# Eliminating Poverty: Creating Jobs and Strengthening Social Programs*

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This paper has five parts. The first part addresses issues related to measuring poverty and identifying the poor. The second part makes recommendations on how we could additionally bring poverty down faster through sustained rapid growth that is also employment intensive. The third part offers suggestions on how the existing major anti-poverty programs can be made more effective. The fourth part offers suggestions for new approaches to combating poverty. The fifth and final part offers some concluding remarks.

## 1 Measuring Poverty and Identifying the Poor

Poverty refers to socially perceived deprivation in terms of basic human needs. It has both material and nonmaterial dimensions. The material dimension relates to deprivation in consumption including items such as food, clothing, durables, shelter, health, education and connectivity. Nonmaterial dimension relates to deprivation associated with such phenomena as discrimination based on gender, religion, race or caste.

In practice, the two dimensions are not distinct: deprivation in the nonmaterial dimension partially manifests itself in deprivation in the material dimension and vice versa. Thus, discrimination experienced by the Scheduled Castes and Scheduled Tribes in the past resulted in reduced access to food, clothing shelter and other sources of material wellbeing.  Equally, material deprivation may lead to a loss of social dignity.

The conventional approach to measuring poverty focuses on the material dimension. It asks whether the individual or household earns enough to purchase goods and services at market prices to satisfy basic needs at socially acceptable levels.[1] The level of requisite financial resources depends on the extent to which the government subsidizes the provision of goods and services such as food, shelter, education and health. But in practice, we do not take this into account adequately, especially when comparing poverty levels over time or across regions. The implicit assumption in such comparisons is that subsidies are uniform across time and space.

[1] By market prices, we mean here the price net of subsidies.

The first step in measuring poverty is to specify a threshold level of expenditure that separates the poor from non-poor. The threshold expenditure, called the poverty line, is the amount necessary to purchase a basket of goods and services deemed necessary to satisfy basic human needs at socially acceptable levels. The basket itself may be referred to as the poverty line basket (PLB).

Perceptions of what represents basic human needs (and socially acceptable levels) vary according to general level of prosperity. What is "want" at low levels of income may turn into "need" at higher levels of income. For example, refrigerator may be a want at low levels of income but may become a need at a high enough level of income. Therefore, rising incomes require upward revisions of the PLB. Equally, since social norms may vary across social, economic and religious groups, an element of arbitrariness in defining the PLB cannot be avoided. This factor has often led to controversy on the appropriate calibration of poverty line.

### *1.1 Counting the Poor in India: A Brief History*

The earliest poverty line figuring in the discussions on poverty in post-independence India was Rs. 20 (rural) and Rs.25 (urban) per capita per month at 1960-61 prices. Though not an official poverty line, it formed the basis of the extensive discussion of poverty in the fifteen-year plan that the Perspective Planning Division of the Planning Commission produced in 1962.[2]

Subsequently, in 1977, the Planning Commission appointed an expert committee under the chairmanship of economist Y. K. Alagh to develop a methodology for the measurement of poverty. The committee, which submitted its report in 1979, set the rural and urban poverty lines at Rs. 49.09 and Rs. 56.64 per capita per month at 1973-74 prices, respectively. These lines were based on the assumption of different PLBs for rural and urban consumption. Nationally, these lines remained the basis of poverty measurement until 2004-05.

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[2] The history of poverty estimation in India in this section is kept deliberately brief and non-technical because a detailed and more technical account has been recently provided in the Report of the Expert Group to Review the Methodology for the Measurement of Poverty, popularly called the Rangarajan Committee Report, submitted to the Planning Commission in June 2014.

Another committee was, however, set up in 1989 under the chairmanship of economist D. T. Lakdawala to look into the methodology for estimation of poverty at national and state level and also to go into the question of re-defining poverty line, if necessary. In its report, submitted in 1993, this committee retained the separate rural and urban poverty lines recommended by the Alagh Committee at the national level. In addition, it recommended a methodology to update these lines over time and extend them to individual states using appropriate price indices. These recommendations led the erstwhile Planning Commission to adopt the practice of calculating poverty levels in rural and urban areas in the states using state-specific poverty lines together with the national estimates.

The Lakdawala methodology and poverty lines formed the basis of poverty estimates nationally and across states until 2004-05. In December 2005, the Planning Commission appointed another committee to look into the matter under the chairmanship of economist Suresh Tendulkar. In its report, submitted in 2009, the Tendulkar committee recommended the adoption of the consumption basket underlying the Alagh-Lakdawala national urban poverty line in 2004-05 as the PLB and aligning the national rural poverty line to it using an appropriate price index. Thus, rural and urban poverty lines were now fully aligned around a common PLB. The change led to an upward adjustment of the national rural poverty line and correspondingly the national rural poverty estimate. Rural and urban poverty lines for the states were to be then derived by evaluating the same urban PLB at the state-level rural and urban prices. The latest official poverty estimates for years 1993-94, 2004-05, 2009-10 and 2011-12 are now based on what is commonly referred to as the Tendulkar poverty line.

There remained dissatisfaction with the Tendulkar line, however, leading the Planning Commission to appoint yet another committee in 2012 under the chairmanship of economist C. Rangarajan. The Rangarajan Committee submitted its report in June 2014. 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. The Committee once again de-links the rural and urban poverty lines. The recommended methodology of Rangarajan committee has raised the Tendulkar national rural poverty line from Rs. 816 per-capita per month at 2011-12 prices to Rs. 972 and the Tendulkar national urban poverty line from Rs. 1000 per capita per month at 2011-12 prices to Rs. 1407. The recommended increase was 19 per cent in the rural poverty line and 41 per cent in the urban poverty line. These revisions lead to the total national poverty estimate in 2011-12 to rise from 21.9 per cent under the Tendulkar line to 29.5 per cent. This is where the matter stands currently.

### *1.2 Assessing the Need for Official Poverty Lines*

Potentially, poverty lines and the poverty estimates that they make possible can help fulfil three objectives:

(i) Identification of the poor through a comparison of the poverty line with the household (or individual) expenditure;
(ii) Tracking poverty in a region over time and comparing it across regions at a point in time; and
(iii) Estimation of the required expenditure on anti-poverty programs and their allocation across regions.

A key question is whether any of these objectives requires the adoption of an official poverty line and computation of official poverty estimates. Objective (i) above would require an official poverty line if the poor were to be identified according to an income or expenditure criterion. But this is not the case in India. Indian states have applied a variety of alternative criteria to identify below poverty line (BPL) households. In particular, states have used the information from BPL censuses to implement various anti-poverty programmes. In future, Socio-economic Caste Census 2011 (SECC-2011) will be one of the leading sources of data for identification of beneficiaries under welfare schemes. As such, objective (i) does not require the adoption of an official poverty line.

Objective (ii) requires comparison of poverty estimates over time and space. This in turn necessitates the existence of some objective and measurable criterion of poverty that is consistent over time and space and that can be combined with available data to count the poor. If poor are to be counted and their numbers compared over time and across regions, there is no escape from accepting some poverty line as the measuring rod.

As regards objective (iii), there are two kinds of anti-poverty programmes: universal and targeted. For programs that are universal, identification of the poor is not required. The programme is available to all. For example, the Mahatma Gandhi National Rural

Employment Guarantee Act (MNREGA) scheme guarantees hundred days of employment per year to one adult in every rural household. This benefit is available to all rural households and therefore requires no information on poverty.

In case of the second category of programs that are not universal and are targeted at the poor, official poverty estimates can be used to both compute the total expenditure required and to allocate the latter among states. But superior alternative criteria that do not rely on poverty line or poverty estimates can be devised. For example, if the social program in question aims to provide a minimum level of housing to all, the benefit can be allocated in proportion to the population deprived of housing in different states.

This discussion leads to the conclusion that while purposes (i) and (iii) do not require specifying a poverty line and poverty estimates, purpose (ii) does. This conclusion raises two counter questions: How critical is the need to count the poor? And are there superior alternatives that would allow us to meet the broader objective of tracking poverty without necessarily counting the poor?

### *1.3 Assessing the Need for Counting the Poor and Tracking their Numbers*

The main argument for an official poverty line rests on the need for tracking overall progress in combating poverty. The number of poor as a proportion of the population is a simple concept that all can understand and around which public policy discourse on poverty can take place. Having an official poverty line and therefore official poverty estimates helps concentrate the discussion around an agreed set of numbers.

This argument is reinforced by the fact that India has not only committed to achieving the Sustainable Development Goals (SDGs), it was a leading proponent of the first goal that addresses the issue of poverty. This goal commits the signatories to eliminating poverty according to the common international poverty line of $1.25 per person per day (at 2005 Purchasing Power Parity or PPP) and cutting it in half "according to national definitions" (goals 1.1 and 1.2, respectively). The former commits all signatories to using the $1.25 poverty line as one measure of poverty while the latter requires spelling out some "national" definition. As we shall see below, while there are additional complementary approaches to tracking poverty, none of them can substitute the poverty line based approach. Therefore, our real option is between accepting the $1.25 poverty line for the purpose of national definition as well and specifying a different poverty line for the latter purpose. We consider this issue below.

### 1.4 *Other Approaches to Evaluating Poverty*

At least two other approaches to tracking and evaluating poverty are worth considering.

First, we could track improvements in the average standards of living of different deciles of the population at the bottom of the income distribution over time. For example, we could think of the bottom 30 per cent of the population (defined in terms of per capita income or household consumption) as poor. We could then track progress in combating poverty by undertaking an analysis of how the average and median real expenditures of the bottom three deciles of the population have been evolving over time. As development proceeds, the proportion of the population at the bottom considered poor may be adjusted. This approach to the study of poverty, recently adopted by the World Bank, reverses the conventional approach. Instead of taking a threshold level of absolute expenditure as the poverty line and tracking how the proportion of the population below it changes over time, it takes a pre-determined proportion of the population at the bottom to be poor and asks how the fortunes of this population are evolving over time.

Second, we could directly measure progress on some key components of material poverty. The 2015-16 Budget sets goals with respect to many of these components. Among the target variables it mentions, the following may be readily capable of being tracked (with the possibility of adding other similar indicators):

(i) Consumption of cereals, milk, meat, fruits and vegetables by the bottom three deciles relative to the top three.

(ii) Progress towards housing for all by 2022.

(iii) Progress towards basic facilities in each house: 24-hour power supply, clean drinking water, a toilet, and road connectivity.

(iv) Progress towards electrification of the remaining 20,000 villages in the country.

(v) Progress towards connecting each of the 1,78,000 unconnected habitations by all weather roads.

(vi) Progress in various indicators of education and health

These two approaches enrich our understanding of the progress in combating various dimensions of poverty but they do not substitute for tracking the poverty ratio. Improvements in expenditure levels of various deciles would not tell us precisely what the incidence of poverty is without specification of a poverty line. Likewise, there is no agreed approach to aggregating across various dimensions of poverty to arrive at a single indicator of poverty. The advantage of the level of expenditure as an indicator of poverty is that it is something we can directly observe and it closely correlates with poverty along different dimensions.

Before concluding this section, a few remarks on the suitability of the SECC as the basis of measuring poverty are in order. It is tempting to think that the census contains all the relevant information for tracking poverty and could serve as a substitute for the poverty line based assessment of poverty. But there are problems with this conclusion. For one thing, the SECC does not collect information on the overall income or expenditure of the household. Even if we started collecting such information, over time, there is high risk of household responses getting biased since they know that their responses determine whether or not they would receive benefits under various social schemes. So far we have no experience on how this experiment would work out over time. Also important is the fact that after nearly five years, we still have only the rural SECC results with its urban counterpart still to become available.

