

THE SOCIAL COST OF COVID-19: SURGE IN THE NEW POOR

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

Public policy is focused on aiding people escape poverty, not to stop them from falling into it

Last week, the World Bank sharply revised upwards what it estimates to be the impact of the covid-19 pandemic on worldwide poverty. It did so because the Bretton Woods twin now hold a grimmer view of global growth in the current year; it now believes growth could contract anywhere between 5-8% in 2020—the brunt of which will be borne by the informal economy, thereby giving a fresh twist to the lives vs livelihood debate in emerging economies like India.

The surge in the “new poor” that the World Bank is alluding to is emerging as the new social cost of the pandemic, which also holds serious political ramifications. In April, it estimated the addition to the number of worldwide poor to be anywhere between 40-60 million; it now believes, consistent with the projected contraction in global growth detailed in the latest World Economic Prospects report published by the World Bank, that the increase in the “new poor” could range anywhere 71-100 million.

Most importantly, this cohort was either not born poor or include those who had somehow managed to exit extreme poverty. This is particularly relevant to developing economies like India, where most of the population depends on the informal economy for their livelihood and is extremely vulnerable to any disruption.

Tragically, the once-in-a-century covid-19 pandemic, which originated in Wuhan, China, is more than just a disruption. It has forced countries, including India, to lockdown, primarily to slow the spread of the virus by reducing social contact and creating the space for administrations to scale up existing medical care facilities. But, in the process, it has unleashed economic devastation and a surge in joblessness.

In any case, in India, even before the pandemic struck, most of the population was living dangerously close to the poverty line. According to the World Bank, one in two people are vulnerable to poverty—this is more than the entire population of the US.

Why? Because nine out of 10 people in the workforce hold informal jobs; and remember the maximum loss of livelihood in the lockdown phase has occurred in this segment.

The World Bank study classifies the poor according to those living on \$1.90 per day (extreme poverty), \$3.20 per day and \$5.50 per day. Its projections for South Asia, in which India accounts for the overwhelming proportion, show the spurt in ‘new poor’ ranging from 32-42 million (in April this was projected at 16 million), 115-138 million (56 million) and 85-102 million (44 million) respectively.

One can safely assume that most of the dislodged migrants, estimated to be anywhere between 9-12 million, desperately seeking their way back to their homes will probably be part of this count of “new poor”. The loss of their income stream will not only hurt them directly, but the stoppage of remittances will also dent household incomes in their home state—an economic shock extremely difficult to survive.

Yes, the focus of government spending in the last three months has been precisely to bolster the social safety nets for rural India, but given the scale, it is very likely that many would have fallen back in poverty.

The projected addition of “new poor” has put the spotlight on an often ignored aspect of poverty alleviation. Most public policy is designed to help people escape poverty and not prevent people from descending into it. Anirudh Krishna, professor at Duke University, had in a very prescient piece of work argued that most people were just one disease away from poverty. The book published in 2010, ‘One Illness Away’, therefore highlighted the need for public policy to focus also on preventing people from falling into poverty.

Yes, schemes like Ayushman Bharat (health insurance for 600 million people) and food security are steps in the right direction to strengthen the wherewithal of an average Indian, given that the bulk of them work in the informal economy and hence do not have a predictable and regular income stream—unlike in a formal sector job. These are at best first steps; much more needs to be done.

Presumably, as Prime Minister Narendra Modi held recently, the covid-19 pandemic may well be the watershed moment—hopefully with respect to redefining public policy to fight poverty in India.

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