

A MEANINGFUL SAFETY NET FOR THE POOR

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The writer is former member, Planning Commission, and chairman, Integrated Research and Action for Development express@expressindia.com

In the last week of February, the government launched a scheme to pay Rs 6,000 every year to poor rural households who own less than 2 hectares of land. The scheme will have an annual outlay of Rs 75,000 crore. The beneficiaries received the first installment of Rs 2,000 on February 24. Congress President Rahul Gandhi has mocked the scheme saying that Rs 6,000 per year translates to Rs 16.43 per day per family, that is a pittance and not much of a help to the poor. To one with declared assets around Rs 9 crore and an annual income exceeding Rs 92 lakh, Rs 16.43 per day will appear to be peanuts. I examine here what this amount can mean to the poor in India.

To explore the scheme's impact on the poor, I looked at the monthly per capita consumption expenditure (MPCE) of households belonging to different fractile groups in states of India. The national sample survey (NSS) of household expenditures for 2011-12 (the latest publicly available) provides MPCE by fractile groups such as the poorest 5 per cent, the next 5 per cent, the next 10 per cent, and so on. If we add the monthly per capita value of the Rs 6,000 transfer to each class's MPCE, we obtain the addition to its MPCE. However, the transfer in 2019 has to be converted to the equivalent transfer in 2011-12 by adjusting for inflation in the state's consumer price index. The modified MPCE can be compared with the poverty line in the state. We can then assess how many people will cross the poverty line with this transfer of Rs 6,000 per family per year.

I illustrate the procedure with the example of Bihar. In 2011-12, the household size in rural areas in the state was 5.5. The consumer price index for rural areas changed from 111 in 2011-12 to 137 in 2017-18, giving a ratio of 1.23. Therefore, Rs 6,000 per family in terms of 2011-12 prices translates to Rs 74 per month ($\text{Rs } 6,000 / 12 / 5.5 / 1.23$). According to the Rangarajan Committee Report, the poverty line for rural Bihar was Rs 971 in 2011-12. The table shows the impact of the transfer on different different fractile groups, assuming all get the money — though about 70 per cent of the rural households are likely to be eligible in Bihar.

40 per cent to 20 per cent.

Moreover, the annual benefit of Rs 6,000 will provide the household some cushion against unexpected expenditure due to illness or accidents, which pushes many people to the margins of the poverty line — at times, even below it.

The new scheme will not eliminate poverty. But its impact on reducing poverty will not be negligible.

The writer is chairman, Integrated Research and Action for Development, Delhi

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