Pandemic, Poverty and Inequality: Evidence from India

Centre for Social and Economic Progress (CSEP)
CSEP Research Foundation

6, Dr Jose P Rizal Marg, Chanakyapuri, New Delhi 110021, India

Ph: 011 2415 7600

Speaker(s)

Surjit S. Bhalla
Executive Director for India, Sri Lanka, Bangladesh and Bhutan at the IMF

Karan Bhasin
Presently pursuing a PhD in Econometrics & Quantitative Economics at the State University of New York at Albany

Arvind Virmani
Chairman of the Foundation for Economic Growth and Welfare (EGROW) and President of the Forum For Strategic Initiatives (FSI, Delhi)

Santosh Mehrotra
Visiting Professor at the Centre for Development, Bath University, UK

Pronab Sen
Country Director, International Growth Centre's India Programme, and is Editor, Indian Journal of National Income & Wealth

Moderator(s)

Rakesh Mohan
President & Distinguished Fellow

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Rakesh Mohan:

This is CSEP's 19th flagship seminar. The title of course is Pandemic, Poverty and Inequality – evidence from India. Let me give a brief introduction to the subject. As it happens estimation of poverty has been among the most striving industries among the empirical economists in India and abroad for a long period of time. I did a little bit of research and what I found is that probably the industry first started with the printing of Dadabhai Naoroji's book in 1901 called 'Poverty and un-British rule in India' in 1901. So that is more than a century ago. There were number of official studies also in the pre independence India. The planning commission appointed its first expert group on poverty in 1962. The main breakthrough however in some sense the key article or book came out in 1971, that is by V M Dandekar and Nilkanth Rath in 1971 'called Poverty in India' and they essentially set the basis for estimating poverty based on consumer expenditure. And the consumer expenditure line for poverty was based on expenditure that would provide 2250 calories both for urban and rural areas. That is the 1971 line that they set up. And they were the first to use the national sample survey and consumer's expenditure survey to estimate poverty. I won't go any further than that in terms of everything that has happened. Because I think that is there in the paper to a great extent. Many committees have of course followed since both official and some non-official as well. But the essential basis has generally remained the same though of course with many different refinements. The key problem both in terms of the refinements have been to do with some conceptual issues, recall basis of people who are surveyed but all kinds of different issues have come up over this long period of time. 50 years now. The key problem today in a sense is that the last NSS consumer expenditure survey that has been made public was 2011-12. That is 10 years ago. There was another one in 2017-18 which is found to be problematical in different ways and not released. So the poverty estimation industry has in some sense died down because there has been no data available to estimate distribution of consumer expenditure since 2011-12. I myself had flirted a little bit with these calculations. But mostly done in Columbia actually in the late 1970s but using similar concepts. Also done another paper in 1997 or 1998 or so for NCAR using NCAR survey. And that also had then found in 1978 a large difference between consumer expenditure as estimated gross by the NSS and the National accounts consumer expenditure estimates. At that time of course NCAR used to do the market information survey of households and which we found to be slightly better. However that issue has remained live for a long period of time. Now Surjit Bhalla, Arvind Virmani and Karan Bhasin have used new techniques to estimate extreme poverty in the absence of a survey. There is of course another paper that has also come out almost simultaneously from the World Bank using CMIE household survey data in recent times. That apparently is being presented by the centre for policy research tomorrow. I think Pronab is also discussant there. So now remains for me to thank all my panellists Surjit Bhalla, Arvind Virmani, Karan Bhasin for doing all the hard work and doing the paper. And of course to Pronab Sen and Santosh Mehrotra for agreeing to give their scholarly comments. The order will be first I will ask Surjit to make a presentation not more than 20 minutes. Then Pronab Sen and Santosh Mehrotra about 15 minutes set for their comments. And then Arvind Virmani 10 minutes or so for his response or whatever he would like to say on the paper. The response or addition towards what Surjit says. That is obviously up to him. That would still be hopefully leave time around 25 minutes or so for discussion. What I am going to do is to introduce the panellists as I ask them to speak. Otherwise it will take too long to introduce all of them. So Surjit Bhalla is currently an executive director for India, Sri Lanka, Bangladesh and Bhutan at the IMF. So in fact three of us here… Arvind was first executive director, then I followed him and Surjit has followed I guess once removed from me. Another commonality between Bhalla and Arvind and myself is we are all lapsed engineers. The only real two economists in this session are Pronab Sen and Santosh Mehrotra. All their training was in economics. I guess that will show in the session. So Surjit as I said is executive director for India, Sri Lanka, Bhutan and Bangladesh at present. He was also founder chairman of Oxford's research and investments in 1997 to 2016. Maybe most of his life he has been an independent economist. He has now lost his independence since he now works for the governments of India, Bangladesh, Bhutan and Sri Lanka. So he is no longer independent economist but for almost all his life he stoutly defended himself as an independent economist. But no more. He has worked in the past in Rand Corporation, Brookings institution and in the research and treasury department of World Bank. And being concerned with poverty has been consultant to Robert Pincus, Deutsche Bank and Goldman Sachs. He holds a PhD in economics from Princeton University, and a Master's in Public administration from Public and international affairs from Woodrow Wilson school at Princeton. And a Bachelor's degree from Purdue university. I am not reading out his whole CV because that is of course available to all of you in the announcement of this webinar. Surjit all yours and I presume you know how to share your presentation.

