



## POVERTY ALLEVIATION AND INFLATION: A PARADOX IN INDIA

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**Abstract:** Most of literature available on Inflation, argue that the major cause of inflation in India is poverty alleviation. As the poor people are being uplifted from below poverty line in last two decades, they are demanding quality food with high nutrition. Such type of demand was not there earlier. As demand for quality food including fruits and vegetables has increased suddenly, the price of such food items has also increased considering less elastic supply. Even the policy maker support this argument. To find out the precision in the above argument, the study has scrutinized different factors and concluded that it is not that poverty reduction but increased household loan indebtedness and other supply side factors, which are causing the high inflation.

**Keywords:** Poverty alleviation, Inflation, Food Price Inflation, demand pull Inflation.

### INTRODUCTION:

Poverty is a state or situation in which a person or a group of people don't have enough money or the basic things they need to live. Poverty means that a person doesn't make enough money from their job to meet their basic needs. People and families who are poor may not have a good place to live, clean water, healthy food, or medical care. Each country can use its own set of rules to figure out how many people are poor.

According to World Bank, Poverty is pronounced deprivation in well-being, and comprises many dimensions. It includes low incomes and the inability to acquire the basic goods and services necessary for survival with dignity. Poverty also encompasses low levels of health and education, poor access to clean water and sanitation, inadequate physical security, lack of voice, and insufficient capacity and opportunity to better one's life.

In India, 21.9% of the population lives below the national poverty line in 2011. In 2018, almost 8% of the world's workers and their families lived on less than US\$1.90 per person per day (international poverty line).

**Types of Poverty:** There are two main classifications of poverty:

**Absolute Poverty:** A condition where household income is below a necessary level to maintain basic living standards (food, shelter, housing). This condition makes it possible to compare between different countries and also over time. It was first introduced in 1990, the "dollar a day" poverty line measured absolute poverty by the standards of the world's poorest countries. In October 2015, the World Bank reset it to \$1.90 a day.

**Relative Poverty:** It is defined from the social perspective that is living standard compared to the economic standards of population living in surroundings. Hence it is a measure of income inequality. Usually, relative poverty is measured as the percentage of the population with income less than some fixed proportion of median income.

### Poverty Estimation in India:

The erstwhile Planning Commission was the nodal agency in India for estimation of poverty. Based on the methodology suggested by the Expert Groups/Committees set up by the Planning Commission from time to time, India has undertaken periodic assessments of the incidence of poverty since the 1960s. Now the Poverty

estimation in India is carried out by NITI Aayog's task force through the calculation of poverty line based on the data captured by the National Sample Survey Office under the Ministry of Statistics and Programme Implementation (MOSPI).

Poverty line estimation in India is based on the consumption expenditure and not on the income levels. Poverty is measured based on consumer expenditure surveys of the National Sample Survey Organization. A poor household is defined as one with an expenditure level below a specific poverty line.

The incidence of poverty is measured by the poverty ratio, which is the ratio of the number of poor to the total population expressed as a percentage. It is also known as head-count ratio.

Alagh Committee (1979) determined a poverty line based on a minimum daily requirement of 2400 and 2100 calories for an adult in Rural and Urban area respectively. Subsequently different committees; Lakdawala Committee (1993), Tendulkar Committee (2009), Rangarajan committee (2012) did the poverty estimation. As per the Rangarajan committee report (2014), the poverty line is estimated as Monthly Per Capita Expenditure of Rs. 1407 in urban areas and Rs. 972 in rural areas.

**Causes of Poverty in India:** The followings are the main cause of Poverty in India.

**Population Explosion:** India's population has steadily increased through the years. During the past 45 years, it has risen at a rate of 2.2% per year, which means, on average, about 17 million people are added to the country's population each year. This also increases the demand for consumption goods tremendously.

**Low Agricultural Productivity:** A major reason for poverty in the low productivity in the agriculture sector. The reason for low productivity is manifold. Chiefly, it is because of fragmented and subdivided land holdings, lack of capital, illiteracy about new technologies in farming, the use of traditional methods of cultivation, wastage during storage, etc.

**Inefficient Resource utilisation:** There is underemployment and disguised unemployment in the country, particularly in the farming sector. This has resulted in low agricultural output and also led to a dip in the standard of living.

**Low Rate of Economic Development:** Economic development has been low in India especially in the first 40 years of independence before the LPG reforms in 1991.

**Price Rise:** Price rise has been steady in the country and this has added to the burden the poor carry. Although a few people have benefited from this, the lower income groups have suffered because of it, and are not even able to satisfy their basic minimum wants.

**Unemployment:** Unemployment is another factor causing poverty in India. The ever-increasing population has led to a higher number of job-seekers. However, there is not enough expansion in opportunities to match this demand for jobs.

**Lack of Capital and Entrepreneurship:** The shortage of capital and entrepreneurship results in low level of investment and job creation in the economy.

**Social Factors:** Apart from economic factors, there are also social factors hindering the eradication of poverty in India. Some of the hindrances in this regard are the laws of inheritance, caste system, certain traditions, etc.

**Colonial Exploitation:** The British colonization and rule over India for about two centuries de-industrialized India by ruining its traditional handicrafts and textile industries. Colonial Policies transformed India to a mere raw-material producer for European industries.

