

CHAPTER 4

POVERTY AND UNEMPLOYMENT



In this Chapter, I will learn

- POVERTY
- ESTIMATION OF POVERTY IN INDIA
- UNEMPLOYMENT
- EMPLOYMENT AND UNEMPLOYMENT ESTIMATES
- TYPES OF UNEMPLOYMENT

Poverty and unemployment are two major socio economic problems in most of the developing countries. As both have mutual cause and effect relationship, they are presented in the same chapter.

This chapter covers types of poverty, estimation of poverty in India, employment and unemployment estimates and types of unemployment.

POVERTY

Poverty can be defined as a social phenomenon in which a section of the society is unable to fulfill even its basic necessities of life. There are two types of poverty.

1. Absolute Poverty

2. Relative Poverty

1. Absolute Poverty

In this poverty, minimum physical quantities like cereals, pulses, milk, butter, etc are determined for a subsistence level of living and then the price quotations of these commodities are obtained from market to convert these commodity requirements into monetary terms.

By aggregating all the quantities included and its money value, a figure expressing per capita consumer expenditure is determined. The population whose level of income (or expenditure) is below this figure is considered to be Below the Poverty Line (BPL). It is expressed as number of poor people as a proportion of total population,

say 10%. This measure is also called as head count ratio.

The reason to determine poverty on the basis of consumption expenditure instead of income is that dependent people like children and senior citizen also consume even though they are not earning. One more reason is even though income is less people may consume more with the backup of asset or by borrowing. It shows their ability to consume and have a descent standard of living. From this it is clear the consumption based measure is better than income based measure.

2. Relative Poverty

In this case, the income/consumption distribution of the population in different percentile groups is estimated and a comparison of the levels of living of the top 5 to 10 % with the bottom 5 to 10% of the population reflects the relative standards of poverty. Here a person's income/consumption may be above the poverty line but he happens to be poor in comparison with the person whose income/consumption is above his/her. This measure is to calculate inequality in the society.

The quintile income ratio is one of the measures of inequality. It is a ratio of the average income of richest 20 per cent of the population to that of the poorest 20 per cent.

Quintile Income Ratio = average income of richest 20 per cent / average income of poorest 20 per cent.

ESTIMATION OF POVERTY IN INDIA

Dr. V.M. Dandekar and Nilkantha Rath

- After independence poverty estimation was carried out by Dr. V.M. Dandekar and Nilkantha Rath
- They fixed desired minimum level of per capita nutrition needed for subsistence level of living as 2,250 calories
- To purchase commodities that give 2250 calories for Rural ₹ 180 Per capita Per annum and for Urban ₹ 270 Per capita Per annum has been fixed at 1960 – 61 prices
- Using this cut-off, they stated that about 177 million were poor in 1960 – 61 and about 216 million in 1968 – 69

Planning Commission Expert Group Report

- The Planning Commission appointed an expert group named Task Force on Minimum needs and effective consumption demand
- It has been constituted in the year 1989
- Its Chairman was D.T. Lakdawala
- The expert group submitted its report in 1993
- Per capita daily intake requirement fixed at 2400 calories for Rural and for Urban at 2100 calories. The per capita requirement for rural area fixed has been

high because of the hard physical labour they undergo

- A person who fails to have money to obtain this minimum level of calories is treated as being below the poverty line
- Different poverty line has been fixed for different states by taking into account, the variation in prices and consumption composition of commodities across various states
- Rural –consumer price Index for Agricultural Labourers (CPI-AL) was used for future update of rural poverty line
- Urban- consumer price Index for industrial Worker (CPI-IW) and Consumer Price Index for Urban non manual employee (CPI-UNME) was used for future update of urban poverty line

Table 4.1 Poverty ratio findings based on the methodology of this expert group

Year	1973-74	1993 -94	1999 – 2000
% of BPL People	54.9%	36%	26.1%

Source: Planning Commission

61st Round of National Sample Survey Organisation (NSSO) Survey and Poverty Estimation

This round of survey carried out during the period 2004-2005. It is a consumer expenditure survey. In this survey, people

have been asked to recall and tell their expenditure of selected commodities for past 30 days and 365 days. From this data NSSO and planning commission used different methodology to estimate the incidence of poverty. This survey has fixed ₹ 356.30 and ₹ 538.60 as per capita monthly consumption expenditure as poverty line for Rural and Urban respectively.