### *1.5 What are the Options?*

The discussion up to this point suggests the following options in proceeding further towards the objective of tracking poverty:

(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 poverty such as nutrition, housing, drinking water, sanitation, electricity and connectivity

It has already been noted that options (iii) and (iv) complement the poverty ratio approach but do not substitute for it. This leaves us with options (i) and (ii). How are we to choose between them? The main criticism of the Tendulkar line (also applicable to the SDG $1.25 line since it is lower than the Tendulkar line), which led the government to appoint the Rangarajan Committee, has been that it is too low.

The counterargument, however, is that if our objective is to assess whether we are making progress in bringing households out of extreme poverty, it makes sense to set the poverty line at a level that allows them to get two square meals a day and other basic necessities of life. It is the households below this bare subsistence level whose welfare should concern us the most and whose progress we must monitor. Put differently, if we set the poverty line at too high a level, we would be tracking how many people who had already achieved a certain level of comfort have been made yet further comfortable. It will tell us little about what is happening to households in abject poverty.

To provide concrete context, Tables 1 shows the Tendulkar PLB for urban households based on the 2004-05 NSS expenditure survey. Tendulkar methodology calculates PLB as the average of consumption by urban households between 20$^{th}$ and 30$^{th}$ percentiles in 2004-05. These percentiles are in turn chosen in recognition of the fact that urban poverty in 2004-05 at 25.7% lies approximately in the middle of this range. The basket represents the purchasing power of an individual just able to afford the Tendulkar poverty line expenditure. (For the interested reader, Annexure at the end of the paper provides the poverty line baskets associated with the Ranagarajan rural and urban poverty lines. It may be noted, however, that being based on 2011-12 prices, monetary magnitudes in these tables are not directly comparable to those in Table 1.)

Table 1: Tendulkar Poverty Line Basket (consumption expenditures at 2004-05 prices)

| Commodity groups | Consumption expenditure at poverty line class* (Rs.) | Budget Shares around poverty line class (%) | Quantity consumed at poverty line class (kg) |
|---|---|---|---|
| Cereal | 95.9 | 16.6 | 10.17 |
| Pulses | 19.4 | 3.3 | 0.69 |
| Milk and milk products | 44.7 | 7.7 | 3.23 |
| Edible Oil | 28.5 | 4.9 | 0.54 |
| Eggs, Fish & Meat | 19.8 | 3.4 | 1.2 eggs, .34 kg meat |
| Vegetables | 38.2 | 6.6 | 4.77 |
| Fresh Fruits | 7.6 | 1.3 | 0.93 |
| Dry Fruits | 2.1 | 0.4 | 0.06 |

| | | | |
|---|---|---|---|
| Sugar | 13.3 | 2.3 | 0.73 |
| Salt and spices | 12.4 | 2.1 | 0.43 |
| Intoxicants | 12.8 | 2.2 | n/a |
| Fuel | 70.1 | 12.1 | n/a |
| Other | 27.6 | 4.8 | n/a |
| Clothing | 38.2 | 6.7 | n/a |
| Footwear | 6.1 | 1.0 | n/a |
| Education | 19.3 | 3.3 | n/a |
| Medical: Institutional | 4.3 | 0.7 | n/a |
| Medical: Non Institutional | 21.0 | 3.6 | n/a |
| Entertainment | 6.1 | 1.1 | n/a |
| Personal items | 18.0 | 3.1 | n/a |
| Other goods | 14.1 | 2.4 | n/a |
| Other services | 17.5 | 3.0 | n/a |
| Durables | 9.0 | 1.6 | n/a |
| Rent and conveyance | 29.9 | 5.2 | n/a |
| Total | 576 | 99.5 | n/a |

*As per Tendulkar report, poverty line class for urban all India is the class between the 20th and 30th percentiles

Source: Panagariya, Arvind and Megha Mukim, 2014, "A Comprehensive Analysis of Poverty in India," Asian Development Review 31(1), pp. 1-52.

The key source of public dissatisfaction with the Tendulkar line was that it would deprive many households in need of government assistance from such assistance by classifying them as above poverty line (APL) households. But as we have discussed above, the sole purpose of the poverty line is to track whether and at what speed we are bringing the population out of extreme poverty and not to identify specific households or individuals as poor for purposes of benefits. When this fact is taken into consideration, the case against the Tendulkar line is weakened. It must, of course, be recognized that judgments on what represents a basic necessity of life would vary from person to person and this is what makes the choice of a poverty line difficult. Therefore, the final decision on this question needs to be informed by further deliberations recognizing that the objective behind an official poverty line is to track progress in combating extreme poverty and not identification of the poor for purposes of disbursing benefits.

## 2 Combating Poverty: Growth, Jobs and Make in India

An integral part of a well-rounded and holistic anti-poverty strategy must be sustained rapid growth. Conceptually, sustained rapid growth works through two channels to rapidly reduce poverty. First, it creates well-paid jobs and raises real wages. Both factors raise incomes of poor households thereby directly denting poverty. Increased incomes help in another way: households are able to purchase and access education and health services. On the other hand, at very low levels of incomes, households are unable to access even services that are freely available from the government because they lack the financial resources to travel to the point of delivery of those services: travel costs to even the nearest public health centre may be prohibitive.

Second, rapid growth leads to growth in government revenues. In turn, enhanced revenues allow the expansion of social expenditures at faster pace. India's own experience testifies to the importance of this connection. India began with very low income and also grew very slowly for several decades. The result was relatively low level of per-capita expenditures on health, education and direct anti-poverty programs. Faster growth during the post-reform era, especially during 2003-04 to 2011-12, changed this. India could afford a universal rural employment guarantee scheme and near-universal public distribution system (PDS) that offers cereals at highly subsidized prices. Likewise, per-capita expenditures on education and health also rose rapidly.

### *2.1 Growth and Poverty Reduction: Evidence*

There is more direct evidence of the connection between growth and poverty reduction. Figure 1 depicts the evolution of real per-capita income at 2004-05 prices between 1950-51 and 2013-14 with the beginning income normalized at 100. It shows that in the first three decades ending in 1980-81, per-capita income rose from 100 to just 151. In the next two decades ending in 2000-01, the income went up to 295 and during the following thirteen years ending in 2013-14, it reached 598. The increase during the last thirteen years was one and a half times that during the entire initial fifty years.

Poverty reduction closely tracks these income changes. Figure 2 shows the annual movements in the poverty ratio measured at the Alagh-Lakdawala poverty lines from 1951-52 to 1973-74. The period saw no reduction in trend poverty whatsoever. Good weather brought a reduction while bad weather was accompanied by a rise, with the trend being mildly rising. With low initial per-capita income and also low growth, incomes remained low and no dent in poverty could be made.

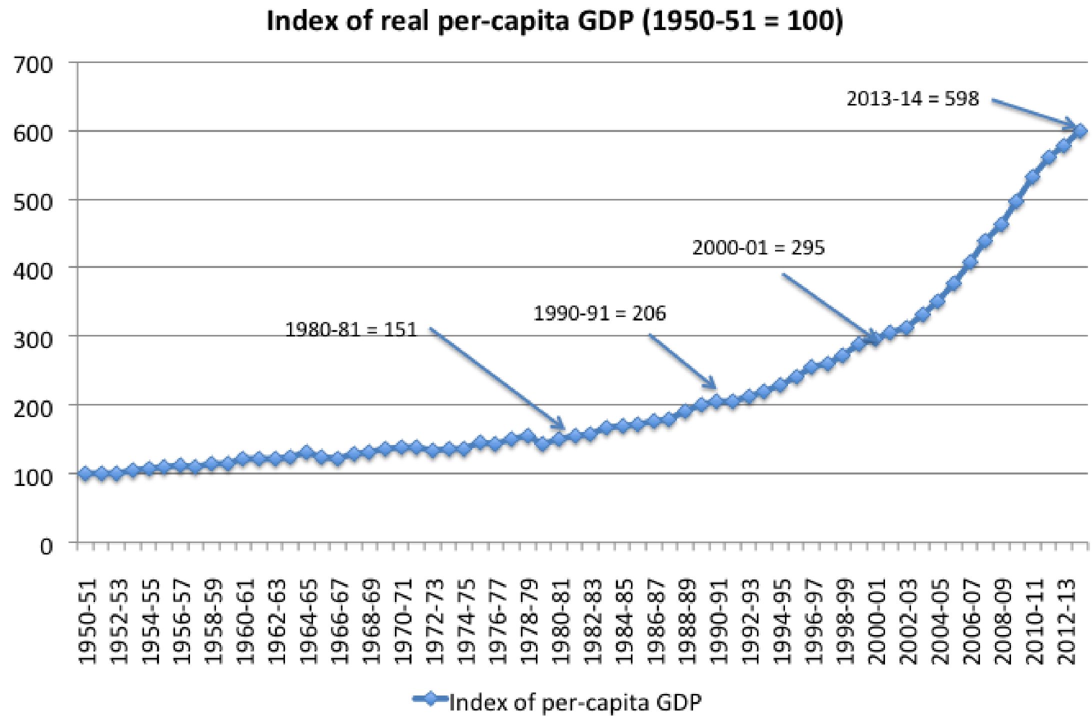


Figure 1: Evolution of per-capita income in India at 2004-05 prices, 1950-51 to 2013-14.

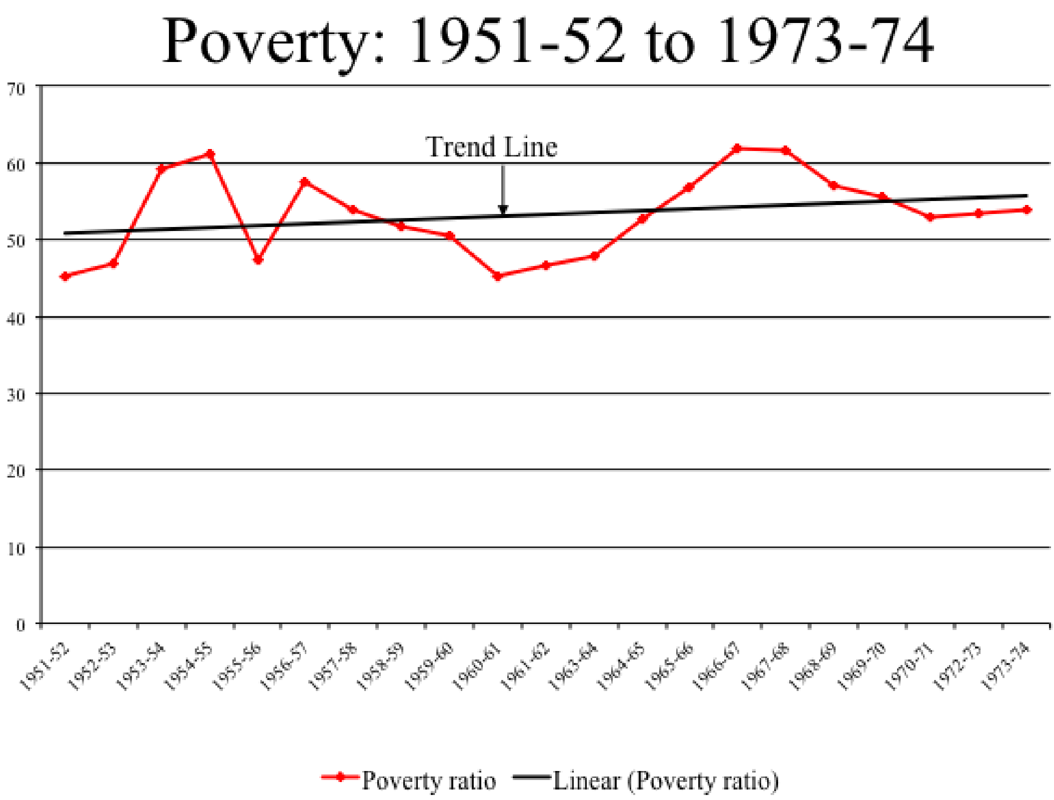


Figure 2: Poverty rates in India from 1951-52 to 1973-74

Subsequently, in the post-reform era, growth accelerated and poverty saw a definite decline across all groups. To illustrate, Figure 3 shows poverty levels at the Tendulkar poverty line in rural and urban India and Figure 4 those for the Scheduled Castes, Scheduled Tribes and the overall population in 1993-94, 2004-05 and 2011-12. The figures show a steady decline in poverty across all groups. Additionally, the decline is much sharper during the seven-year period between 2004-05 and 2011-12 when growth was significantly more rapid than during eleven years from 1993-94 to 2004-05. We also see that poverty rates between groups with higher poverty and those with lower poverty levels have converged. That is to say, the percentage point reduction in poverty among groups with higher rates of poverty than the general population was larger.

