

Research Article

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## The Challenges of Poverty-An Empirical Study

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Complacence,  
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#### Abstract

India's growth performance over the last couple of decades or so has been a subject of a great deal of scholarly enquiry, as well as a cause for celebration. A measured optimism, in this regard, would be understandable-but a spillover into unbridled euphoria would not. The case against complacence resides in the large magnitudes of both poverty and inequality which with growth.

### Introduction

The ultimate test of our policies has to be in terms of their success in restriction poverty. Regrettably, on poverty India has some distance to go. The recent expert group report (also known as the Tendulkar report), commissioned by the planning commission, estimates India's combined poverty to be 37.2 per cent. That is, a little over 37 per cent of our population live below the poverty line, and, in particular, 41.8 per cent of the rural population and 25.7 per of the urban population is poor. It is, however, worth illustrative that the higher poverty estimate that Tendulkar report, compared to existing estimates of the planning commission based on NSS date, do not reflect an

increase in poverty, but merely a changed definition of what constitution poverty.

### Budgetary allocation and subsidies

Over the last five years the government has undertaken a large increase in budgetary allocations for anti- poverty programs. In fact, one of the features of India's stimulus package that distinguish it from stimulus packages in many other nation is that the injection of demand has taken the form, largely, of enhancing the buying power of the poor and permitting social service. The share of central

Government expenditure on social service, together with rural development, in total expenditure, plan and non-plan, was 10.46 per cent in 2003-04 and rose to 19.46 percent in 2009-10

There are also numerous product-based subsidies, such as the once given to nourishment production and use, basic food grains, diesel and kerosene, which have been accumulated over the years with the ostensible purpose of helping the weaker section of the population, be they merely consumers or farmers trying to eke out a living from their little land. The impact of these subsidies, using the yardstick of poverty mitigation, is, however, questionable.

The main challenge is to direct the money already allocated to help eliminate poverty. The inability to do so has more to do with ideas than vested interests. Some propositions are obvious as soon as one gives them some thought; but not obvious when one gives them a lot of thought. These are the ones prone to policy mistakes. And once a policy is put into effect and kept in place for a while, vested interests gather in its favor and those interests resist change. But beyond that it is a question of potential beneficiary of where we can go and demonstrating to the larger public that it is a potential recipient of the proposed change. Fortunately such a road map is feasible. There are systems of delivery of subsidies to the poor that can be vastly more effective, entail extensive savings and involve no extra organizational cost. In discussing these, it is useful to keep a few principles in mind. For goods that are important for the poor, it is only correct that the state should intervene to cushion the poor. The standard way to do this is by using some kind of a subsidy.

However, a common mistake is to suppose that a subsidy scheme has to be coupled with price control. This is typically a slippery slope. In a large and composite economy, it is difficult for the state to gauge what the right price of a price of a good is. Moreover, once the Government becomes involved in setting the price of a commodity, these become a matter of politics and lobbying, which cumulatively adds to the distortion. Hence prices are best left to the market. If we want to ensure that poor consumers are not uncovered to the vagaries of the market, the best way to intervene is to help the poor directly instead of trying to control price, which almost perpetually does more harm than good in the long run, and often even not so long a run. On agriculture sector policy and price control there is need to go way India did with

industry in 1991. Keeping this in mind, it is promising to outline systems of supporting the poor which are more efficient and better targeted than the present ones.

## Public distribution system

Through a vast network of public distribution system (PDS) outlets across the nation, we try to deliver some minimal supplies of heavily subsidized grain to our below poverty line (BPL) households and also some to our above poverty line (APL) households. The PDS stores are first given this subsidized grain and then instructed to deliver it at below market price to these specified households. It is believed many of these storekeepers (i) sell off this subsidized grain on the open market, and (ii) then adulterate the outstanding grain and sell the thinned product to the BPL and APL households, who have no choice in the matter. We may criticize about the dishonesty of PDS storekeepers and all those entrusted with delivering the subsidies. It is indeed true that personal integrity, honesty and trustworthiness in the citizenry are vital ingredients for a nation's economic progress—there is enough cross country evidence of this. But when crafting policy, there is need to be realistic about the system within which we work. To assume that all those entrusted with task of administering the program will do so flawlessly and then to blame them when the system fails is not the mark of a good policy strategic. For effective policy, what is needed is to take people to be the way they are and then craft incentive-compatible intervention.