**Climatic Factors:** Most of india's poor belong to the states of Bihar, UP, MP, Chhattisgarh, odisha, Jharkhand, etc. Natural calamities such as frequent floods, disasters, earthquake and cyclone cause heavy damage to agriculture in these states.

**INFLATION:**

Inflation is a quantitative measure of the rate at which the average price level of a basket of selected goods and services in an economy increases over some period of time. It is the rise in the general level of prices where a unit of currency effectively buys less than it did in prior periods, which can be translated as the decline of purchasing power over time. The rate at which purchasing power drops can be reflected in the average price increase of a basket of selected goods and services over some period of time. The rise in prices, which is often expressed as a percentage, means that a unit of currency effectively buys less than it did in prior periods.

Inflation can be contrasted with deflation, which occurs when prices decline and purchasing power increases (inflation rate falls below 0%). Deflation shouldn't be confused with disinflation, which is a related term referring to a slowing down in the (positive) rate of inflation.

When inflation is down, it is only the rate of increase in prices that is down. It doesn't mean that prices of commodities are coming down.

The CPI is a measure that examines the weighted average of prices of a basket of goods and services which are of primary consumer needs. They include transportation, food, and medical care. CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them based on their relative weight in the whole basket. The prices in consideration are the retail prices of each item, as available for purchase by the individual citizens. Changes in the CPI are used to assess price changes associated with the cost of living, making it one of the most frequently used statistics for identifying periods of inflation or deflation.

**Important facts about CPI in India:**

Calculated By: National Statistical Office (NSO)

Base Year: 2011-12

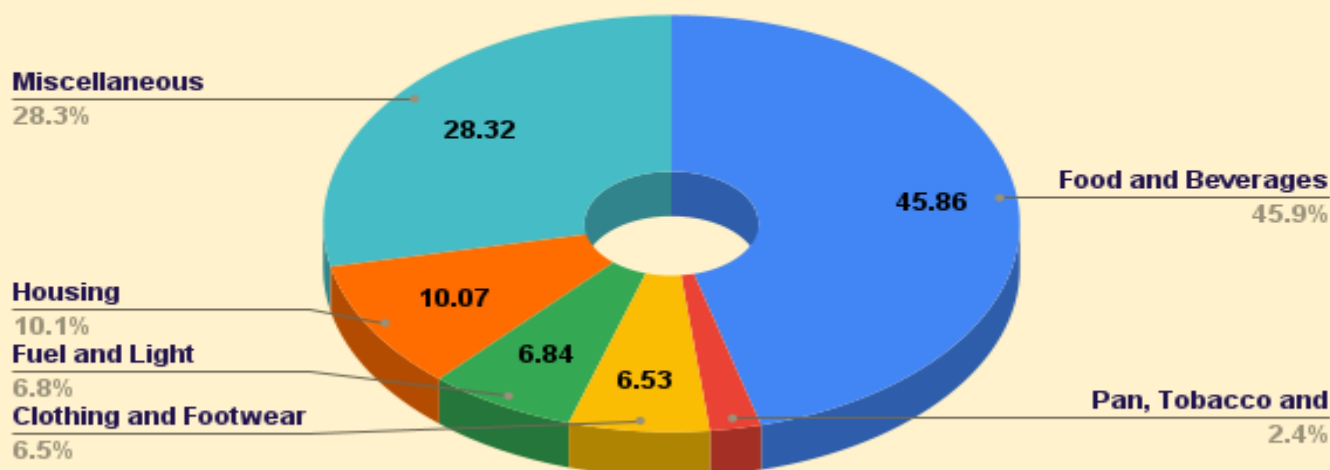
Types of CPI: 1. CPI Rural, CPI Urban, CPI Combined

No. of Items: CPI Rural-448, CPI Urban-460

Weightage:

The Items in CPI are divided into six main groups

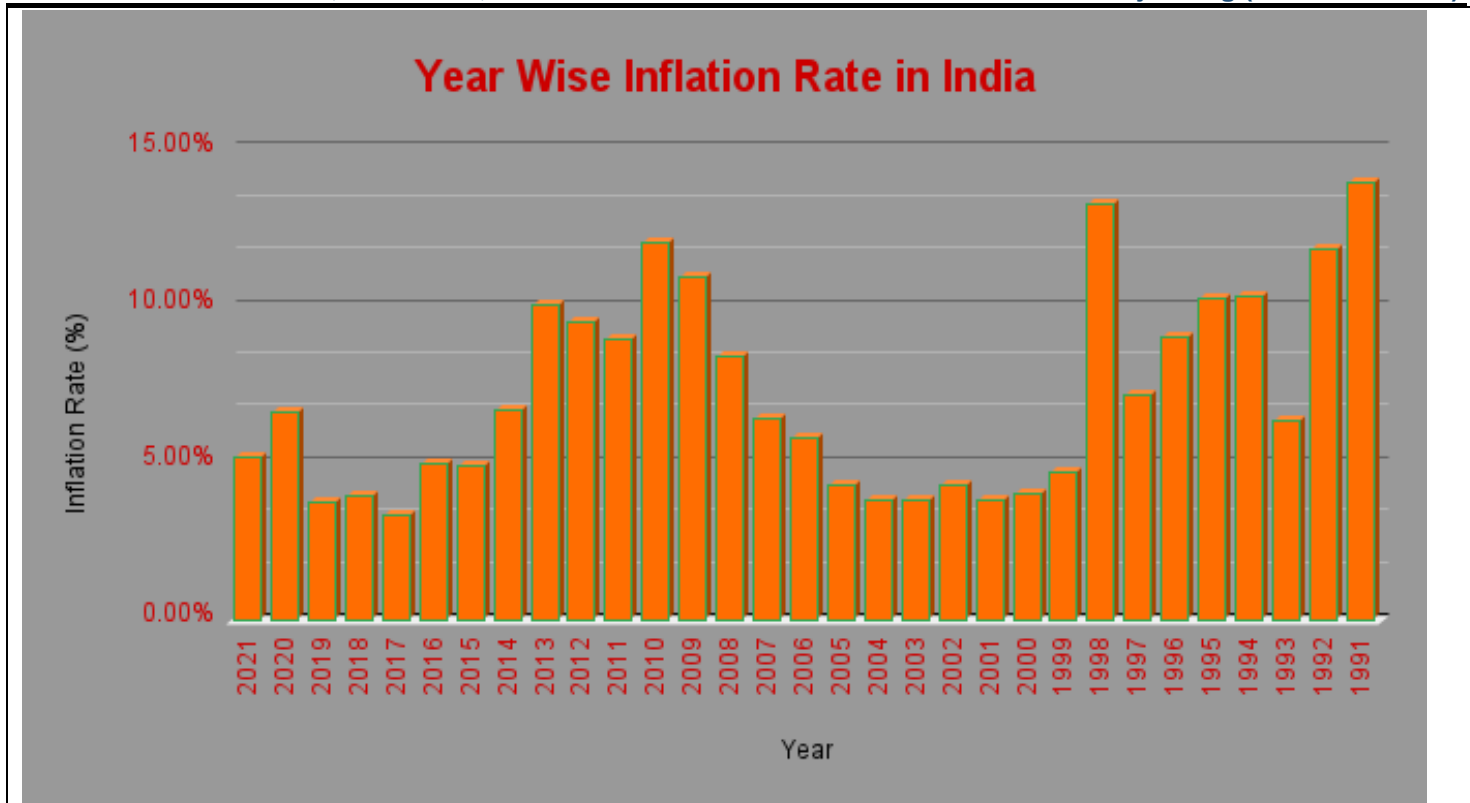
**Weightage (%) of Items in CPI**



## Annual Inflation Rate and Percentage Change in India

Year	Inflation Rate (%)	Annual Change
2021	5.13%	-1.49%
2020	6.62%	2.89%
2019	3.73%	-0.21%
2018	3.94%	0.61%
2017	3.33%	-1.62%
2016	4.95%	0.04%
2015	4.91%	-1.76%
2014	6.67%	-3.35%
2013	10.02%	0.54%
2012	9.48%	0.57%
2011	8.91%	-3.08%
2010	11.99%	1.11%
2009	10.88%	2.53%
2008	8.35%	1.98%
2007	6.37%	0.58%
2006	5.80%	1.55%
2005	4.25%	0.48%
2004	3.77%	-0.04%
2003	3.81%	-0.49%
2002	4.30%	0.52%
2001	3.78%	-0.23%
2000	4.01%	-0.66%
1999	4.67%	-8.56%
1998	13.23%	6.07%
1997	7.16%	-1.81%
1996	8.98%	-1.25%
1995	10.22%	-0.02%
1994	10.25%	3.92%
1993	6.33%	-5.46%
1992	11.79%	-2.08%
1991	13.87%	4.90%

