

Poverty and Human Development

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Introduction

“No society can surely be flourishing and happy, of which the far greater part of the members is poor and miserable” – Adam Smith

Poverty lies at the heart of the development debate. From the time of Independence, India’s policy framework has recognised that political freedom would remain incomplete without freedom from poverty, ignorance, disease and inequality of opportunity.

Poverty is not just the **absence of income**; it reflects **deprivation** in food, shelter, health, education, security and voice in society. It varies across regions and social groups, and changes over time, making it a **dynamic and multidimensional** phenomenon.

For some, poverty means the inability to secure two meals a day; for others, it is the lack of stable employment, assets, literacy or access to healthcare. In both rural and urban India, the poor often live with few resources, uncertain livelihoods and high vulnerability to shocks such as illness or job loss. Thus, poverty is not a single condition but a web of interconnected deprivations **that limit human potential**.

Understanding poverty, therefore, requires more than measuring income. It demands examining:

- Levels of consumption and living standards
- Access to social services like health and education
- Vulnerability to economic and social risks

Only when poverty is properly defined and measured can effective policy interventions be designed to reduce it in a sustainable and inclusive manner.

Definitions of Poverty

Multilateral organisations define poverty using both **income thresholds** and **multidimensional indicators**, reflecting the idea that poverty is not merely low income but also deprivation in basic capabilities.

While the **World Bank** primarily uses internationally comparable monetary poverty lines, institutions like the **UNDP** adopt broader measures such as the Multidimensional Poverty Index (MPI). Other bodies like the **IMF** and **ILO** approach poverty from macroeconomic stability and labour-market perspectives respectively.

World Bank Group

The World Bank defines poverty mainly through income-based global poverty lines to allow cross-country comparison.

- Extreme Poverty Line: **\$3.00 per day**
- Lower-Middle-Income Line: **\$4.20 per day**
- Upper-Middle-Income Line: **\$8.30 per day**

These thresholds are adjusted for purchasing power parity (PPP) to represent a similar real standard of living across countries.

United Nations / UNDP

The UN views poverty as multidimensional and aligned with **SDG 1: End poverty in all its forms**. The **Global Multidimensional Poverty Index (MPI)** measures acute poverty across:

- Health (nutrition, child mortality)
- Education (years of schooling, school attendance)
- Standard of living (cooking fuel, sanitation, water, electricity, housing, assets)

A person is considered multidimensionally poor if deprived in **at least one-third of weighted indicators**.

International Monetary Fund (IMF)

The IMF links poverty reduction with **macroeconomic stability, growth, and fiscal sustainability**. It supports low-income countries through **Poverty Reduction Strategy Papers (PRSPs)** and emphasizes creating fiscal space for social spending.

International Labour Organization (ILO)

The ILO focuses on **working poverty and decent work deficits**. Poverty is seen in terms of:

- Low wages
- Informal employment
- Lack of social protection
- Vulnerability to labour exploitation

Some basic Concepts related to Poverty

Absolute vs. Relative Poverty

Absolute poverty measures deprivation against a fixed standard of basic needs, while relative poverty measures deprivation compared to the living standards of the broader society.

Example: A person earning ₹50/day faces absolute poverty (can't meet basic needs), while earning ₹500/day may face relative poverty in an affluent neighbourhood.

Poverty Rate/Incidence

The percentage of the population living below the poverty line, used to track poverty levels across time and regions.

Example: If 21.9% of India's population lives below the poverty line, the poverty rate is 21.9%.

Poverty Gap

This measures the intensity of poverty by calculating how far below the poverty line the poor actually fall, showing the average income shortfall.

Example: If the poverty line is ₹1,000/month and poor households earn an average of ₹700/month, the poverty gap is 30%.

Income Inequality

The unequal distribution of income across a population, often measured by the Gini coefficient, which correlates with higher poverty rates.

Example: India's top 10% earns 57% of national income while bottom 50% earns only 13%, showing high inequality.

Poverty Severity Index

This measures the squared poverty gap, giving more weight to those who are furthest below the poverty line.

