Economics Class 41

BRIEF OVERVIEW OF THE PREVIOUS CLASS [09:05 AM]

POVERTY GAP RATIO [09:06 AM]

- It is the difference between the poverty line and the average actual monthly expenditure of a BPL household.
- It indicates the average shortfall from the poverty line.
- In mathematical terms-
- Poverty gap ratio = (Poverty line in monetary terms - Average actual monthly consumption expenditure per capita of a BPL household)/Poverty Line.
- For example, (400 -330)/400 = 0.175, which indicates that there is a gap of 17.5%
- Through this measure, the government can derive the per capita amount of transfers required to eliminate poverty.
- It may be done through perfectly targeted cash transfers.
- The more the poverty gap, the more the transfers required to be done by the government to bring BPL households above the poverty line.

SQUARED POVERTY GAP INDEX [09:22 AM]

- This method squares the poverty gap for each individual/household i.e. very poor will be allotted higher weightage than those falling only a few points short of the poverty line.
- Squared poverty gap ={ (Poverty Line - Income of the first household $)^2$ + (Poverty Line - Income of the second household $)^2$ + ... + (Poverty Line - Income of the nth household $)^2$ } / n.
- This method squares the poverty gap for each individual/household.
- The shortfalls of BPL people are squared giving the very poor much more weight than those falling only a few cents short of the poverty line.
- The Squared Poverty Gap Index is more beneficial to the very poor who are further away from the poverty line because they will receive more amount as aid from the government.

UNIVERSAL BASIC INCOME [09:44 AM]

- UBI was highlighted in one of the chapters in the Economic Survey 2016-17.
- UBI is a concept under which there is a periodic cash payment, unconditionally delivered to everyone on an individual basis, without means test or work requirement.
- UBI is based on the principle that every citizen should have the right to basic income to cover their needs. In other words, UBI is based on three hallmarks:
- 1. Universality (targeting all population)
- 2. Unconditionality
- 3. Agency
- **Rationale for UBI**
- It may provide freedom to an individual to spend as per his or her own choice.
- UBI may be a solution to technology-induced unemployment in developed countries.
- It may reduce inequality and increase aggregate consumer demand.
- It may promote social justice by empowering the poor to make their own economic decisions and choices.
- UBI may replace all welfare schemes (around 950 schemes running at present) which account for expenditure amounting to around 5.2 percent of GDP (based on 2016-17 GDP figures)
- It may overcome leakages and wastages that occur during the implementation of welfare schemes.
- Also, it will be easy to monitor one UB instead of a huge number of welfare schemes.
- May be a solution to leakages and corruption.
- May help to tackle expected unemployment due to the obsolescence of the workforce as a result of rapid technological advancements.
- May improve the status of financial inclusion.

- **Cost of implementing UBI**
- As per the estimates of the Economic Survey 2016-17, UBI will involve expenditure amounting to around 4.9 percent of the GDP, which is lower than the present expenditure of 5.2 percent of GDP spent on all welfare schemes taken together.
- Economic Survey further suggests that the per capita UBI amount will be indexed to prices and will be revised/increased periodically.
- **Challenges in implementing UBI**
- Pre-requisite for an effectively functional JAM (Jan Dhan, Aadhar, and Mobile) infrastructure for implementing UBI.
- Deciding on the expenditure share of the center and the states
- The stress of implementation on the banking system in the left-out rural areas.
- In the present scenario, if one scheme fails to deliver, another scheme can compensate for that loss. However, in the case of UBI, there will be no alternative for any mishandling of UBI.
- A poor person may spend the UBI amount on unwanted activities like alcohol, gambling, etc. However, a 2011 pilot project in Madhya Pradesh has given results in favor of UBI.
- There are concerns raised by some critics as to whether UBI will actually replace all welfare schemes or complement them. t both welfare schemes and UBI are implemented parallelly, there will be a huge burden on the government exchequer.

NSSO:- National Sample Survey Office
CSO:- Central Statistics Office
NSO:- National Statistics Office

NSSO + CSO = NSO in 2019

METHODS OF MEASURING POVERTY [09:57 AM]

- **1. Uniform Recall Period (URP):**
- Till the mid-1990s, the poverty line estimated by NSSO was based on URP.
- Under URP, consumption data for all items is calculated for a 30-day period i.e. when URP is applied, the households are surveyed about their consumption in the last 30 days preceding the date of survey.
- **2. Mixed Recall Period (MRP):**
- From 1999 to 2000, NSSO started using MRP for estimating poverty.
- Five non-food items like clothing, footwear, durable goods, education, and institutional medical expenses are calculated for a 365-day recall period and the consumption data for the remaining items is calculated for a 30-day recall period.
- **3. Modified Mixed Recall Period (MMRP):** (2014)
- It is the most recent concept.
- MMRP was suggested by the Rangarajan Committee.
- Under MMRP:
- a. A 365-day recall period is used for clothing, footwear, education, institutional medical care, and durable goods.
- b. A 7-day recall period is used for edible oil, eggs, fish, vegetables, meat, fruits, spices, processed food, etc.
- c. A 30-day recall period is used for remaining food items, fuel, light, miscellaneous goods, and services including rent.

