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BA Economics Honours | Semester 1 | Calicut University

Development Issues in Indian Economy

Course Code: ECO1MN104 • Module 2

Module II: Poverty

Poverty is the single most urgent socio-economic challenge confronting developing economies. While traditional economics viewed poverty strictly as a deficiency of monetary income or consumption expenditure, modern developmental thought conceptualizes poverty as a multidimensional deprivation of basic capabilities, human dignity, and social agency.

Unit 5: Concepts of Poverty: Absolute, Relative, and Multidimensional

Economics distinguishes between three foundational paradigms of poverty:

- **Absolute Poverty:** A severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, and basic education. An individual is in absolute poverty if their income or consumption falls below a biologically defined minimum subsistence threshold (the **Poverty Line**), representing the cost of acquiring a basket of essential goods providing minimum nutritional calories (historically 2,400 calories per capita per day in rural India and 2,100 calories in urban areas).
- **Relative Poverty:** Defined in relation to the overall distribution of income and living standards in a given society. An individual is relatively poor if their income falls substantially below the median income of that society (e.g., earning less than 50% or 60% of national median household income). Relative poverty is fundamentally a measure of economic inequality; unlike absolute poverty, relative poverty can never be completely eradicated in a society with unequal income distribution.
- **Amartya Sen's Capability Approach:** Nobel laureate Amartya Sen revolutionized poverty analysis by defining poverty not merely as lowness of income, but as **capability deprivation**—the lack of substantive freedoms and capabilities an individual possesses to lead a life they have reason to value (such as being adequately nourished, escaping preventable morbidity, being educated, and participating in community life without shame). Income is merely an instrumental means to an end; the true end of development is expanding human capabilities.
- **Multidimensional Poverty Index (MPI):** Developed by the Oxford Poverty and Human Development Initiative (OPHI) and UNDP, the global MPI evaluates poverty across three equal dimensions comprising 10 indicators:
  - *Health:* Nutrition and child mortality.
  - *Education:* Years of schooling and school attendance.
  - *Standard of Living:* Cooking fuel, sanitation, drinking water, electricity, housing, and assets.

Unit 6: Poverty Estimation and Poverty Line Calculation in India

India possesses a rich historical tradition of official expert committees tasked with defining and measuring poverty lines:

1. **Dandekar and Rath Committee (1971):** Established the first systematic nutritional calorie benchmark, defining the poverty line as the consumption expenditure needed to secure 2,250 calories per person per day in both rural and urban areas (yielding poverty lines of ₹15 per capita per month in rural areas and ₹22.50 in urban areas at 1960–61 prices).
2. **Y.K. Alagh Task Force (1979):** Formulated separate calorie norms: **2,400 calories** per capita per day in rural areas (reflecting heavier physical agricultural labor) and **2,100 calories** in urban areas.
3. **D.T. Lakdawala Expert Group (1993):** Maintained the Alagh calorie norms, but introduced state-specific poverty lines disaggregated by state-level consumer price indices (CPI-AL for agricultural labor and CPI-IW for industrial workers) to account for interstate price divergence.

4. **Suresh Tendulkar Committee (2009):** Moved away from rigid calorie anchors, anchoring the new national poverty line to universal consumption baskets incorporating private expenditures on education, health, and transport. It adjusted rural poverty lines to match urban purchasing power parity, raising India's official rural poverty headcount ratio for 2004–05 from 28.3% to 41.8%. At 2011–12 prices, the Tendulkar poverty line was established at ₹816 per capita per month (₹27.20 per day) in rural areas and ₹1,000 per month (₹33.33 per day) in urban areas, estimating total national poverty at 21.9% (270 million persons).
5. **C. Rangarajan Committee (2014):** Proposed higher nutritional and normative non-food expenditure norms, setting poverty lines at ₹972 per capita per month (₹32.40 per day) in rural areas and ₹1,407 per month (₹46.90 per day) in urban areas. This raised estimated national poverty in 2011–12 to 29.5% (363 million persons).
6. **NITI Aayog National Multidimensional Poverty Index:** Aligned with the global MPI methodology while adding two India-specific indicators (maternal health and bank account ownership). NITI Aayog's 2023 report documented that multidimensional poverty in India plummeted from 24.85% in 2015–16 to 14.96% in 2019–21, lifting 135 million Indians out of multidimensional poverty in five years.