Example: Among poor households, those earning ₹20/day are weighted more heavily than those earning ₹30/day when measuring severity.

Chronic vs. Transient Poverty

Chronic poverty is long-term or persistent, while transient poverty is temporary due to shocks; different policies are needed for each.

Example: A landless labourer remains poor for decades (chronic), while a middle-class family faces temporary poverty after job loss (transient).

Intergenerational Poverty

Poverty transmitted from parents to children through limited access to quality education, healthcare, nutrition, and social networks.

Example: A child of illiterate agricultural labourers lacks educational resources, continues in low-wage work, perpetuating family poverty.

Rural vs. Urban Poverty

Poverty manifests differently in rural areas (linked to agriculture) versus urban areas (linked to unemployment and slums).

Example: A farmer faces poverty due to crop failure and land fragmentation, while an urban slum dweller faces poverty due to unemployment.

Feminization of Poverty

The trend showing women are disproportionately represented among the poor, often due to wage gaps and discrimination.

Example: Women constitute 70% of India's poor due to wage discrimination and limited property rights.

Capability Approach (Amartya Sen)

Views poverty not just as low income but as deprivation of basic capabilities and freedoms to achieve valuable functioning.

Example: A person earning adequate income but denied education and healthcare opportunities remains poor in terms of capabilities.

What Causes Poverty?

Poverty can be explained at two levels, **individual circumstances** and **economy-wide structural factors**. While some causes operate at the household level, others are embedded in historical processes and institutional arrangements.

At the individual level, poverty is often associated with:

- Low levels of education and skills
- Ill health and infirmity
- Discrimination

These vulnerabilities arise from deeper structural problems such as:

- Social, economic and political inequality
- Social exclusion
- Unemployment and underemployment
- Indebtedness
- Unequal distribution of wealth

Aggregate poverty is therefore the cumulative outcome of widespread individual deprivation.

Concept Box: Individual vs Structural Causes

Individual Causes → Low skills, illness, discrimination

Structural Causes → Inequality, unemployment, lack of assets, weak institutions

Economy-wide Causes

Beyond individual characteristics, poverty also reflects systemic weaknesses in the economy, including:

- Low capital formation
- Lack of infrastructure
- Lack of demand
- Population pressure
- Weak social security/welfare nets

These macro constraints limit income generation opportunities and perpetuate poverty cycles.

Historical Roots: Colonial Impact

The roots of mass poverty in India cannot be understood without examining the colonial period.

- British rule led to substantial **de-industrialisation**, particularly in textiles. Imports of manufactured goods from Lancashire displaced Indian handicrafts, reducing India from a finished goods exporter to a raw material supplier.
- Over 70% of Indians were dependent on agriculture during the British period. **Heavy rural taxation and exploitative land revenue systems** strengthened moneylenders and intermediaries. India exported food grains even during periods of famine, between 1875 and 1900, nearly 26 million people died due to famine.

British economic policy aimed to:

- Provide a market for British exports
- Extract revenue and service imperial debts
- Supply manpower for imperial armies

These policies weakened domestic industry and entrenched agrarian distress.

Concept Box: De-industrialisation

Process by which India's traditional industries declined due to colonial trade policies, leading to unemployment and loss of artisan livelihoods.

Agriculture and Land Inequality

Even today, agriculture remains the principal livelihood for many rural households. Land ownership is a key determinant of economic security.

Those owning land have relatively better living conditions. However:

- Many rural poor are landless labourers.
- Small farmers operate fragmented and unviable holdings.
- Land redistribution efforts after Independence had limited success.
- Small holdings often lack capital, irrigation, and modern inputs.



Rapid population growth further reduced per capita land availability, intensifying fragmentation. Income from small landholdings is often insufficient to meet basic needs.

Indebtedness and Agrarian Distress

Crop failures due to drought or natural calamities often compel farmers to borrow. Inability to repay loans results in chronic indebtedness. In extreme cases, this has led to farmer suicides.