POST-INDEPENDENCE COMMITTEES [10:24 AM]

- B.S. Minha's Study (In the 1950s).
- M.S. Ahluwalia's Study (In the 1960s).
- P.D. Ojha's Estimate (In the 1960s).
- P.K. Bardhan's Study (In the 1960s).
- V.M. Dandekar and Neelkantha Rath Committee (report submitted in 1971).
- Y.K. Alagh Task Force (constituted in 1977 and submitted the report in 1979).
- D.T. Lakdawala Committee (constituted in 1989 and submitted the report in 1993).
- Suresh Tendulkar Committee (constituted in 2005 and submitted the report in 2009).

SURESH TENDULKAR COMMITTEE [10:34 AM] (imp.)

- The committee submitted the report in 2009.
- Per capita expenditure on basket of commodities(food and non-food)
- Shift from URP to MRP.
- Uniform poverty line basket for urban and rural areas.
- The poverty line is indexed to CPI inflation.
- Poverty estimates will be based on the per capita consumption expenditure of households collected by NSSO.
- Move away from the food calorie-based method of estimating the poverty line.

RANGARAJAN COMMITTEE [10:38 AM]

- It used the MMRP method.
- Along with calorie, protein, and fat value was also considered to compute expenditure.
- It used a separate rural and urban poverty line basket.
- Poverty in 2011-12 was 29.5%.

2011-12 data head count ratio is 21.9 percent (urban 13.7 and rural 25.7)

POVERTY AND ECONOMIC GROWTH [10:52 AM]

- It is obvious enough that economic growth is extremely helpful in removing poverty.
- This is because the poor can directly share the increased wealth and the income generated by economic growth and also because the overall increase in national prosperity can help in financing public services including healthcare and education.
- This does not however make economic growth the only means of principal means of poverty removal for **3 reasons**:
- **1.** Poverty reflects other kinds of deprivation ranging from the prevalence of preventable or curable diseases.
- **2.** Social exclusion and political liberty.
- Enabling the role of basic education, primary healthcare, micro-credit facilities, land reforms, social security arrangements, environment sustainability, legal provisions, and related factors.
- **3.** Fruits of economic growth may not be automatically utilized to expand basic social services.
- For example, South Korea did much better in channeling resources to education and healthcare than Brazil which also focussed on faster economic growth.
- This has helped South Korea to achieve growth with equity. (inclusive growth).
- However, South Korea also neglected arrangements for social security and was greatly affected during the 1997 South East Asian crisis.
- Removal of poverty and deprivation requires more than relying on 1 simple associative connection between economic growth and the incomes of the poor.
- The strength of the relationship between growth and poverty is usually measured by poverty elasticity with respect to per capita GDP.
- In India poverty elasticity is low, indicating the failure of the trickle-down theory especially after the 1991 reforms.
- Empirical study reveals that lack of assets such as land, human capital, and skills constrain the poor from participating in and benefitting from growth.
- Employment schemes like MGNREGA and other pension schemes of the government can make a difference in the lives of those excluded from the growth process

CRITICAL EVALUATION OF STRATEGIES TO ELIMINATE POVERTY [11:22 AM]

- The poverty line once determined remains quite insensitive to the plight of people suffering from various degrees of poverty.
- Amartya Sen rightly argued that the poor is not an economic class nor a convenient category to be used for analyzing social and economic changes.
- The policies to tackle poverty must go beyond the concept of poverty that is the need for discrimination is essential.
- The present approach is nearly blind to the existence of secondary poverty.
- Secondary poverty is defined as the condition in which earnings would be sufficient for the maintenance of basic requirements, provided it is not absorbed into wasteful expenditures like drinking, gambling, inefficient housekeeping, etc.
- The programs have not targeted the disabled, sick, and socially handicapped who cannot participate in normal economic activities.
- Many rural poor depend on natural resources for their livelihood.
- However, the practice of using these resources is no longer viable, especially in tribal areas.
- The government has failed to make necessary changes in anti-poor policies and laws'.
- As these policies harm the poor particularly tribals, who depend upon forest resources for their survival.
- The household approach, which focussed on wage employment guarantees is not appropriate in the state of continuing demographic pressures and fragmented land holdings.
- There is a need for re-orienting poverty alleviation programs to build group power for developing land and water resources, channeling resources in favor of low-income households, and preventing exploitative practices.

MULTIDIMENSIONAL POVERTY INDEX [11:38 AM]

- It is a broader concept that says that poverty not only depends upon income but also includes deprivation such as poor health, lack of education, and inadequate standard of living.
- These deprivations are measured on the household as well as on an individual level.
- MPI measures acute poverty based on overlapping deprivations instead of the World Bank's measure of extreme poverty which captures those living on less than 1.90$ a day.
- This MPI concept was developed by the UN Development Programme (UNDP) and OPHI (Oxford Poverty and Human Development Initiative).
- MPI replaced the concept of the Human Poverty Index.
- Instead of income, MPI uses three dimensions (having 10 indicators to measure absolute poverty).
- The 3 dimensions are Education, Health, and Standard of Living.

INFLATION [11:48 AM]

- It refers to the rise in the general price level in an economy over a period of time that is it measures the average price level of all goods and services in the economy.
- Inflation is measured through a price index that shows the extent to which prices have changed over a period of time as compared to the prices of the base year which is taken as standard.

TOPIC FOR THE NEXT CLASS: Inflation (Continued).