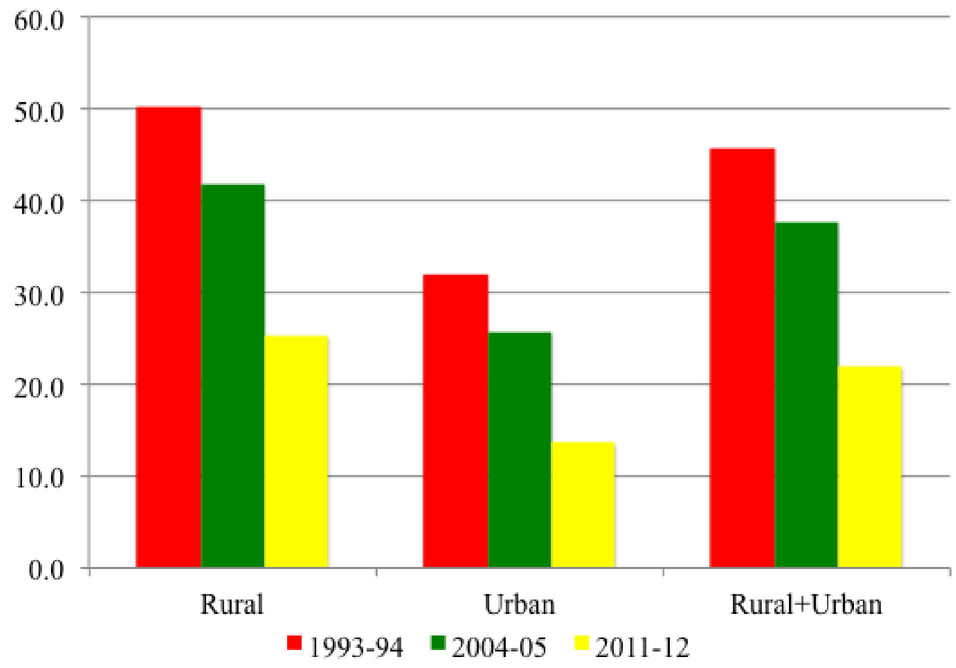


Figure 3: Rural and urban poverty rates in India: 1993-94, 2004-05 and 2011-12

Poverty rates across states show a similar trend. Figure 5 shows these rates for the 21 largest states in 1993-94, 2004-05 and 2011-12. Once again, poverty fell in every single state during these years. Thus, rapid rise in income has been accompanied by a decline in poverty across the board. While Figures 3-5 are based on poverty rates at the Tendulkar line, raising the poverty line by even 50 per cent, which would push it higher than the Rangarajan lines, does not change the fact that poverty levels have declined during these years.

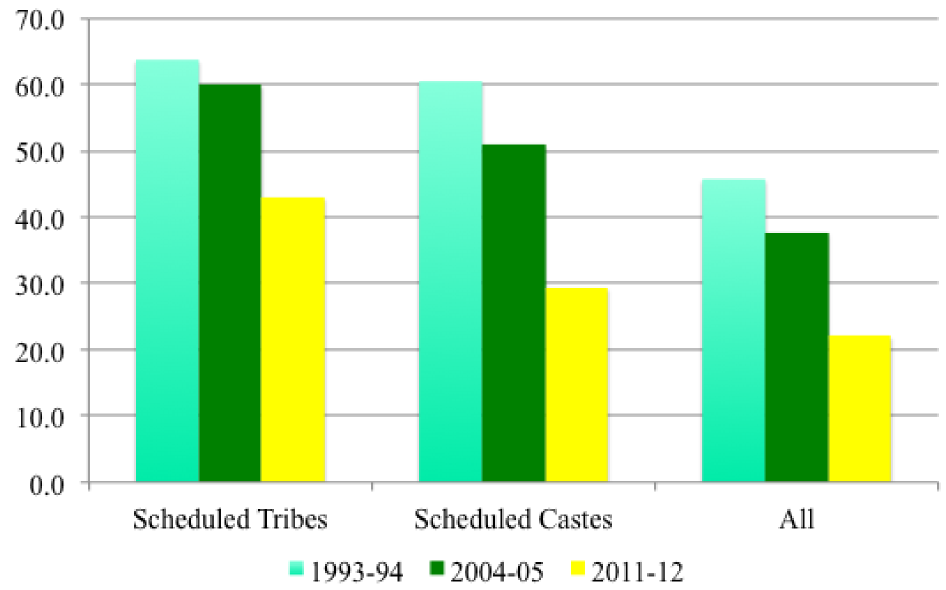

Figure 4: Poverty rates in India by social groups: 1993-94, 2004-05 and 2011-12

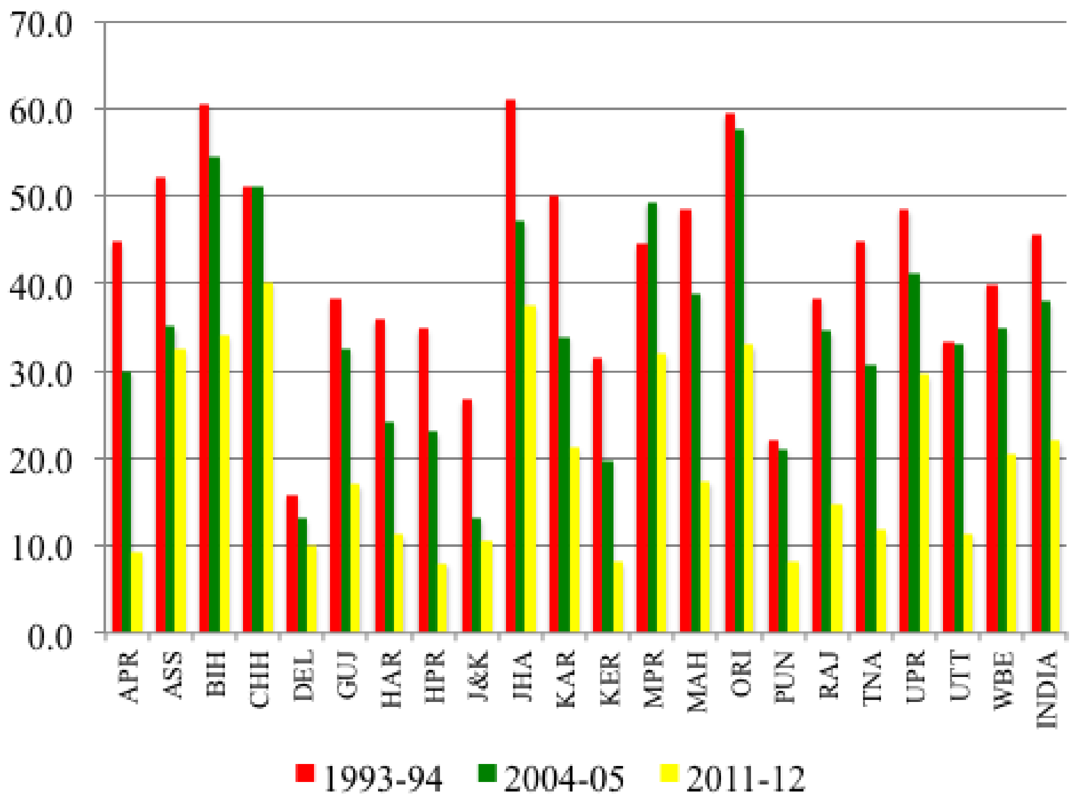


Figure 5: Poverty rates in the large Indian states: 1993-94, 2004-05 and 2011-12

It is sometimes asked whether these poverty reductions are to be attributed to growth or anti-poverty programs such as the Mahatma Gandhi National Rural Employment Guarantee (MGNREGA) and the Public Distribution System (PDS). Clearly, the evidence represents the direct effect of growth plus that through anti-poverty programs. The key point to emphasize, however, is that without rapid growth that made enhanced revenues possible, anti-poverty programs could not have expanded at the pace they did. This point was driven home during the years 2012-13 and 2013-14 when the pace of the expansion of social spending had to be arrested due to slow growth in revenues. Rapid growth is not a sufficient condition for rapid expansion of social spending, but it is necessary.

### *2.2 The Central Role of Agricultural Growth in Poverty Reduction*

Any strategy for poverty reduction must tackle the issues facing rural India, which accounts for 68.8 per cent of the population or 833 million individuals as per Census 2011. As per the poverty estimates of 2011-12, about 80% of India's poor live in rural areas, and livelihood of most of them is dependent directly or indirectly on the performance of agriculture. The rural farm and non-farm incomes are interdependent such that a strong non-farm rural economy requires a vibrant agricultural economy.

According to the 2011-12 Employment-Unemployment Survey by the NSSO, agriculture and allied activities employed 49% of the total workforce in India. But the share of agriculture in the GDP at 2004-05 prices that year was only 14.4 per cent. One of the reasons for this skewed distribution of labour force in agriculture is the paucity of alternative livelihood opportunities either at village level or in the nearby townships and cities. Excess manpower coupled with traditional agricultural practices has resulted in low farm yield and income. To break this cycle of poverty in rural areas, a two-pronged strategy is required: we must improve the performance of agriculture and create jobs in industry and services in both rural and urban areas.

A parallel taskforce offers detailed recommendations on how to modernize Indian agriculture and accelerate its growth. But it is pertinent to consider in brief some possible steps here. First, changes are required with respect both quality and efficient use of inputs. Improved irrigation leading to "more crop per drop" should be on top of this list. Water tables in western India have dropped to dangerously low levels and we need to massively shift towards micro irrigation methods that water crops in a more targeted and controlled manner thereby yielding higher output per hectare while also conserving water. Budget 2016-17 proposes to take some important concrete steps in this direction.

We also need better seeds and more efficient use of fertilizer. China has been highly successful in raising productivity via the use of hybrid and other seed varieties and we must look into this more closely. More than a decade has passed since Bt. Cotton seeds were introduced with very positive overall effect on the income of the vast majority of farmers who adopted them. It is now time to seriously consider the introduction of new seed varieties. The large subsidy on urea has resulted in excessive use of this fertilizer in some regions with detrimental effects on productivity, soil quality and the environment. This too requires attention.