Indebtedness reinforces poverty by:

- Increasing financial vulnerability
- Reducing investment capacity
- Creating dependence on informal lenders



Social Exclusion and Employment Patterns

Scheduled Castes and Scheduled Tribes often face structural barriers in accessing new employment opportunities. Social exclusion limits mobility and asset ownership.

In urban areas, poverty is largely an overflow of rural distress. Migrants often find employment only as:

- Casual labourers
- Informal workers
- Intermittent wage earners

Casual labourers are highly vulnerable due to:

- No job security
- No social protection
- Limited skills
- No asset base

Unemployment and underemployment deepen poverty.



Inflation and Inequality

A sharp rise in prices of food grains and essential commodities disproportionately affects lower-income households. When prices of necessities rise faster than wages, real income declines.

Persistent poverty is also linked to:

- Unequal distribution of income
- Unequal distribution of assets
- Concentration of means of production

Over time, this creates two distinct groups:

- 1) Those who own productive assets and earn stable incomes
- 2) Those who depend solely on labour for survival

The widening gap between rich and poor reinforces multi-dimensional poverty.

Poverty Estimation in India

In India, poverty estimation has largely been based on **minimum consumption expenditure, not income**.

Economic growth alone is not sufficient; what matters is whether the benefits of growth reach all sections of society. For policy evaluation, therefore, poverty must be clearly defined and measured. Measurement has direct policy implications because it determines eligibility for welfare schemes and shapes the national development agenda.

Over time, perceptions of what constitutes poverty have evolved. While some approaches focus on multiple deprivations, India's official poverty estimates have primarily relied on **minimum consumption expenditure** per person (usually per capita per month). A household failing to meet this minimum consumption threshold is treated as poor. The minimum level is derived from essential expenditure on food (linked to nutritional norms) and basic non-food items, though estimating non-food needs has always been more complex.

Poverty Line

Poverty Line refers to the minimum level of consumption expenditure required to meet basic food and non-food needs. Households below this threshold are classified as poor.

Institutional Framework for Poverty Estimation

Historically, poverty estimates were released by the Planning Commission and were based on consumption expenditure data collected by the **National Sample Survey Organisation (NSSO)**. The concept of a poverty line was first discussed in pre-independence India by **Dadabhai Naoroji**.

Also known as the "Grand Old Man of India," he was the first Indian to systematically estimate poverty in India during the British colonial period. In his seminal work "Poverty and Un-British Rule in India" (1901), he calculated the poverty line based on the cost of a **subsistence diet**. He estimated the minimum income required for basic survival was around ₹16 to ₹35 per capita per year at that time.

After Independence, several expert groups were constituted to refine methodology in line with changing economic realities:

- 1) **Expert Group (1962)**: The Working Group 1962 recommended that the national minimum consumption expenditure for a household of five persons (four adult consumption units) should not be less than Rs.100 per month or Rs.20 per capita per month in terms of 1960-61 prices. For urban areas, this figure was Rs.125 per month or Rs.25 per capita per month to cover the higher prices there. The poverty line excluded expenditure on health and education, both of which, it was assumed, were to be provided by the State.
- 2) **Y. K. Alagh Committee (1977)**: Constituted by the Planning Commission, this committee established the methodology for poverty line estimation based on nutritional norms. It recommended separate poverty lines for rural areas (2,400 calories per capita per day) and urban areas (2,100 calories per capita per day). This calorie-based approach became the foundation for official poverty estimates and was used consistently for two decades.
- 3) **Lakdawala Committee (1989)**: This committee made significant refinements to poverty estimation methodology. Key recommendations included using Consumer Price Index (CPI) for Industrial Workers and Agricultural Labour for updating poverty lines, state-specific poverty lines based on consumption patterns, and discontinuation of direct calorie-consumption-based poverty estimation in favor of consumption expenditure as the primary metric.

