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India's poverty eradication efforts: Some vital questions

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Introduction

India is the country that can take pride in according fairly high priority to tackle the widespread poverty after independence in under colonial rule 1947. Stagnant growth of the economy for more than one and a half centuries, a rapid growth of population, poor infrastructure, little industrialization, low productivity agriculture, and consequently low per capita income are some of the features of the economy that was inherited by independent India. But this is not a complete story. Social and political exclusion of a segment of population that emerged in ancient India and continued unchecked for several centuries has been another cause of extreme poverty in India. Existence of tribal population in some pockets with their acute deprivation and lack of property rights over the land they inhabit is another phenomenon to which poverty in India could also be attributed.

Our paper is an attempt to revisit the phenomenon of poverty in India in a non-quantitative way, from its genesis to an evaluation of public policy response to mitigate poverty. Some of the analysis is based on either well-documented facts at the micro level for different States or on our own observations. Some of the data we wanted to use but did not might not be representative of the whole economy. But the questions raised in the paper, we believe, are still relevant.

Genesis of Poverty

The insight into the genesis of India's poverty is necessary in order to assess if the measures undertaken – legislative and budgetary – were appropriate to mitigate poverty. The measures so undertaken in independent India, to a greater extant, address the root cause of poverty. It appears the political leadership was able to correctly identify the poverty traps as mentioned in the Chronic Poverty Report 2008-09.

The genesis of India's poverty can be found in two historical factors, namely, the institution of rigid and discriminatory caste system which prevailed since before 1000 B.C. and the colonial rule India has been subjected to for little less than two hundred years before it became independent. The former resulted in social discrimination against a sizeable section of the population which in turn deprived them of the various opportunities and benefits that flow from the economic progress of the country. The caste system also inflicted political exclusion on the underprivileged class leaving it without representation in political and economic decision making. The colonial rule, on the other hand, was also responsible in many ways of India's impoverishment. An important result that is still relevant today was the decay of India's urban handicrafts that were widely acceptable the world over for centuries. Such a development caused a large scale migration of the working class from urban to rural areas putting agriculture under further stress. Indian intellectuals of the 19^{th} century especially Nauroji (1901) and Ranade (1892) have given a detailed account of extremely low per capita income during 19^{th} century, the phenomenon of 'economic drain' and its impoverishing effects and the miserable state of agriculture.

Public Policy Response

The required strategy for poverty alleviation was two pronged. One, constitutional measures to give hitherto neglected class political representation which would be further strengthened through positive discrimination favoring this class and two, accelerating economic growth along with a conscious policy of taking the benefits to the deprived and poor. The country began providing reservation of seats in Central as well as State legislatures for certain castes and tribes together with reserving some jobs for them in government employment. Centralized planning was instituted for quicker economic development with resources being allocated in accordance with national priorities under government supervision. Thus, instead of launching programs to attack poverty directly, policymakers chose the trickle down path in their attempt to achieve rapid economic development.

Probably the country was not properly equipped to tackle poverty head on. It did not even define "poor". Data base was inadequate to measure the incidence of poverty. The only relevant statistics was per capita GNP which was low and hence created a general belief that poverty was wide-spread.

Poverty Defined

It was only in the 1960s, with the initiative of the Planning Commission (PC) and the efforts of individual researchers that we find a definition for poverty and a few estimates both by the PC and academics. Thus a formal beginning was made to address the poverty issue in a scientific manner. The poverty thus defined was "the failure of earning an income sufficient to ensure the per capita calories intake of 2100 and 2400 for urban and rural people respectively." Methodological aspects of poverty measurements are beyond the scope of this paper. True, the estimation method suggested by a committee appointed by the PC would substantially raise the poverty ratio in India but it does not affect the focus of the present paper. One of the serious limitations with this definition is the lack of data about the depth of poverty. Any upward mobility within poor population as a result of either anti-poverty programs or trickle-down effects of development often remains unnoticed. More so, it does not take into account the poor's access to factors that can contribute to significant economic and social mobility, for instance, children's education which is often sacrificed because of its higher opportunity cost.

Incidence of Poverty

As mentioned earlier, the decay of handicrafts during the latter half of the 19th century had increased the dependence of work force on agriculture. Those who depended on agriculture far exceeded in number than optimal employment which resulted in either zero or very low marginal productivity of labor. This kept agriculture's saving capacity low. Agriculture not only failed to contribute to capital formation in other sectors, along the lines suggested by Johnston and Mellor (1961), it had to rely on public funds for its own capital needs. With an alarming growth of population after 1951 and agriculture trapped in low productivity, the sector was just unable to absorb rising work force.

It is argued that poverty actually exists because of the low opportunities in rural sector where non-farm economic activities are extremely limited. Urban poverty is largely a result of rural out-migration in search of livelihood. This indicates that the solution to poverty may be a direct attack on the rural poverty first.

Anti-Poverty Programs

Initially the focus of public policy was economic growth much of it through growth of public sector. The idea was to bring about resource allocation in accordance with national priorities toward growth. But by the early 1970s it was realized that 'trickle down' theory did not work. So there was a shift in policy stance. Realizing that poverty exists because of a huge supply-demand gap for labor in agriculture, a few employment programs were initiated at smaller scale during the 1970s, such as the Employment Guarantee Scheme, the Food For Work Program, the Small Farmers Development Agency, the Marginal Farmers and Agricultural Labor Program, the Drought-Prone Area Program, and Desert Development Program. These programs were in operation for various target groups but were limited in their coverage. Though the activities in which work was to be offered were identified, the primary objective was to create employment.