NSSO's Mixed Recall Period (MRP)

It involves estimation of poverty using consumer expenditure data of 365 days recall period for five infrequently purchased non-food items such as

- Clothing
- Foot wear
- Durable goods
- Education
- Institutional medical expenses, and a 30 day recall period for the remaining items.

Table 4.2 Poverty ratios by MRP and URP

Particulars	NSSO Mixed Recall Period (MRP)		Planning Commission Uniform Recall Period (URP)	
	1999 – 2000 55 th Round	2004 -05 61 st Round	1993 -94	2004 -05
1. In percentage (National)	26.1%	21.8%	36.0%	27.5%
i) Rural	27.1%	21.8%	37.3%	28.3%
ii) Urban	23.6%	21.7%	32.4%	25.7%
2. In absolute Term (National)	260 million	238.5 million	-	301.7 million
i) Rural	195 million	170.3 million	-	220.9 million
ii) Urban	65 million	68.2 million	-	80.8 million

Source: Planning commission

Planning Commission's Uniform Recall Period (URP)

It involves estimation of poverty using consumer expenditure data of 30 days recall period for all items. It is well known that in India most of the non –food items are purchased only during festival period. So these expenditures may not figure during the survey period. Therefore the consumption expenditure during 30 days recall period will be lower than 365 days recall period expenditure and will inflate the figure of BPL families. It is evident from the table 4.2. To know the trend in the poverty we cannot compare estimation of poverty of NSSO and planning commission because of different methodology. But NSSO estimation of 1999-2000 is comparable with 2004-05 estimation and planning commission estimation of 1993-94 is comparable with 2004-05. So they have been juxtaposed.

Tendulkar Committee on Poverty

A committee named 'The Expert Group to Review the Methodology for Estimation of Poverty' headed by Suresh D. Tendulkar was formed by Planning commission in 2009. This committee adopted a new method. It moved from calorie based poverty estimation to nutrition, health and other expenditures like clothing footwear based estimation. It calls the basket of goods selected to determine poverty as Poverty Line Basket (PLB).

It also relies on the NSSO data of Mixed Recall Period Method. It calls to adopt urban poverty line for rural area also, after adjusting for price differential. It means the quantity of consumption fixed for both urban and rural is same, only the price differs. This committee fixed poverty ratio for All India total at 37.2 %, rural India at 41.8 % and urban India at 25.7 in the year 2004-05. The poverty line fixed for rural India is ₹ 446.68 and urban India is ₹ 578.80.

Rangarajan Committee on Poverty

There was lot of criticism about Tendulkar committee methodology. So government formed an Expert Technical Group to revisit the methodology for estimation of the poverty and identification of the poor under the chairmanship of Rangarajan. It adopted the method of calorie based methodology as in the past. In addition it accounted for nutrition, fat and other essential non food items to arrive at poverty line. It fixed Rs 972 per capita per month

as poverty line for rural area and Rs 1181 for urban areas.

Ability to Pay Based Poverty Line

The author of this book in his article "Poverty Redefined"¹ published in Business Line on 2nd July of 2014 argues to fix poverty line at the level of Basic Exemption Limit (BEL) fixed for Income Tax purpose. This limit is fixed on the principle of ability to pay. The basic exemption limit is fixed at a level where the people are considered rich enough to part away their income for general cause in the form of tax. It means at that level a person is considered rich. So the author call to name people as poor whose income is below this limit.