Surjit Bhalla:

Thank you Rakesh. Welcome to all. I haven't seen Pronab in a long time. I see that he has a full functioning beard. Unlike the kind I used to have. **Slide 1** - Before I start this first slide, let me start with first the disclaimer. This is quite important. The views expressed are those of the presenters and should not be ascribed to the IMF, its executive board or any other institution with which the presenter or his co-authors are affiliated. Let's move to the next slide. **Slide 2** – Now poverty calculations have several forks in the road. And several choices that I have to involve. I will do a brief review of it. In the 1950s that is when we started actually, India started the measurement of poverty through NSSO Surveys. In the 1950s all items of consumption including salt was done on a 30 day recall basis. That is called the uniform recall period. In 1983 reflecting just general progress and development 365 day recall was introduced for durables. And in 93-94 the MRP was the mixed recall period which is the 30 and 365 day was complete and five major classes of consumption were then introduced on a 365 day basis on a full-fledged basis. In 1999-2000 perishables, fruits and vegetables were used for on a seven day recall basis. And this is the method called the MMRP or modified mixed recall period. **Slide 3** - The basic emphasis in here is on that the recall period matters. The uniform recall period, the URP, the traditional one the 70 year old recall period leads to the lowest estimate of average consumption. And it is about 3% less than the MRP and about 10% less average per capita consumption than the MMRP. It also leads to the highest estimate of inequality and the MMRP leads to lowest estimate of inequality. The uniform recall period leads to the highest estimate of poverty. Remember these are all surveys done at the same time. And so therefore this is quite revealing that this has happened and that this happens. But that is the nature of the recall period. The uniform recall period leads to the highest estimate of poverty our main concern in this presentation. And the MMRP leads to the lowest estimate of inequality. Just to give you some numbers the 30-365 day recall period measurement techniques leads to about 2 to 4% points less poverty in the same year in the same survey than just the 30 day recall and the 7-30-365 day, the modified mixed recall period leads to a 9 to 13% points less poverty than 30 day recall. The World Bank as it happens the referee of global poverty still uses the 30 day recall period in its official pov-cal publications. Who does so is a question all academics and policy research people should attempt to answer given this anomaly. **Slide 4** – Now the Tendulkar committee and the national statistical commission, Pronab and I shared that in the mid 2006 to 2009, advocated the use of the mixed recall period for India poverty estimates, starting in 2009-10. So Tendulkar committee had already moved away from the uniform recall period in 2009-10. The NSSO surveys now exclusively are based on the 7-30-365 day method. And the World Bank signalled this change in 2018. Let me read you the quote. This means that the global poverty count produced by the World Bank will soon no longer be based on the uniform reference period for India and switch to the MMRP will occur. And as we point out in this paper that decision or that conclusion by the World Bank is still to be followed by the World Bank. **Slide 5** – Now we come to what we call the ill-famed 2017 household consumption survey. As we all know the survey results from the survey were released or leaked rather in a series of articles in the Business Standard following which Subramanyam in two academic or quasi academic articles provides very useful information about the distribution and decile means of the leaked survey. Never published, nobody has seen it. But obviously people have seen it and he produced it and it shows for the first time in Indian history that there was a decline in average real rural consumption of 8.8%. Urban consumption increased by 2% basically flat. Inequality though declined from… I will give you those estimates there. After initial acceptance by some scholars, received wisdom now is that the 2017-18 survey was of extremely bad quality. So much so that in terms of the received wisdom is that several World Bank articles and now other NSSO data and use of non NSSO data, survey data confirms that 2017-18 survey was indeed of bad quality. Why that was so? We are still awaiting. Perhaps Pronab can allude to that. The statistical commission was supposed to come out with a review of it. We don't have it as yet. But we don't know when we will get it. But I think the scholars and researchers and policy makers have moved on that this was of bad quality I would say of unbelievable bad quality. But that is not the subject matter of this paper. **Slide 6** – Now as Rakesh mentioned there is the question of as Lenin said, - what is to be done given that we do not have a consumption survey? First and this is to address some of the comments on our paper that there is no non-advanced economy that has an annual household survey. So in other words the absence of data, household survey data is nothing new. The average gap in India between data and average gap around the world also is 3 to 4 years between surveys. In India it is about 4 ½ to 5 average. So therefore researchers and World Bank official estimates of Pov-Cal are well versed in the estimation of poverty without the household survey. So this notion that you need a household survey in order to come up with an estimate is quite erroneous. So what is the method that people do? Well, the recommended method, the practiced method done by every researcher I know is take the distribution from the last survey that was conducted of good quality obviously. Then you extrapolate the mean. So notice, you need two items for a survey for estimation of poverty. You need nominal consumption expenditures and you need the distribution. You take the distribution from the last survey and now you estimate what the mean average consumption is. And how do you get the mean average consumption in a year without the survey? You take either the personal expenditures, consumption growth from the national accounts and you then graft it on to the distribution. Now, this is on nominal growth and India has had detailed data on PFCE growth since 1950-51. So we have those estimates. For prices you separate state level rural and urban prices. Remember you are only getting the nominal GDP growth for nominal consumption growth and you need obviously how prices have behaved in order to get real consumption and real poverty. This is what we do and we also incorporate things which I will mention later. The food subsidies and we come up with a consistent set of estimates from 2004-05 to 2020-21. **Slide 7** – Now, there are some misconceptions floating around that – oh, we cannot use the GDP data in India because there are questions about it and certainly some scholars have raised questions about the authenticity etc. of the GDP data. So as Amartya Sen