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Poverty measurement matters: an Indian story

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India entered a new era of rapid economic growth in the 1990s when it began its economic reforms. At its 6% growth rate, most would expect a strong reduction in poverty. In line with this, the official estimates from two large surveys showed that poverty in rural areas fell from 37.3% in 1993-94 to 27.1% in 1999-2000, while in urban areas it fell from 32.4% to 23.6%. Deaton's (2001) alternative poverty estimates indicated a smaller, but still significant reduction: from 36.2% to 28.8% nation-wide over the same period.

Things could not have been better, and the BJP-led government that had enthusiastically supported economic reforms rallied for the 2004 election full of complacency under the slogan of "India Shining". The May 2004 elections spoke differently. The party in power stepped down because the majority of the poor did not vote for them. Although a direct link between poverty and elections is always a difficult one, to say the least, one still should wonder: Don't People like growth and poverty reduction?

The answer might well be simpler. It might just be that a large one third of the population, the poor, might not have seen their living conditions improving, and thus overwhelmingly rejected the BJP-led government. If one looks carefully behind poverty estimates, one can see that poverty might have been underestimated in 1999-2000.

Given the large sample size involved, the most reliable estimates of poverty in India for the period should come from the 50th Round of the National Sample Survey (NSS) of 1993-94 and the 55th Round of 1999-2000. However, these two surveys are not fully comparable. Indeed, the 55th Round questionnaire was different from that in earlier surveys (Sen 2001), and that difference might have led to an underestimation of the true incidence of poverty in 1999-2000.

All surveys prior to the 55th Round used a 30-day recall questionnaire for all consumption items. Since many consumption items are purchased frequently, most food is purchased daily, a monthly recall period tends to underestimate the true expenditure because people tend to forget some of their purchases. To partially correct for this, the 55th Round questionnaire added a 7-day recall period to be applied to some of the expenditures, mainly the most frequent ones. This change, which was intended to improve poverty estimates turned out to be counterproductive. People gave mutually consistent responses when they were asked over these two recall periods, the 7 and 30-day ones. Since it is easier to remember over 7 days, people gave the 30-day figure

as, roughly, the 7-day amount times 4. Thus, on the most frequently consumed items, a comparison based on the 30-day recall periods of the 1993-94 and 1999-2000 NSS led to an overestimation of consumption in 1999-2000; and from there, to the alleged reduction in poverty. Interestingly, four small surveys, conducted between 1993-94 and 1999-2000, all showed an increase in poverty.

If people were given only the 7-day recall period, the consumption estimates obtained from the 55th Round would have been more accurate than those obtained from the earlier surveys, but still not comparable. Instead people were asked to report expenditures on the basis of both recall periods at the same time. This made it difficult to judge the accuracy of expenditures reported in the 55th Round and render its comparability even more difficult.

To work around this newly introduced flaw in the data, Deaton produced comparable poverty estimates. But, in arriving at his estimates, inevitably, he had to make a series of assumptions. Basically, he estimated the percentage of poor in 1999-2000 from the expenditure distribution of the items included in all surveys with a consistent recall period of 30 days. But his procedure has the shortcoming that it does not incorporate 1999-2000 data on the consumption of goods that are most frequently consumed by the poor. The 1999-2000 data supporting his estimates refer to such items as fuel, light, miscellaneous goods and services, non-institutional medical services, rent and taxes; these items accounted for only 20% of the total expenditure, and for hardly 5% of expenditures by the poor. It is inconceivable that one can ever hope to obtain any reliable estimates of poverty in 1999-2000 using so little information from the 55th Round. The fact is that there is no way now to get a comparable figure for 1999-2000 and by the same token, an assessment of the impact of economic reforms on poverty.

Even worse, the change in methodology of the 55th Round will also have serious implications in the comparability of future surveys. It is unfortunate that India's 50 year record comparable household survey system has been changed, and as such, it will no longer be possible to trace long term trends in poverty there.

Reference:

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