Second, it is important for famers to receive remunerative prices. Currently, a highly fragmented supply chain has meant that the farmer gets a tiny proportion of the final price paid by the consumer.[3] Budget 2016-17 proposes to create a national e-spot market along the lines of the recent Karnataka e-spot market under the auspices of NCDEX Spot Market. This is a welcome development. The reform of the Agricultural Price Marketing Committees (APMC) Act also needs to be completed. Most states have initiated this reform but stopped well short of implementing it fully. It may also be worth considering building warehouses at the village level to make them accessible to small and marginal farmers. Also essential is the expansion of cold storage facilities to minimize wastage, especially in fruits and vegetables.

Third, regionally, there is a need for a 'second green revolution' in rain-fed areas in general and eastern India in particular. We must bring modern irrigation technology to these so far underexploited areas. The high priority accorded to this objective by the present government is a welcome development in this regard.

Fourth, Indian agriculture disproportionately consists of small and marginal farmers who are particularly vulnerable to crop failure. An important step that would help small and marginal farmers is to reform the tenancy laws. These were originally meant to help small and marginal farmers but now operate against them. Even limited legalisation of agricultural tenancy and freeing the land lease market with proper record of ownership and tenancy status will help such farmers. Some small farmers may prefer to lease their land in favour of alternative occupations if they had assurance that they would be able to return to farming if they wished. Some large farms may lease in land and even employ the small owners on their own farms to grow specific crops under supervision. Moreover, a stark reality today is that educated young men in rural households want to exit farming. Many large and absentee owners are leaving land under-cultivated. This land could be cultivated more fully if it could be leased out without fear of loss of ownership. The NITI Aayog is currently working on a Model Land Leasing Act n close consultation with states.

Finally, diversification into high value crops such as horticulture and fruits and vegetables, livestock, poultry and fisheries may offer avenues to higher income

[3] See, for example, Patnaik, G. (2011). "Status of Agricultural Marketing Reforms: Presented at the Workshop on 'Policy options and investment priorities for accelerating agricultural productivity and development in India.'" IGIDR Proceedings/Projects Series, PP-069-11b, New Delhi: India International Centre, Nov. 10-11, 2011.

to even small and marginal farmers. The experience of undivided Andhra Pradesh offers important pointers in this context.

### *2.3 Making Growth in Manufacturing and Services Employment Intensive*

While faster agricultural growth that raises rural wages and incomes is an effective means to brining relief to the rural poor, we must bear in mind that bringing shared prosperity in the longer run requires healthy growth of employment-intensive manufacturing and services. This is because agriculture rarely grows more than 5 per cent per year over large areas for extended periods. In India, the fastest agriculture has grown over a continuous ten-year period in the recorded history is 4.7 per cent during the 1980s. But if the economy as a whole grows at 7 to 9 per cent, the share of agriculture in the GDP would progressively decline, as has been true. In 1990-91, this share was 30 per cent but today it is less than half of that figure. In order that those employed in agriculture today may share in the prosperity of tomorrow, it is important that industry and services create jobs for them.

A good example of how growth in good jobs accompanying rapid GDP growth can be very effective is provided by the experience of South Korea during the twenty-five-year period from 1965 to 1990. The country grew at an average rate of 8.7 per cent between 1965 and 1980 and 9.1 per cent between 1981 and 1990. Alongside, the share of industry and services in employment rose from 41.4 per cent in 1965 to 66 per cent in 1980 and 81.7 per cent in 1990 (See Figure 6). These movements left only 18.3 per cent of the workforce in agriculture by 1990. Remarkably, average annual wages rose hefty 10.7 per cent and 8.7 per cent in real terms during 1965 to 1980 and 1981 to 1990, respectively. The changes more or less wiped out abject poverty from South Korea even absent any major active anti-poverty programs.

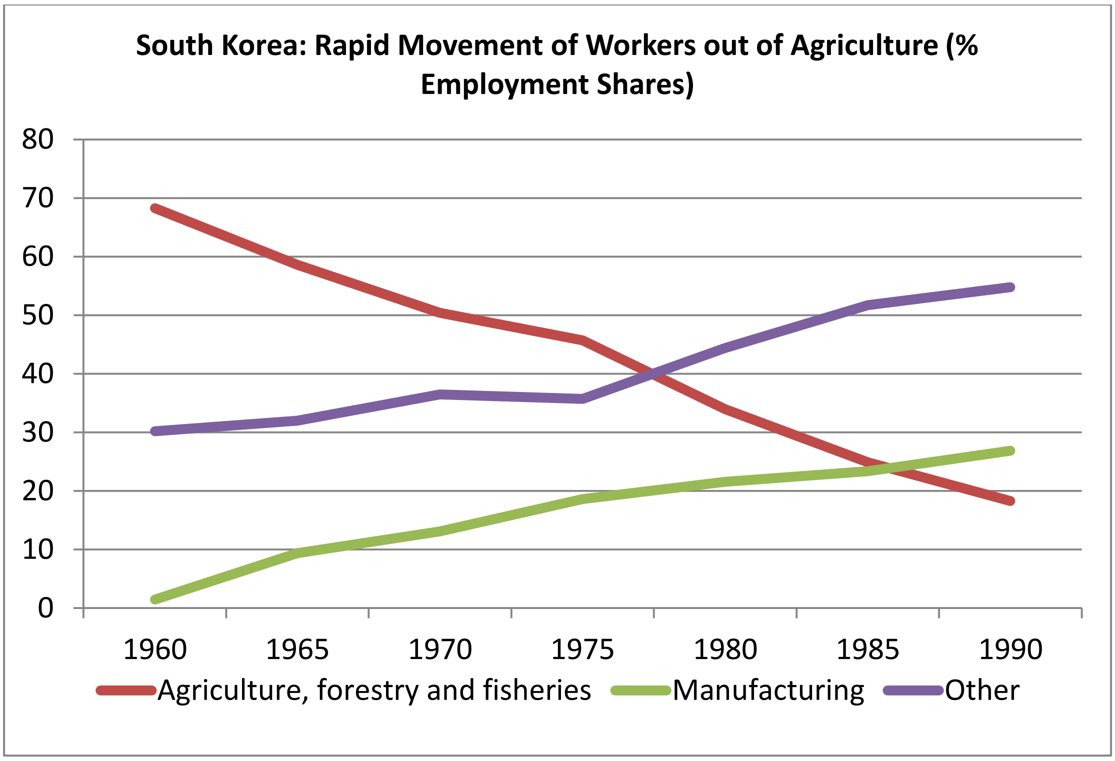


Figure 6: Transformation of South Korean economy: 1960:90.

This same process has worked in India as well but far more gradually. In rural areas, the share of agriculture in the usually working persons (principal and principal secondary status) fell from 78.4 per cent in 1993-94 to 64.1 per cent in 2011-12. Over the same period, the corresponding share in the urban areas fell from 12.3 per cent to 6.7 per cent. As a consequence, while the overall share of agriculture in the usually working persons (rural plus urban) has declined, it has remained high at 49 per cent in 2011-12.[4]

There are two reasons for this slower transition in India compared with South Korea. First, on average, growth in India between 1993-94 and 2011-12 has been slower than that in Korea during 1965 to 1990. Second, and more importantly, whereas South Korea specialized in highly labour-intensive sectors during at least the early years of its growth, Indian organized sector, which has the greatest potential for creating well-paid jobs, has specialized in either highly capital-intensive manufacturing or highly skilled-labour intensive services. Successful sectors in India include automobiles, two wheelers, auto parts, engineering goods, chemicals, petroleum refining, telecommunications, pharmaceuticals and software. Labour-

[4] For comparison, it will be useful to have the share of agriculture in the rural and urban workforce combined for 1993-94 as well. Unfortunately this share is not readily available.

intensive sectors such as apparel, leather products, food processing, light consumer goods and electronic assembly in which India has a potential comparative advantage by virtue of its vast workforce nearing 500 million have so far not flourished in the organized sector.

The potential of labour-intensive industry in India can be judged by a comparison of exports of clothing and accessories by China and India. This is done in Figure 7, which traces the exports of these products by China and India from 1997 to 2013. In 2013, China exported $17,743 crore worth of clothing and accessories compared with only $1,684 crore by India. Given the vast size of the world market, the scope for the expansion of this sector in India remains enormous, especially since rising wages are likely to render China gradually uncompetitive.

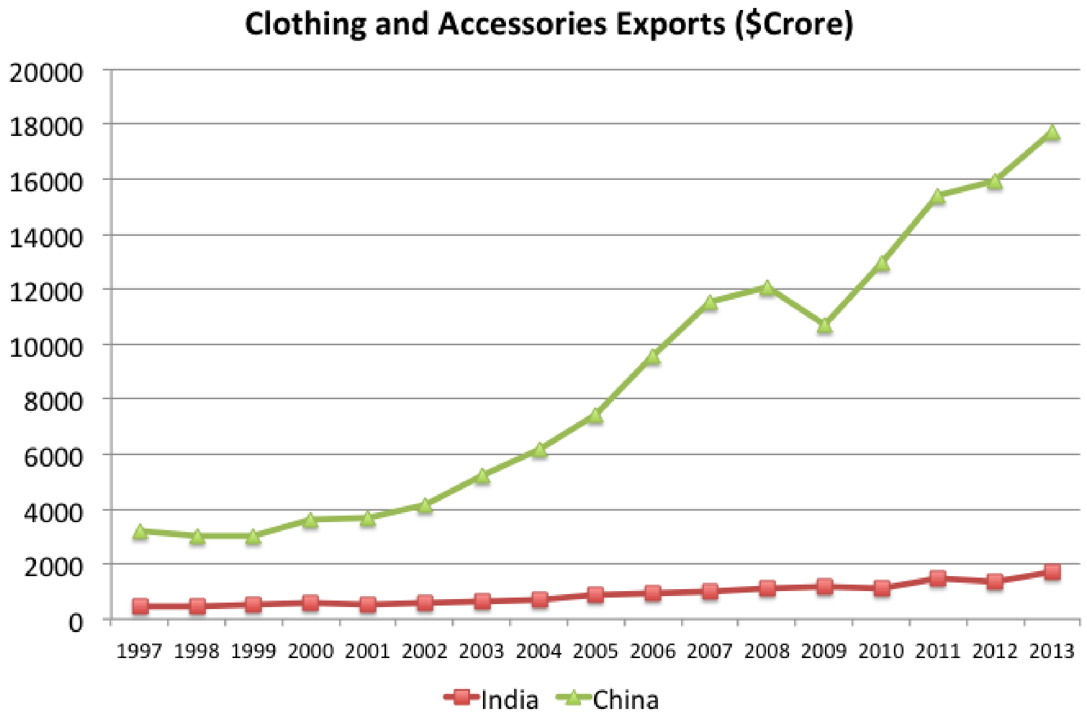


Figure 7: Exports of clothing and accessories by India and China: 1997 to 2013

Slow growth in labour-intensive manufacturing in India has meant slow growth in manufacturing in general. As a result, the share of manufacturing in the GDP at 2004-05 prices has remained constant around the 15 per cent mark in the post-reform era (Figure 8). This is in contrast to almost every other fast-growing economy including South Korea and Taiwan in the 1960s and 1970s and China more recently. Countries with a large workforce and limited capital have been able to sustain near double-digit growth over two to three decades only by specializing in products such as clothing, footwear and light consumer goods that use a lot of labour per unit of capital until their capital stock grows significantly large in relation to the labour force.