- 4) **Tendulkar Committee (2005):** This marked a paradigm shift in poverty measurement. The committee moved away from calorie-based norms to a consumption basket that included health, education, and other essential non-food items. It recommended a uniform poverty line basket across rural and urban areas, used Mixed Reference Period (MRP) for consumption data, and estimated 37.2% of the population below the poverty line in 2004-05. The Tendulkar methodology was widely adopted but faced criticism for setting a relatively low poverty line threshold.
- 5) **Rangarajan Committee (2012):** Constituted to review the Tendulkar methodology, this committee recommended higher poverty line thresholds - ₹47 per capita per day in urban areas and ₹32 in rural areas (2011-12 prices). It included separate normative levels for food, education, health, and clothing requirements. Using this methodology, the committee estimated that 29.5% of the population was below the poverty line in 2011-12, higher than Tendulkar estimates. This approach was considered more realistic but was not officially adopted by the government.

All major committees relied on **Monthly Per Capita Consumption Expenditure (MPCE)** data from NSS surveys to estimate the number of poor.

MPCE

Monthly Per Capita Consumption Expenditure (MPCE) = Total household monthly consumption expenditure ÷ Number of household members.
It is the core variable used in India's poverty estimation.

Trends in Poverty Estimates

Data across different methodologies show a long-term decline in poverty ratios, though estimates vary depending on the committee's methodology.

For example, under the **Tendulkar methodology**, poverty ratio declined to **21.9% in 2011–12**, while the **Rangarajan Committee** estimated it at **29.5% for the same year**, reflecting differences in poverty line thresholds.

This divergence highlights the methodological sensitivity of poverty measurement.

Committee	Poverty Line Estimates (India)	Urban ₹/day)	Poverty Ratio 2011-12
 Tendulkar	27	33	21.9%
 Rangarajan	32	47	29.5%

Identification of the Poor: SECC 2011

Currently, identification of poor households for welfare schemes is largely based on data from the **Socio-Economic Caste Census (SECC) 2011**, conducted by States/UTs with central support.

Unlike earlier BPL censuses, SECC adopted a **multidimensional approach**, capturing data on housing, employment, income, assets, landholding and deprivation indicators.

SECC 2011 categorised households into three groups:

- Automatically Excluded
- Automatically Included
- Others (ranked on deprivation indicators)

Shift in Approach

Traditional poverty estimation → Consumption-based (Income proxy)
SECC identification → Deprivation-based (Multidimensional focus)

Multidimensional Poverty Index (MPI)

Traditional poverty measures focus on income or consumption. However, poverty is far more complex, it reflects deprivation in education, health, housing, sanitation, nutrition and access to basic services. The **Multidimensional Poverty Index (MPI)** captures this broader reality by identifying people who suffer from overlapping disadvantages.

MPI was developed by the **United Nations Development Programme (UNDP)** and the **Oxford Poverty and Human Development Initiative (OPHI)**. Unlike monetary poverty measures, MPI evaluates deprivation across multiple dimensions simultaneously.

What Makes MPI Different?

Income Poverty → Measures lack of money.

MPI → Measures lack of basic capabilities and living conditions.

A household is considered multidimensionally poor if it is deprived in **at least one-third (33%) of the weighted indicators**.

Dimensions and Indicators of MPI

MPI covers **three dimensions**, each assigned equal weight (1/3). Within these dimensions are ten specific indicators.

➤ Health (1/3 Weight)

- **Nutrition (1/6)** → Deprived if any adult or child is undernourished.
- **Child Mortality (1/6)** → Deprived if any child under 18 has died in the last five years.