## Alternative system of public distribution

This paragraph outlines an altered system that, once in place, will be no more costly to run than the existing one and is likely to be much more effective. The plan suggested here is not novel and has been suggested on occasion by Indian policymakers and even in budget documents. However, it has never been fully spelled out. The two planks of this system are (i) the subsidy should be handed over openly to the households, instead of giving it to the PDS salesperson in the handed over directly to the households, instead of giving it to the PDS store-keeper in the form of low-cost grain and then have him deliver it to the needy households and (ii) the household should be given the liberty to choose which store it buys the food from. Suppose the BPL household gets a net subsidy of Rs x, which can be used at PDS store in lieu of wheat, it should be given coupons worth Rs x, which can be used

at PDS store in lieu of wheat, it should be given coupons worth Rs x, which can be used at PDS store in lieu of money when buying wheat. Under this new system no grain will be given at a subsidized rate to the PDS store and they will be free to charge the market charge when selling grain irrespective of who the customer is. The only change is that the PDS store are now permitted to accept these coupons which they can then take to the local bank and change to capital, and the banks, in turn, can go to the government and have them altered to money. Further, households that get these coupons should be permitted to go any PDS store of their choice.

Such a system will be more impervious to bribery. Since the store proprietor will get the same price for grain from all buyers, poor and rich, he will have no incentive, to turn the poor buyers away, as happens currently, and cater to those buying at market price. (if it is felt that changing coupons to money is a bother, we can have a condition for paying store owners an extra 2 per cent when they change coupons to money.) Second, since BPL buyers can go to any store with their coupons, they will be able to boycott stores that try to sell them poor grain or mix gravel with the grain.

### Unique Identification (UID) System

For the full success of this “coupons system” what is an efficient method of identification the poor. This is where the unique identification (UID) system, an enterprise already launched by the present government, under the unique identification authority of India (UIDAI) comes into play. Since the UID system will come into effect in 2012 and the roster of individuals registered in it will gradually move towards completion, it is potential to plan on a switch to a coupons system by 2012 and also let it achieve full maturity as the UID registration moves to completion. Since the unique classification will not, in itself, have information on people’s poverty status, these kinds of tailoring of information will need to be added on the UID system. Further, since households do move in and of BPL status there has to be provision for updating on information.

However, it is not needed to wait for the entire UID system to be in place to begin the switch to the coupons system. This is because even our current method of ration relies on ration shops having with them lists of BPL regulars whom they are meant to serve. So some identification of BPL citizens is

already presented and this can be used to hand over coupons to these persons. In the final measure, to keep the scheme lean and simple and also to maximize choice, we should not give individuals take apart coupons for rice and wheat but a certain value of coupons that can be used to buy rice or wheat-the break-up between the two will be each individual’s decision, depending on her preference.

### Challenges

This new coupons system has one risk that one must be organized for in the event of a national food shortage, since the BPL individuals will have coupons to help them out of the problem, for non-BPL individuals the scarcity will be more acute. The state will in such situation have to import or use whatever other means accessible to release food grains on the market to balance the amount taken away by the recipients of coupons. This is not a serious crisis of the coupons system because, at one level, the current system encounters the same crisis. Since the BPL customers are somewhat shielded through food ration, during shortages the crisis gets more acute for non-BPL consumers. Under the current system the corrective assess of food release takes place automatically, since the BPL population receives not coupons but actual grain. Hence, even while the present system for targeting subsidies is being reformed, there is need to continue with the strategy of asset buffer stocks of essential food grains and releasing them in of scarcity

### Winners Versus Losers

- The winner is always part of the response; The loser is always part of the problem.
- The winner always has a program; Loser always has an excuse.
- The winner says, “it may be difficult but it is possible”; The loser says, it may be possible but it is too difficult”.
- When a winner makes a mistakes, he says, “it wasn’t my fault”.
- A winner makes commitments; A loser makes promises

- Winners have dreams;  
Trashes have schemes
- Winners say, "I must do something";  
Losers say, "something must be done."

## Conclusion

- Individuals do not essentially need the entire range of thrive; in fact, various combinations of assets across domain reflect equally position adolescent growth.
- Having more assets is better than having few. Although strong assets in one grouping can offset weak assets in another grouping, life is easier to deal with if one has assets in all four domains.
- Continued exposure to positive experiences, settings, and people, as well as abundant opportunities to increase and refine life skill, supports young people in the acquisition and increase of these assets.

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