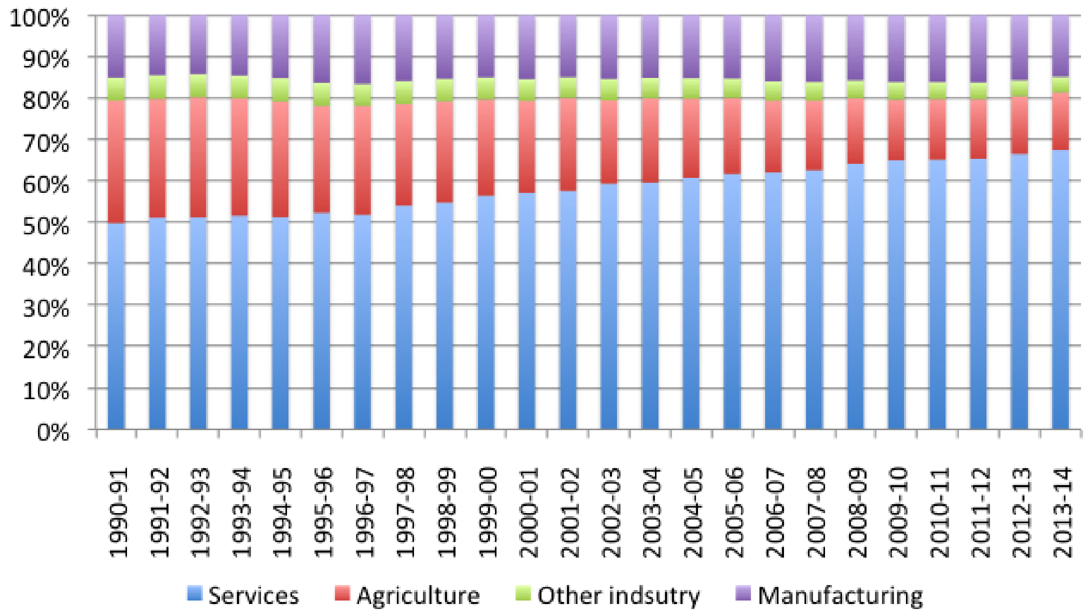


Figure 7: Composition of the GDP in India: 1990-91 to 2013-14

It is against this background that many of the actions the government has undertaken under its "Make in India" initiative assume special importance. These and some of the other related measures under way must be given further push. In particular, the following initiatives are highly promising in so far as employment creation is concerned.

- Unblocking of the clearances procedures at the centre and efforts to improve the ease of doing business in the states
- "Shram Suvida" portal, which allows firms to file their compliance report on sixteen central labour laws at a single window without harassment by inspectors. Instead, inspections are done through a random selection of enterprises with inspectors required to file time-bound reports .
- A massive expansion of the skill development program. Micro, small and medium enterprises (MSMEs) regularly complain of shortages of skilled workers. Gainful employment in both manufacturing and services requires at least some minimum level of skills.
- Onerous labour laws pose insurmountable barriers to the creation of good jobs in manufacturing. A little known fact is that many of these laws impact

not just large but also small and medium enterprises that often cross the threshold employment levels of 50 or 100 workers at which many of the laws apply. The central government has encouraged states to change central laws falling under the Concurrent List of the Constitution. This has led the states of Rajasthan, Madhya Pradesh, Andhra Pradesh and Gujarat to reform some of the archaic labour laws. Centre too has reformed some of these laws and is considering reforming others through consolidation of 44 laws into four or five.

- The government has raised compensation on all land acquisition including those for highways and railways. This is essential if highways and railways are to be rapidly expanded.
- The government is committed to implementing the Goods and Services Tax (GST), a modern bankruptcy law, reform the corporate profit tax regime and harmonise regulations across various infrastructure sectors.
- The Finance Minister has assured future stability of the tax regime and has taken several steps in Budget 2016-17.
- Increased public investment in infrastructure, commitment to build 100 smart cities and industrial corridors and proposed expansion and modernization of railways will give further impetus to the growth of manufacturing and services and hence good jobs.
- The recent "Startup India" initiative of the Prime Minister can be a game changer. The Action Plan by the Prime Minister promises a startup friendly ecosystem reinforced by numerous fiscal incentives that can rapidly multiply innovation driven firms that would also create good jobs in both manufactures and services.

For the future, several additional measures may be considered:

- According to available evidence, high productivity in any industry requires a significant presence of large firms. By necessity, these firms are global. Therefore, to stay competitive against the world's most efficient suppliers, they must continuously adopt cost-saving technologies, processes and management practices. Small and medium firms either become ancillaries of these large firms or must compete against them. In either case, they are forced to be cost effective. Therefore, the presence of large firms also works to raise the productivity of small and medium firms. India's experience is consistent with this evidence. In industries in which India has achieved high productivity such as automobiles, two wheelers, engineering goods, software and telecommunications, it has large firms that compete against the world's most efficient producers. But in labour-intensive sectors such as apparel, footwear, food processing and other light manufacturing industries, it lacks significant presence of large firms. To bring large firms to these sectors, what we need is a more export-oriented strategy. Today, merchandise export market is $18 trillion compared with the total Indian domestic market in goods of less than $1 trillion. Genuinely large firms require easy access to the world markets.

- Accordingly, taking advantage of Prime Minister's Sagarmala project, we must consider creating a small number of coastal economic zones (CEZs) to initiate port-led development. We must chalk out areas of 2000 square kilometres or more with some existing economic activity and habitation near deep-draft ports and designate them as CEZs. We must provide business-friendly ecosystem in these zones, create industry-specific zones and clusters and build townships that can house the workforce required for industries. The zones must have rules that provide easy entry and exit to goods through the ports to connect them to the world markets. The success of Gujarat in achieving double-digit growth on a sustained basis must be partially attributed to port-led development that the state government has pro-actively promoted. Today, Kandla carries the maximum cargo among all major ports in the country and non-major ports of Gujarat carry three times as much cargo as Kandla. SEZs located in Gujarat account for 45% of the total exports from all SEZs in India. Unsurprisingly, the share of manufactures in the Gross State Domestic Product in Gujarat is by far the highest among all states in India.
- For the success of port-led development, the government must proceed with the reform of the central labour laws. These laws require modernizing in all states and this can be accomplished more expeditiously by undertaking the reform at the centre instead of each state doing so individually using the instrumentality of Article 254(2) of the Constitution.
- The government must also ensure that fiscal and financial reforms, modern bankruptcy law, GST, simplification and rationalization of corporate profit tax are implemented as planned.

- The government must also speed up the reform of the banking system. It is important that credit expansion picks up momentum and this requires concerted effort to address the problem of stressed bank assets.

## 3 Combating Poverty: Making Anti-poverty Programs More Effective

Whereas countries such as South Korea and Taiwan in the 1960s and 1970s and, to a considerable degree, China more recently relied mainly on growth to eradicate poverty, India has relied on a two-pronged strategy. In addition to raising incomes of the poor through growth, it has used substantial portions of the enhanced revenues from faster growth to directly help the poor. The effort along this second track has consisted of several programs aimed at addressing specific aspects of poverty (described earlier in the context of measurement of poverty) such as food and nutrition, employment, housing, road connectivity, electricity, water, toilets, literacy and health. In the following, we discuss the most important of these programs, offering recommendations on how they can be improved to maximise their impact on poverty reduction.

### *3.1 Nutrition: National Food Security Act (NFSA), 2013*

India has had a long history of maintaining a public distribution system (PDS) whereby the government offers subsidized food grains to the citizens. Originally, the system was universal but was later made selective to target the poor. Most recently, the National Food Security Act (NFSA) was passed. Under it, 75 per cent of rural and 50 per cent of urban populations are eligible for five kilograms of food grain per person per month at highly subsidized prices.  A small subset of extremely poor households is provided seven instead of five kilogram of food grain under the program.

In the broadest terms, the way the PDS works is that the government procures grain at pre-specified Minimum Support Prices (MSP) in selected regions of the country and stocks it. It offers this grain to the states that in turn pass them on to beneficiaries through a vast distribution network that ends at the PDS shops. The central government has authorized the states to identify the beneficiaries as per their choice of criteria.

The PDS system has operated far from ideally. There are leakages at various points: in storage, along the distribution chain as grain makes its way down to the PDS shop, and through ghost and multiple ration cards. There are also times when part of the grain sits in storage for two or more years and becomes unfit for human consumption.

How should this system be reformed to make more effective use of the financial resources spent on the program? There are several options but as we move towards economically more desirable options, the associated political difficulties multiply. The following two options are viable, with the second one significantly more beneficial but politically far more difficult.

- <u>Option 1</u>: The first option is essentially equivalent to what has been already done in the case of cooking gas cylinders. Each shop may be asked to take a biometric reading of the beneficiary and give the latter a receipt at the time of the transaction. The shopkeeper may be allowed to charge a small fee per kilogram of grain sold as transaction fee. This fee would compensate the shopkeeper for any lost income from ending the leakage of PDS grain to the open market. The system would eliminate all multiple and ghost ration cards. This would generate substantial savings net of the extra charge the shopkeeper would get for each transaction. With the passage of the recent law giving Aadhar a legal status, the government is well positioned to exercise this option. In addition, modern technology can be employed to monitor the movement of grains from the Food Corporation of India (FCI) warehouses to the PDS shops to eliminate the leakage in transit.
- <u>Option 2</u>: Under the second option, the beneficiary may be allowed to choose between cash transfer equivalent to current implicit subsidy and continued subsidized purchases. As long as beneficiaries have access to banking services, they are likely to choose cash as the option. This would free them to purchase grain at market prices from the PDS shop or private traders and create healthy competition thereby promoting efficiency. To the extent that beneficiaries shift to private traders for their purchases, the need for procurement would decline and the associated costs will also be eliminated. This will, of course, raise the issue of the assured MSP to farmers that is currently offered to them in at least the areas where procurement takes place. The problem can, however, be solved with greater coverage of farmers

by offering them cash subsidy through deficiency payments as described in the occasional paper based on the work of the Taskforce on Agricultural Development.

An important but mostly neglected issue is that while subsidized grain can help raise calorie consumption, it does not ensure a balanced diet. This is brought out by Table 2, which reports the average consumption basket of the bottom 30 per cent, middle 40 per cent and top 30 per cent of the population according to expenditure levels in rural and urban areas. The table shows that the gap in consumption in food grains in urban areas across expenditure classes is virtually non-existent while in rural areas bottom 30 per cent population consumes a little less than the other two classes. But the latter gap fades in comparison to the gaps across expenditure classes in milk, eggs, fruits and vegetables and meat in both rural and urban areas. Protein remains a badly missing nutrient from the diets of the poor.

Addressing this problem requires continued increases in incomes complemented by persuasive and informative advertising campaigns that bring home to the people the importance of a balanced diet. The pattern in Table 2 clearly indicates that as incomes rise, individuals do choose larger quantities of milk, eggs, fruits and vegetables on their own. Advertising campaigns that inform the people on what a healthy diet is and its benefits can reinforce this trend. Additionally, some improvements can be achieved at least in the case of school children through protein-rich diets in the midday meals.