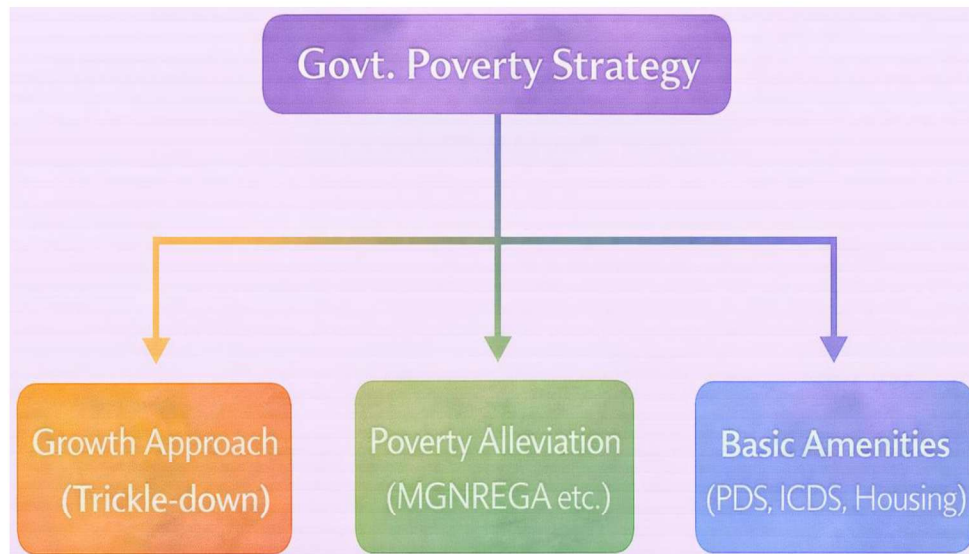
➤ Education (1/3 Weight)

- **Years of Schooling (1/6)** → No household member has completed six years of schooling.
- **School Attendance (1/6)** → Any school-aged child not attending school up to class 8.

➤ Standard of Living (1/3 Weight)

- Each indicator carries 1/18 weight
 - Cooking Fuel
 - Sanitation
 - Drinking Water
 - Electricity
 - Housing
 - Assets

Government's Three-Dimensional Approach to reduce poverty



The Government of India follows a **multi-pronged approach** to poverty reduction, integrating income support, livelihood creation, health, education, skill development and financial inclusion. These interventions align with **SDGs 1 (No Poverty), 3 (Health), 4 (Education), and 8 (Decent Work & Growth)**.

Government Schemes

Direct Poverty Reduction (Income & Livelihood Support)

These schemes provide immediate income security and livelihood opportunities:

- **VB G-RAM G:** Guarantees rural wage employment (up to 125 days).
- **DAY-NRLM:** Promotes women-led Self-Help Groups for income diversification.
- **PM SVANidhi:** Collateral-free working capital loans to urban street vendors.
- **PM-KISAN:** ₹6,000 annual income support to small and marginal farmers.
- **PM Vishwakarma (2023):** Credit, skilling and marketing support for traditional artisans.

Focus: Income stabilisation + livelihood expansion.

Human Capital: Health & Nutrition

These interventions reduce poverty by improving health outcomes:

- **Ayushman Bharat (PM-JAY):** ₹5 lakh health coverage per family annually.
- **Mission Poshan 2.0:** Integrated nutrition support for children and women.
- **Jal Jeevan Mission:** Rural tap water connections improving sanitation and health.
- **PM Ujjwala Yojana:** LPG connections reducing indoor air pollution.

Focus: Lower out-of-pocket expenditure + better productivity.

Human Capital: Education & Skills

These schemes enhance employability and long-term income capacity:

- **Skill India / PMKVY:** Vocational training and certification.
- **DDU-GKY:** Skill training for rural youth (demand-driven).
- **Samagra Shiksha:** Integrated school education (pre-school to Class 12).
- **NAPS:** Apprenticeship promotion through cost-sharing with employers.

Focus: Enhancing workforce capability.

Infrastructure & Safety Nets

These create enabling conditions for poverty reduction:

- **PMAY (G & U):** Housing for rural and urban poor.
- **PMJDY:** Financial inclusion enabling DBT architecture.
- **One Nation One Ration Card (ONORC):** Portability of food security for migrant workers.

Approaches to tackle Poverty

Amartya Sen's Capability Approach

Core Concepts

- 1) **Functionings and Capabilities:** Sen distinguishes between "functionings" (what a person actually achieves - being well-nourished, being educated, being healthy) and "capabilities" (the real opportunities or freedoms people have to achieve these Functionings). Poverty, in this view, is the deprivation of basic capabilities rather than merely low income.
- 2) **Freedom as Development:** Sen argues that development should be seen as expanding people's substantive freedoms and capabilities. Poverty is

fundamentally about unfreedom - the inability to achieve minimally acceptable levels of important capabilities.

