

# Poverty and Economic Reforms: A Brief Study

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## Abstract

The greatest challenge to the world today is the problem of deep poverty amid plenty of the world's 6 billion people, 2.8 billion live on less than \$ 2 a day and 1.2 billion live on less than \$ 1 a day with 44% living in South Asia. In rich countries fewer than 1% children do not reach their fifth birthday while in poorest countries as many as 20% do not. While less than 5% children fewer than five years age are malnourished in rich countries, the comparable figures for poor countries are 50%.

## Introduction

This distribution persists even though human conditions have improved more globally in the past century than in the rest of history. But the distribution of these global gains is extraordinarily unequal. The average income in the richest 20 countries is 37 times the average in the poorest 20- a gap that has doubled in the past 40 years. And the experiences have been vastly different at national and sub national levels and for ethnic minorities & women. Faced with this picture of global poverty and inequality, the international community has set itself several goals—popularly known as Millennium Development Goals—with the sole objective of changing this scenario as early as 2015.

## What is Poverty?

Poverty is a state of being poor. It can be defined as a social phenomenon in which a section of society is unable to fulfill its basic necessities. But poverty is much more than this. Poor people often lack adequate food and shelter, education and health, deprivation that keep them from leading the kind of life that everyone values. They also face extreme vulnerability to ill health, economic dislocation and natural disasters. They are often exposed to ill treatment by institutions of the state and society and are powerless to influence any decision that affects their lives. In fact, poverty is the result of economic, political and social processes that interact with each other in ways that increase the deprivation in which poor people live. Lack of assets, inaccessible markets and scarce jobs opportunities lock people in material poverty. According to Amartya Sen (1985) "Poverty is not just a matter of being relatively poor than others in the society, but of not having some basic opportunities of material well-being—the failure to have certain minimum 'capabilities'. The criteria of minimum capabilities is 'absolute' in the sense that ----- people's deprivations are judged absolutely and not simply in comparison with the deprivations of others in that society ----- the relevant capabilities are of many different kinds e.g. being free from starvation, from hunger, from undernourishment, participating in communal life; being adequately sheltered, being free to travel to see a friend and so on". In line with Sen's views, the World Bank has also accepted the now established view of poverty as encompassing not only low income and consumption but also low achievement in education, health, nutrition and other areas of human

development. According to World Development Report 2000-01 on “Attacking Poverty”, “Poverty is more than inadequate income or human development; it is also vulnerability and a lack of voice, power and representation”.

Despite the broadening of the concept of poverty over time, using monetary income or consumption to identify and measure poverty has long traditions. On this basis, it is customary to use the concept of poverty in two senses.

### **Absolute Poverty**

In the absolute standard, minimum physical quantities of cereals, pulse, milks, butter, etc. are determined for a subsistence level and then the price quotations are used to convert the physical quantities into money terms. Aggregating all the quantities gives a figure expressing per capita consumer expenditure below which a person is considered to be below poverty line (BPL).

### **Relative Poverty**

Relative standard income distribution of the population in different groups are estimated and a comparison of the levels of living of the top 5 to 10% with the bottom 5% to 10% of the population reflects the relative standards of poverty. The defect of this approach is that it indicates the relative position of different segments of the population in the income hierarchy but is silent about their absolute status.

The approach to reducing poverty has evolved over the past 50 years in response to better understanding of the complexity of development. In the 1950's & 1960's many viewed large investment in physical capital and infrastructure as the primary measures of development. In the 1970's awareness grew that physical capital was not enough and health and education were equally important as articulated by the World Development Report 1980. The 1980's saw another shift of emphasis on improving economic management and allowing greater play for market forces. World Development Report 1990 proposed a two part strategy: promoting labour intensive growth through economic openness and investment in infrastructure and providing basic services to poor people in health and education. In the 1990's governance and institutions moved to the centre stage while the 21<sup>st</sup> century strategy focuses on inclusion, and participation of the poor in the decision process and their empowerment thereof.

### **Poverty and Economic Reforms**

Economic reforms are known to bring about fast growth in an economy but there is growing concern on their effects on poverty especially in developing countries. The popular belief is that economic reforms, at least in the transitory period adversely affect the poor. Although economists have debated the effect of economic reforms on poverty, it has been observed in developing economies that after the initial phase of reforms, alleviation of poverty has been substantially significant. Economic reforms are primarily directed to attract private investment. Major focus areas of such reforms are privatization, stabilization and deregulation. In the primary stages, these measures may seem to have a negative effect on the poverty factor. Privatization of Public Sector Units for instance may cause retrenchment. Deregulation, on the other hand may give rise to risks and uncertainties in the economy. The process of deregulation leads to state non-intervention in the informal sector. This again can have its own insecurities.

