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# India's Welfare Gamble: Add 100 Million to the Rolls

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By AMOL SHARMA

LUCKNOW, India—Alimunisha's home is a 150-square-foot mud floor with a roof of plastic tarp held up by bamboo sticks. The beds are burlap potato sacks. There's no running water, electricity or toilet. She can afford to feed her five children one meal a day on the income her husband earns selling traditional drums.

## Redefining Poverty in India

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Sanjit Das/Panos for The Wall Street Journal

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But according to the Indian government, Ms. Alimunisha, who goes by only one name, isn't living in poverty.

That means her family doesn't qualify for aid aimed at the poorest Indians, including a program that provides free housing and subsidies that would cut her food costs by two-thirds.

India, one of the world's fastest growing economies, is now embarking on a major reassessment of poverty levels. The review will determine how many struggling people across the world's second-most populous nation, from urban slum dwellers like Ms. Alimunisha to landless farm laborers, will be

counted among the ranks of the official poor and get government handouts. At a stroke, tens of millions of people could flood onto the welfare rolls.



Millions of destitute Indian families don't qualify for food subsidies or housing assistance because they are not officially considered poor. Now the government is reassessing its poverty levels. WSJ Amol Sharma reports.

Generating a reliable list of poor households has become a top priority for the government of Prime Minister Manmohan Singh, which has pledged to spread the benefits of India's rapid growth to the *aam aadmi*, or common man. The government launched its review of poverty as it drafts legislation to give the poorest Indians a right to subsidized food-grains.

Defining poverty is tough in any country. But deciding who is poor, and how much the government can afford to help them, is especially complex in a nation of 1.2 billion where average annual per capita income is

\$953 and roughly one in two children is malnourished.

Expanding the definition of poverty without ballooning social spending will be doubly difficult. India already spends \$12 billion a year on food subsidies alone. The review could add 100 million people to the welfare rolls and \$1.3 billion a year to the nation's food-subsidy bill, a burden on a country that is striving to trim public deficits.

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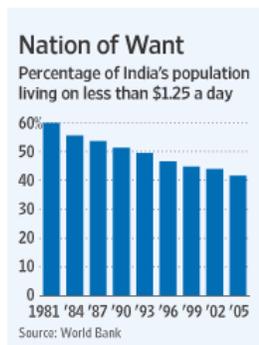
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"It would be nice to make a list of all vulnerable groups and say those are the ones who should get support," says Jean Drèze, a development economist at the G.B. Pant Social Science Institute in Uttar Pradesh state. "But the question is, where do you draw the line when the costs shoot up?"



India is plowing ahead anyway. The Planning Commission, which advises the central government on economic policy, said in April it is taking steps that would increase the national poverty rate to 37.2% of the population, from 27.5%. That will increase the official tally of the poor by about one-third, bringing it to roughly 408 million.

Some Indians say even that enormous figure, which is based on a poverty income threshold of \$10 per person per month in rural areas and \$13 in cities, is far too low. They point to government-appointed panels that have pegged the realistic poverty rate as high as 77%, based on a daily income of about 45 cents per day.

The proposed change has kicked off debate among economists over how the country can best help the poor without threatening economic growth, the ultimate cure for poverty.

"When you have policies that attempt to be redistributive on the scale that India is doing, it has fairly significant implications on the availability of capital for investment," says Eswar Prasad, an economics professor at Cornell University.

Some economists say India needs to focus instead on making its existing welfare programs more efficient. They point to the food program, where an estimated one-third of the grains the state purchases are stolen or diverted to the black market, according to government officials. But India's poor are a powerful and often decisive voting bloc, so politicians court them aggressively.

Spending on social services and development has increased dramatically since the left-leaning Congress Party came to power in 2004, from 10.5% of government spending that year to nearly 20% in the most recent fiscal year.

The subsidy bill for food, fuel, fertilizer and other commodities has more than doubled over that span to \$23.6 billion. Programs to build houses and roads in poor rural areas and provide unskilled jobs to the unemployed have seen huge increases.

Some say Indian politicians are too quick to sign off on social-spending increases because of the obvious political dividends.

"These social welfare schemes are really just populist measures to win votes," says Arun Shourie, an economist and former minister in a government led by the Bharatiya Janata Party, now the main opposition party. "No party is able to oppose them, because everyone is trying to win an election. This is the cause of fiscal deficits getting out of hand."

Prakash Javadekar, a member of the upper house of parliament and spokesman for the BJP, says the party is "roughly agreeable" to the poverty-level increase proposed by the Planning Commission. He says concerns about the impact of increased welfare spending on fiscal deficits "shouldn't come in the way of empowering the poor."

Years of growth in countries like India and China have lifted the fortunes of tens of millions of people in the past quarter century.