The basic exemption limit is for individual. Even if a family has only one earning member he is charged to tax if his income is above this limit. So, the author calls to divide the BEL by five as the average family size in India is five which is the least tax exemption available for a family. For example if the BEL is Rs 2,00,000 the exemption available per person of a family of five is Rs 40,000 per year. This amount needs to be fixed as poverty line. It means Poverty Line needs to be fixed at 20 % of BEL.

UNEMPLOYMENT

Unemployment is a situation in which individuals are ready and willing to work

¹ <http://www.thehindubusinessline.com/opinion/poverty-redefined/article6167218.ece>

at the prevailing rate of wages but the individuals could not get work.

Number of unemployed = Labour force - Work force

EMPLOYMENT AND UNEMPLOYMENT ESTIMATES

As per the NSSO, here are the concepts and definitions of employment and unemployment estimates.²

Activity Status

It is the activity situation in which a person is found during a reference period, which concerns the person's participation in economic and non-economic activities. According to this, a person will be in one or a combination of the following three statuses during a reference period.

- Working or being engaged in economic activity (work)
- Being not engaged in economic activity (work) and either making tangible efforts to seek 'work' or being available for 'work' if the 'work' is available and
- Being not engaged in any economic activity (work) and also not available for 'work'.

Persons in the categories (1) and (2) above are called **labour force**.

Persons in the category (1) are called employed. They also termed as **work force**.

² Instructions guide to field staff-volume I, Designs, Concepts, Definitions and Procedures. NSSO 64th Round, July 2007-June 2008

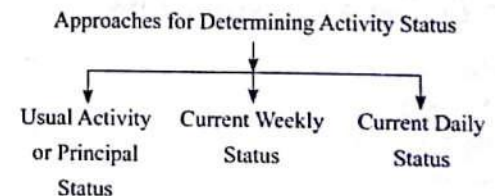
Persons in the category (2) are called **unemployed**.

Persons in the category (3) are termed as **not in the labour force**.

Different Approaches for Determining Activity Status

The people surveyed are to be classified into various activity categories on the basis of activities pursued by them during certain specified reference periods. There are three periods for this survey viz. (1) one year, (2) one week and (3) each day of the reference week. Based on these three periods, three different measures of activity status are arrived. These are termed respectively as usual status, current weekly status and current daily status. It is shown in the figure 4.1. The activity status determined on the basis of the reference period of 1 year is known as the Usual Activity Status (US) of a person, that determined on the basis of a reference period of 1 week is known as the Current Weekly Status (CWS) of the person and the activity status determined on the basis of each day of the reference week is known as the Current Daily Status (CDS) of the person.