would say we are always arguing and this is one item of argument is whether the GDP data in India is reliable or accurate or not. Now remember India has always used the method. First what we do as I said we use the nominal consumption expenditures, nominal and not real and we don't know… none of us myself or my co-authors or anybody else knows of any documentation, any publication of a questioning the nominal GDP series. Which indeed was revised lower in 2011-12. So we use nominal series. So the arguments about deflators etc. do not apply to our exercise. Second is that we don't even use a deflator, we use correctly and what is advocated by all, the CPI separately for rural and urban and separately for each state. One item that is worth knowing is that of one question of one statement. It is that India always used prior to World Bank intervention and recommendation the distribution from household surveys and means from national accounts which is exactly what we are doing. And so much so that Angus Deaton, Nobel Laureate, a lot of his work has been in poverty and income distribution stated this in 2001. "Indeed, this is how the official poverty count used to be done in India and no very convincing reason was ever given for the change following the recommendations in the government of India". Perhaps some of the government officials that are on this program or on this webinar can point out why this happened. But that is just a factual point that I wanted to bring up. **Slide 8** - What we do is assume… remember we are taking growth, so the level effect that Rakesh talked about that the surveys count less of the actual consumption than the national accounts, that does not apply here at all. What we do though is use the growth from the national accounts in personal consumption expenditures. Is this a reasonable assumption? Well it is if you take what the World Bank recommends for every country. Remember I said earlier that no country has a survey every year and therefore this method has to be applied. What is curious is that India is the only country where a pass-through of less than one is applied. And this occurs in the latest document which we have cited. For India the World Bank… so no other country is a pass-through whether it is for China, whether it is for Peru or whether it is for Brazil or whether it is for Sri Lanka or whether it is for Pakistan or whether it is for Bangladesh, for every country the World Bank assumes a pass-through of one. For India it assumes a pass through of 0.67 and their papers they cite the papers of which looks at data from the 60s 70s 80s in the world and apply it to India, but don't apply it to anybody else. Now, for India they apply 0.67. Well let's actually look at what the pass-through has been in India. **Slide 9** – And this graph shows what is the percentage of the consumption that is pass-through through the household surveys. So in 1977-78 it was close to a 100. In 1987-88 it was more than a 100%. 1993-94 you can see it. There is only one instance, one survey to survey period where the pass-through in India is less than what the World Bank has and that was in 2004-05. Again I would suggest that scholars need to look as to what happened in the 2004-05 survey. But this is the reality. **Slide 8** - And you know what is the average as the previous ones, the average has been somewhere between 85 and 90%. And overall average 89. So I think scholars and researchers need to ask as to why is the World Bank using this or why they are using it because several criticisms of our paper or our methodology… not our paper hopefully… is that we use a pass-through of one to one and the reference point is the World Bank. The World Bank uses 0.67, so why are we using this method. So I think this is another assumption. **Slide 9** –But I think this graph is very revealing of what the World Bank pass-through is, uniformly applied for the future, for the past and what actually was the case. **Slide 10** - The second part of an important part of what we do in this paper and which is new is that we account for in-kind food subsidies. In- kind food subsidies have been in place since the mid-1970s, late 1970s. These transfers can be substantial for the poor. I think Rakesh has written, Arvind has written, I have written, several of scholars have written that there were severe problems with the expansion or with rather the food subsidies. And there is the famous statements by Rajiv Gandhi in 1985 based on the food subsidies data that he got from his magistrates or from his collectors who had worked in rural areas etc. that only 15% of the money that the government said it gave to the poor actually reached the poor. So massive leakage was there. **Slide 11** - What we do is incorporate… things have really improved and especially during the pandemic and here we cite as to what the various people have said as to how much of the transfers meant for the poor actually reached the poor households. You are all very familiar and we use from 2014-15 onwards that 86% of the money meant for the poor actually reached the poor because of the application and the transmission of the food security act. **Slide 12**- Basically you have seen the paper, you have seen the results and what we go though there is to substantiate that listen the two methods make a lot of difference. And food subsidies make a lot of difference to the estimates of the poverty. So for example with the Uniform recall in 2020 you have a 6.1% poverty rate. With the modified mixed recall and using the same method that we applied to the uniform base in 2011-12, so we do the same thing for the modified mixed recall and that has a 2.5% estimate. A marginal increase of one percentage point increase from 2019. **Slide 13/14** - However once we do the adjustments for food subsidies it turns out that the poverty rate in India goes down to less than 1% in each of the years 2019 and 2020. 0.8 and 0.9. **Slide 15** – let me just conclude that there is no evidence of a substantial increase in extreme poverty in India. Extreme poverty in India was in fact at less than 1% in 2020 in addition to low poverty rates, consumption inequality in India according to our methods and according to our estimates was 0.29 and this is very close to the lowest level which was observed in 1993-94. This incidentally is supported by every survey, every estimate, every survey and every person doing the analysis. So basically growth with equity that is what was observed and very likely as we state in our paper India experienced its most inclusive growth period ever in the last seven years. The food subsidies obviously played a large part in this achievement. Our recommendation that we should move to the 3.2 dollars poverty line because poor will always be with us and it's a job of the government to provide welfare to those in the bottom third or the bottom fifth of the population. And in order to do that you need to raise the poverty line. On raising the poverty line, it was last raised in 2004-05 by 18% over the Dandekar last line. We are saying the time has now come to raise it by about 68% in real terms. I will end here. Thank you.