Source: Moneycontrol.com



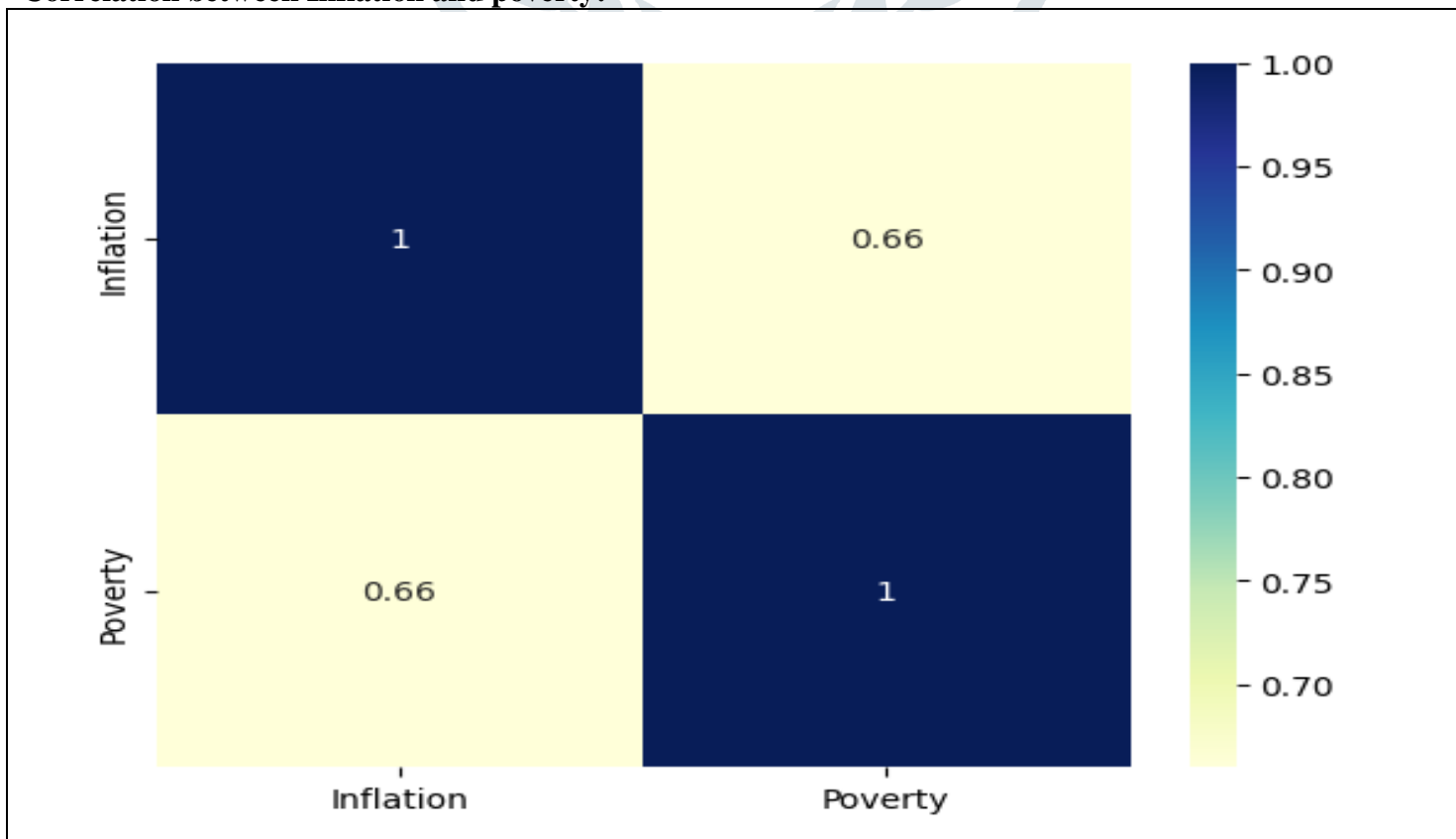
Source: Moneycontrol.com

**PARADOX: INFLATION IS INCREASING DUE TO REDUCTION IN POVERTY**

Most of literature available on Inflation, argue that the major cause of inflation in India is poverty alleviation. As the poor people are being uplifted from below poverty line in last two decades, they are demanding quality food with high nutrition. Such type of demand was not there earlier. As demand for quality food including fruits and vegetables has increased suddenly, the price of such food items has increased due to less elastic supply. Even the policy maker support this argument.

To find out the precision in the above argument, the study has scrutinized the following factors:

**Correlation between Inflation and poverty:**

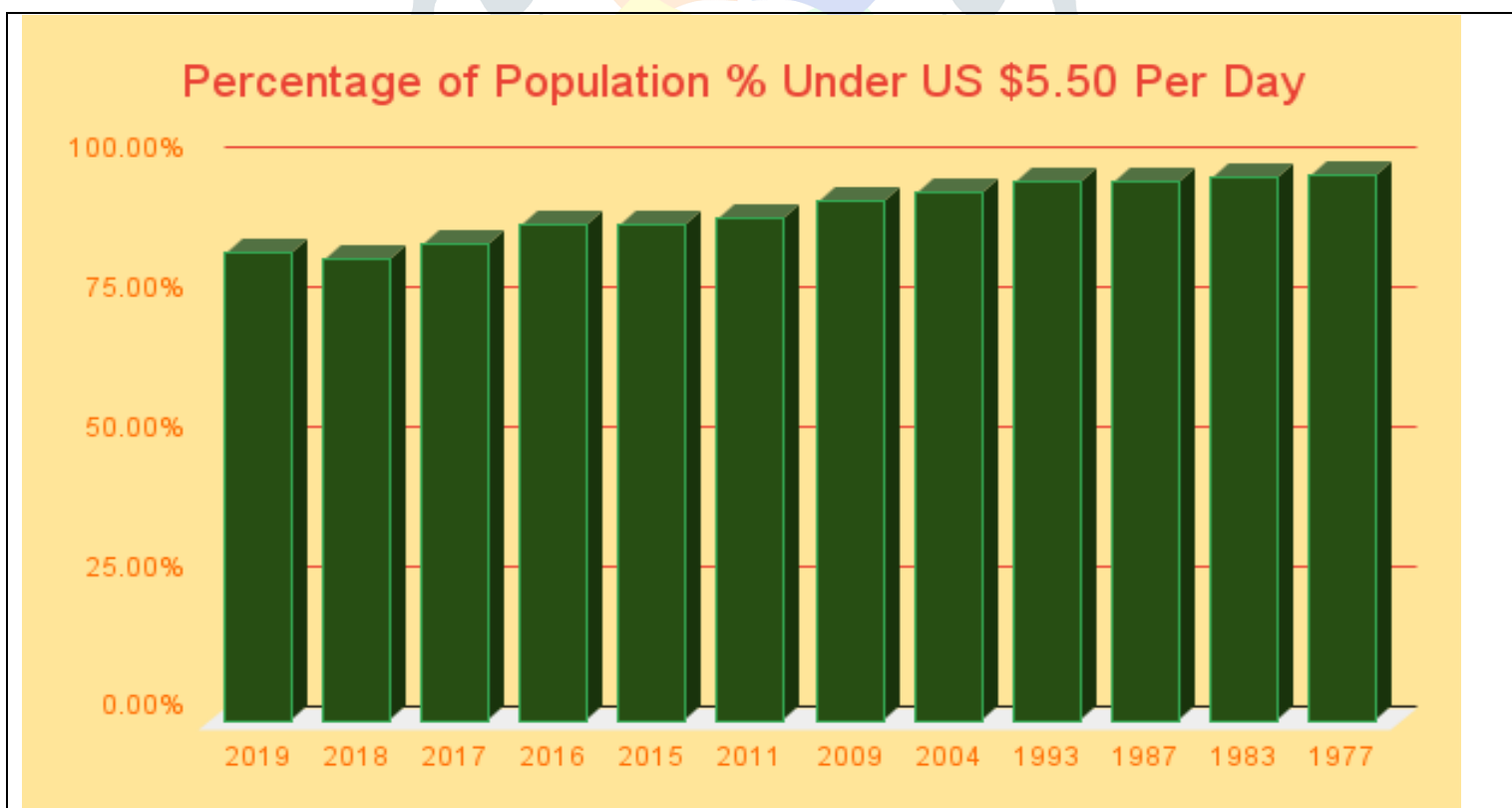


The above data revealed that there is a positive 0.66 correlation between poverty and inflation. It means when the inflation is increasing the poverty is also increasing. It is not that when poverty level is reducing, inflation is increasing. Both the factors are having the positive correlation.

As per the report of moneycontrol.com more than 80% of Indian population is having less income than US \$5.50 Per Day. This shows that despite of poverty alleviation, the majority of Indian Population is far behind the world average. Hence despite of the facts that significant population of India have moved out of poverty bracket the majority of the same are not able to access the above average food basket. Hence the arguments that poverty alleviation is the reason of higher inflation cannot be justified.

Year	% Under US \$5.50 Per Day	Change
2019	83.80%	1.20%
2018	82.60%	-2.70%
2017	85.30%	-3.40%
2016	88.70%	-0.20%
2015	88.90%	-1.00%
2011	89.90%	-3.00%
2009	92.90%	-1.50%
2004	94.40%	-2.20%
1993	96.60%	0.00%
1987	96.60%	-0.70%
1983	97.30%	-0.40%
1977	97.70%	-0.40%

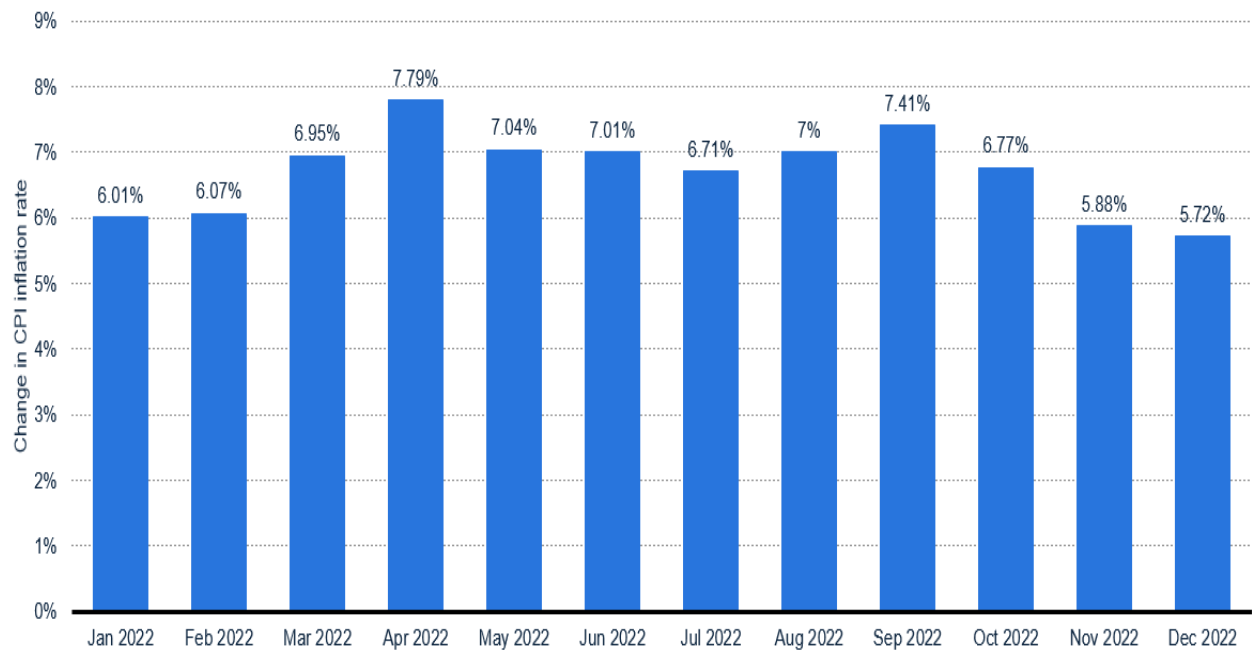
Source: Moneycontrol.com



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## Consumer price inflation rate across India during 2022