Fig 4.1

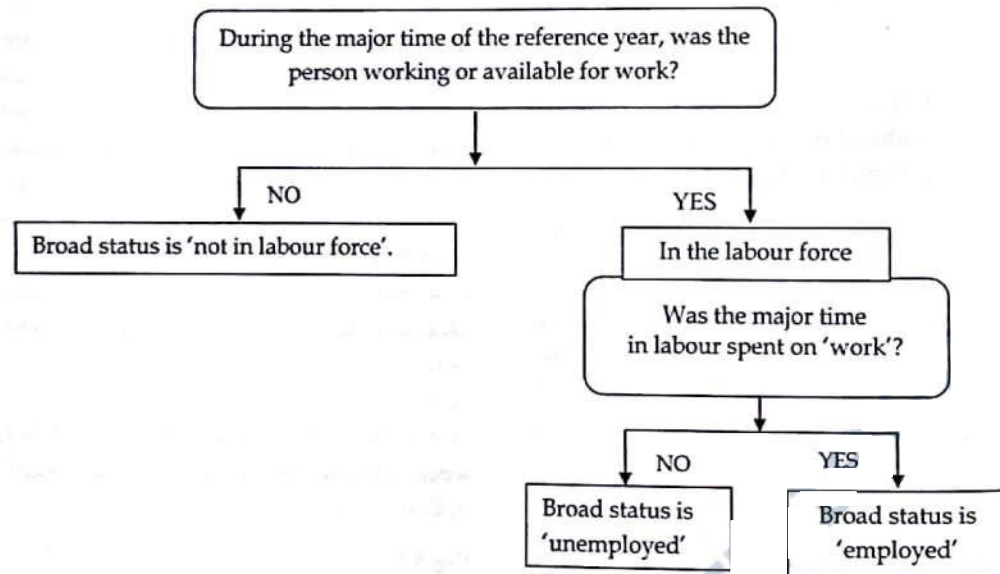


1. Chronic or "Usual principal Status" (US)

Here, the reference period is one year. It is measured in number of persons, that is, persons who remained employed/unemployed for a major part of the year. A person is considered employed/unemployed/not in the labour force if she/he was working/not working but was either seeking or was available for work/not working and also not available for work for a relatively longer time throughout the

reference year. This can be understood by flowchart 4.1. Here, we classify persons into number of employed, and unemployed and not in the labour force category and we do not measure the intensity of employment or unemployment. This measure is more appropriate to those in search of regular employment, e.g. educated and skilled persons. The estimates are made in terms of the average number of persons per year in each activity statuses, say 10 million persons/year.

Flow Chart 4.1



2. Current Weekly Status (CWS)

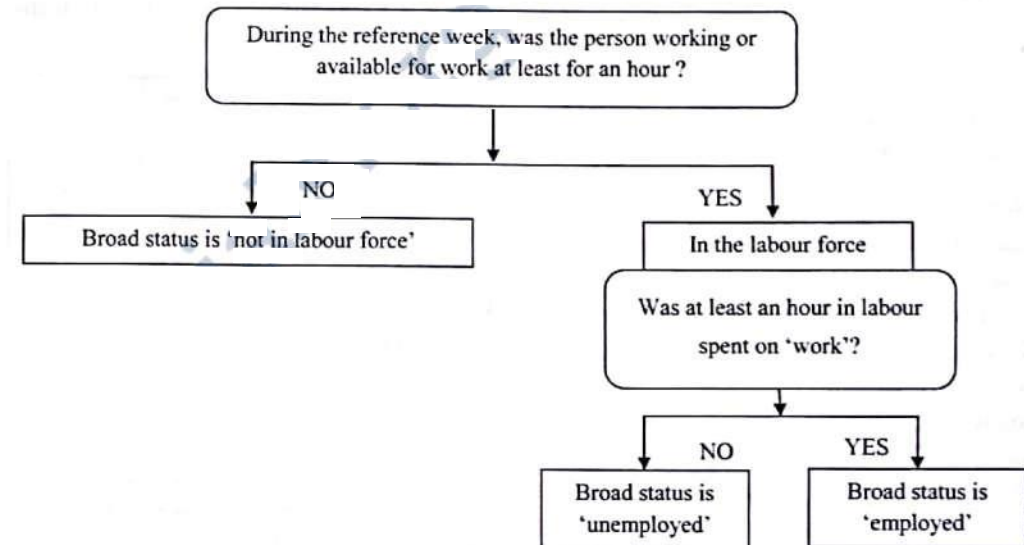
Here the reference period is one week. A person is considered employed/unemployed/not in the labour force if he/she has worked at least one hour during the reference week/ not worked even one

hour but was seeking or was available for work/ not working and also not available for work. This can be understood by flow chart 4.2 in the next page. If a person is employed even for an hour in a week, he is considered employed. Here we just classify persons into number of employed

and unemployed category and we do not measure the intensity of employment or unemployment. The estimates are made

in terms of the average number of persons per week in each activity statuses; say 10 million persons/week.

Flow Chart 4.2



3. Current Daily Status (CDS)

Here also, the reference period is one week like Current Weekly Status. It records the activity status of a person for each day in the seven days preceding the week of survey.

