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## UNIT 9 UNDERSTANDING POVERTY\*

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### Structure

- 9.0 Objectives
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- 9.2 Concept and Meaning of Poverty
- 9.3 Types of Poverty
- 9.4 Poverty Line
- 9.5 India's Poverty Line Estimation
- 9.6 Poverty Alleviation Programmes in India
- 9.7 Let Us Sum Up
- 9.8 Answers/Hints to Check Your Progress Exercises

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### 9.0 OBJECTIVES

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After going through this Unit, you should be in a position to:

- Explain the concept of poverty and its various dimensions;
- Identify the characteristics of poor ;
- Discuss the poverty line (national and international);
- Critically explain the recommendations made by various poverty expert groups ;
- List a few poverty alleviation programmes in India

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### 9.1 INTRODUCTION

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In the year 2000, the General Assembly of the United Nations adopted a set of *Millennium Development Goals* which contains eight such goals. The first one itself is to eradicate extreme poverty and hunger. This indicates that poverty reduction is the prerequisite for any country which wants to provide its citizens with good quality of life. In this unit, we first discuss the concept of poverty. This Unit begins with explaining the various approaches to the concept of poverty and its types. Various correlates of poverty and characteristics that are widely shared by poor individuals are explained. Further the concept of poverty line has been discussed followed by the progression of India's Poverty Line estimation. A critical view has been taken up in order to provide you the complete picture of the recommendations of various committees which were constituted for the task of poverty estimation in our country. The unit concludes by discussing the main poverty alleviation programme of India: Integrated Rural Development Programme.

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## 9.2 CONCEPT AND MEANING OF POVRTY

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We always welcome the economic growth that spreads its benefits equitably among the population. If the growth is distributed unequally then it needs to be assessed in terms of equity. First, there exists an inequality of world income distribution and then there is the inequality of income distribution within a country. If a country is under developed then the most visible characteristic of that country will be the existence of poverty. It is not easy to describe poverty and its related dimensions (illiteracy, hunger, ill health, capability deprivation), head on. Poverty is like a threat to the existence of individuals who are poor. It destroys the aspirations, hopes and potential joy of good health and nutrition. Poverty also indicates the absence of productive asset holdings, like possession of land. Hence, the basic implication of poverty is that the poor will lack access to markets, particularly the markets for credit, insurance, land, and labour. The absence of collateral restricts their access to credit markets. This leads the individual to the *Poverty Trap*. This trap makes it very difficult for a poor individual to escape poverty as some amount of capital possession is required in order to escape. Low wages, low work opportunities, inability to pay for education are all causes of poverty trap. Poverty trap is a spiral which forces people to remain poor.

Poverty as a concept is of high significance, both intrinsic and functional. Further, it holds importance from the policy making view as well. It is a common knowledge that a fundamental goal of economic development and of all governments is the removal of poverty. Hence, the characteristics of the poor need to be understood well. That helps in structuring the appropriate measure of poverty by the policy makers. Poverty is also an outcome of economic development which needs to be dealt with through various policies.

One view of looking at the concept of poverty is in relation to economic growth. As a result of economic growth, the average consumption and average income rise. It impacts poverty as the distribution of income and consumption will change. If everyone's income increases then we can say that the poverty reduces. But if the economic growth only increases the incomes of the rich (still meaning that the average income is increasing), no reduction in poverty will take place. In fact, the distribution of income widens.