Rakesh Mohan:

Thank you very much Surjit. For really keeping the time on a very complex paper. But we had given the link to the paper so everyone should have had a look and they can certainly if they haven't had the time to look, they can certainly have a look at it. If I may now ask Pronab Sen to give his remarks. Pronab is currently the country director for international group centres India program. And is editor of the Indian journal of national income and wealth. He is also member of the high level expert group on measurement of economic performance and social progress for the OECD. Previously was chairman national statistical commission. The first principle economic advisor in the standing commission. The first chief statistician of India and secretary, ministry of statistics and program implementation. Dr Sen has a… I won't read everything else. Of his distinguished career he received his BA in economics from St. Stephens College in Delhi University, MA in economics from George Washington University in the US. And the PhD in economics from John Hopkins University. Pronab.

Pronab Sen:

Thank you Rakesh for inviting me to be a discussant on this. You know, we have all heard what Surjit talked about. I would just like to make one little factual correction. That was about the 1993 where Surjit says for reasons unknown. The fact is the reason is very well known. It is that in 1989 the government set up the extra group all poverty estimation under professor Gadgil. And we really should not forget professor Gadgil. So in honour of his memory Surjit please put Professor Gadgil's name in there. It doesn't disserve otherwise. Now that apart, the real, real question. Surjit has been invoking what World Bank does which coming from Surjit I find rather peculiar. Surjit is one of the most critical people I know. He does not hold any institution sacrosanct and I am surprised he is holding World Bank sacrosanct on this matter. But I have a basic problem with the way this work is done. And that is when we are looking at the using the private final consumption expenditure data to upscale the distribution, to use the mean to my mind seems to be completely wrong. It is theoretically possible to do a much more nuanced version. And I see no reason why it cannot be done. It involves a lot of work, I haven't done it. Because it does involve a lot of work. Because what you have is that if you have access to the data that goes into the PFC you have it by commodity groups. The NSS data gives you by commodity groups. And really the upscaling should be done essentially on the basis of commodity groups. Because different expenditure groups have very different consumption patterns and to use an average for them all is egregiously bad. Now that is to my mind a very, very serious problem. It is particularly bad if the growth in PFC is coming dominantly from product which the poor do not consume, because you are in a sense assuming that they are consuming that. So that is my first order probably. I don't like this and I think it does grave injustice to the distribution itself. The second point is that in all of these discussions, I suppose you didn't have enough time to talk about the poverty line itself. The poverty line does not come out of thin air. You know, again although we can cite the World Bank and the 1.9 dollar PPP adjusted poverty line of the World Bank does seem to come out of thin air. But correctly speaking, it used to be what the World Bank used to do earlier, is that they used to work essentially with what were called the national poverty lines and then made adjustments to bring them to a comparable basis. Because poverty lines have to be rooted in the specific consumption patterns rather than on one number. Now think of what the 1.9 dollar PPP is. The 1.9 dollar is perfectly understandable wherever it has come from. It is claimed that it essentially comes from the Indian poverty line. But I don't know for sure. But the critical element in all of this is really the PPP adjustment. And again why do we accept this uncritically. The PPP adjustment again is distribution agnostic. So what you have are PPP calculations that are being made on some kind of mean basket as is our consumer price index. It is a mean, it is the basket of the mean of consumer index in India. Whereas what we are trying to look at is really what is happening to the poor. You can see in both the levels of prices and the relative inflation between the mean and let us say one to two standard deviations below the mean. Then you are again doing a serious injustice. And it is the poverty line that we need to focus on and ask the question that by doing this are we really distorting the poverty line itself. To say that we are using the same poverty line definition over time doesn't in and of itself solve the problem simply because the PPP calculations are not doing so. If the PPP calculations were being done on the basis of the prices which were relevant to the people who were around the one point nine dollars consumption that would be one thing. But if the gap between the mean and this is varying over time then what you are getting I am not very sure. Nationally determined poverty lines try to take care of this problem. The price indices that we use for poverty calculations and Surjit knows this as well as I do, to the most part were derived from the NSS consumption surveys themselves rather than through market surveys. That is number one and to give you an instance as to how bad this can get let's take the food transfer which Surjit in this paper has focused on as being an important input and I have absolutely no argument saying that these food transfers were important. The problem of course is what price you are using to convert a physical transfer of food to the nominal value. If you are using the market price you are over estimating it quite substantially. Because we do know that the retail price of food and the price of food that is coming out of the NSS surveys and this used to be true in the past can differ by a huge margin. So what the poor are paying for food and this has to do both with quality and the manner in which this food is sourced. It could be a third of what this retail price would be. So one needs to be extremely cautious in doing this. Because what you could end up doing is actually overstating the income benefit to the poor and thereby seriously underestimating the incidence of poverty. Thank you Rakesh. That is all I have to say.

Rakesh Mohan:

Thank you very much Pronab. We now introduce Professor Santosh Mehrotra. He is visiting professor at the Centre for development The Bath University in the UK. And he is professor of economics of centre for labour at JLU. And research fellow at IZA institute of labour economics in Bonn. He is also a professorial senior fellow at the Nehru memorial museum and library. He was a chief economist for the global human development network in New York for the UNDP. He was the head of the development policy division at the India's planning commission and thereafter director general of the national institute for labour economics and research. He has a BA in economics from Allahabad University and a PhD from Cambridge University. Professor Mehrotra.

Santosh Mehrotra:

Thank you very much Rakesh. I am going to begin my remarks by talking about methodology first and then their findings. Taking both those into account. So on the methodology let me make four sets of points about why using the national accounts statistic estimate of PFCE to estimate the poverty is inappropriate and a fair bit of this is fairly well known. First Deaton and Kershanas have argued that for national accounts the basic problem is that the private consumption is calculated as a residual. That is exactly what happens in India as well. And errors in the estimation of other components of the GDP, all impinge on the consumption estimate. Secondly another problem with the national accounts estimates of private consumption is that they implicitly include spending by one unincorporated businesses to which I will come to in a minute and non-profit organisations that is religious bodies and trade unions and political parties and so on. To the extent that these items do not affect the consumption of the poor the use of mass consumption averages leads to an underestimation of poverty. Thirdly, any ways these items together with the imputed residential rents which are included in the national accounts private consumption are not always recorded in household surveys and can add up to large differences between the two series. This is one of the main reasons for the growing wedge between the two series with increasing per capita income. And finally the fourth is that informality is another source of NAS consumption estimate distortion. This problem with the NAS being used were documented long ago by Dudley Sears who noted that in many countries less than half of the national income estimate is derived from primary sources. More importantly for my current purposes he points to the difficulty of capturing informal income generating activities and this is especially true of course. Still in India unregistered firms still account for 85% of all firms as I separately analysed elsewhere and unregistered informal workers are 91% of the informal workforce. Moving on let me turn to the mechanism that the authors present as to why poverty falls for over this most recent period. The mechanism for achieving this reduction in poverty according to the authors is one, the real per capita consumption growth deflated by the CPI grew at nearly 6% per annum over 2014-19 which is higher than the 4% growth experience during the highest GDP growth period 2004 to 11. And it is this consumption growth that is relevant for estimates of __ poverty and inequalities is what they argue. But how come consumption growth is higher during the 2014-19 period although GDP growth is lower compared to 2004-11. Which is when we know was the highest ever poverty reduction by NSS consumption expenditure survey that was what was observed in the history of independent India as I will come back to in a minute. This already should be giving us a hint about why NAS based consumption is overestimating personal consumption as always in India. The second mechanism for achieving this reduction in poverty the author suggests, why this poverty declines over 2014-19. They claim that during a lower GDP growth rate of 2014-19 versus 2004-11 has happened, this poverty decline has happened is provided by the steep decline in inflation. From a CAGR of 8.4% in the high GDP growth, just 3.6% during 2014-19. Now this claim about inflation clearly needs to be judged against what happened to real wages and earnings after taking into account inflation and as I will show in some slides towards the end of my presentation you will see that this claim of lower inflation doesn't really hold up against the fact of real wages as to what happened. So in broadly firstly I believe that in reaching their findings they ignore all data on inequality, rising unemployment, falling in employment rates, falling wage rates and rising food inflation in the most recent past and I will come to that in the slides in a minute. It may be it is true that inequality has fallen between 2012 and 19 primarily because all consumption was getting compressed as growth trending downwards from H1 2016-17 onwards as Subramanyam shows in his 2021 articles in the India policy forum. However the recent price Pew and Oxfam inequality reports showed that income inequality increased during the pandemic as the income of 84% fell. So it is possible that household consumption equality may have fallen while income and wealth inequality may have worsened which we don't measure, the jury is out therefore. But the authors nevertheless take a position favouring their argument about this. Secondly while unemployment rates increased from 2.2% to 5.8% during 2012 to 19, the youth unemployment rate actually increased from 6% to 17% during the same period and the share of the working age population with work actually declined from about 39% to 35% and for youth from 42% to 30- 31.5%. Now how household consumption increased during this period despite this real phenomenon is a question unfortunately ignored by the authors. In fact, I with my co-author Parida have actually shown real wages of casual workers as well as regular workers both in rural and urban areas either stagnated or fell post 2012 to 19. So even if inflation rates 2014 to 19 were lower than over 2004 to 11 as claimed by the authors the real point is that real wages after taking inflation into account were rising fast between 2004 and 2011-12. That is what accounts for the sharp fall in Tendulkar poverty by nearly a 140 million from what 407 million to 268 million over that same period. And the falling or the stagnant wage rate since 2012 are consistent with falling GDP growth rates especially since 2016. Moreover a food inflation rate of 31% between July 2020 and July 2021 according to the RBI bulletin of August 2021 would wipe out the impact of the five kilograms of free grain ration. Add to that of course the fuel inflation thanks to wilful taxes. Let me quickly if I may Rakesh just show you five slides. May I?

