

# INDIA IS MAKING DRAMATIC STRIDES IN ADDRESSING EXTREME POVERTY

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

The state will need to develop the capacity to meet evolving public aspirations and also embrace private sector participation

In 2015, the United Nations adopted 17 Sustainable Development Goals (SDGs) to be achieved by 2030, of which the first two are "ending extreme poverty and hunger". Extreme poverty is defined as living on less than \$1.90 a day, measured in 2011 purchasing power parity prices.

The World Poverty Clock (WPC) provides real-time poverty estimates until 2030 for (almost) every country in the world. It uses publicly available data on income distribution, production and consumption and bridges the common decadal gaps between large-scale surveys and censuses. WPC is a systematic and consistent analytical framework to measure progress towards SDGs.

According to the WPC, 8% of the world, or nearly 600 million people, lives in extreme poverty. While 23,000 people escape poverty each day, about 7,000 are falling back into extreme poverty. In 2015, the global "hot-spots" for extreme poverty were India, Nigeria, Democratic Republic of Congo, Ethiopia and Bangladesh, with nearly half of the world's extreme poor. For the last quarter century, the percentage of the world's population living below the extreme poverty line has reduced from 36% to 10% in 2015. That represents a reduction from about 1.9 billion people living in extreme poverty to about 736 million in 2015. While much of that progress is attributable to declines in South-East Asia and East Asia, particularly China, the declines in this decade are due in substantial degree to South Asia, particularly India.

An average GDP growth rate of over 7% for the last 26 years has made a dramatic impact on extreme poverty in India. During the last full census in 2011, India's extreme poverty rate was reported to be 21.9%, or 265 million people. The latest household survey from 2017/18 will be released this year. It will incorporate some major methodological changes—in particular an adjustment for owner-occupied housing called imputed rent and a change in "recall periods" for consumer goods that is in accordance with common international practices. When this data is factored in, the latest estimates will suggest that the extreme poverty number is likely to have fallen to 4% or about 50 million in 2019, and is likely to drop below 40 million by 2021.

The structure of India's population—that has been famously described as a "pyramid"—is changing to that of an "unhealthy middle-aged man with a big head and fat belly". The heavy belly and hips come from a dramatic increase in the size of the lower middle class and the big head comes from rising income inequality. The richest 1% of India now hold 58% of wealth, and the richest 10% over 80%. This structural shift will have profound consequences for politics and economics, with an aspiring class that is very large and growing, and with abject poverty declining to a much smaller percentage of the population. The *garibi hatao* (remove poverty) sentiment will not only likely be replaced by *amiri badhao* (increase wealth) for the lower middle class, but also a specific thrust on the re-distribution of wealth. India's transformation to an unequal lower-middle-income country is upon us.

There are always numerous objections to poverty calculations. The WPC calculation is simply one rigorous and consistent way to estimate extreme poverty. While India will soon no longer be

a “poor country” in the sense of the last 70 years, many issues related to very-low income households will remain. Crossing a minimum income or consumption threshold does not imply that the lack of education or health will not force households back into poverty. It does not mean that India can stop focusing on major issues like infant mortality or maternal health. The inconsistency between states and regions will persist for some time. However, priorities will shift. An aspiring class seeks betterment in education, health, housing, skills and consumption, and not merely food and shelter.

This shift in India’s poverty structure will necessitate two things—the state’s capacity will need to enable the effective delivery of all that’s required to meet evolving aspirations, and the state will have to embrace and enable the private sector as a participant in the next phase. The job is simply too large and complex for a single type of entity to accomplish. The Indian state has become better in one area—targeted redistribution. Those skills will have to be honed and refined to reduce leakages and improve direct help to marginal farmers, large sections of unemployed women, the north-eastern states and scheduled castes and tribes. A dramatic refocus of the government towards fewer areas like security, infrastructure, primary education and public health is required. At the same time, the government must reduce its distraction and participation in numerous other areas from banking to consumer goods. In all other areas, the government should play an enabling role like providing guarantees, gap funding and actions that have a meaningful impact on the ease of conducting business.

India’s desirable transformation from an unhealthy middle-aged man to a wise old man with humble head, broad chest and appropriate middle demands a major rethink.

PS: “In a country well governed, poverty is something to be ashamed of. In a country badly governed, wealth is something to be ashamed of,” said Confucius.

*Narayan Ramachandran is chairman, InKlude Labs. Read Narayan’s Mint columns at [www.livemint.com/avisiblehand](http://www.livemint.com/avisiblehand)*

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