Poverty Estimation in India

Poverty is a condition where an individual lacks financial resources and cannot afford the basic minimum standard of living. A transparent estimation of poverty is required for efficient and effective planning for poverty reduction.

Calculating income or consumption levels is the most commonly used method for poverty estimation in India. According to this method, if the household's income or consumption value falls below the given minimum level, called Poverty Line, it is said to be BPL, i.e., Below the Poverty Line.

- **Poverty Line Calculation** - NITI Aayog carries the Poverty Line Calculation in India based on the data collected by the National Sample Survey Office (NSSO) under the Ministry of Statistics and Programme Implementation (MOSPI). Earlier, the Planning Commission was responsible for calculating India's poverty line.
- **Consumption Versus Income Level** - Income and consumption levels are used to evaluate poverty. However, you need to know that the primary criterion for identifying the poor in India is its consumption expenditure and not income level.

The Consumption level is considered the valid criterion due to the following reasons:

- **Additional Income** - If an individual is a regular wage income earner, he can earn money from additional income sources. The additional income makes it hard for the Aayog to judge the total income.
- **Variation in Income** - The self-employed individuals or those who work as daily wage labourers vary in their income. In such cases, the income is variable. Still, the consumption pattern is stable.
- **Data Collection** - Poverty estimation in India based on consumption value uses a reference period. The reference period is the period during which NSSO workers conduct the survey. During this period, the household is asked questions about their consumption of said time (say 30 days).

Poverty Estimation in India: Pre-Independence Period

Dadabhai Naoroji made the earliest poverty estimation in India in his book, Poverty and the Un-British Rule in India. He proposed the poverty line based on a minimum basic diet (e.g., Salt, vegetable oil, ghee, vegetables, mutton, dal, flour or rice) or cost of subsistence. According to him, the poverty line was Rs.16 to Rs.35 per capita per year.

However, in 1938, the National Planning Committee was formed by Subhash Chandra Bose. The chairman of the committee was Jawaharlal Nehru. The committee aimed to set up an economic plan for meeting the basic needs of the masses. This poverty estimation committee in India proposed that the poverty line ranges from Rs.15 to Rs.20 per capita per month. This poverty line established by the committee was based on basic living standards, including the dietary needs of an individual. Also, in 1944, the Bombay Plan introduced the poverty limit of Rs.75 per capita per year.

Poverty Estimation Committee in India

Various committees were set up in India post-independence that estimate poverty using different criteria. The details of various poverty estimation committees are as follows:

VM Dandekar and N Rath Poverty Committee

Before 1971, the criterion for the poverty line in India was minimal necessities or subsistence living. In 1971, VM Dandekar and N Rath used the data from National Sample Survey and conducted a systematic assessment of poverty and suggested that the criteria for the poverty line should be according to the spending value in rural and urban areas that would supply 2250 calories per day.

Alagh Committee

In 1979, Planning Commission established the Alagh Committee. This committee was led by YK Alagh. Based on the dietary needs and linked consumption expenditure, the committee developed a poverty line for urban and rural areas.

Lakdawala Committee

According to the Lakdawala Committee, the consumption pattern of the poor is reelected by the Consumer Price Index-Agricultural Labourers (CPI-AL) and Consumer Price Index-Industrial Workers (CPI-IW). They formed an expert group to Estimation of Proportion and number of Poor. The former Deputy Chairman Planning Commission, Prof DT Lakdawal, was the Chairperson of the group.
In 1993, a report was submitted by the Lakdawala Committee that recommended the following-
- Based on Calorie Consumption, i.e., fixed consumption basket, the Poverty Line approach should be used.
- There should be the construction of State-specific poverty lines. The count should be updated using the CPI-AL in rural areas and CPI-IW in urban areas.
- National Accounts Statistics must not be used to estimate the poverty scale. As per the expert group, the committee must rely on NSS data.
In 1997, the Government of India accepted these recommendations after minor changes.

Tendulkar Committee of Poverty Estimation

Tendulkar Committee was formed in 2009. Suresh Tendulkar was the chairperson of the committee. Instead of using the Universal Reference period, the Committee used the Mixed Reference period. The recommendations of the Tendulkar Committee were as follows:
- Shift of the poverty estimation from calorie consumption level.
- Rural and urban India should have a uniform poverty line basket (PLB).
- The price adjustment methods should be changed to correct temporal and spatial issues with price adjustment.
- Private expenditure should be incorporated into education and health while estimating poverty levels.

C Rangarajan Committee on Poverty

A new panel was created by the Planning Commission on poverty estimation in India that would-
- Review the international poverty estimation methods.
- Provide an alternative method for estimating the poverty level.
- Recommend linking these methods with various poverty elimination schemes of the Indian government.

A final report was submitted in 2014 that dismissed the poverty estimation in India by Tendulkar Committee. As per the report, the poverty level in India was increased by 29.5% in 2011-2012, i.e., out of 10 people, every three Indians were poor.

Why Poverty Estimation in India is Important?

Poverty estimation in India is essential for the following reasons-

- **It's a Constitutional Requirement** - The Indian Constitution promises an equitable society, and poverty estimation in India is an effective method for building such a society. Identifying the poor will help identify the important and vulnerable sections of society.
- **Part of a Poverty Elimination of Plan** - After poverty estimation, it comes to the conclusion that most people in India live under the poverty line. This will help the government formulate new strategies and plans to eliminate society's poverty.
- **To Measure the Welfare Schemes' Impact** - The estimation of poverty will help to track the successes, failures, and other impacts of the schemes by the government. Getting the estimation of the poor in society will help them to monitor the shortcomings of such schemes.

Data Collection Methods for Poverty Estimation in India

The data collection methods for poverty estimation in India are as follows-

- **URP** - URP, Uniform Resource Period was from 1993 to 1994. During this period, the poverty line in India was based on URP. In this method, people were questioned about their consumption expenditure over 30 days.
- **MRP** - MRP, Mixed Reference Period was from 2000 onwards. In this period, the NSSO used the MRP method that involves the measurement of the consumption level of the household of five-low frequency items for 30 days. The low-frequency items include institutional health expenditure, education, durables, and clothing items.