Monthly CPI inflation rate in India 2022

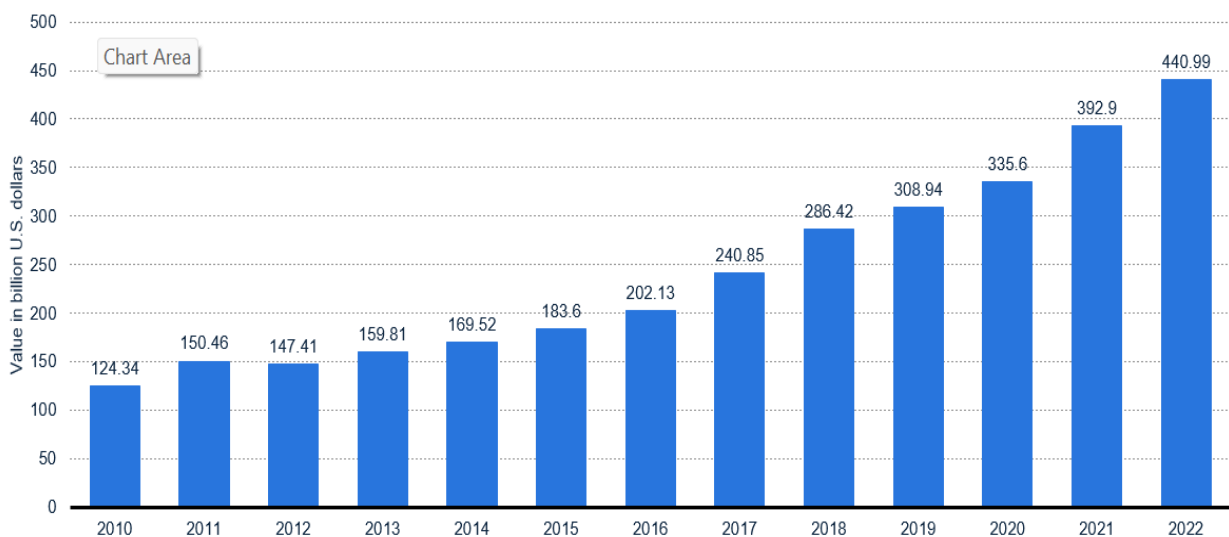


Source: Statista 2023

The above data shows that consumer price Inflation during entire year of 2022 was above the tolerable bracket of RBI i.e. 6%.

## Value of household debt across India from 2010 to 2022 (in billion U.S. dollars)

Household debt value across India 2010-2022



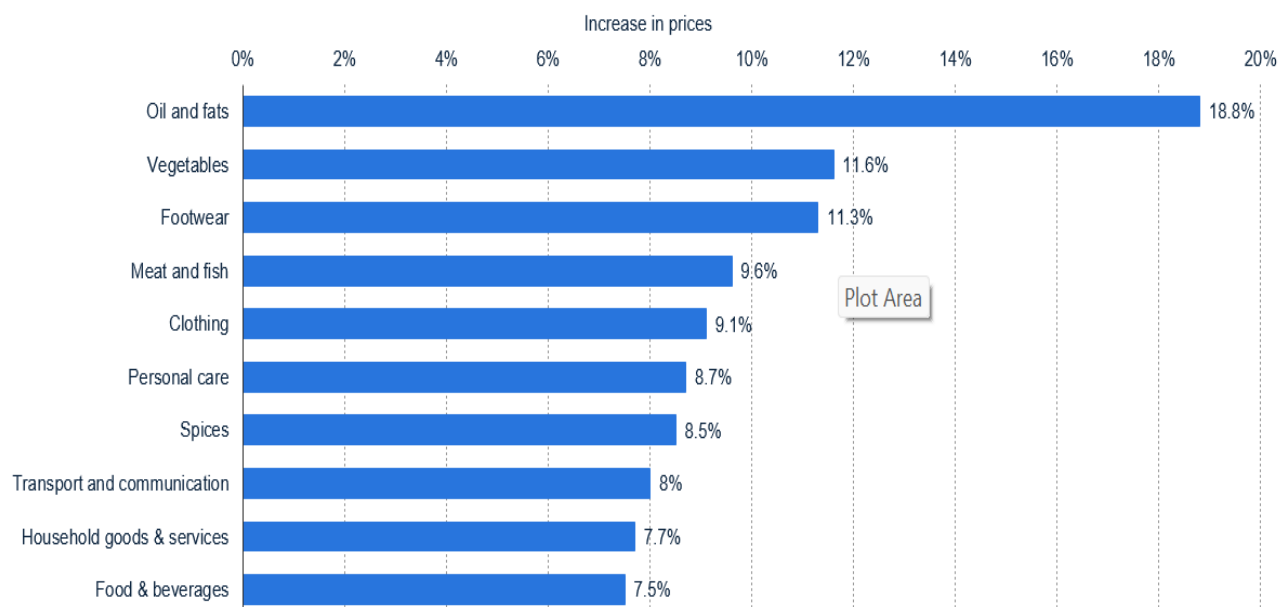
Source: Statista 2023

The above data shows that house hold debts across India is increasing year by year. These household debts are mostly in the form of non-productive credit and creating extra demand in the market. India is moving towards the credit based economy in contrast with historically being the saving based economy.