Rakesh Mohan:

Yes please. Five minutes.

Santosh Mehrotra:

No more than five. **Slide 1** - You can now see here what happens between 2012 and 2020 to youth unemployment rates for age 15 to 29. It is really rising at a rapid rate. It actually sort of quadruples in certain cases and certainly overall it increases 2½ times. Just look at these numbers, this is youth unemployment rates by level of education. This is doubling in many cases and very significant increases in others. **Slide 2** – Let me turn to what happens to real wage rates of regular salaried workers which increased sharply between 2004-05 and 2011-12 as you can see from here. This is 2004-05 to 2011-12. But remains either flat of declined here slightly during the period 2012 to 18. I am sorry I forgot to add the 2019-20, but trust me that these numbers were also declining. **Slide 3** – Next, the real wage of casual labour increased over the years from 2004-05 to 2011-12 with a significant rate but it had remained very low post 2012 both in rural and urban areas. This is urban and this is rural. **Slide 4** – And tragically look at the distribution of the earnings. The workers were earning less than or equal to 200 rupees per day. They are all concentrated here. Between 2017-18 and 2019-20 which is the period when the authors are claiming there is an actual decline in poverty this concentration shows no improvement whatsoever. **Slide 5** – If anything look at this, as much among the self-employed more than half the workers are earning less than 200 rupees by the Tendulkar poverty line for 2019-20 this is actually below the poverty line. Even for regular workers, for casual workers and that is the total. That is how much workers are earning. Let me stop sharing and just close by saying that in a separate estimate my last point Rakesh if I may, actually we have estimated that poverty actually rose from 2013 to 2020 and this is poverty estimated on the Tendulkar extended poverty line from 2011-12 to 2019-20 taking CPI inflation into account and of course few adjustments we made between the consumption expenditures survey estimates for 2011-12 and the NSSO employment survey for 2011-12 and the discrepancies in respect of adjustment between the US on the one hand and __. We found that the incidence of poverty between 2011-12 and 2019-20 suddenly decreased but only about one percentage point from 21.9 to 20.8% and yet the number of the poor actually increased over that same period from 2012 to 2020 due to the __. So the increase in number of poor in rural areas is actually quite significant from 217 million to 235 million although and which offsets the slight decline in urban numbers of the poor. So that is what I wanted to say. There are methodological issues with the paper as well as the mechanism that the authors I believe are unable to demonstrate if you were to use real data. Thank you very much.

Rakesh Mohan:

Thank you very much Santosh. Before I introduce Arvind Virmani let me just say to all the participants after Arvind speaks I may put in two three questions, but all participants whatever questions you have please put in the chat box. Then we will try and address them as many as possible. Let me now introduce my friend Arvind Virmani. He is chairman of the Foundation for economic growth and welfare EGROW and president for the forum of strategic initiatives, FSI Delhi. He was also early executive director in the IMF representing Bangladesh, Bhutan, Sri Lanka and India. Chief economic advisor, Ministry of finance, principle advisor of the planning commission and right through the reform period from 1991 to late 2000 that is 2009 he was closely associated with tax, tariff, foreign exchange, financial sector expenditure policy reforms carried out during that period. He is also director executives of __, he has a B.Sc in physics from St. Stephens College and engineering from Caltech and PhD in economics from Harvard. He also of course worked in the World Bank in the early 80s if I am not mistaken. Arvind.

Arvind Virmani:

Yes. Correct. 80 to 87.

Rakesh Mohan:

Then came back to planning commission just a little bit after I did. Arvind. All yours.

Arvind Virmani:

I am just going to give some clarifications. I was going to say something else but I think there are lot of clarification needed. Because I don't want to go over my ten minutes. I will start with that and then maybe if there is time I will just add some observations which I wanted to make for your general kind of participants. Firstly this paper we use the Tendulkar poverty lines for each state by urban and rural. And calculate an average poverty line which is approximately equal to 1.9, the international dollar 1.9 dollar a day. Most of our discussion is however framed in terms of 1.9 dollar a day for the wider international audience. Recall this is an IMF paper and it will be discussed in that context. But we use the Tendulkar line. For those of you who go into the technical stuff the whole point of these urban rural state wise is to get the internal purchasing power parity. That is fully accounted for in our paper. That is the first point. Secondly there are two issues here. One is the real PFC and the nominal. So we use only the nominal PFC from the national accounts. The real PFCs are calculated again by applying CPIs by state by urban and rural areas. So that is accounted for in the methodology. Why CPIs, because that is the… the whole literature on this says that CPI when you are doing consumption or consumption poverty or consumption anything, the CPI is the best way to do it. Secondly the issue of levels versus growth. This is not a comparative levels thing. What we are doing is using a distribution from 2011-12 and applying growth rates. Calculating a real growth rate and applying the growth rate. So in some sense the issue of what is the level here or level there is irrelevant to this particular paper and its results. I mean, we can go into that if that is not clear. It is really about what is the appropriate growth rate. One could argue that you should have used 10 different growth rate at every level of income or something, ok. But we don't do that and that is not the standard methodology. Maybe that is better, that is not what I am saying. It may be much better to do that. But that is not what is done in the paper. So it is very important to be clear what is done in this paper and what is not. The third point is that if you look at the Gini coefficient, it is very important again because this is lot of confusion. I have read it in the press all over the place. If you look at the Gini coefficient without transfer which is what everybody is discussing. The Gini which is on the table is 1.3 of the paper. I basically look at it as a broad picture. I have tried to clarify all over that we are not talking about the exact precise number. But the broad trend of the broad level. So in 2004 to 2011 we get an equal Gini. So you can assume that by and large the distribution, the conclusion I would draw if by and large the distribution was stable. The exact number is not important. Maybe it was plus or minus 0.001 or something that is not the point here. And then if you go to 2019 there is a higher Gini. Without transfers the distribution has worsened by 2019. It is right there in the paper. Without transfers. Okay. If you go to 2020 there is a further worsening of the Gini without transfers. So there is no claim that if you do the standard thing that the distribution didn't worsen because of the __. What we show is that if you take account of the food transfer and food subsidies under the national food security act that completely countered both the fall in poverty and the distributional effects. That is the claim. Somebody wants to challenge perfectly free to challenge. It is not that these things didn't have any effect. It clearly had an effect. It is there in table A-1.3. What we are saying is that the food estimates and we haven't discussed that so I can't answer if some people have doubts in the audience we can discuss that further. So it is a decline. Again I wouldn't take the number literally. Our numbers show a decline in Gini from 30.4 in 2019 to 29.4 in 2020. But I won't bet my life on the exact one point decline. All we are certain here is that distribution actually increased as measured by the Gini again. So that is the fourth point. How much time do I have?

Rakesh Mohan:

Five minutes.

Arvind Virmani:

Now, those I have thought for the main points which are very important to clarify. I am not starting a discussion, debate. We can have after more questions. And your questions. But very quickly… it is interesting I went back and looked at… I happened to be after Pronab left, I happen to be in charge of PPD. And I found all the numbers there. Basically I have the numbers for 1993-94 and 1999-2000 and in 2004-05 we did both the 30 day and 365 day the URP and MRP. And there is a difference of 5.8% points in the poverty line. Average. The highest one is for Uttarkhand and Bihar which is roughly something like 8.9 or 9.8. The point is after this discussion I put on the agenda that actually the best way is to go by the 7-30-365 line. Here it was just a dual one. 365 and 30 day. I don't want to go into details. We can do that if somebody is interested. But the point was that was done in 2009-10. And formally adopted in 2011-12. I think it is unconscionable for the World Bank or IMF or anybody else not to accept something which we have done with complete forethought and consideration. It wouldn't happen out of the blue. It is not because I said it and it obviously happened. It was a whole process. Members debated it, everybody debated it and the mixed recall period was adopted because it is better. Finally the final point and this is kind of interesting. We got a little too technical here, but that is fine. This was done under as I said when I was in charge of PPD. The poverty calculation used to be done. At that time we had, we knew the surveys had prices, quantities, values, we knew that the PDS data is there. But we never used it. We used to just go by the monetary numbers. The financial thing to calculate the poverty rate. It is actually I only thought about this when around 2018-19. It is an interesting story if I have few minutes. When my friend Jeff Hammer came up with a study which wanted to tell stories about the middle class and lower middle class and the poor in the urban and rural areas and it suddenly struck me that we make no allowance. It was producing funny results, you know the stories he showed me. And I realised that we don't take account of implicit rent in housing that produces huge anomalies. Let me explain very simply, for the general audience. That a person who has his own house has all the same income, has own house versus somebody who rents and the rest of the consumption is exactly identical, the second one will be shown as better off just because he is paying rent. That whole accounting for self, owner housing is not there. So that is the basis which set me thinking that we should at least start by taking account of the food transfers and as we have shown they make a lot of difference. So that is a point which people may not appreciate but it is very important to take account of cash. We have always done just the cash expenditure. That is what an expenditure survey is. So not alone, like I mentioned, that we actually have our expenditure surveys which I am sure Pronab can expand on much more he were there for a long time. I have so much detail. It is mind boggling. And that is one of the reasons why I concluded that you have to go to a differentiated recall period. Because nobody can recall. You ask a guy hundred questions, somebody asked me six questions and eight questions I start thinking let me call my wife. I don't know what the heck you are asking. With that let me end.

Rakesh Mohan:

Thank you very much Arvind. I must thank all the panellists for really being brief even though they have lot more to say. I just have three or four what you might call simple minded questions. One, as I understand it you have taken the 2011-12 distribution and since there are no other data as far as distribution is concerned. You have to take that distribution to be constant. Now if you take a constant distribution and you put any growth rate on consumption, the poverty has got to come down. The question is then how much does it come down? This is very simple issue actually apart from all the technicalities. If you assume that there is no change in distribution you put any growth rate on consumption the poverty has got to come down. Second, one question actually on this taking account of food transfers. Now, since all through a lot of food consumption by the poor particularly in the rural areas is in kind they don't buy it. There is a lot of self-consumption. It is my understanding and Pronab maybe you can tell us this or any of you actually. That my understanding has always been that, that self-consumption or in-kind consumption is covered in the NSS. Because they are not buying it. There is no expenditure there. Therefore my assumption would have been that any food transfers in this surveys would he covered. But again I am subject to correction on this.

Pronab Sen:

You are right Rakesh. It is covered and it is valuated at the average value of that particular product that is coming out of the NSS data.

Rakesh Mohan:

So what I am saying is that if there was a survey today, the food transfer would presumably be captured. If there was an actual survey today. So whereas in the past in some sense you don't need to add the food transfers as far as I understand to the survey. Yes Surjit.

Surjit Bhalla:

Every survey done by the NSSO has a separate question – how much did you get from the ration shop and what price you paid at the ration shop. How much did you get from the market and what price you paid for it? Actually it is a value and quantity.

Rakesh Mohan:

But if you get it free?

Surjit Bhalla:

If you get it free it's valued at zero.

Rakesh Mohan:

But that is not correct.

Pronab Sen:

No. that is not correct.

