ensuring that outlays augment the stock of productive assets to a greater extent and locating projects in areas with greater concentration of the poor.

sector. I would also argue that an effective strategy will involve the private sector, particularly non-governmental organizations, in many activities where they can be more effective and will confine government involvement only to those areas where there is no more effective and efficient private alternative. While decentralization of government and devolution of both power and resources to local bodies are very desirable, I am not entirely certain whether the socially discriminated groups will fare any better with local Panchayats, rather than the state or central administration making decisions. Indeed, the World Bank (1998b, Table 2.6, p. 24) presents data that suggest that the service quality could drop by as much as 40% if a service is funded at the village level rather than at the central or state level.

Reforms in other areas, such as completing trade liberalization by extending it to include agriculture and consumer goods, repealing or amending our labour and bankruptcy laws to allow managerial autonomy in employment decisions, strengthening the financial sector by tackling the overhang of non-performing loans of banks and reducing the extent of directed credit and of politicization of the credit allocation process are important from the perspective of poverty alleviation as well. There are several reasons for this, the most important ones being that such reforms will accelerate income growth thereby alleviating poverty and will also result in more rapid employment generation through a reduction of costs of hiring. Trade liberalization, in particular, would increase the incentives for the manufacture and export of labour intensive products in which we have a comparative advantage. Employment opportunities arising from such export growth will be poverty-alleviating. It is an unfortunate fact that we have been losing our share of world markets in these products to our competitors, particularly China (Srinivasan 1998, Table 9.3). For example, China gained substantially, while India barely managed to maintain its market share in exports of garments and textiles between 1979-81 and 1992-94. During the same period, India's share of exports of leather and leather manufactures fell substantially, while China's share increased dramatically.

I will conclude by endorsing, with all the emphasis that I can command, the conclusions emerging from the vast literature in India on poverty and policies for its alleviation that are aptly summarized in the World Bank (1998b, p. 49) that

"Anti-poverty programs that either do not reach the poor or that bestow a disproportionate share of their benefits on the non-poor are programs in urgent need of reform. The majority of India's safety-net initiatives are misusing scarce financial resources that could be best invested to increase the poor's access to health and education services that have been shown to equip the poor to help themselves. Reform is not needed for its own sake but for the sake of India's poor and in the interests of having them both contribute to the growth process and benefit from it."