Another perspective to look at the concept of poverty is through the work of Amartya Sen. His work is based on the relation of poverty with capability deprivation. Individuals are deprived of capability building if they are poor. For example, poverty denies the opportunity to gather the school experience which would lead to yet another type of poverty. Such individuals will not be able to read and write. That means they will not be able to participate in the activities which need literacy. Only those individuals who are literate will be able to capture the benefits of those opportunities. It is also important to look at poverty as per the society/economy where the individual lives. Individuals are also poor if they lack resources to participate in the society where they live, even if they have

enough incomes to lead their life nicely in some other society. But poverty is not only the inadequacy of income, its domain is much wider. Poverty not only includes not having enough income to guarantee adequate food, clothes, or shelter, but also being unhealthy, as well as being denied access to education, political participation in the society. International institutions like the World Bank and the United Nations go beyond the measurement of the number of people whose income is low. They, in addition, give importance to health, such as infant and child mortality rates and the life expectancy, and to participation in education. This means that the poor people in the world are poorer, and rich people are richer because income is positively related with the above-mentioned aspects of well-being. So, we can say that the Africans, in addition of having less money have lower life expectancy and low level of education as compared to Europeans and Americans. If we look at a within country scenario, same holds. Within a country, poorer people are more likely to be malnourished and unhealthy, to lose their babies and to have low life expectancy. This within country scenario is true for both the rich countries of Europe as well as the poor countries of Asia and Africa. Hence, to gain a wider view of poverty, a more complete picture of deprivation and inequality should be considered.

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### 9.3 TYPES OF POVERTY

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Depending upon different viewpoints, poverty can be analysed as follows: First classification refers to the type of base information used: Objective and Subjective poverty; Second is depending on the scale or reference used to set the thresholds: Absolute and Relative poverty; Third is based on the length of duration of poverty: Transversal poverty (in a fixed year) and Persistent poverty (Long term).

The studies which use the information directly collected by a researcher in terms of the measurement of various variables are called *Objective poverty* studies. The direct observation of a researcher provides high degree of objectivity. The commonly used variables by researchers are household income and household expenditure. On the other hand, the perception of the individuals or households about their own self converts into *Subjective poverty* studies. Information on the opinion of these individuals or household is used to understand poverty. Such studies influence the subjective view on poverty as opposed to the objective focus.

*Absolute poverty* indicates a situation when an individual is not able to afford basic goods and services like food, housing and clothes. It is also linked to destitution. It is difficult to find ways of measuring absolute poverty. *Relative poverty* places the concept of poverty in relation other people around. A person is considered poor when he/she is at a disadvantage (financially or socially) as compared to other people in their environment. This idea of poverty is closely linked to the notion of inequality. A person's income level or affordability may change over time. Hence, poverty is not a static phenomenon. Individuals move in and move out of poverty. So, it is crucial to conduct *dynamic poverty* studies

which analyse a population considering the various changes and transitions that take place over a period of time. This is the context of persistent or long-term poverty analyses. In European Union countries, a person is considered persistently poor if they have been classified as poor in the last year and at least during two of the three previous years. *Transversal poverty* studies deal with a fixed time period for which the analysis is carried out.

Another type of poverty is from a completely different perspective. The poverty studies based on this perspective focus on *multi-dimensional deprivation* i.e., analyses based mainly on the impossibility of access to certain basic consumption elements. This perspective has been discussed in the previous section. Such studies mainly stress on the social exclusion of an individual due to poverty in a multi-dimensional manner.

**Check Your Progress 1**

- 1) Discuss the various features of poverty.

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- 2) How is poverty related to capability deprivation?

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- 3) Explain any two types of poverty.

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**9.4 POVERTY LINE**

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At the core of the concept of poverty is a notion which is called a *poverty line*. It is a critical threshold of income, consumption, or access to goods and services. Individuals falling below this line are declared poor. For example, to reach an estimate of the poverty line, we will need data on minimum nutrient levels which make an adequate diet. Once that is done, we will use the prices of those food items which provide those nutrients and the cost of clothing and shelter at a minimum level to find out the total expenditure needed to fulfil these needs. This total expenditure needed for fulfil the basic requirements will act as an estimate

of the poverty line in a given society. We can say that the poverty line is an indicator of the minimum level of economic participation in a given society at a particular time. The minimum wage in a given country is a legally decreed estimate of a poverty line.