Surjit Bhalla:

There is no food that is given free except in 2020.

Pronab Sen:

No. this is not correct Surjit. Look at the NSS questionnaire, there is also a category of free food. That exists and has existed right from the beginning and it is not an unsubstantial amount.

Rakesh Mohan:

That can be resolved more bilaterally later. My third and final observation is that if you have the same distribution, you put a growth rate on that, the poverty rate will come down and then if you add food transfers which are actual food transfers, then obviously with the same distribution, inequality has got to come down. Because food transfers are going to the poorest. Those are my questions. Now I will just relate some questions that I have received from the audience if I may. First from Kirit Parikh. How do you justify using the same distribution during the pandemic when we know that the poorer classes have suffered more? Then there is from someone anonymous attendee. It seems to me the World Bank interpolations are between two surveys not extending the surveys. Quite frankly I don't quite understand that. It seems to me that the World Bank interpolations are between two surveys and not extending the surveys. How appropriate is to use common nominal PFC growth for extrapolating consumption? Especially, given the fact that we had several shocks such as demonetisation and GST implementation. Would you say… this is from Ayushi Awasti… would you say that your paper is advocating against direct benefit transfer and increased PDS as a policy conclusion? Can you speak about distributional impacts of that? If the pandemic shock was absorbed by the PDS do you have any comments on the income classes just above the poverty line who can't access PDS? That is it. I will give them if any more comes.

Arvind Virmani:

Surjit will do the technical surveys.

Surjit Bhalla:

First as we document, explain in the paper that the distribution is not kept constant because of or is not turns out to be constant because of differential price movements in rural and urban areas. That is factoid number one. Second, that we also have state domestic product growth etc. and where you get a somewhat different distribution over time because some states are growing faster and some states are growing slower. So the distribution effect comes indirectly. Third the Indian distribution data that exists from 1983 onwards shows that inequality, distribution has stayed constant in real terms. So what we are doing is reporting inequality in real terms and that since 1983 has stayed constant. Fourth and finally if you do and I hate to refer to imagine there is no country etc. that around the world the distributional changes account for less than 10% of the change in poverty. All coming out from growth. So therefore the conclusion in the book was after looking at 150 countries all the countries for which you have data etc. was that it is really growth. So theoretically what you are saying is absolutely correct. Obviously it can have. It doesn't make any difference empirically. I would challenge in an academic sense to show me any evidence in any country where the distributional change accounted for more than 10 or 15% change in poverty. So that is the first one. There seems to be again clarification what Arvind also emphasised, seems to be a lot of misunderstanding, misconception between levels and changes. Arvind also alluded to that. So let us take what Pronab said or what Santosh said, it is not including X or it is not including Y because that is they are not in the consumption basket of the poor but is there in the national accounts. You take the share of those items which has grown from about 5, 7, 10% to now 14, 15%, they have grown what the poor do not consume. You take that out and then get the growth rate, you still get the same results. So I really don't understand. All of these are very nice academic points but really do not affect the poverty level calculations. Finally if I understand right or what Santosh documentation of again on levels and changes that as he knows full well that the real casual wages of the poor with the casual workers, salaried workers stayed flat absolutely correct, casual workers grew at about 2 to 3%. That is what affects poverty. Not the fact that the level is 200 or 400 or whatever.so I really don't understand that. Finally the NSS, PLFS survey from 2017-18 onwards I believe he has used that for his some of his poverty calculations has only one question on consumption. One, how much did you consume and whereas the NSSO survey has something like 400 questions. So I really don't think, I mean, it is worse than comparing apples to oranges. I don't know, it is comparing apples to whatever shouldn't be compared to. Thank you.

Arvind Virmani:

Rakesh I will just take that policy question. So DBT I think it is a very important question for policy. Does this paper show that we should just stick with PDS and you know kind of go even more on it. I think that would be a wrong conclusion. Why? Because what this shows is that in this once in a century type of event the pandemic, having a PDS and having these huge supplies of food grain lying in your granaries allowed you to do a very simple thing. You use the system as it existed 2019, you didn't need to do anything else. You just announced that people will get another 5 kg of rice and wheat and whatever else which we have not accounted for. We have just accounted for rice and wheat. Free. It was easy. You had all the stuff there. You didn't need to make a fiscal allocation. You didn't need to do anything else. You just needed to announce it and people could go and get it free. So I think it saved us from that and in that sense I think it was a good thing. But I do believe that for normal fluctuations we still need to gradually change over to a direct benefit transfer system. And I personally believe that this50% even the… we will in September go back. We will eliminate the free part of it. And go back to the NSS, 50% urban and 2/3rds rural. I think we need to think if we consolidate into a fully proper DBT system or a cash transfer system as I prefer to call it. Then I think we should gradually actually reduce these percentages. Keep it. Not abolish it. But gradually reduce these percentages and consolidate and integrate the cash transfer system.

Rakesh Mohan:

Thank you Arvind. Any comments from Pronab and Santosh.

Santosh Mehrotra:

I just want to respond to Surjit's point just now about casual wage. The fact of the matter is that I am looking at the data right now. Pretty much flat casual wages between 2011-12 and 2017-18. They do tend to rise a little bit thereafter. But the point here is that casual workers account for less than a quarter of the total workforce. Regular workers are an additional quarter and self-employed are the remaining half. And they experience plateau or falling in both rural and urban. So that is the main point I wanted to make.

Rakesh Mohan:

Thanks Santosh. Pronab?

Pronab Sen:

I think Surjit made a lot about and so did Arvind make a lot about growth versus levels. That is all very well. But in an important sense I think they really didn't address the question you asked. Which was really the question I was asking. Which is, that if you are going to be applying uniform growth without taking into account the levels you are going to do what exactly what you said. You are leaving the distribution substantively unchanged and all of this explanation about we are differently for rural and urban and between states. That cuts no ice at all. Because what you are doing in effect is you are leaving the state and the rural urban distributions unchanged. So you are leaving distributions unchanged, maybe you are changing the weights by which you are aggregating them. And when you are going to be using weights to aggregate them, you are talking about levels. So let us not get into this growth versus level because Surjit it is intrinsic in what you are doing. You know you can't actually just shrug it off.

