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The Irrelevance of National Strategies? Rural Poverty Dynamics in States and Regions of India, 1993–2005

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Summary. — Examining panel data for more than 13,000 rural Indian households over the 12-year period 1993–94 to 2004–05 shows that two parallel and opposite flows regularly reconfigure the national stock of poverty. Some formerly poor people have escaped poverty; concurrently, some formerly non-poor people have fallen into poverty. These simultaneous inward and outward flows are asymmetric in terms of reasons. One set of reasons is associated with the flow into poverty, but a different set of reasons is associated with the flow out of poverty. Both sets of reasons vary considerably across and within states. No factor matters consistently across all states of India. Standardized national policies do not represent the best use of available resources. Diverse threats and different opportunities must be identified and tackled at the sub-national level.

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1. INTRODUCTION

The stock of poverty in a country increases when people fall into poverty and decreases when people escape poverty. Because some people fall into poverty even as other people move out of poverty, the stock of poverty is simultaneously both created and reduced. This fluidity is an essential feature of poverty dynamics. Any given change in the stock of poverty can come about in a number of different ways. For instance, a net reduction of 3% over 5 years will be achieved if 4% of the population escapes poverty and 1% concurrently falls into poverty. But the same net reduction figure will also be achieved if 14% of the population escapes poverty and 11% falls into poverty. Thus, taking note only of the net change (3% in this case) is like observing the proverbial tip of the iceberg: it gives little idea of the trends that underlie the observed result.

Explaining the net change in the stock of poverty over any period of time requires understanding the separate flows that make and unmake poverty in parallel. With rare exceptions, however, analyses of poverty in India and other developing countries have not attended to these constitutive flows.¹

Large-scale studies of poverty in India have usually examined the aggregate effects of national policies and state-level trends. A great deal of useful knowledge has been gained from these attempts to explain the stock of poverty. For instance, it has been learned how growth in agricultural productivity, improvements in infrastructure, the rate of inflation, and different starting conditions (including, historical literacy trends, health care conditions, and irrigation coverage) can help explain some part of the difference in poverty stocks across Indian states.² Such examinations do not, however, help understand poverty flows: How is poverty simultaneously both created and reduced? Why does a higher rate of growth of agricultural productivity or better infrastructure in some

states translate simultaneously into escapes from poverty for one set of households and descents *into* poverty for another set of households? Why does poverty continue being created even when the rate of economic growth is high?

In order to understand these differences better—to learn how poverty is created and how it is overcome in practice—it is essential to examine poverty flows directly at the level where these are experienced. Three steps need to be followed in order. First, those households must be identified who escaped poverty (or who fell into poverty). Second, the experiences of such households must be compared with those of others who remained poor (or who stayed out of poverty). Third, factors common to particular household experiences must be identified. What factors are common to the experience of households who escaped poverty and *not* common among households who remained poor? What other factors were experienced by households who fell into poverty and not by those who remained non-poor? Identifying these factors gives a better idea about the natures of reasons responsible for escape and descent which, in turn, helps formulate more effective anti-poverty policies.

Grassroots investigations conducted in different parts of three Indian states have shed new light upon factors associated, respectively, with escaping poverty and falling into poverty.³ We complement and extend this analysis with the help of a nationally representative panel data set of rural households. Examined over the period from 1993–94 to 2004–05, when high-speed economic growth was being experienced in India, this data set contains information for 13,593 households randomly selected in rural areas of 16 Indian states that together constitute more than 90% of the Indian population.

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Four main conclusions follow from this examination:

- (1) Large numbers of people have fallen *into* poverty over this 12-year period, even as many others have moved out of poverty. The effects of national economic growth were experienced very differently by diverse people in rural India, with some among them experiencing considerable improvements in household income and others simultaneously becoming poorer than before. Overall, the stock of rural poverty has increased, but there is considerable variation across states and among regions within states.
- (2) Rural poverty has fallen in states (such as Himachal Pradesh, Kerala, Rajasthan, and West Bengal) where more people moved out of poverty than fell into poverty. Over the same period rural poverty increased in a second group of states—including Andhra Pradesh, Bihar, Gujarat, Haryana, Maharashtra, Madhya Pradesh, Orissa, Tamil Nadu, and Uttar Pradesh—where more people fell into poverty than moved out of poverty. This group of states includes some in which *per capita* state domestic product increased at lower-than-average rates (Bihar, Uttar Pradesh, and Orissa), but it also includes some others that experienced high rates of economic growth during the 1990s (Gujarat, Maharashtra, and Tamil Nadu).⁴ Thus, when examined at the level of states (and regions within states), the correlation between economic growth and poverty reduction is far from perfect, as we will see below.
- (3) Analyzing the aggregate data (for all states) helps identify factors commonly associated, respectively, with escaping poverty and falling into poverty. While some factors—such as women’s media exposure, remittances, and the prevalence of telephones—are significantly associated with both escapes and descents, there are also other factors that matter only for escapes or only for descents. For instance, location within 5 km of a town and the presence of an adult son in the base year (1993) were found to be significantly associated with escapes but not with descents. Conversely, education of the household head to secondary level or higher, ownership of land and other rural assets, and engagement in rural social networks helped reduce the risk of descent into poverty—but these factors had no significant impact upon households’ prospects for escaping poverty. These differences in underlying reasons suggest that a single national policy will not suffice. Different policies are required for dealing with each of the two constitutive poverty flows.
- (4) Further differences were revealed when both poverty flows (escape and descent) were analyzed at the level of individual states. Reasons for escape and descent vary considerably across state boundaries. The factors that made a significant difference for escape (or descent) within one Indian state mattered little or not at all within other states and regions. Thus, designing standard national policies to combat poverty hardly represents the best use of available resources. Poverty can be reduced faster and more cost-effectively if attention is paid to diverse factors variously associated with escapes and descents in different states and regions.

2. DATA AND METHODS

Three caveats are in order before data in support of these arguments are presented. First, these data, derived from

nationally-representative sample surveys carried out by the National Council for Applied Economic Research (NCAER) deduce estimates of poverty based on calculations of household income.⁵ Our estimate for rural poverty in any state is not directly comparable, therefore, with other and more widely-used estimates derived from consumption data provided by the National Sample Survey Organization (NSSO). However, the aggregate figures that we have calculated using NCAER’s income data do fall within the range of figures derived by different analysts using diverse methodologies and adjustment techniques to calibrate the NSSO data.

Second, because we have data for only two points in time, respectively, 1993–94 and 2004–05, we lack information about several important events that households experienced during the intervening period. That such household-level events and processes can make critical impacts on households’ prospects for escaping poverty (as well as for their chances of falling into poverty) has been well documented by the grassroots investigations referred to above. To some small extent, household events were captured in the NCAER data sets. For instance, the survey administered in 2004–05 inquired about loans taken by each household in the previous 5 years and about deaths and major illnesses occurring during the 12 months preceding the survey. However, the majority of household-level events, including health events occurring during 1993–2003, remain unknown.

The vast scope and coverage of the NCAER data set—in terms both of geographic reach and numbers of household and community characteristics examined—has to be complemented by additional sources of data that probe household event histories in greater depth and detail. We conducted such combined quantitative-and-qualitative examination using data from grassroots investigations previously undertaken by one of us. The scope of this analysis is restricted, because the extent of geographic overlap between the NCAER data and the grassroots studies is small. Such combined analyses can add greatly to the richness and robustness of the results.⁶ We urge that they be taken up in future studies of poverty in India.

Third, while we wish to highlight the need for decentralized and disaggregated analysis, it must be noted that the number of observations became progressively smaller as we went from state to region to sub-region and as we separated descents from escapes. With the data at hand, we could meaningfully analyze differences in reasons for escape and descent at the level of an entire state, and we were able to categorize regions within states in terms of their relative rates of escape and descent. Additional data are required, however, for probing the natures of reasons associated with escapes and descents at the sub-state level. We hope that others will take up where we have left off, assembling and analyzing these new data sets.

With these caveats behind us, we can begin to describe the data and the results that were obtained. Two waves of sample surveys representative of the rural areas of 16 major states constitute the data base for our analysis. About one half of the 33,230 households surveyed in 1993–94 were selected at random for resurvey in 2004–05. It was possible to contact 13,593 households (located in 195 districts and 1,765 villages), resulting in a relatively high re-contact rate. The panel consists of 11,153 original households along with 2,440 households who split from the originally surveyed households.⁷

These multi-dimensional surveys encompass a wide range of human development and poverty-related issues. Both surveys were undertaken by NCAER, a well-known applied economics research institution in India.⁸ Two survey instruments were administered to each household by a mixed-gender team of

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