

Rural Poverty Eradication Programme : Some Relevant Issues

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In the literature of development economics poverty has been defined in absolute and relative terms. Absolute poverty means that part of population of the economy which is living below subsistence level, quite often defined as poverty line. Whereas income relative poverty expressed in terms of inequality. In this paper poverty is correlated with the pattern of income generation and its distribution among various income classes. It is suggested that additional income for persons living below poverty line will help them, to raise their standard of living and ultimately reduce the income inequality. This process evolves more relevant issues, like "who is really benefitted from this additional income?" Answer of this question is dependent on so many factors like, consumption behaviour of poor class, production structure of the economy, value added distribution among the various income classes, etc.

Purpose of this paper is to study the impact of income redistribution on the output structure and the level of income distribution. This paper is based on the standard semi closed static input-output model. It is not necessary to describe the mathematical model, the detailed statistical adjustments and methodology related to the problem at this stage. (For detail see, Srivastava, 1985). In a nut shell this study is based on U.P. economy. Urban and rural population are

divided into three income class of equal size, named as bottom, middle, and top income class, which are 33%, 34% and 33% of the total population respectively. In rural areas bottom income class consists of land labourers and poor peasants. Semi closed standard Leontief Input-Output model used to study the structural analysis of the income redistribution effect. System is semi closed because household consumption levels are endogeneously determined. The exogenous vector of final demand is composed of government consumption, gross fixed capital formation Net export, change in stock etc.

In this empirical study, there are three income levels, designated as bottom, middle and top income levels for rural and urban separately. For eradication of rural poverty, three types of income redistribution have been discussed. First, income redistribution in which injection of additional income to rural poor class without affecting the income of other income groups, second type of income redistribution in which income is transferred from top income class (rural or urban) to rural poor class for "one only." Third type of income redistribution in which a part of income permanently transferred to rural bottom class from top or middle income groups. This has been done by changing the pattern of value added distribution. Though this study is extensively for U. P. economy, but the most of the results

can be generalized for all India level also.

Discussion of Results :

(1) The percentage distribution of value added across income groups between rural

and urban areas is shown in Table 1 which expresses the relative position of rural and urban areas.

Table 1 : Percentage Distribution of Value Added Across the Income Group Among the Rural and Urban Areas.

| Sectors | Income Groups | | | | | | | |
|------------------------------|---------------|--------|-------|-------|--------|--------|------|-------|
| | Rural | | | | Urban | | | |
| | Bottom | Middle | Top | Total | Bottom | Middle | Top | Total |
| Agriculture and Allied Goods | 11.0 | 15.5 | 71.03 | 97.53 | 0.74 | 0.39 | 1.54 | 3.22 |
| Industrial Goods | 2.9 | 10.9 | 17.6 | 31.5 | 5.2 | 11.0 | 52.3 | 68.5 |
| Services Goods | 3.4 | 15.0 | 16.1 | 34.5 | 11.7 | 22.5 | 31.3 | 65.5 |

86% of total population living in the rural areas getting 97.5% of value added share of agricultural and allied goods sector, whereas 19% of total population living in urban areas getting 3.2% of the agricultural income. This shows the dominance of agricultural income for rural population. On the other hand industrial and services sectors generate the the income, which is mainly urban population bias.

In rural areas bottom income class is mostly dependent on agricultural allied goods sector, because this is the only sector which gives them little income. So it is important to improve this sector and higher agricultural wages for rural bottom class, to make them better off.

It is clearly expressed by Table 1 that the root cause of poverty and income inequality lies in very high disparity in the value added distribution, which is highly in favour of top rural and urban income classes. Any poverty eradication programme cannot get success in reducing income inequality until this system prevails.

(2) In the next stage, effect of income redistribution discussed when the additional income given to the rural bottom class. In this connection

Table 2 : Per Capita Feedback Income Effects between Rural and Urban Areas : Per Capita Income Increase from Injencion of Rs. 1/- to Rural Bottom Income Class,

| | Rural | | | | Urban | | | | |
|--------------|--------|--------|------|----------|--------------|--------|------|----------|-----------|
| | Bottom | Middle | Top | AV Rural | Bottom Rural | Middle | Top | AV Urban | AV All Up |
| Rural Bottom | 1.15 | 1.62 | 7.11 | 3.28 | 0.62 | 1.37 | 4.96 | 2.31 | 3.14 |

Table 2 expresses the distribution of total income effect, when Rs.1/- additional income being injected to rural bottom class. The net increase of Rs.1/- income generates total 3.14 average income effect, out of which 2.31 for urban and 3.28 for rural class. Rural rich gets highest share 7.11, followed by urban rich 4.96. Rural poor gets lowest share i.e. 1.15. To explain this, one has to look at the structure of the economy. Rural poor has marginal propensity to consume almost one. Whatever income rural poor gets he spends it immediately and major (76%) portion of their expenditure goes to food. The production structure of agricultural and allied goods sector is like this (according to Table 1) that the value added distribution is in favour of rural top income class. So in the second round large portion of additional income of rural bottom class goes to rural rich class. In third round, Rural rich class spends his income for agriculture, industrial and services sectors, which again generates income for rural rich and urban rich mainly. As a result of this chain rural poor gets very low share and rural rich class gets largest share of additional income

Thus the total income effect is a complex behaviour. First it is the function of consumption behaviour of the recipient income class, in the second round it becomes the function of output structure, production structure, value added distribution and consumption behaviour of all other income classes. Total income effect does not differ significantly, in the case of when income injected rural middle and urban poor and middle income groups, because their consumption

behaviour do not differ significantly.

This discussion leads to an important policy issue that injecting additional income to rural poor class is not the solution of poverty. This process does not eradicate the rural poverty. What requires is the redistribution of wealth along with income redistribution. On the basis of above discussion following are the suggestions for rural poverty eradication programme.

- (i) Altering the value added distribution structure is very much necessary to eradicate rural poverty. For this purpose there is a need to reexamine the land reform programmes and cooperative farming.
- (ii) There should be a permanent source of income for rural bottom income class. This can be in the form of higher agricultural wages and cottage industries of agricultural allied goods.
- (iii) Income redistribution programme will not automatically generate the employment potential, so a separate programme for the employment generation for rural bottom class should be taken up by the Governments.
- (iv) Proper cost benefit analysis should be done by the planners before investing in any public project particularly in rural areas.

REFERENCE

Srivastav, N (1985), Sectoral Interdependency and Effects of Income Redistribution in the Economy of Uttar Pradesh : A Study in Input-Output Framework, Ph. D. Thesis (unpublished), II T Kanpur.