Let us not underestimate deprivation in the country

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This piece is part of a Mint Debate. Read the counter view here

What was the status of extreme poverty in India prior to the arrival of the pandemic? Did demonetization increase poverty? Due to lack of official data, these questions remain unanswered. The most recent survey data (2017-18) was not officially released, but leaked reports showed a fall in real consumption and an unprecedented rise in poverty. In this environment, confusion and uncertainty have reigned. So it is welcome news that the National Sample Survey Office is planning to conduct the next round soon.

In the absence of recent official data, two studies have attempted to update the 2011-12 numbers. An IMF working paper by Bhalla, Bhasin and Virmani (BBV) uses the growth rate of private final consumption expenditure (PFCE) from the National Accounts Statistics. A World Bank paper by Sinha Roy and Van der Weide (SRW) uses consumption data from the CMIE Consumer Pyramids Household Survey.

SRW find that the extreme poverty rate ($1.9 a day or Tendulkar line) fell from 22% in 2011 to 10% in 2019. This is a healthy decline, though not as rapid as what occurred between 2004-05 (40%) and 2011-12. The comparable number for 2019 as per BBV is 3.4%, a much larger decline in poverty. Poverty is further reduced by using an alternative recall period and taking into account PDS transfers, allowing BBV to claim that extreme poverty had almost disappeared from India before the pandemic.

BBV attribute the large decline in India's poverty rate to strong consumption growth and a moderation of inflation. There are three key assumptions in their approach. First, PFCE, which includes items that households do not purchase, is still a good proxy for household consumption. Second, nominal household consumption has grown at the same rate as nominal PFCE ("pass-through rate" of 1). This was true for the period 2004-05 to 2011-12, but not for 1993-94 to 2004-05 when PFCE grew faster. It is likely that PFCE has again grown faster than household consumption since 2011-12, given shocks like demonetization and GST imposition. Documenting the relationship for more than just one period is always

necessary, as is using a few different pass-through rates to understand the robustness of estimates. This was not done. Third, BBV assume that the consumption of the poor grew at the same rate as the rich and the household distribution did not change. This has not been substantiated.

Also note that measured consumption is sensitive to the recall period. In 2011-12, the poverty rate was 22% by the Uniform Recall Period (30 days for all items) and around 12% by the Modified Mixed Recall Period (7 days, 30 days or 365 days, depending on item). BBV fault the World Bank's (and SRW's) continued use of URP and argue instead for using MMRP. Further, adding the cash value of PDS transfers to actual expenditure reduces measured poverty by around 2 percentage points (SRW do not do this). BBV's preferred specification, MMRP method plus taking PDS into account, means that their starting poverty level in 2011-12 is 12%, falling to less than 1% in 2019.

The SRW paper takes a different approach. First, they re-weight CMIE's Consumer Pyramid Household Survey (CPHS) data such that some key indicators like asset ownership, levels of education and income levels are comparable to those found in official surveys. This is to address the problem of missing poor households that has been raised recently for CPHS data. Second, they create a comparable set of numbers for NSS and CPHS consumption data, which allows them to create a a common series for the poverty rate based on household survey data alone. Notably, SRW find that extreme poverty in urban areas rose by 2 percentage points during demonetization and the pace of poverty reduction stagnated in rural areas during the 2019 slowdown. While both BBV and SRW have to make strong assumptions for their estimates, in a next-best world of missing official data, the SRW approach is a more rigorous, like-for-like comparison, since both the CPHS and NSS are large sample surveys.

On the face of it then, there is much uncertainty on poverty between 2011-12 and 2019, from an increase (leaked NSS data) to a near elimination (BBV). No doubt, the truth lies in between, but where? Note that the poverty rate generally declines with growth, though the pace of reduction varies depending on how much the poor benefit from growth and it slows as the level falls (due to diminishing returns on policy measures). So it would be a huge policy 'achievement' to actually raise the poverty rate so long as growth is positive. While there is still room for debate until official NSO data is released, it is reasonable to think that poverty did indeed decline between 2011-12 and 2019.

India's extreme poverty rate likely lies between 5% and 15%, depending on the recall period used. But it is important to keep sight of the human element and bigger picture in these data battles. The $1.9 line is too low. While anthropometric measures or multidimensional poverty are critical to look at, they do not replace simpler measures. It is time we moved to a higher line, such as $3.2 a day (as BBV suggest) or a line derived from the recommended National Floor Minimum Wage, which we used in last year's State of Working India report to measure

the impact of the pandemic. The covid outbreak has undoubtedly slowed down progress, but India is moving towards eliminating extreme poverty. Timely data and pro-poor policies will help us get there sooner.

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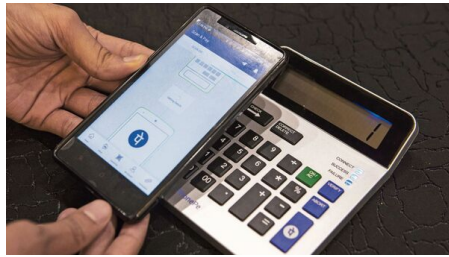

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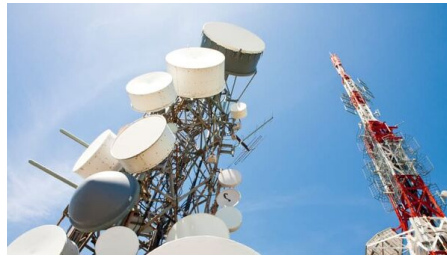## The telecom bill makes a bold attempt to revise regulation for the better

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