Since these programs were carried out by different agencies with hardly any coordination between them, the result was considerable lopsidedness and duplication in the selection of target groups. The Sixth Five Year Plan, learning from the past experience launched ambitious wage and self employment programs in the form of National Rural Employment Program (NREP) and Integrated Rural Development Program (IRDP). These programs had all-India coverage. In the latter part of the 1980s all the wage employment programs were merged into a single Jawahar Rozgar Yojna.

Major step in this direction has been the enactment in 2005 of National Rural Employment Guarantee Act (NREGA). It guarantees 100 days of employment to any rural household whose adult members are willing to accept manual work. The Act offers employment to the poor as an entitlement but also expects to generate social and economic infrastructure. At this moment it is premature to say to what extent the new policy will succeed in realizing its objectives.

Implications for the Economy

Limitations in the design and implementation of these programs are well researched and documented. One of the major shortcomings of these programs is that they are not integrated with the national development plan and thus not likely to create social and economic infrastructure in proportion to the public expenditure incurred on them. Though the growth of the economy during the decade of 2000s has been the highest of all decades, it is largely demand driven growth achieved at the cost of fiscal prudence. Rural development has still lagged considerably despite huge public expenditure on employment programs. As a result, the perpetual dependence on budgetary support for much of rural employment has continued.

Growth during 1980s was not sufficient to keep its external sector in balance, its public debt sustainable and its fiscal deficit in reasonable limits. The result was a near collapse of the economy in 1991 with all its fiscal parameters in a terribly unfavorable state. This was not only a jolt to the employment programs but future course of economic development as well. In order to keep the fiscal deficit low with most of the revenue expenditures downward rigid, each finance minister found it easier to cut development expenditure instead.

The net result of such fiscal imbalances has been the near stagnation in public expenditure, in real terms, on merit goods like health, education, water and sanitation. One aspect which is often missed in almost every analysis is the quality of the delivery system of public and merit goods. Therefore when it comes to the expansion of these goods it is the increase in allocation which remains in focus or at the most such increase is deflated for the inflation to arrive at the variations in real terms.

The most potent means to ensure socioeconomic mobility is education albeit with a longer response lag. An examination of publicly provided primary education is sufficient to present the scenario which is disappointing. There is no doubt that the allocation for primary education has risen in recent times. But greater part of such increase is devoted to the teacher's salaries, mid-day meal scheme (meant to attract the greater number of children to school). There has never been a serious introspection as to why poor children stay away from school. The reason lies in the fact that the opportunity cost of education for poor population is substantially high. Moreover, mere primary education may not ensure them any social and economic mobility. The quality of education offered in the government schools is far below the required standards while teachers in these schools are paid much higher in comparison to their counterparts in private schools. Moreover the fact needs to be realized that for the purpose of making the poor more productive, education up to a certain level is like an indivisible good which is useful either in certain volume or nearly useless.

Other merit goods mentioned above are also in the same state. Therefore the inference that emerges is "unless the delivery system is improved mere allocation of fund may not yield results". As there are other competing heads for the public funds the current allocation on primary education, particularly the manner in which it is being managed, is largely a waste. So whether it is inadequacy of allocation to these competing areas or poor management or both which was responsible for limited job opportunities, can be judged only after case by case studies. Information provided by official agencies cannot be taken on its face value.

Subsidies

Subsidies are theoretically justified in case of goods that have either positive externalities of significant magnitude or for which market will lead to inefficient allocation since market determined prices are likely to result in sub-optimal consumption of such goods. But subsidy has its own politico-economic dynamics. These are normally justifiable initially but often continue long after the purpose for which they were initially provided has been achieved. Presently 'subsidies' are major items of expenditure in the revenue budget which incidentally has been in deficit since 1979 in case of Central government and 1987 in case of the Indian States taken together.

An example from electricity would illustrate the matter. Electricity is usually provided to the rural sector on fixed charges though some States went to the extent of providing it for free. It was in the 1970s that de-metering was effected for rural consumer for agricultural and household uses of electricity under the justification that it would be easier to realize fixed charges from the users. This makes Power Corporations understate theft and transmission losses with cover-up of corruption of its field staff as a byproduct.

According to Arvind Vermani (2006) total subsidies offered by the Central government alone in 1999-2000 were Rs 25,690 crores, a staggering amount sufficient to lift the population from below the poverty line if an equivalent cash transfer was offered. While several questions would arise regarding the practicality of such a scheme, the sheer size of the subsidies can indicate their failure in a cost benefit calculation.

Concluding Remarks

India has undertaken two measures over the long run, constitutional and budgetary, to address poverty. The constitutional measures undoubtedly helped a great deal in lifting up those who have been oppressed for centuries. They have secured representation in legislatures as well as in bureaucracy. So they have come to occupy the position where they are part of decision making and policy implementation. But continued reservation on the basis of cast alone created a class within class with the consequence that those of the same caste who could not derive benefit from such arrangements face serious disadvantage at the hands of the subclass that has reaped most of the benefits of reservation. The more deprived group may not have fully realized that many of the privileged fellows within the same castes have remained the biggest stumbling block for their progress. Such realization could potentially have dangerous political implications.

As for the budgetary measures to mitigate poverty, so far there is no empirical evidence to suggest that the opportunities created through budgetary allocation are sustainable in the event of its partial or complete withdrawal. The employment schemes so far have not succeeded in creating infrastructure in rural areas or generated enough economic activities to decelerate the process of out-migration from rural to urban areas.

Further research is required to measure the income generation and job creation in the event of reallocation of budgetary resources in favor of competing alternatives that have the potential to alleviate poverty on a sustainable basis.

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