Table 2: Monthly average per capita consumption of food items (kg) across income groups for rural and urban India, 2011-12.

| | Rural – Percentile class of MPC | | | | Urban- Percentile class of MPCE | | | |
|---|---|---|---|---|---|---|---|---|
| Commodity groups | 0-30 | 30-70 | 70-100 | 0-100 | 0-30 | 30-70 | 70-100 | 0-100 |
| Cereals | 10.44 | 11.42 | 11.87 | 11.26 | 9.3 | 9.51 | 9.21 | 9.36 |
| Pulses | 0.62 | 0.76 | 0.99 | 0.79 | 0.71 | 0.91 | 1.12 | 0.91 |
| Milk & milk products | 1.83 | 4.07 | 7.57 | 4.45 | 2.97 | 5.36 | 8.52 | 5.59 |
| Eggs (no.) | 0.66 | 1.04 | 1.75 | 1.14 | 1.15 | 1.88 | 2.96 | 1.98 |
| Fish, meat and chicken | 0.2 | 0.34 | 0.59 | 0.37 | 0.3 | 0.44 | 0.64 | 0.46 |
| Edible oil | 0.46 | 0.61 | 0.78 | 0.61 | 0.61 | 0.8 | 0.93 | 0.78 |
| Fruits (no.) | 1.24 | 2.49 | 5.24 | 2.94 | 2.34 | 4.55 | 8.45 | 5.06 |
| Fruits (kg) | 0.14 | 0.27 | 0.55 | 0.31 | 0.21 | 0.4 | 0.83 | 0.47 |
| Vegetables | 3.47 | 4.21 | 4.98 | 4.22 | 3.55 | 4.34 | 5.22 | 4.37 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Sugar and salt | 0.74 | 1.01 | 1.36 | 1.04 | 0.91 | 1.14 | 1.29 | 1.11 |

Note – Calculated from NSS 2011-12 consumption data. Percentile classes are based on MRP expenditure distribution. Fruits (no.) and fruits (kg) are exclusive categories.

### *3.2 Nutrition: Mid-day Meal Scheme (MDMS)*

MDMS was launched as a Centrally Sponsored Scheme in 1995 with the objective of improving the nutritional status of school children, eliminating classroom hunger and enhancing school enrolment, retention and attendance. From 2008-09, the programme has been extended to upper primary level. The government envisages expansion of MDMS in a progressive manner including to children in private schools (since they now have a 25% quota for Economically Weaker Sections), particularly in SC/ST and Minority concentrated areas.

During 2013-14, MDMS covered 10.80 crore children across the country as compared to 10.54 crore during 2011-12. The MDMS engages about 25.7 lakh cook-cum helpers in States/UTs out of which 80% are women. The social audit system for MDMS has been launched on a pilot basis in Andhra Pradesh. Eventually, a system of social audits will have to be extended to all states.

There is poor convergence of MDMS with the school health programme. As such there is a need to form networks of Medical Colleges, Home Science faculties and State MDMS steering and monitoring committees and institutions to evolve State Specific guidelines for improved quality and safety of food. Only 75% of schools have kitchen sheds. This means that 25% of schools (3.62 lakhs) prepare the mid-day meal either in an open area or in the classrooms, which is a major cause of concern as it impacts the safety of students.

### *3.3 Employment: Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)*

MGNREGA guarantees 100 days of unskilled employment at a specified wage in a given financial year to one member of every rural household. The scheme was launched in 2006-07 in 200 selected districts and gradually extended to the whole country by 2008-09. The underlying objective of the scheme is to enhance the livelihood security of the poor households in rural areas of the country. Other objectives include rejuvenating natural resource base, creating productive rural assets, stimulating local economy by providing safety net to rural poor, ensuring women empowerment and strengthening grassroots level democratic institutions. Approximately two-third of works taken up under MGNREGA are related to water conservation and other activities with positive impact on agricultural productivity.

The volume of wage employment under the scheme has grown from 143.59 crore person-days in 2007-08 to 220.35 crore person-days in 2013-14 but fell to 165.1 crore person-days in 2014-15. A large number of MGNREGA workers are small and marginal farmers. Scheduled Castes and Scheduled Tribes accounted for 47% of the total person-days employed. As against the norm of 33 per cent, women's participation in the scheme was 51.3 per cent during 2012-13, 52.8 per cent during 2013-14 and 54.9 per cent in 2014-15. The average wage has risen from Rs. 65 per person day in 2006-07 to Rs. 144 in 2014.

On the negative side, as against the guarantee of 100 days of wage employment to one person in each household annually, MGNREGA's average achievement has been less than 50 days except in 2009-10 when it touched about 54 days. The average days of work for a household in 2007-08 were 42, touching 46 in 2012-13 and 2013-14 but dropped to 40.02 in 2014-2015.

Among other things, the focus of new works allowed under MGNREGA is on land and homesteads owned by SCs/ STs, small & marginal farmers, Indira Awas Yojana (IAY) beneficiaries and Forest Rights Act beneficiaries. In an important development, MGNREGA has been notified by the Ministry of Finance under Direct Benefits Transfer (DBT) scheme for all districts in the country.

There are several areas in which, if modified, MGNREGA could deliver significantly better outcomes than currently. Possible improvements are as below:

- Employment under MGNREGA exclusively for unskilled manual work undermines the objective of skill development that the government is vigorously pursuing. The program should be made more flexible such that workers can be imparted skills while being paid MGNREGA wage. This would have the healthy side effect that workers would then seek skilled employment thereby exiting MGNREGA. In its present conception, the scheme provides little hope that it would become redundant one day except as a means to provide temporary cushion in case of drought or other unexpected economic hardship.

- Given that skilled employment under MGNREGA would require a legislative change, a movement in this direction can be achieved by according priority under central and state skill development programs to those MGNREGA workers who have completed a specified number of days of work. Since this criterion is an effective instrument of identifying the poor, it can be used to target them for other programs that help combat poverty. Recently, some movement in this direction has taken place under the Livelihoods in Full Employment (LIFE) project that proposed to select 14 lakh households which have completed 100 days of work under MGNREGA during 2014-15 and have workers under 35 years of age receive skill development training aimed at helping them find urban employment opportunities. This is a very welcome innovation within the confines of the existing legislation.
- Building of durable assets of quality and their proper maintenance has been a challenge. One suggestion that has been made is to allow greater flexibility in the materials to wage ratio. Restricting the expenditure on material strictly below 40 per cent can preclude the consideration of some good durable projects such as construction of school or hospital building. The restriction can be particularly limiting in desert or hilly regions where high transport costs make materials very expensive. This problem is exacerbated by the fact that while the wage component is covered by the central government, the materials component is covered by the state. This biases incentives in favour of projects with high labour costs. A shift to cost sharing within each component would give the scheme greater flexibility.
- An alternative to relaxing the 60:40 ratio is to allow it to be enforced at the district level for projects implemented at the Gram Panchayat level. This would allow the expenditures on materials component on some specific projects to exceed 40% while the share at the district level is still held at 40%.
- Permitting contractors within the overall ceiling of material component including skilled and semi-skilled workers would lead to speedy and effective implementation of the projects and improve the quality of assets created.
- During the peak period of agricultural season, farmers experience acute shortages of labour. It would be worthwhile to consider a reform to address this shortage such that farmers are allowed to hire MGNREGA workers with them paying the bulk of the wage (for example, 75 per cent) and MGNREGA

covering the remainder. If the market wage is below the minimum wage, the share of MGNREGA can be set at the difference between the two or larger. This would allow MGNREGA funds to be leveraged with a larger volume of employment created while also allowing more productive employment of workers.

- To ensure the payment of MGNREGA wages through banks and post-offices, branches of these institutions must be opened or bank correspondents placed in areas where they do not currently exist. Timely delivery of wages with no leakages is an important key to the success of the scheme. The Jan-Dhan Yojana and Aadhar initiatives will contribute to this objective as well.
- Workdays per beneficiary have averaged below 50 during most years. This suggests the presence of a fiscal constraint and calls for better targeting of the program so that the poorest households can get the promised 100 days of work. There is now considerably evidence that the benefits of the program have been disproportionately reaped by some of the more prosperous states accounting for small proportions of the poor.[5] Therefore the issue of restricting MGNREGA to around half of the poorest blocks (or equivalent administrative unit) nationwide may be considered. An expert committee could be appointed to develop the exclusion, inclusion and deprivation criteria along the lines suggested in the SECC booklet to select the beneficiary blocks.

### *3.4 Housing for All: Rural and Urban*

In the 2015-16 Budget, the government has committed to the provision of housing for all by 2022. This would require completion of 3 crore houses in rural areas and 2 crore houses in urban areas. Key programs devoted to rural and urban housing were Indira Awas Yojana (IAY) and Rajiv Awas Yojana (RAY), respectively. These have now been made part of the program Housing for All (Rural and Urban).

IAY was originally a component of the Jawahar Rozgar Yojana but became an independent scheme beginning in 1997-98 onwards. Its objective is construction of

[5] For example, a study by the Accountability Initiative at the Centre for Policy Research, New Delhi concludes, “In FY 2010-11, Uttar Pradesh - which accounts for 20% of the country’s BPL population – generated 13 % of the total MGNREGA employment provided while Andhra Pradesh and Tamil Nadu, which together account for 8 % of the country's rural BPL households, provided 23 % of total MGNREGA employment.”

free houses to members of the Scheduled Castes/ Scheduled Tribes, Freed Bonded Labourers in Rural areas and below-poverty-line households. Until 2011-12, the total government spending per house was Rs.45,000. Out of this, the Central share was Rs.33,750 and the State's share was Rs.11,250. From April 1, 2013, the Government of India has enhanced the permitted cost to Rs.70,000 for plains, and Rs.75,000 per unit for hilly areas. The difficult areas have also been re-defined. In congested localities, where land is costly, provision for multi-storeyed buildings has been made. Under the scheme, priority is given to manual scavengers, bonded labourers, women in difficult circumstances, widows of defence, paramilitary and police personnel killed in action, mentally and physically challenged persons and households with single girl child. Construction of toilets with IAY houses is now mandatory.

During 2013-14, expenditure under IAY was Rs. 12,983.64 crore and 15.92 lakhs houses were constructed. The funds allocated for IAY during 2014-15 were Rs. 16,000 crore with the Revised Estimate being Rs. 11,000 crore. The scheme has recently been folded into the new mission called Housing for All and is to be funded as per the changed Centre-State funding pattern.

The scheme has progressed well overall but can be improved along several dimensions. First, the scheme faces a major challenge in the selection of beneficiaries. The Socio Economic Caste Census may be deployed to identify the beneficiaries. Second, there are gaps in reporting by the States on completion of the houses against the physical targets and the updated progress is not reflected in the reporting system. Third, the trend of houses constructed over the eight years beginning 11th Plan shows that the States have to come forward with larger resources to meet the objectives of 'Housing for All by 2022' in the rural areas. Fourth, it may be worthwhile to explore the prospects for bringing prefabricated houses to provide housing under the program. Given the scale, it may be possible to build quality houses at low cost. This technology may also help speed up the program. Fifth, proposals for housing for manual scavengers must be prepared by the States on a priority basis. Finally, there is need for more effective convergence of this and other Central and State schemes.

Rajiv Awas Yojana (RAY) aimed at achieving slum-free India was launched in June 2011 in two phases; the preparatory phase for a period of two years that ended in June 2013 and implementation phase. The central government launched RAY as a

Centrally Sponsored Scheme in September 2013 for the period of 2013-2022. The scheme mandated assignment of lease rights to slum dwellers that could be mortgaged, renewed and inherited. States were expected to bring out three complementary reforms: Reservation of 15% of residential Floor Space Index or 35% of dwelling units for Economically Weaker Sections (EWS) and the Low Income Groups (LIG) in all future housing projects; earmarking of 25% of the budget of the municipality to provide basic services to the urban poor and setting of a municipal cadre for social/community development; and urban poverty alleviation. The scheme only focused on rehabilitation of slum dwellers and could not address the problems of urban poor outside slums.