Unit 7: Major Poverty Alleviation Programmes in India

India’s strategy for poverty eradication combines growth-mediated poverty reduction with targeted direct safety-net interventions:

- **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA - 2005):** A legal demand-driven entitlement guaranteeing at least 100 days of wage employment per financial year to every rural household whose adult members volunteer to do unskilled manual work. MGNREGA enhances rural wage floors, builds durable water conservation assets, and provides a crucial counter-cyclical safety net during agricultural distress.
- **Pradhan Mantri Garib Kalyan Anna Yojana (PMGKAY):** World’s largest food security safety net, providing 5 kg of free foodgrains per person per month to over 800 million beneficiaries under the National Food Security Act (NFSA 2013).
- **Pradhan Mantri Awas Yojana (PMAY):** Providing financial assistance for constructing pucca houses with basic amenities for houseless rural and urban poor.
- **National Rural Livelihoods Mission (NRLM - Deendayal Antyodaya Yojana):** Promoting rural financial inclusion and self-employment through vast networks of women’s Self-Help Groups (SHGs).

Poverty Estimation Committee	Reference Year	Rural Poverty Line (Per Capita/Month)	Urban Poverty Line (Per Capita/Month)	Estimated National Poverty %
Lakdawala Committee	2004–05	₹356	₹538	27.5%
Tendulkar Committee	2011–12	₹816 (~₹27/day)	₹1,000 (~₹33/day)	21.9%
Rangarajan Committee	2011–12	₹972 (~₹32/day)	₹1,407 (~₹47/day)	29.5%
NITI Aayog National MPI	2019–21	Multidimensional (12 indicators)	Multidimensional (12 indicators)	14.96% (Multidimensional)

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Empirical Methodology, Identification Strategies, and Econometric Estimation

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Consider the structural estimation of policy impacts across decentralized economic agents. When evaluating macroeconomic interventions or microeconomic regulatory changes, parameters estimated from observational datasets must account for expectations formation and structural parameter stability in accordance with the Lucas Critique. Consequently, contemporary applied economics bridges micro-foundations with aggregate macroeconomic phenomena through dynamic stochastic general equilibrium (DSGE) modeling and micro-econometric panel estimations.

Comparative Institutional Analysis, Market Failures, and Policy Governance

Economic outcomes are fundamentally mediated by institutional architectures, legal property rights regimes, and regulatory governance. In emerging market economies such as India, market imperfections—including asymmetric information, transaction costs, infrastructural bottlenecks, and credit constraints—often necessitate nuanced policy interventions that differ substantially from textbook laissez-faire predictions.

Analytical Dimension	Orthodox / Classical Perspective	Heterodox / Institutional Framework	Empirical Policy Manifestations in India
Market Efficiency	Markets clear instantaneously; price mechanism allocates resources optimally without systemic friction.	Markets are prone to structural failures, information asymmetry, and coordination coordination failures.	Targeted regulatory oversight, public investment in infrastructure, and social safety nets.
Behavioral Motivation	Hyper-rational agents maximizing expected utility with complete cognitive computational capacity.	Bounded rationality, behavioral heuristics, loss aversion, and institutional anchoring effects.	Choice architecture, behavioral nudges (NITI Aayog initiatives), and consumer financial protection mandates.
State Intervention	State role restricted to core public goods, contract enforcement, and national defense (minimalist state).	State acts as developmental catalyst, risk-absorber of last resort, and promoter of equitable distribution.	Strategic industrial policy (PLI schemes), counter-cyclical fiscal intervention, and universal public services.
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	distribution is secondary to allocative efficiency.	historical wealth accumulation shape distribution.	human capital investments.
Technological Progress	Exogenous technological shocks arriving randomly (Solow neoclassical growth model).	Endogenous technological innovation driven by R&D, human capital, and intellectual property institutions.	National Innovation Foundation, Startup India, and public digital infrastructure (India Stack / UPI).

Comprehensive Empirical Analysis: The Kerala Model and Sub-National Development

In the context of the Indian economy and sub-national development paradigms, the Kerala Model of Development provides a seminal empirical case study illustrating the complex trade-offs between social development and economic growth. Characterized by high physical quality of life indicators—including near-universal adult literacy, high life expectancy, and low infant mortality rates comparable to advanced Western economies—achieved despite historically modest per capita state domestic product, Kerala demonstrates the transformative power of public social expenditure, agrarian land reforms, and decentralized local governance (Panchayati Raj institutions).

However, contemporary economic analysis also highlights structural challenges confronting this development paradigm: high educated unemployment, fiscal constraints stemming from escalating public debt servicing and pension obligations, and heavy reliance on external remittance inflows from migrant workers in the Persian Gulf. Sustaining this high-welfare equilibrium necessitates transitioning toward a knowledge-driven economy, incentivizing high-tech manufacturing, and mobilizing sustainable sub-national fiscal resources.

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