The World Bank, which defines poverty as survival on less than \$1.25 per day, says India reduced poverty from 60% of the populace to 42% between 1981 and 2005, but says the country still accounts for one-third of the world's 1.4 billion poor people. In the same period, China reduced poverty from 84% to 16%.

Poverty assistance in India is provided through government ration cards, which confer poverty status on individual households. The official poverty estimate acts as a cap on the number of households that can be deemed in poverty, so states have quotas on the number of ration cards they can issue.

Measuring household income is difficult in a country where many workers are paid in cash and don't file tax returns. Local officials have to use discretion in deciding who makes the cut. Often, there are more deserving families than there are ration cards, the officials say.

Social activists and economists say the system excludes many needy households and doesn't adequately address the urban poor such as Ms. Alimunisha.

"The quota is so small. There just aren't enough ration cards for how many poor people there

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really are in this country," says Sandeep Pandey, a grassroots activist who is lobbying to get the roughly 100 households in Ms. Alimunisha's slum classified as below the poverty line.

In rural areas, India identifies the poor through door-to-door surveys every few years. In past surveys, families with a ceiling fan, flush toilet, scooter or more than 10 garments of clothing were less likely to be classified as poor. That approach has been criticized, and government officials are trying to come up with a better survey before the next rural census begins next year.

Specialists have long debated the best way to set poverty lines. The U.S. sets its line at three times the cost of a basic basket of foodstuffs, since food is thought to be one-third of the typical family's budget. As of 2008, the U.S. government said 39.8 million Americans were in poverty, or 13.2% of the population.

India's poverty line had been calibrated to the cost of a basket of goods including food, fuel and clothing. The Planning Commission wants to expand the basket to include education and health care, which would result in the poverty count jumping.

Even with India's proposed higher national poverty line, says B.K. Sinha, a senior official in the Ministry of Rural Development, ration cards will remain a scarce commodity, because they're a "passport" to 29 central and state welfare programs including subsidies for food, fuel and housing, national health insurance and free electricity.

N.N. Kaul, a spokesman for the Planning Commission, says states are partly to blame for the scarcity of cards because they let too many end up in the hands of well-off families, who use their political connections to get categorized as poor in order to get government freebies.

In Lalpur, a farming village outside Lucknow, the capital of Uttar Pradesh state, only one of the 60 households is classified poor.

Ramjeevan, a landless agricultural laborer, has tried but failed to be designated as such. The 35-year-old supports his family of eight by sharecropping, which brings him an annual haul of wheat that lasts three months. The \$15 per month he makes from other odd jobs doesn't go far at the food market. Sometimes he and his family resort to eating leaves off a guava tree. Sometimes they go hungry.

In the nearby village of Mohammadpur, the economic environment appears almost identical, but 50% of the 400 households are classified as below the poverty line. Locals couldn't explain the discrepancy in the benefits received by the two villages.

Mohammadpur's village leader, Motilal Sharma, says he just uses his judgment to decide who is most deserving.

"If someone is old and has very little land, they get a card," he says. "I try to choose the people who are helpless."

Rajiv Agrawal, commissioner of food and civil supplies in Uttar Pradesh, says the state's tally of below-poverty-level households, 10.6 million, isn't reflective of reality. He wants the central government to raise the state's poverty quota so it can hand out more ration cards.

For now, Mr. Agrawal says, new cards can only be issued when others are canceled, such as when a family goes over the poverty line or a cardholder dies. Starting this fall, the state intends to start giving \$7 in cash per month to poor households that can't get ration cards.

The ruling Congress Party is drafting a law to make food subsidies a statutory right—they're currently provided via executive order—and to increase subsidies for basics like wheat and rice. Under the current system, below-poverty-line families get 77 pounds of food and 3 liters of kerosene, which they use for lanterns in areas with no electricity, for less than \$5. The bill also aims to clean up corruption in the distribution process.

But the most pressing question is how many people the program should cover. Congress Party President Sonia Gandhi, who has made the "right to food" bill her pet project, was unhappy with early drafts based on the previous poverty count, because she thought too many people would be left behind, people familiar with her thinking say. Through a spokesman, Mrs. Gandhi declined to comment.

It isn't hard to see why politicians find it so tempting to expand the welfare rolls. In urban areas like Ismail Ganj, the Lucknow slum where Ms. Alimunisha lives, residents beg for water from nearby government buildings, often without success. They bathe and defecate in the open.

Last September, the city bulldozed the slum prior to the planned inauguration by the state governor of a building across the street—the state's Human Rights Commission. The ceremony was canceled amid a backlash over the incident. Residents re-erected their mud and bamboo homes.

Ms. Alimunisha's husband earns about \$40 per month—less than the official poverty line for a household of seven—by selling "dholaks," folk drums made of mango wood and goat skin.

"I feel so bad being poor," Ms. Alimunisha says. "Are we going to have to live like this all our lives?"

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