## Price increase of items in India in the financial year 2022

## Price increase of items in India in the financial year 2022, by type

Items leading to inflation in India FY 2022, by type



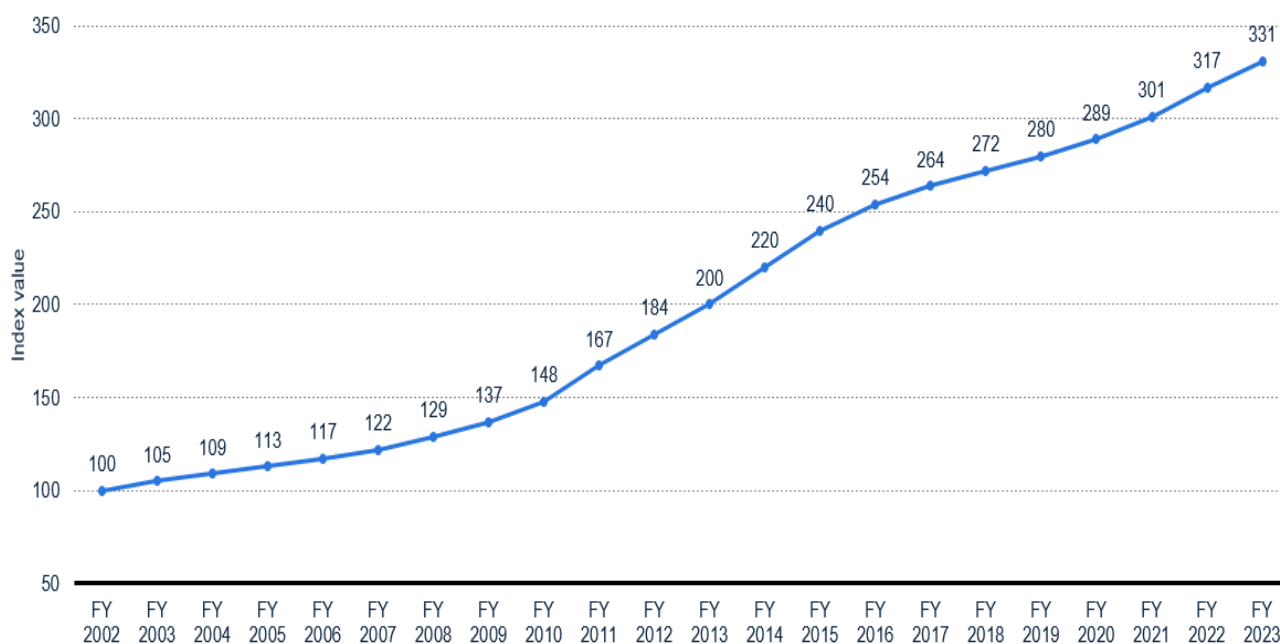
Source: Statista 2023

The above chart shows the average price increase of different items in financial year 2021-2022 in India. It evidently shows that the price of oil and fats has increased by 18%. Vegetables prices have increased by 11.60%. Price of commodities classified under food and beverages category, which has the highest weightage of 45.86% have also increased only by 7.50%. The food price inflation is mostly caused by supply chain bottlenecks and is seasonal in nature. This is the reason the same is not being considered in core inflation. The above data is evidently sufficient to prove that poverty alleviation is not the cause of the inflation as the rate of inflation in segments other than food is high.