The present government has decided to discontinue RAY and subsume liabilities created under approved on-going projects, where work on ground has been started, in the new mission on Housing for All. The Government intends to provide pucca housing for every family by the 75th year of Independence (2022). It also aims to provide these houses with basic amenities: water, sanitation, electricity and even broadband.

If successfully implemented, the mission Housing for All will be a game changer in many ways. First, since housing deficit is most severe at low incomes, decent housing would considerably uplift standard of living of these households. Second, in urban India, an overwhelming proportion of the workforce is engaged in "informal sector." Many of these workers live in slums or low quality houses where they face a very high coping cost due to deficiency in basic amenities. Their poor living condition also adversely affects their economic productivity. Hence provision of housing with these services is also a productivity enhancing measure. Third, income and output multiplier effect of investment in construction sector has been estimated to be very high. Progress towards ensuring housing to all would also result in increased investment in this sector thereby creating more, and much needed decent jobs in Indian cities.

There are several challenges in the successful implementation of this scheme. First, affordable housing is not possible unless land is made available for this purpose. Issues related to the Urban Land Ceilings Act of 1976 and the resulting land shortages need to be addressed.  The restrictions on the Floor Space Index (FSI), which keep buildings short in India, need to be relaxed. Laws governing the conversion of land and buildings from one use to another and urban planning also need to be made more flexible. The true potential of the construction sector which has high capacity for generating employment can be realised only if the building norms, land conversion process and approval processes are streamlined and made transparent.

Second, integration between land and transport planning is needed so that affordable housing is linked with public transport. Good transport links between suburbs and city centres and a dense transport network within the city centre can go a long way toward encouraging families to locate themselves in the suburbs where land is more plentiful and environment cleaner. A lack of transport links leads families to locate near the work place, which often creates slums or slum like dwellings.

Finally and extremely importantly, when migrants come into a city, what they need most is housing at low rent. But since such housing is rarely available, slums get created. Therefore, it is essential to make low-rent housing an integral part of the provision of urban housing. This would, of course, require a fundamental change in thinking and activating new reforms, importantly, rental laws. According to one estimate, rental laws that are heavily titled in favour of the tenant and against the owner have meant that as many as 10.2 million units in urban India are lying vacant.[6]

## 4 Combating Poverty: New Approaches

So far, this paper has focused on making the existing central government anti-poverty program more effective. In this section, we turn to some additional innovative programs that may be helpful in speeding up poverty reduction.

### *4.1 Jan Dhan Yojana, Aadhar and Mobile (JAM): Towards Cash Transfers*

Two key instruments—Jan Dhan bank accounts under PMJDY and biometric identity cards under Aadhar—promise to revolutionize the anti-poverty programmes by replacing the current cumbersome and leaky distribution of benefits under

[6] See the Economic Times, 29 April 2015 available at <http://articles.economictimes.indiatimes.com/2015-04-29/news/61652726_1_housing-shortage-rental-housing-lig>

various schemes by the Direct Benefit Transfers (DBT) in ways that was unthinkable until recently.

In his Independence Day speech On 15th August 2014, the Prime Minister announced Pradhan Mantri Jan Dhan Yojana, the biggest financial inclusion initiative in the world. He launched the scheme on 28th August 2014 across the country. Subsequently, on 20 January 2015, the Finance Minister listed out the achievements under PMJDY. Against the estimated target of opening bank accounts for 7.5 crore uncovered households in the country, Banks had opened 11.5 Crore accounts till 17th January 2015. Out of the accounts opened, 60% were in rural areas and 40% are in urban areas. Share of female account holders was 51%. Even allowing for some duplication, these numbers suggest that 90 per cent or more households now have a bank account.

Simultaneously, India is also moving towards completion of the Aadhar project that aims to give a biometric identity to all Indians. Of the 1.25 billion Indians, more than 900 million already have the Aadhar identity. Efforts are also under way to link the bank accounts and Aadhar identity. Once this is done any transactions done via the bank account using Aadhar biometric identity would become identifiable.

The only remaining ingredient then is the ability of the account holder to access it. There are two complementary avenues to it on the horizon. Smart phones in India have been spreading rapidly and they can allow account holders access to the accounts from anywhere to affect the transactions that can be done electronically. The main limitation of access through mobile is that it does not allow withdrawal of cash. Here the second avenue, the banking correspondent or BC, comes into play. Any local shopkeeper or post office can serve as a bank correspondent. What is needed is an electronic instrument that connects to biometric databases and the customer bank account. The banking correspondent can transfer funds between customer accounts and her own. As long as she has some liquidity of her own, she can facilitate withdrawals from and deposits into customer accounts. To incentivise the banking correspondent, a small fee per transaction is required.

Under MGNREGA, direct transfers of wages have already begun taking place. The employer records employment of a worker in a central database using the Aadhar identity. This triggers a transfer of the wage payment from a central government account to the worker's bank account. The worker can then access that account via mobile or banking correspondent as per need.

In the 2015-16 Budget, the government introduced certain insurance schemes that also make use of the Aadhar-linked bank accounts. Thus, for example, the government has issued RuPay cards to more than 10 Crore beneficiaries who will get a benefit of personal accidental insurance of Rs. 1.00 lakh per household. In addition, there is a life insurance cover of Rs. 30,000 for eligible beneficiaries.

The earlier campaign on financial inclusion started in 2011 had limited objectives. Their focus was on the coverage of villages with population of 2000 or more with banking services. The major shift in PMJDY is that it targeted households instead of villages. Moreover, it covers both rural and urban areas. The present plan pursued digital financial inclusion with special emphasis on monitoring by a Mission headed by the Finance Minister.[7]

Jan Dhan, Aadhar and mobile cum banking correspondent initiatives together provide a powerful platform to convert most of the existing transfers and subsidies into DBT. With the Aadhar account permitting aggregation of the information, this would give the government an excellent database to assess the total volume of benefits accruing to each household. In turn, this information can eventually pave the way for replacing myriad schemes with consolidated cash transfers except in cases in which there are other compelling reasons to continue with in-kind transfers.

[7] A mission office comprising of bankers, IT professionals and data analytic was set up for coordination, collation and follow up with various state governments, banks and other stakeholders. There was weekly monitoring of the efforts made by the Banks in PMJDY. Banks organized account opening camps on every Saturday with a mega camp on last Saturday of the month from 8.00 A.M. to 8.00 P.M. in coordination with District Authorities for opening of bank accounts. Financial literacy camps with a counter for Aadhar enrolment and insurance companies were also part of camps organized by the Banks.

### *4.2 Lifting the Five Poorest Families in Each Village Out of Poverty*

As the Prime minister has suggested, each Gram Panchayat may be asked to identify five poorest families in the village and endeavour to lift them out of poverty. The BPL list prepared on the basis of SECC 2011 may be used for selecting these families. As previously noted, the SECC has generated information on a large number of social and economic indicators relating to households across the country. Any families satisfying inclusion criteria, even if an excess of five, may be chosen for the program. If the number of families satisfying the inclusion criteria is less than five, deprivation criteria may be used to select a total of five families.

Once the families to be targeted are identified, the Gram Panchayat should ensure that they get benefits of all government programs meant for the poor and vulnerable section of the society like job to one family member under MGNREGA, subsidized food grain under NFSA, housing under Housing for All, free schooling under the Right to Education Act, access to health care services, drinking water and sanitation facilities and guaranteed opportunity for skill development. A modest cash transfer for a pre-specified time period may top these benefits. The eventual effort should be to ensure that the families become capable of earning and sustaining above-poverty level of income within five to seven years.

A similar effort may also be made in urban, municipal jurisdictions where one hundred poorest families may be identified and supported.

## 5 Summary Recommendations

Based on the deliberations of the Taskforce on Poverty Elimination, this paper considers two broad issues: how should India measure extreme poverty and what should be the strategy for its elimination. The discussion on eliminating extreme poverty is further divided into two parts: steps necessary to accelerate growth such that it generates employment opportunities in large volume and helps raise wages; and steps towards making anti-poverty programs more effective.

### *5.1 Measuring Poverty*

- Conventionally, poverty is measured as the proportion of population living below a threshold level of expenditure (or income) called the poverty line. Poverty line in turn is set at a level that enables an individual to purchase goods and services in quantities adequate to satisfy basic needs as per prevailing social norms. Poverty line and the poverty ratio have three potential uses: identification of poor; allocation of expenditure on anti-poverty programs across states or regions; and tracking poverty over time and across regions.

- In India, identification of poor is done by the State Governments based on information from Below Poverty Line (BPL) censuses of which the latest is the Socio-Economic Caste Census 2011 (SECC 2011). Allocation of expenditures on anti-poverty programs is also done using instruments other than the poverty ratio. For example, the expenditure on the provision of housing across states can be done according to the proportion of households without house within a given state. Universal programs such as those under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNAREGA) and Sarva Shiksha Abhiyan (SSA) are available to all making the question of allocation moot.
- This leaves tracking poverty over time and space as the principal objective behind the measurement of poverty.
- The current official indicators of poverty in India are based on the Tendulkar Poverty Line. But this line has been the subject of repeated controversies with many observers criticizing it as being too low. The controversies led the United Progressive Alliance (UPA) government to appoint the Rangarajan Committee in 2012, which recommended higher rural and urban poverty lines in June 2014.
- Going forward, we can consider four options for tracking extreme poverty: (i) Continue with the Tendulkar poverty line; (ii) Switch to the Rangarajan or other higher rural and urban poverty lines; (iii) Track progress over time of the bottom 30% of the population; and (iv) Track progress along specific components of poverty such as nutrition, housing, drinking water, sanitation, electricity and connectivity.
- While options (iii) and (iv) can complement the measurement of poverty using a poverty line, they cannot substitute for it. Without reference to a poverty line, we cannot determine whether a given household has exited poverty. Tracking reduction in poverty requires a poverty line. In turn, this requires us to choose between (i) and (ii).
- The main criticism of the Tendulkar line (also applicable to the $1.25 line adopted by the United Nations Sustainable Development Goals, which is

even lower than the Tendulkar line) has been that it is too low. The counterargument, however, is that if our objective is to assess whether we are making progress in bringing households out of extreme poverty, it calls for setting the poverty line at a level that allows households to get two square meals a day and other basic necessities of life. It is the households below this minimum acceptable subsistence level whose welfare should concern us the most and whose progress we must monitor. Put differently, if we set the poverty line at too high a level, we would be tracking what percentage of population that has already achieved a certain level of comfort has been made yet further comfortable. It will fail to inform us about the households in abject poverty.

- The key source of public dissatisfaction with the Tendulkar line was that it would deprive many households in need of government assistance from such assistance by classifying them as above poverty line (APL) households. But as just noted, poverty line is not the basis of identification of the poor in India. This fact weakens the case against the Tendulkar line.
- At the same time, the fact that judgments on what represents a basic necessity of life vary from person to person makes the choice of a poverty line difficult. Therefore, the final decision on this question needs to be informed by further deliberations that pay adequate attention to the fact that the objective behind an official poverty line is to track progress in combating extreme poverty and not identification of the poor for purposes of distribution of government benefits.

### *5.2 Strategy to Combat Poverty*

The strategy for combating poverty must rest on two legs: sustained rapid growth that is also employment intensive and making anti-poverty programs effective.

#### 5.2.1 Employment-intensive Sustained Rapid Growth

- Sustained rapid growth works through two channels: first, by creating jobs that pay steadily rising real wages and, second, by generating additional revenues that allow the government to expand social expenditures at faster pace.