Link between hunger and poverty is strong. Many countries have nutrition-based poverty lines. United States estimates poverty line based on food requirements. In India, the poverty line estimate is based on the food expenditure necessary to afford the minimum consumption of calories. It is a tradition to set the poverty line as per the cost of a particular standard of living given a country. A major component of poor's income gets spent on the food requirements. So, if they do not have enough money, it would mean like sleeping without sufficient food. The general norm which many countries follow when they estimate the poverty line, is by looking at a calorie norm of around 2000 calories a day. But this estimate is gender and work sensitive. As agricultural labour works physically harder, so in that case the calorie norm is revised upwards. Similarly, separate standards are employed for men, women and children. The association of food and poverty looks like an attractive one. Not only because poor people spend majority of their budget on food, but also because this association gets more support politically for the antipoverty programs which involve food as compared to the programs based on goods which are seen as less admirable. The right to food is more convincing than the right to other consumer goods.

Over the time, the basic concept of poverty line has remained the same but the line is revised incorporating the inflation levels. Using the data for the year 2005, the World Bank estimated the International Poverty Line (IPL), a global absolute minimum, at the \$1.25 per day figure. It was updated in the year 2008 to \$1.25 a day at 2005 [purchasing-power parity](#) (PPP). It was mainly revised due to inflation. Further, in 2015, the World Bank updated the IPL to \$1.90 per day. As per the World Bank, in 2017, an estimated 9.2 percent of the global population still lived below the international poverty line of \$1.90 a day, which is based on poverty lines in some of the poorest economies in the world. The COVID-19 pandemic has reversed the gains in global poverty for the first time in a generation. About 120 million additional people are living in poverty as a result of the pandemic (April 2021).

It is also important for us to realise that the concept of poverty line always uses approximations and proxies. The threshold thus arrived at is fuzzy in nature. The year after year deprivation shows its cumulative effect in later years. There are some other issues with the concept of poverty at the fundamental level, e.g., should income or item-by-item expenditure be used to identify the poor, are notions of the poverty line "absolute" or "relative," is poverty temporary or chronic, should we study households or individuals as the basic unit, and so on.

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## 9.5 INDIA'S POVERTY LINE ESTIMATION

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This section provides the progression Poverty Estimation in India, post-Independence. The Planning Commission constituted various expert groups time to time to estimate the number of people living in poverty in India.

1. *Working Group (1962)*: For the first time, the poverty line in India was quantified in 1962 in terms of a minimum requirement which included food and non-food items, for individuals in order to lead a healthy life. This Group formulated rural and urban poverty lines at ₹20 and ₹25 per capita per month respectively (in terms of 1960-61 prices). The Group did not consider any regional variation while formulating these lines. This poverty line also excluded expenditure on health and education as it was assumed to be taken care of by the state. So, in 1960s and 1970s these poverty lines were used to find out the state of poverty at national and state level.
2. *Study by VM Dandekar and N Rath (1971)*: These two economists are responsible for laying the foundation of India's poverty line through their seminal work by establishing the minimum calorie requirements. This was not a study commissioned by the Planning Commission. They established the first consumption levels required to meet a minimum average calorie norm of 2,250 calories per capita per day. Their study was systematic wherein they utilized the National Sample Survey (NSS) data. Their poverty line was based on the expenditure required to procure 2250 calories per day in both rural and urban areas. They found poverty lines to be Rs. 15 per capita per month for rural households and Rs. 22.5 per capita per month for urban households at 1960-61 prices.
3. *Task Force on "Projections of Minimum Needs and Effective Consumption Demand" headed by Dr. Y. K. Alagh (1979)*: This Task Force was constituted in 1977 and it submitted its report in 1979. Official poverty counts began for the first time in India based on the approach of this Task Force. Poverty line was defined as the per capita consumption expenditure level to meet average per capita daily calorie requirement of 2400 kcal per capita per day in rural areas and 2100 kcal per capita per day in urban areas. Based on 1973-74 prices, the Task Force set the rural and urban poverty lines at Rs. 49.09 and Rs. 56.64 per capita per month at 1973-74 prices.
4. *Lakdawala Expert Group (1993)*: Until the 1990s, no attempt was made to consider differences in prices or differences in consumption patterns across states or over time, with respect to poverty lines estimation. Poverty estimates were revised with each quinquennial NSS survey. Price indices were used to adjust for price changes over time. This methodology for estimating poverty was considered inappropriate by

