STUDY NOTES · BASIC CONCEPT

HOW POVERTY IS MEASURED — POVERTY LINES, PPP AND INDIA’S POVERTY ESTIMATION JOURNEY

Indian Economy

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1. What is a poverty line?

A poverty line is the minimum level of income or consumption needed to meet basic needs. A person whose income or consumption falls below this level is counted as poor. The share of the population below the line is called the Poverty Headcount Ratio (HCR).

Poverty can be understood in two ways:

- **Absolute poverty:** Inability to afford a fixed minimum basket of goods and services, such as food, clothing and shelter. Poverty lines measure absolute poverty.
- **Relative poverty:** Being poor compared to others in the same society, for example earning less than half the median income. It is more common in developed countries.

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2. Income versus consumption approach

India measures poverty through consumption expenditure, not income. The reasons are:

1. Most Indians work in the informal sector, where income is irregular and hard to record.
2. People tend to under-report income but recall spending more accurately.
3. Consumption is smoother over time and better reflects actual living standards.
4. Consumption data come from the Household Consumption Expenditure Survey (HCES) conducted by the National Sample Survey Office (NSSO) under the Ministry of Statistics and Programme Implementation (MoSPI).

3. The World Bank’s international poverty lines and PPP

To compare poverty across countries, the World Bank uses common poverty lines expressed in Purchasing Power

Parity (PPP) dollars.

What is PPP? PPP is an exchange rate that equalises the purchasing power of currencies. One PPP dollar in India buys the same basket of goods that one dollar buys in the United States. Since prices in India are lower, the PPP rate (about 20–22 rupees per dollar) is much lower than the market exchange rate. PPP figures are produced by the International Comparison Program (ICP).

In 2025, the World Bank shifted from 2017 PPPs to 2021 PPPs and revised its lines:

1. Extreme poverty line: USD 2.15 per day became USD 3.00 per day
2. Lower-middle-income country line: USD 3.65 per day became USD 4.20 per day
3. Upper-middle-income country line: USD 6.85 per day became USD 8.30 per day
4. The higher lines reflect updated prices, not a change in what the line stands for. India is classified as a lower-middle-income country, so the USD 4.20 line is the most relevant benchmark for it. The USD 3.00 line is used to track the Sustainable Development Goal 1.1 target of ending extreme poverty by 2030.

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4. India’s official poverty estimation: the committees

1. **Planning Commission Working Group (1962):** First national poverty line, at Rs 20 per capita per month (1960-61 prices).
2. **Alagh Task Force (1979):** Defined poverty using calorie norms of 2,400 calories per day in rural areas and 2,100 in urban areas. These became the basis for later estimates.
3. **Lakdawala Expert Group (1993):** Kept calorie norms but introduced state-specific poverty lines, using the Consumer Price Index for Agricultural Labourers (CPI-AL) for rural areas and CPI for Industrial Workers (CPI-IW) for urban areas.
4. **Suresh Tendulkar Committee (2009):** Moved away from calorie anchoring. It used a broader basket including health and education spending, and adopted a uniform consumption basket for rural and urban areas. Under it, poverty in 2011-12 was 21.9%, with poverty lines of about Rs 816 per month (rural) and Rs 1,000 per month (urban), roughly Rs 27 and Rs 33 per day.
5. **C. Rangarajan Committee (2014):** Raised the lines to about Rs 32 per day (rural) and Rs 47 per day (urban), adding nutritional and non-food needs. Poverty in 2011-12 was estimated at 29.5%. The government did not formally adopt this report.
6. Since 2011-12, India has had no officially notified updated poverty line. This is why current debates depend on World Bank estimates, independent research and the Multidimensional Poverty Index.

5. Recall periods and survey methodology

How the survey asks about spending changes the result:

1. **Uniform Reference Period (URP):** 30-day recall for all items.
2. **Mixed Reference Period (MRP):** 365-day recall for infrequent items (clothing, durables, education, health) and 30-day recall for others.
3. **Modified Mixed Reference Period (MMRP):** 7-day recall for perishable items like vegetables, milk and eggs, 30-day for other food and fuel, and 365-day for durables.
4. MMRP captures more spending on frequently bought items, so it usually yields higher consumption and lower poverty. The HCES 2022-23 and 2023-24 used MMRP and also recorded items received free through welfare schemes. This is one reason the World Bank warns that methodology changes make comparisons with 2011-12 difficult.

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6. Multidimensional Poverty Index (MPI)

Income or consumption alone does not capture deprivation in health, education or living standards. The MPI, developed by Oxford Poverty and Human Development Initiative (OPHI) and UNDP, addresses this.

India’s National MPI, prepared by NITI Aayog using National Family Health Survey data, covers three dimensions with 12 indicators:

1. **Health:** nutrition, child and adolescent mortality, maternal health
2. **Education:** years of schooling, school attendance
3. **Standard of living:** cooking fuel, sanitation, drinking water, electricity, housing, assets, bank account

According to NITI Aayog, multidimensional poverty fell from 29.17% in 2013-14 to 11.28% in 2022-23, with about 24.82 crore people moving out of it.

7. Why poverty measurement matters for policy

- Identifies beneficiaries for schemes like the National Food Security Act, PM Awas Yojana and Ayushman Bharat.
- Guides allocation of central funds among states.

- Tracks progress on Sustainable Development Goal 1 (No Poverty).
- Shows where poverty is concentrated regionally and socially, helping target interventions.

8. Limitations of poverty lines

- A single line ignores people just above it who remain highly vulnerable, the “near-poor”.
- Consumption surveys under-record spending by rich households, understating inequality.
- Price differences across states and between rural and urban areas are hard to capture fully.
- Poverty lines do not show depth (how far below the line people are) or severity. For this, economists use the Poverty Gap Index and the Squared Poverty Gap Index.

9. Key terms for revision

- Headcount Ratio: share of population below the poverty line
- Poverty Gap Index: average shortfall of the poor from the poverty line
- Gini Coefficient: measure of inequality, from 0 (perfect equality) to 1 (perfect inequality)
- PPP: exchange rate that equalises purchasing power across countries
- HCES: NSSO survey on household consumption
- PLFS: Periodic Labour Force Survey, India’s main source of employment and earnings data since 2017-18

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