However, as economic reforms gain momentum, higher volume of investment is generated in the economy. Higher investment leads to more employment opportunities, which is a direct benefit of growth in the economy. Increase in employment leads to reduction of poverty in the economy. Moreover, economic reforms are often accompanied by special programs aimed at structural adjustments to address the poverty issue. The International Financial Institutions, specially the World Bank have played important role, in supported such programs in developing countries. Another important aspect of the poverty issue in relation to economic reforms has been the gender related issues.

Structural Adjustment Programs (SAPs) have been formulated and promoted by the World Bank and International Monetary Fund (IMF). These SAPs have been adopted by many developing countries, to overcome poverty through economic reforms. In 1990, the World Development Report published by World Bank, laid down certain important initiatives in economic reforms aimed at poverty reduction. Some of the major initiatives mentioned in this regard are:

1. Giving impetus to investment in labor intensive industries.
2. Investment in health, education and other socially important sectors.
3. Providing safety nets for the poor and unemployed.

While in the case of some Latin American and African countries such adjustment programs have not been too successful in delivering desired results, in Asian countries, especially in China and India, the results have shown significant success of the implementation of SAPs.

The World Bank estimates that even today 456 million Indians (42% of the total Indian population) live under the global poverty line of &1.25 per day (ppp). This means that a third of the global poor now reside in India. The recently released report of the World Bank 'Global Economic Prospect' for 2009 forecasts that 25% of India's population will be living in extreme poverty, on less than \$1.25 a day in 2015. However, this also represents a significant decline in poverty from 60% in 1981 to 42% in 2005. On the other hand, the Planning Commission of India uses its own criteria and has estimated that 27.5% of the population was living below the poverty line in 2004-05 down form 51.3% in 1977-78, and 36% in 1993-94. The source for this was the 61<sup>st</sup> round of the National Sample Survey (NSS) and the criterion used was monthly per capita consumption expenditure below Rs. 356.35 for rural areas and Rs.538.60 for urban areas. 75% of the poor are in rural areas, most of them are daily wagers, self-employed householders and landless laborers. The number of urban poor in India is also not small; the UNDP Report, India: the urban poverty 2009 reports that 81 million Indians subsist in urban areas on incomes that are below poverty line.

Although Indian economy has grown steadily over the last two decades, its growth has been uneven when comparing different social groups, economic groups, geographic regions, and rural and urban areas. Between 1999 and 2008, the annualized growth rates for Gujarat (8.8%), Haryana (8.7%) or Delhi (7.4%) were much higher than for Bihar (5.1%), Uttar Pradesh (4.4%) or Madhya Pradesh (3.5%). Poverty rates in rural Orissa (43%) and rural Bihar (41%) are among the world's most extreme. 80% of Indians live on less then half a dollar a day.

Many intellectuals and policy makers feel that such a dismal poverty situation in India is the direct out come of the Hindu growth rate of about 3.5% per annum between 1950's to 1980's, while the per capita income averaged at merely 1.3%. This low growth rate is attributed mainly to the control and regulations

imposed in the economy--- popularly known as the license rate. Many feel that Indian economy which had started out in the 1950's with potential for high growth rates, openness to trade and investment, promotional state, social expenditure awareness and macro stability ended up in 1980's with low growth rates, closed to trade & investment, a licensed obsessed restrictive state, inability to sustain social expenditure and macro instability and crisis. Many therefore argued that economic reforms by promoting growth will help poverty alleviation too. The apparent fall in both rural and urban poverty rates does support this claim but at the same time, critics point out that we should not jump to conclusions. Some of the visible improvements may be due to methodological changes adopted by NSSO in 1999-2000. Further, poverty in relative terms as indicated by the Ginni coefficient shows a worsening over time. And the poorest of the society have not been able to gain anything from growth and have been further marginalized. It is the middle class of India which seems to have got the maximum benefit from reforms. Moreover, the regional impact also varies across India. Hence it is relevant and useful to examine the poverty trends both at national and state level in the post reforms period to draw inferences about the impact of economic reforms on poverty.

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