some, in giving a representative picture of the incidence of poverty in the country. So, in 1989, The Planning Commission constituted the Lakdawala Expert Group with a particular reason of looking into the methodology for estimation of poverty and to re-define the poverty line, if needed. The Expert Group did not redefine the poverty line and recommended to carry on with the separate rural and urban poverty lines based on minimum nutritional requirements. But the Expert Group disaggregated these poverty lines into state-specific poverty lines in order to reflect the inter-state price differentials. It suggested that the poverty lines should be updated using the Consumer Price Index of Industrial Workers (CPI-IW) in urban areas and Consumer Price Index of Agricultural Labour (CPI-AL) in rural areas rather than using National Accounts Statistics. These recommendations were taken up by the Planning Commission. The Commission adopted the practice of calculating poverty levels in rural and urban areas in the states using state-specific poverty lines together with the national estimates from 1997 to 2004-05. But over the years, this method lost the credibility. There were many flaws in the price data. Hence, the successive poverty lines failed to preserve the original calorie norms.

5. *Tendulkar Expert Group (2009)*: To review the methodology used for poverty estimation, in 2005, another expert group chaired by Suresh Tendulkar was constituted. Mainly, it was constituted to address the three key shortcomings of the previous methods: (i) Poverty estimates based on the 1973-74 poverty line baskets (PLBs) of goods and services did not reflect significant changes in consumption patterns of poor over time; (ii) Issues with the adjustment of prices for inflation, across regions and across time; and (iii) the assumption that only the state will provide for health and education. The Tendulkar Committee suggested a shift from calorie-based norms to target nutritional outcomes for poverty estimation and poverty lines. Further, the committee recommended a uniform all-India urban PLB across rural and urban India instead of two separate PLBs for rural and urban poverty lines. It also recommended to incorporate private expenditure on health and education in order to estimate poverty. The monthly household consumption expenditure was broken up into per person per day consumption, which resulted in the figure of Rs 32 and Rs 26 a day for urban and rural areas. The national poverty line for 2011-12 was estimated at Rs. 816 per capita per month for rural areas and Rs. 1,000 per capita per month for urban areas.
6. *Rangarajan Committee (2014)*: The Tendulkar committee made the urban poverty line of 2004-05 the new national poverty line on the grounds that it was “less controversial” than the current rural poverty line and it fulfilled the requirement of statistical consistency over time. This increased the number of rural poor. This new poverty line was also justified on the grounds that it also provided for minimum nutritional,

health and educational outcomes. These justifications were not enough to stand up to the scrutiny. Due to such criticism as well as due to changing times and aspirations of people of India, Rangarajan Committee was set up in 2012. This Committee submitted its report in June 2014. It again started the previous practice of having separate all-India rural and urban poverty line baskets and deriving state-level rural and urban estimates from these. Also, it recommended separate consumption baskets for rural and urban areas which include food items that ensure recommended calorie, protein & fat intake and non-food items like clothing, education, health, housing and transport. This committee raised the daily per capita expenditure to Rs 47 for urban and Rs 32 for rural from Rs 32 and Rs 26 respectively at 2011-12 prices. Monthly per capita consumption expenditure of Rs. 972 in rural areas and Rs. 1407 in urban areas is recommended as the poverty line at the all-India level. The government did not take a call on the report of the Rangarajan Committee. Rangarajan committee missed the opportunity to go beyond the expenditure-based poverty rates and examine the possibility of a wider multi-dimensional view of deprivation.

Some states such as Odisha and West Bengal supported the Tendulkar Poverty Line while others such as Delhi, Jharkhand, Mizoram etc. supported Rangarajan report. The current official measures of poverty are based on the Tendulkar poverty line. They are fixed at daily expenditure of ₹27.2 in rural areas and ₹33.3 in urban areas and are criticised by many for being too low.