Rakesh Mohan:

Thank you. Let me show you Surjit. Some more questions have come. A couple of them. First a comment from Indermit Gill. Just says – very useful. Indermit Gill from World Bank. Vice president World Bank. Very useful discussion. I have been listening carefully and my colleagues will respond in writing to Surjit's questions about the World Bank's position on poverty measurement in India.

Surjit Bhalla:

Publically.

Arvind Virmani:

Indermit, I haven't seen your face for how many... 5 or 10 years. But anyway, I still don't see it.

Rakesh Mohan:

He won't be. Because he is a participant and not a panellist. So you won't see him.

Pronab Sen:

But purpose served Arvind.

Rakesh Mohan:

From Firdose Malik. What about the unemployment increase due to the pandemic and migrant workers who shifted to rural areas were unable to find jobs even under MGNREGA. How are you looking at multidimensional poverty indexes for the country?

Surjit Bhalla:

Casual workers are the poor. They are the ones who go work in MGNREGA. That is what is considered casual work. I do not know or how many salaried workers, if you are getting a salary you are not in the poor category. Generally not. Very small proportion maybe. Self-employed which accounts for 50% yes. But the casual workers are about 25% and as we show and even all other studies show that the poverty rate in India even in 2011-12 was less than 25%. So I think we are covering a lot of ground over here. Unemployment went up, yes, that is why we had the food subsidy increase by 5 kilogram because the poor were unemployed, migrant workers or whatever, so that is why… why can't we just recognise. One thing we emphasise in the paper which is really quite… I discovered this… the policy of 10 kilogram that the government thought of or whoever thought of it was absolutely both brilliant and empirical. The average consumption across the board, poor to rich is 10 kilograms over the last 30 years. Now clearly the rich have higher quality food. And the poor do not. But the issue here is that food which was a basic requirement to live was provided the minimum amount. Obviously not much more than the minimum amount. But that all of that to the extent you purchase some food, that money was left over for other expenditures. Last but not the least is that for the poor you can actually estimate how much 10 kilogram of wheat and rice cost. And it turns out that is about 15 to 20% of the poverty line. The average is 15 and for the poor and clearly for deep poor the average would be a lot more. I finally want to make a last comment, it should… all poverty estimates are not created equal. You have to look at… I am very pleased all of us have emphasised methodology. Look at the methodology behind it. I don't want to comment on the paper but somebody has put in the link to the paper by the World Bank. That provides some interesting comparison because it does use a CMIE data. And I would say that we should all subject all papers to the same kind of rigour as to how authentic are the estimates. In terms of authentic, in terms of reflecting the reality of what we are all trying to approximate through our methods.

Arvind Virmani:

Can we give time to Karan to respond?

Karan Bhasin:

I just want to make a quick point because I think the distributional aspect is being discussed a lot. There are two papers. Actually one survey in one paper which kind of support what we find and one is the ISDS survey which finds that inequality, income inequality actually declined in 2017, it was of course a three state survey. The other is that recently authors using the CMIE data also found that consumption inequality actually went down during the pandemic in India. And this declining trend started in 2017. So if you look at that in the context of a study then it doesn't seem that difficult to kind of accept the finding that distribution probably has improved over the last couple of years. Now of course we can go into the factors where that has happened and there will be another consumption expenditure survey which will of course be scrutinised in detail. So I think that is there on the distributional aspect of it. On the question of multidimensional measure, because many people keep bringing this up. If you look at the way that that index is constructed there is very little reason to assume that it would have gone up during the pandemic. Because it is to do with access to bank accounts, access to toilets etc. if you want to kind of understand the impact of the pandemic you have to at the end of the day go back to the question of what happened to consumption poverty and so and so forth. So while multidimensional index will give us a more broader understanding of the extent of deprivation. We wouldn't find anything materially significant if we are comparing the impact of or trying to analyse the impact of pandemic on poor using that index. So I think these are the two points that I just quickly wanted to add.

Rakesh Mohan:

Thank you very much Karan. One last comment I would make. If it will be very useful this is on the multidimensional issue. If you applied your considerable expertise on really analysing the NFHS data because you have had a series of surveys which give very distressing results in terms of health particularly. In different measures actually. You can shake your head Surjit. But it's given very distressing consistently.

Surjit Bhalla:

The NFHS data itself shows a large improvement between 2015-16 and 2019-21. Including…

Rakesh Mohan:

Not the data that I have seen. You must be seeing some other separate NFHS data.

Surjit Bhalla:

I even wrote on it in the Indian Express sometime. You missed it.

Santosh Mehrotra:

Rakesh it will take too long. I am not even going to engage with Surjit on this subject.

Arvind Virmani:

Rakesh I will just mention what… I remember John Dreys paper where he did a careful analysis with weighted states. Remember? First five states came out and everybody said half or 75% of things are __ and I still remember in Indian Express and I am sure you have. I respect John Drey's consistency and he showed that if you weight the states, those same states properly, actually there is no change. So that is what I remember. But I think I take your suggestion. You are right. That I think it is worth doing. In fact one has been thinking about it but… I think that suggestion…

Rakesh Mohan:

All the information on malnutrition which is more than 30% does not square with 1% or less absolute poverty. That is all I am saying. Whether it improves one percent, two percent is not the issue to my mind.

Arvind Virmani:

Rakesh, you raised malnutrition that was a point I couldn't talk about. I have it here. That was my very important point. I think we have run out of time. I have actually studied the link, the hunger, poverty and malnutrition while in government. And my conclusions there were… I just mentioned child malnutrition has to do with something called 'environmental enteropathy'. I think 90% of our experts in India don't even know what that is. This is actually research from Africa which shows there is a virus which lives in the gut. So if you have filthy conditions children cannot absorb the food.

Rakesh Mohan:

Arvind, I understand. All I am saying is I was talking a multidimensional index. Obviously if there is a lot of bacteria around you are not able to absorb food. So you are exactly short of poverty. That is all I am saying. If you take actual… anyway time is up. I wouldn't want to go further into discussion at this point. I would like to say thank you very much everyone, especially the writers of the paper for sharing their paper, giving their presentations and the commentators Pronab and Santhosh. Thank you very much. Let me thank my team of Trishna, Malvika, and Rashmi for having arranged all this at very short notice. We have had a very good session. Thank you very much.