5. Estimation of Poverty Line - Economy

The RBI Development Research Group recently updated the Rangarajan poverty line for 20 major states using the 2022-23 Household Consumption Expenditure Survey (HCES). The findings show Odisha and Bihar made the biggest improvements in poverty reduction over the last decade.

Definition of Poverty Line

The poverty line is the minimum threshold of income or consumption expenditure required for an individual to meet basic necessities of life, such as -

1. **Food and nutrition**
2. **Clothing and shelter**
3. **Healthcare and education**

Individuals or households below this threshold are considered poor.

Purpose - It serves as a policy tool for identifying vulnerable populations, targeting welfare programs, and tracking poverty reduction over time.

Types of Poverty Lines

1. **Absolute Poverty Line -** Based on the cost of a fixed basket of essential goods and services necessary for survival. Example - India's calorie-based and consumption-based poverty lines.
2. **Relative Poverty Line -** Defines poverty in relation to average income or consumption in a society. Income considered adequate in one context may be insufficient in another. Useful for measuring inequality and social exclusion rather than survival.

Historical Evolution of Poverty Line in India

a. Alagh Committee (1979) - Defined nutritional requirements - 2,400 kcal/day for rural, 2,100 kcal/day for urban population.

b. Lakdawala Committee (1993) - Recommended updating poverty lines using Consumer Price Index for Agricultural Labourers (CPI-AL) for rural areas and CPI for Industrial Workers (CPI-IW) for urban areas.

c. Tendulkar Committee (2009) - Shifted from calorie-based poverty line to Poverty Line Basket (PLB) including food, health, education, and essential services. Recommended uniform poverty basket for rural and urban areas.

Estimates for 2011–12 -

1. Rural - ₹816/month (~₹27.2/day)
2. Urban - ₹1,000/month (~₹33.3/day)

Poverty rate - 21.9% overall (25.7% rural, 13.7% urban), roughly 26.93 crore people.

d. Rangarajan Committee (2014)

Proposed higher poverty lines -

1. Rural - ₹972/month
2. Urban - ₹1,407/month

Not officially adopted; Tendulkar Committee estimates remained the government standard.

e. NITI Aayog – Multidimensional Poverty Index (MPI) - Measures poverty beyond income across health, education, and living standards using 12 indicators. Offers a holistic assessment of deprivation at household level.

Methodology of Updating Poverty Lines

Avoiding CPI Adjustment - CPI may not reflect the actual consumption patterns of the Poverty Line Basket (PLB).

Creation of New Index - RBI researchers constructed a PLB-based price index, weighing 57% food for rural and 47% food for urban households.

Application - Inflation based on this index was used to update state-wise poverty lines from 2012, compared with household consumption data from HCES 2022–23.

Limitation - As consumption patterns evolve, the Poverty Line Basket itself needs periodic revision,

similar to CPI basket updates.

Key Findings from Updated Poverty Study

a. States with Major Poverty Decline

Odisha (Rural) - 47.8% → 8.6% (2011–12 to 2022–23)

Bihar (Urban) - 50.8% → 9.1%

b. States with Low Decline

Kerala (Rural) - 5.9 percentage points decline

Himachal Pradesh (Urban) - 6.8 percentage points decline

Already had **low poverty levels**.

c. Rural Poverty (2022–23)

Lowest - **Himachal Pradesh (0.4%)**

Highest - **Chhattisgarh (25.1%)**

d. Urban Poverty (2022–23)

Lowest - **Tamil Nadu (1.9%)**

Highest - **Chhattisgarh (13.3%)**

Indian Poverty Debates

SBI Research (2024) - Using HCES 2023–24, poverty estimated at -

1. Rural - 4.86%

2. Urban - 4.09%

3. Poverty lines - ₹1,632 (rural), ₹1,944 (urban)

IMF vs World Bank Estimates (2019) –

World Bank - 10.2% poverty

IMF - 0.8%, citing food subsidy transfers as key driver

Observation - Poverty estimates vary based on methodology, threshold selection, and inclusion of government welfare transfers.

Importance of the Poverty Line

1. **Measurement of Poverty -** Provides a quantitative benchmark to identify who is poor and the severity of deprivation.

2. **Policy Formulation and Targeting -** Helps governments design welfare schemes and target benefits such as food, healthcare, education, and housing to the most vulnerable.

3. **Evaluation of Policy Effectiveness -** Comparing poverty estimates over time allows assessment of economic reforms and social programs.

4. **Resource Allocation -** Guides government expenditure prioritization in social sectors and development programs.

5. **International Comparability** - Enables cross-country assessment using World Bank's global poverty lines ($2.15 or $3/day at PPP).

Conclusion

Poverty lines are dynamic policy instruments, not fixed thresholds. Integration with multidimensional poverty indices and alignment with Sustainable Development Goals (SDGs) ensures relevance in modern governance. Regular updates, reflecting changing consumption patterns, inflation, and social priorities, are essential to maintain accurate measurement and effective poverty alleviation strategies. Ultimately, poverty measurement supports inclusive growth, social justice, and equitable resource distribution in India.

Source - https-//indianexpress.com/article/explained/explained-economics/who-is-poor-updated-rangarajan-poverty-line-india-10278352/