- Each day of the reference week is looked upon as consisting of either two 'half days' or a 'full day' for assigning the activity status.
- A person is considered 'working' (employed) for the entire day if she/he had worked for 4 hours or more during the day.

- If the person had worked for 1 hour or more but less than 4 hours, she/he is considered 'working' (employed) for half-day.
- In the balance half-day if seeking or available for work, she/he is considered as unemployed for half-day. If 'neither seeking nor available for work' then considered as not in labour force for half-day.
- If a person was not engaged in 'work' even for 1 hour in a day but was seeking/ available for work even for 4 hours or more, she/he is considered 'unemployed' for the entire day.

- If a person was 'seeking/available for work' for more than 1 hour and less than 4 hours only, she/he is considered 'unemployed' for half day and 'not in labour force' for the other half of the day.
- A person who neither had any 'work' to do nor was available for 'work' even for half a day was considered 'not in labour force' for the entire day.

Here, the number of days a person worked and number of days not worked is clearly recorded. It is more than mere classification of employed and unemployed worker. That is, the intensity of employment and unemployment is also measured. It is measured in person days or person years, say 10 million person days of employment. Here it does not mean that 10 million persons are employed. This 10 million person days of employment may be of 1 lakh workers for 100 days (1 lakh x 100 = 10 million).

It is considered to be a comprehensive measure of unemployment, as it captures chronic unemployment as well as under employment on weekly basis.

Salient Features of 60th Round of NSSO Survey on Employment and Unemployment Survey Conducted in January –June 2004.

The unemployment rate went up between 1993-94 and 2004. It is clear from the table 4.3.

Unemployment rates on the basis of current daily status were much higher than those

on the basis of Usual status implying a high degree of intermittent unemployment. This could be mainly due to the absence of regular employment for many workers.

Table 4.3 Rate of Unemployment on the basis of CDS

Sex	Area	1993-94	2004
Male	Rural	5.6	9.0
	Urban	6.7	8.1
Female	Rural	5.6	9.3
	Urban	10.5	11.7

Source: NSSO

Urban unemployment rates (CDS basis) were higher than rural unemployment rates for both males and females in 1993-94. However, in 2004 unemployment rate of rural males was higher than urban males.

Unemployment rates varied sharply across states. States where wages are higher than neighbouring ones because of strong bargains or social security provisions such as high minimum wage, had high incidence of unemployment in general.

TYPES OF UNEMPLOYMENT

1. Structural Unemployment

It is the unemployment caused by structural changes like rapidly growing population; fall in the rate of capital formation; technological change etc., in the economy. It is of long run nature.

2. Frictional Unemployment

It occurs when people change from one job

to another and remain unemployed during this interval period. This can happen even in a situation of full employment. In order to avoid this usually people resign the current job only after getting employment elsewhere.

3. Cyclical Unemployment

It refers to a situation where people are thrown out from job due to a recession in the economy. This is also known as demand deficiency unemployment. The root cause for this type of unemployment is lack of aggregate demand. The loss of jobs in the after math of US sub-prime crisis world over, comes under this category.

4. Disguised Unemployment

It is a kind of special case. Here people are apparently employed but their marginal product is zero (contribution to production is nil). Marginal product means the produce added to the existing production due to addition of a new employee/worker. For example, if 4 persons are employed in a factory and they produce 17 units and fifth person is added and the produce increased to 19 units, the additional 2 units (19 minus 17) is marginal product. Here, we can consider the fifth person as employed. Suppose, if there is no increase in production, the marginal product is zero and he is disguisedly unemployed. Even if she/he is removed from the activity, there will be no decline in production. This type of unemployment is a feature of Indian agriculture.

5. Educated Unemployment

Even a person who is educated/ trained and skilled, fails to obtain a suitable job suited to his qualification, he is said to be educated unemployed.