7) *Task Force by Niti Ayog (2015)*: The Task Force deliberated the issue of whether a Poverty Line is required. The report of the Task Force was submitted in July, 2016. The task force suggested four options for tracking the poor: i) Continue with the Tendulkar poverty line; ii) Switch to the Rangarajan or other higher rural and urban poverty lines; iii) Track progress of the bottom 30% of the population; iv) Track progress along specific components of material poverty such as nutrition, housing, drinking water, sanitation, electricity and connectivity. The advantage of the level of expenditure as an indicator of poverty is that it is directly observable and it closely correlates with poverty along different dimensions. So, while there are additional complementary approaches to tracking poverty, none of them can substitute the poverty line-based approach.

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## **9.6 POVERTY ALLEVIATION PROGRAMMES IN INDIA**

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There are many poverty alleviation programmes in India which target the rural poverty mainly, as the prevalence of poverty is more in rural India. The programmes include many wage-employment programmes, self-employment



programmes, food security programmes, social security programmes, skill India programmes. A brief list of such programmes is as follows:

- Jawahar Gram Samridhi Yojana
- National Old Age Pension Scheme
- National Family Benefit Scheme
- Annapurna Scheme
- Pradhan Mantri Gramin Awaas Yojana
- Mahatma Gandhi National Rural Employment Guarantee Act (MGNAREGA)

Apart from these, a major programme started by India to alleviate rural poverty is Integrated Rural Development Programme (IRDP). It aims to alleviate rural poverty by providing income-generated assets to the poorest of the poor. This programme started in 1978-79. Its main aim is to identify the families which are below the poverty line and raise them by creating sustainable self-employment opportunities in the rural areas. Such families are provided with term credit by commercial banks, cooperatives and regional rural banks. The programme gathers 50% funds from the centre and the remaining 50% from the states. The target group are the individuals who earn less than ₹11,000 (as defined by the Eighth Five-year plan). To make the programme well targeted, it has stipulated well defined proportions for the scheduled caste families, scheduled tribe families, women and physically challenged persons among the total assisted people/families. Ministry of Rural Areas and Employment is responsible for the release of central share of funds, policy formation, overall guidance, monitoring, and evaluation of the program.

**Check Your Progress 2**

1) Explain the concept of Poverty Line.

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2) Discuss the progression of the International Poverty Line.

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3) What were the recommendations of The Tendulkar Committee and how are they different from the recommendations made by the Rangarajan Committee?

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4) Why was the Tendulkar committee criticised for their recommendations?

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5) Enlist a few Poverty alleviation programmes of India?

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### **9.7 LET SUM UP**

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Poverty is not merely the lack of money. It is the absence of one or more of the basic capabilities that are needed to achieve minimal functioning in the society in which one lives. But largely, the measurement of poverty is based on the notion of a poverty line, which is constructed from monetary estimates of minimum needs. In this Unit, we discussed the various approaches through which poverty can be looked at (monetary, food, capability deprivation). We explained the various types of poverty (Absolute, Relative, Objective, Subjective, Transversal and Persistent). Afterwards, the constitution of poverty line was discussed at length. The poverty line estimates minimum basic requirements in terms of their cost. We critically explained the recommendations of various expert groups/committees which were constituted for India's poverty line estimation. In the end, we briefly discuss the main poverty alleviation programmes in India.

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### **9.8 ANSWERS/HINTS TO CHECK YOUR PROGRESS EXERCISES**

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#### **Check Your Progress 1**

- 1) Refer to section 9.2
- 2) Refer to section 9.2
- 3) Refer to section 9.3

## Check Your Progress 2

Poverty

- 1) Refer to section 9.4
- 2) Refer to section 9.4
- 3) Refer to section 9.5
- 4) Refer to Section 9.5
- 5) Refer to Section 9.6