## Cost Inflation Index of India

## Cost inflation index in India from financial years 2002 to 2023

Cost inflation index in India FY 2002-2023

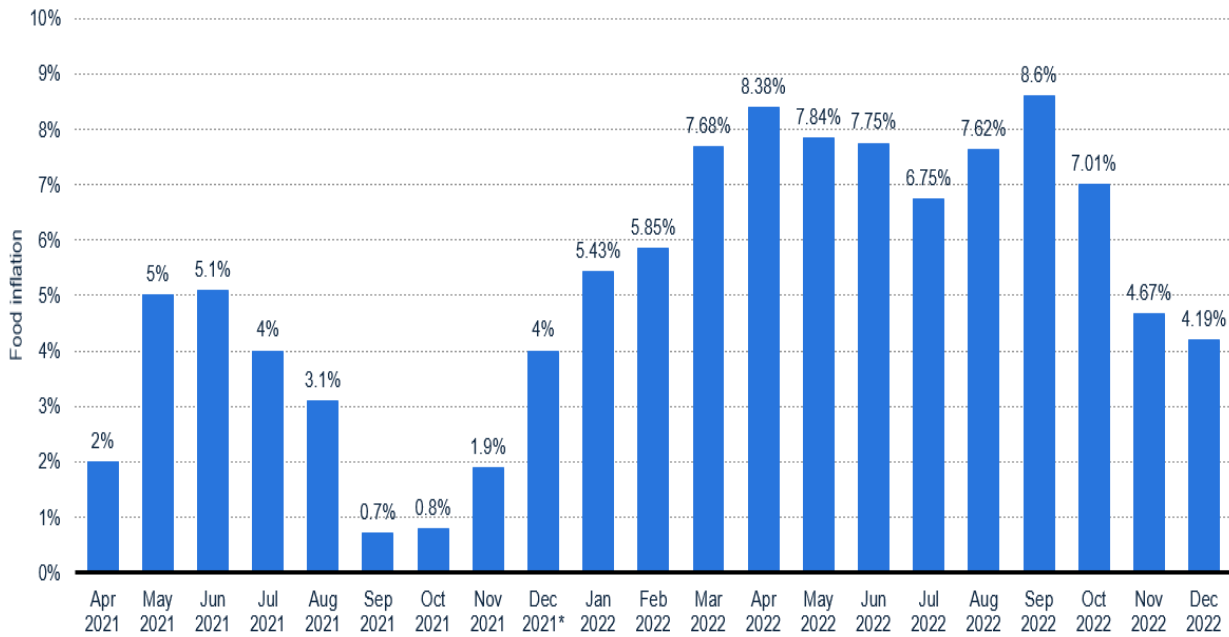


Source: Statista 2023

The above data shows that cost inflation index of India is continuously increasing. This shows that the cost push Inflation in India is increasing day by day and it is not the demand pull Inflation. Hence the additional demand created due to poverty alleviation is not the actual reason of Inflation.

## Food inflation rate in India from January to December 2022

Food inflation rate per month India 2022

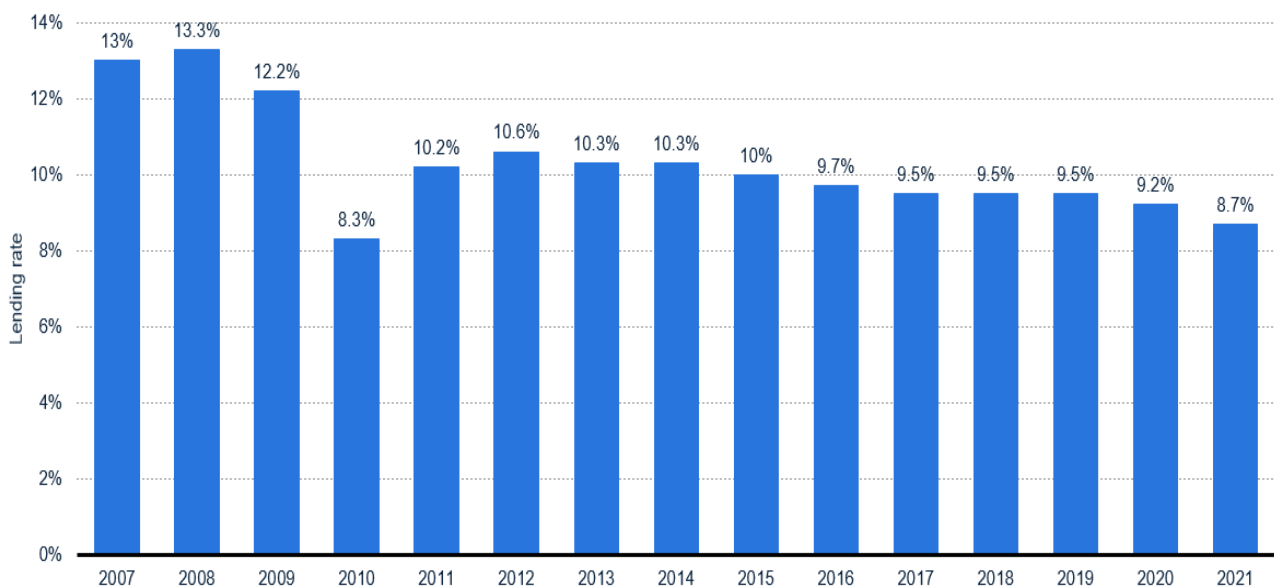


Source: Statista 2023

The above data shows that food inflation in India is very much fluctuating within a year due to seasonal impact on food prices. The poverty alleviation is not the reason of high food or total inflation.

## Lending interest rates in India from the year 2007 to 2021

Lending interest rates in India 2007-2021



Source: Statista 2023

Lending interest rates in India has come down in recent past. This phenomenon has invoked the common Indian households to move from saver to credit consumer. The flood in credit growth has created extra demand in economy and this extra demand has increase the inflation. So the blame on poverty alleviation seems to be baseless.

## CONCLUSION AND POLICY SUGGESTIONS:

The above empirical and inferential study found that it is not that poverty alleviation which is causing the inflation. Several structural and bottlenecking causes are responsible for increased rate of inflation in India.

The average household loan indebtedness of Indian is increasing year on year basis. This loan is creating extra liquidity and extra demand in the country and also pushing several households below poverty line. The central Bank in past has reduced the interest rate which invoked the households to take maximum consumption loan. India is moving from saver country to credit consumer. Now the central bank has realized the issue and increased the Repo Rate.

Right now, the RBI seems to be concentrating only on the Demand end of inflation, as a result the entire perspective of supply is completely ignored. Inflation may also be curtailed if the supply is strengthened to meet the demands of the people. With the increase in supply, prices would inevitably come down and thus inflation may be controlled.

For the purpose of strengthening agricultural growth, development of infrastructure and all other avenues RBI may lay down regulations to direct money either directly or indirectly with special importance to these sectors. Government should reduce transfer benefits in the form of higher MGNREGA wages, financial support in the form of PM-KISAN etc. and must increase the expenditure on infrastructure projects and production activities to reduce the bottlenecking in supply and reduce the unwanted liquidity from the market.

Inflation can be contained only if supply-side and demand issues are effectively addressed, apart from initiating appropriate fiscal and monetary measures. Monetary policy alone cannot control the structural inflation. Fiscal and administrative policy of the government has to complement it.

### Reference

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