6. Open Unemployment

The labourers when live without any work and don't find any work to do come under the category of open unemployment. Educated unemployment and skilled labourers' unemployment are included in open unemployment. The migration from rural to urban areas in search of work is very often found in India is an example of open unemployment.

7. Under employment

It refers to the underutilization of manpower available both in terms of time and skill. If a post graduate of engineering works as a clerk or an office assistant in an office, he is underutilised in terms of manpower. Consider a situation of a person with right qualification in a right job but not engaged in that work the whole time for which he is available then that person is under utilised in terms of time.

8. Voluntary Unemployment

Though jobs are available some person may want to remain idle come under the category of this kind. The people who consider themselves rich enough and think that they are not in the need to work; people who do not have the mind set to work regardless of their economy position and

lazy people are included in this category. These people are not in the labour force.

9. Natural Unemployment

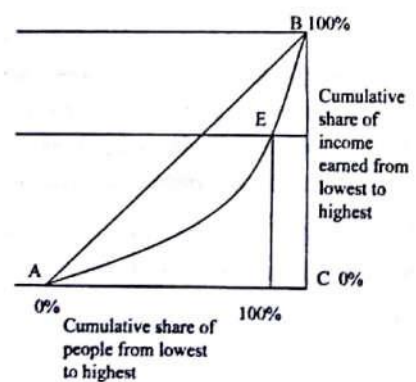
Unemployment ranging between 2 to 3% in the country is considered natural and inevitable. This minimal percentage of unemployment cannot be eliminated at all. It is called natural unemployment.

RELATED TERMS

Lorenz curve

Lorenz curve is curve maps the relationship between the percentage of income or wealth earned or appropriated and percentage of people earned that particular percentage of income or wealth. The cumulative percentage of income is measured on the Y axis and the cumulative percentage of people is measure on X axis.

Fig 4.2



In the figure the AB is the line of equality. The line AEB is Lorenz curve. It is the line of inequality. The point E, shows that 90 % of people earns 60 % of income and the remaining 10 % of people earns the

remaining 40 % of income. It shows that there is inequality.

Gini coefficient

Gini coefficient measures the inequality using Lorenz curve. It is the ratio between area above the Lorenz curve and area below the Lorenz curve.

$$\text{Gini coefficient} = \frac{\text{Area above Lorenz curve}}{\text{Area below Lorenz curve}}$$

The area above Lorenz curve is the area between Lorenz curve and line of equality. The area below Lorenz curve is the area between Lorenz curve and axis of the graph.

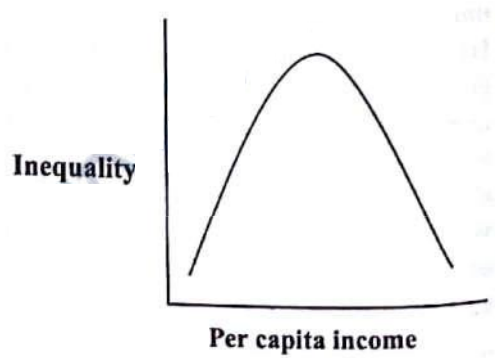
In the above graph,

$$\text{Gini coefficient} = \frac{AEB}{AECB}$$

Kuznets Curve

The Kuznet curve says that in a developing economy initially the inequality will increase and with increase in growth the inequality will come down. This was said by economist Simon Kuznets. It is a bell shaped curve. It is shown in the Figure 4.3.

Fig 4.3



Engel's law

Ernst Engel said that with the increase in income the proportion of expenditure spent on food falls down. But there may be an increase in the absolute amount spent on food. For example when the income is Rs 3,000 per month the family may spend

Rs 1500 on food. It is 50% of income. But when the income rises to Rs 10,000 the family may spend Rs 3,500 on food. In absolute term there is an increase of Rs 2000 but in percentage term it is only 35 % of total income. So the proportion spent on food came down from 50 % to 35 %.