Key Strategies:

1. Expanding Human Capabilities Sen emphasizes investment in education, healthcare, and nutrition as primary poverty alleviation tools. These directly expand what people can do and be. Unlike income transfers alone, **capability enhancement has multiplier effects** - an educated person can better utilize opportunities and participate in economic life.

2. Social Security and Public Provisioning: Sen strongly advocates for universal public services rather than means-tested programs. He points to Kerala's success in achieving high human development indicators despite low per capita income through universal education and healthcare. Public provisioning of basic services ensures that even the poorest have access to capability-enhancing resources.

3. Democracy and Political Freedom: A unique aspect of Sen's approach is emphasis on political and civil liberties. He famously observed that famines don't occur in democracies with a free press, as governments are held accountable. Political participation itself is a capability, and democratic systems create mechanisms for the poor to voice concerns and influence policy.

4. Women's Agency and Empowerment: Sen highlights women's education and employment as particularly powerful poverty reduction strategies. Women's agency affects family size, child survival, and education decisions. His research showed that female literacy and employment are more strongly correlated with child survival rates than overall economic growth.

5. Social Choice and Collective Action: Rather than top-down imposition of development goals, Sen advocates for **participatory approaches where communities define their priorities**. His work on social choice theory informs how collective decisions about resource allocation should incorporate diverse perspectives.

6. Addressing Multiple Deprivations: Sen's multidimensional view means poverty alleviation requires simultaneous action on health, education, nutrition, shelter, and social inclusion. Income growth alone is insufficient if it doesn't translate into capability expansion.

Abhijit Banerjee's Evidence-Based, Experimental Economics

Core Philosophy

Banerjee emphasizes understanding the actual constraints poor people face through **randomized controlled trials (RCTs) rather than making assumptions**. His book "Poor Economics" challenges many conventional wisdoms about poverty and development.

Key Strategies:

- 1. "Small Push" Interventions:** Banerjee's research shows that poor people often need small, well-designed interventions rather than massive programs. Examples include providing free insecticide-treated bed nets (which people won't buy even at low prices due to present bias), subsidizing chlorine dispensers at water sources, or providing deworming medication in schools. These low-cost interventions can have outsized impacts.
- 2. Addressing Behavioural Barriers:** Banerjee's work reveals that poverty isn't just about lack of resources but also behavioural constraints. Poor people face overwhelming numbers of decisions with high stakes and limited information. Strategies include making beneficial choices the default option (like auto-enrolment in savings plans), simplifying complex decisions (standardized labelling for fertilizers), and providing timely reminders (SMS reminders for vaccinations).
- 3. Graduation Approach (Ultra-Poor Program):** One of Banerjee and Duflo's most significant contributions is the "Graduation" model for the ultra-poor. This comprehensive approach provides asset transfers (like livestock), consumption support during the transition period, skills training, regular coaching and mentoring, access to savings accounts, and health support. Studies across multiple countries show this intensive, time-bound intervention can create lasting escapes from extreme poverty.
- 4. Education Quality over Quantity:** Banerjee's research challenges the focus on enrolment rates, showing that learning outcomes matter more. His strategies include **teaching at the right level** (students learn better when instruction matches their current level rather than grade-based curriculum), **using technology for personalized learning** (computer-assisted learning programs), **hiring local teaching assistants for remedial education**, and providing information to parents about school quality to create accountability.

5. Healthcare Delivery Innovations: Rather than building expensive hospitals, Banerjee advocates for **preventive care** through innovative delivery mechanisms like community health workers with clear protocols and incentives, free or highly subsidized preventive care (immunizations, prenatal care), conditional cash transfers tied to health checkups, and mobile health clinics reaching remote areas.

6. Financial Inclusion with Appropriate Design: Banerjee's research on **microfinance is nuanced**. He finds that access to credit alone doesn't transform lives as dramatically as once hoped. Effective strategies include **commitment savings devices** (accounts that restrict withdrawals to help people save), **insurance products designed for the poor** (weather-indexed crop insurance), and **small, frequent loans rather than large lump sums** for those starting businesses.