- The poor in India predominantly reside in rural areas where incomes critically depend on agricultural growth. Therefore, this paper endorses and briefly reiterates the recommendations of the NITI Aayog occasional paper based on the deliberations of the Taskforce on Agricultural Development.
- These recommendations relate to raising productivity in agriculture, giving remunerative prices to farmers, measures aimed at ‘second green revolution’ in rain fed areas in general and eastern India in particular, reform of tenancy laws to help small and marginal farmers, and building safety nets to bring quick relief for farmers in times of natural disasters.
- But given that historically agriculture has not grown in India at rates exceeding 5 per cent per annum on a sustained basis while industry and services have seen much faster growth, in the longer run, the benefits of growth can be shared more equitably only by creating gainful employment opportunities in industry and services for landless workers and marginal farmers who wish to migrate to better paid jobs. India needs acceleration in the growth of organized labour-intensive sectors such as apparel, footwear, food processing, electronic and electrical appliances, other light manufactures, construction and retail trade.
- Among other things, the paper suggests that this can be achieved through the creation of a handful of Coastal Economic Zones (CEZs) that can provide the focal point for the location of employment-intensive industries allowing them to exploit economies of scale and agglomeration. With a business-friendly ecosystem, these zones can serve as magnets for export-oriented employment-intensive large-scale firms that are currently exiting China in response to high and rising wages and declining size of labour force there. The presence of these highly efficient large-scale firms will also spawn highly efficient small and medium firms around them in the CEZs.

### 5.2.2 Making Anti-poverty Programs More Effective

- Making anti-poverty programs such as the Public Distribution System (PDS), Midday Meal Scheme, MGNREGA and Housing for All more effective represents the second leg of the strategy to eliminate abject poverty. The paper provides numerous specific suggestions on how each of these important programs can be made more effective.
- Each PDS shop may be asked to take a biometric reading of the beneficiary and give the latter a receipt at the time of the transaction. The shopkeeper

may be allowed to charge a small fee per kilogram of grain sold as transaction fee. This fee would compensate her for any lost income from ending the leakage of PDS grain to the open market. The system would, thus, eliminate all multiple and ghost ration cards.

- The beneficiary may be offered a choice between cash transfer equivalent to current implicit subsidy and continued subsidized in-kind purchases. As long as beneficiaries have access to banking services, they are likely to opt for cash. This would free them to purchase grain at market prices from the PDS shop or private traders and create healthy competition thereby promoting efficiency.
- An important but mostly neglected issue is that while subsidized grain can help raise calorie consumption, it does not ensure a balanced diet. Evidence shows that the poor consume far less milk, eggs, fruits and vegetables and meat in both rural and urban areas than their better-off counterparts. Protein remains a badly missing nutrient from the diets of the poor. Addressing this problem requires continued increases in incomes complemented by persuasive and informative advertising campaigns that bring home to the people the importance of a balanced diet. In the case of school children, some improvements can also be achieved through protein-rich diets in the midday meals.
- There is poor convergence of Midday Meal Scheme (MDMS) with the school health programme. There is a need to form networks of Medical Colleges, Home Science faculties and State MDMS steering and monitoring committees and institutions to evolve state specific guidelines for improved quality and safety of food. Nearly 25% of schools continue to prepare the mid-day meal either in an open area or in the classrooms, which raises serious food safety issues. It is important to ensure that schools have proper facilities to cook meals.
- There are several areas in which, if modified, MGNREGA could deliver significantly better outcomes than currently. For example, the scheme could be modified to impart skills. This would pave the way for many workers to exit the program.
- Relaxing the proportion of expenditure on materials and allowing the use of contractors in the materials component would greatly improve the quality of assets produced.

- During peak season, farmers may be permitted to hire MGNREGA workers by paying 75% (or some other proportion) of the wages with the balance paid by MGNREGA wage funds. This would lead to more productive use of labour while also spreading MGNREGA wages over more workdays.
- During most years, workdays per beneficiary have averaged below 50 suggesting the presence of a fiscal constraint. This calls for better targeting of the program in favour of the poorest households. The benefits of the program have been disproportionately reaped by some of the more prosperous states. Therefore the issue of restricting MGNREGA to around half of the poorest blocks (or equivalent administrative unit) nationwide may be considered. An expert committee could be appointed to develop the exclusion, inclusion and deprivation criteria to select the beneficiary blocks.
- The Housing for All (Rural) program has progressed well overall but can be improved along several dimensions. The Socio Economic Caste Census may be deployed to identify the beneficiaries. Progress in the provision of housing needs to be reflected in the reporting system. The trend of houses constructed over the eight years beginning 11th Plan shows that the States have to come forward with larger resources to meet the objectives of 'Housing for All by 2022' in the rural areas. Finally, it may be worth exploring the possibility of using prefabricated houses. This may bring better quality as well as speed to the provision of housing for all.
- Jan Dhan Yojana, Aadhaar, Mobile (JAM) trinity could play a vital role in widening the reach of Government to the vulnerable sections. Jan Dhan bank accounts under Prime Minister's Jan Dhan Yojana (PMJDY), biometric identity cards under Aadhar and accessibility to the accounts through mobile phones promise to eventually revolutionize the anti-poverty programmes by replacing the current cumbersome and leaky distribution of benefits under various schemes by the Direct Benefit Transfers (DBT).
- With the Aadhar linked accounts permitting aggregation of the information, the government would have an excellent database to assess the total volume of benefits accruing to each household. In turn, this information could eventually pave the way for replacing myriad schemes with consolidated cash transfers except in cases in which there are other compelling reasons to continue with in-kind transfers.
- Each Gram Panchayat may be asked to identify five poorest families in the village and endeavour to lift them out of poverty. Panchayat may ensure that

these families get all government benefits.  A modest cash transfer for a pre-specified time period may top these benefits. The eventual effort should be to ensure that the families become capable of earning and sustaining above-poverty level income within five to seven years.

Annexure: Rural and Urban Poverty Line Baskets corresponding to the Rangarajan poverty lines

Being measured at 2011-12 prices, monetary magnitudes in the PLBs below are not directly comparable to those shown in Table 1 in the text, which are measured at 2004-05 prices.

Table A1: Rural Poverty Line Basket

| | Commodity Groups | Consumption at poverty line Class (Rs.) | Budget Shares around Poverty Line class (%) | Quantity Consumed at Poverty line class (Kg) |
|---|---|---|---|---|
| 1 | cereals | 142.4 | 14.6 | 11.16 |
| 2 | pulses & products | 33.8 | 3.5 | 0.65 |
| 3 | milk & milk products | 61.5 | 6.3 | 2.81 |
| 4 | salt & sugar | 19.9 | 2.0 | 0.85 |
| 5 | edible oil | 43.5 | 4.5 | 0.56 |
| 6 | egg, fish & meat | 46.5 | 4.8 | 1.5 eggs, 0.39 kg meat |
| 7 | vegetables | 81.7 | 8.4 | 6.43 |
| 8 | fruits (fresh) | 14.0 | 1.4 | 0.39 |
| 9 | fruits (dry) | 2.6 | 0.3 | 0.05 |
| 10 | spices | 38.4 | 3.9 | 0.34 |
| 11 | beverages | 18.5 | 1.9 | n/a |
| 12 | served processed food | 32.9 | 3.4 | n/a |
| 13 | packaged processed food | 18.3 | 1.9 | n/a |
| 14 | pan | 5.4 | 0.6 | n/a |
| 15 | tobacco | 16.2 | 1.7 | n/a |
| 16 | intoxicants | 6.8 | 0.7 | n/a |
| 17 | fuel and light | 94.0 | 9.7 | n/a |
| 18 | medical (non-institutional) | 35.2 | 3.6 | n/a |
| 19 | entertainment | 5.9 | 0.6 | n/a |
| 20 | minor durable-type goods | 2.2 | 0.2 | n/a |
| 21 | toilet articles | 21.3 | 2.2 | n/a |
| 22 | other household consumables | 17.9 | 1.8 | n/a |
| 23 | consumer services excl. | 34.3 | 3.5 | n/a |

| | | | | |
|---|---|---|---|---|
| | conveyance | | | |
| 24 | conveyance | 35.1 | 3.6 | n/a |
| 25 | rent | 0.8 | 0.1 | n/a |
| 26 | consumer taxes & cesses | 1.3 | 0.1 | n/a |
| 27 | clothing | 71.6 | 7.4 | n/a |
| 28 | bedding etc. | 4.0 | 0.4 | n/a |
| 29 | footwear | 9.9 | 1.0 | n/a |
| 30 | education | 29.5 | 3.0 | n/a |
| 31 | medical (institutional) | 8.6 | 0.9 | n/a |
| 32 | durable goods | 18.3 | 1.9 | n/a |
| | Total | 972.3 | 100.0 | n/a |

Table A2: Urban Poverty Line Basket

| | **Commodity Groups** | **Consumption at poverty line Class (Rs.)** | **Budget Shares around Poverty Line class (%)** | **Quantity Consumed at Poverty line class (Kg)** |
|---|---|---|---|---|
| 1 | cereals | 145.6 | 10.3 | 9.46 |
| 2 | pulses & products | 41.5 | 3.0 | 0.74 |
| 3 | milk & milk products | 89.8 | 6.4 | 3.41 |
| 4 | salt & sugar | 23.3 | 1.7 | 0.94 |
| 5 | edible oil | 53.2 | 3.8 | 0.70 |
| 6 | egg, fish & meat | 56.7 | 4.0 | 2.2 eggs, 0.48 kg meat |
| 7 | vegetables | 84.1 | 6.0 | 5.74 |
| 8 | fruits (fresh) | 22.8 | 1.6 | 0.38 |
| 9 | fruits (dry) | 6.1 | 0.4 | 0.08 |
| 10 | spices | 47.1 | 3.3 | 0.41 |
| 11 | beverages | 29.6 | 2.1 | n/a |
| 12 | served processed food | 31.1 | 2.2 | n/a |
| 13 | packaged processed food | 25.6 | 1.8 | n/a |
| 14 | pan | 5.6 | 0.4 | n/a |
| 15 | tobacco | 15.7 | 1.1 | n/a |
| 16 | intoxicants | 8.5 | 0.6 | n/a |
| 17 | fuel and light | 110.7 | 7.9 | n/a |
| 18 | medical (non-institutional) | 36.3 | 2.6 | n/a |
| 19 | entertainment | 16.4 | 1.2 | n/a |
| 20 | minor durable-type goods | 2.3 | 0.2 | n/a |
| 21 | toilet articles | 29.3 | 2.1 | n/a |

| | | | | |
|---|---|---|---|---|
| 22 | other household consumables | 23.6 | 1.7 | n/a |
| 23 | consumer services excl. conveyance | 42.4 | 3.0 | n/a |
| 24 | conveyance | 102.6 | 7.3 | n/a |
| 25 | rent | 74.1 | 5.3 | n/a |
| 26 | consumer taxes & cesses | 7.2 | 0.5 | n/a |
| 27 | clothing | 111.1 | 7.9 | n/a |
| 28 | bedding etc. | 5.7 | 0.4 | n/a |
| 29 | footwear | 12.4 | 0.9 | n/a |
| 30 | education | 113.3 | 8.1 | n/a |
| 31 | medical (institutional) | 11.9 | 0.8 | n/a |
| 32 | durable goods | 21.4 | 1.5 | n/a |
| 33 | Total | 1407.0 | 100.0 | n/a |

Note: Both tables are based on MMRP expenditure distribution.