Duvvuri Subbarao: Understanding inequality and poverty in India

Welcome remarks by Dr Duvvuri Subbarao, Governor of the Reserve Bank of India, at the First Prof Tendulkar Memorial Oration, at the College of Agricultural Banking (CAB), Pune, 19 January 2013.

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On behalf of the Reserve Bank of India, I am delighted to welcome Prof. Abhijit Banerjee, who will shortly be delivering the First Professor Tendulkar Memorial Oration. I also have great pleasure in acknowledging the presence here of Smt. Sunetra Tendulkar and other family members of late Prof. Tendulkar. Your presence here means a lot to us. A hearty welcome also to all the distinguished invitees to this lecture.

Prof. S.D. Tendulkar

Prof. Suresh Tendulkar was, by all accounts, one of the pre-eminent economists of India who was deeply respected both in the academia and the public policy space. His scholarship straddled a wide range of sub-disciplines in economics but his seminal work on the measurement and analysis of living standards in India, with focus on inequality and poverty, will remain his enduring legacy to public policy formulation.

This topic which dominated his academic work, and the passion with which he pursued it say a lot about two essential characteristics that defined Prof. Tendulkar. The first was his abiding sensitivity to poverty and his belief that the design and implementation of anti-poverty programmes should be informed by a deeper understanding of the nature of poverty and the sociology of the poor. The second was his dedication to empiricism. Not for him broad generalizations based on anecdotal evidence. He believed that the only route to knowledge and wisdom is data, and that public policy should be based on research findings that are drawn from diligent analysis of sound data.

Both these characteristics – deep sensitivity to poverty and a commitment to data based research to understand poverty – have in a way determined Prof. Tendulkar's academic and career graph. His academic track record will overawe any student of economics. After a Masters degree in Economic Statistics from the Delhi School of Economics in 1962 where he finished at the top of his class, Prof. Tendulkar got a doctorate from Harvard University with big names like Professors Hendrik Houthakker and Hollis Chenery as his thesis advisers. He returned to India to join the Indian Statistical Institute (ISI) following which he went on a prestigious two-year assignment to the Development Research Centre of the World Bank. Almost all of his later active career, from 1978 on, was in the Delhi School of Economics where he served with great distinction, first as a professor, then as Head of the Department of Economics and finally as the Director of the School. From 2000 until his retirement in 2004, Professor Tendulkar served as the Executive Director of the Centre for Development Economics in the Delhi School.

Professor Tendulkar's concern for data quality led him to a life-long involvement with the process of generation of economic data through a succession of public assignments. He served on numerous Working Groups for the design and conduct of the National Sample Surveys, was the Chairman of the Governing Council of the National Sample Survey Organisation (NSSO), Chairman of the National Accounts Advisory Committee and Chairman of the National Statistical Commission.

Quite understandably, Prof. Tendulkar's commitment to empirical research and his sensitivity to poverty led him to very extensive and influential work on estimation of poverty in India. He was a member of the Lakdawala Committee for estimation of poverty 1993 which, among other things, recommended state specific consumption baskets for estimation of poverty. The more recent Tendulkar Committee Report, which was the subject matter of a vigorous

national debate, revisited these norms and improved on them by recommending bringing estimation of rural poverty in line with that of urban poverty.

Although I had long heard of Prof. Tendulkar from his students and colleagues who spoke very highly of him, I did not have the good future of meeting him until late in my career when he was a member of the Prime Minister's Economic Advisory Council and I was the Secretary to the Council. Later, he became the Chairman of the Council in which position he advised the Prime Minister on important policy issues.

My association with Prof. Tendulkar continued as I moved to the Reserve Bank in 2008. Prof. Tendulkar was a Director on the Central Board and Chairman of the Eastern Region Local Board of the Reserve Bank during 2006–11. The Reserve Bank deeply values this association with him and has benefitted immensely from his wise counsel and mature guidance.

Like thousands of his students, colleagues and well wishers, we in the Reserve Bank were deeply saddened by his unexpected demise in June 2011. We remember him as an outstanding economist distinguished by his intellectual integrity, and more importantly, as a wonderful human being with disarming simplicity and endearing humility.

The Reserve Bank has decided to institute this oration to honour the memory of Prof. Tendulkar, his contribution to the Economics profession and his association with the Reserve Bank. Unlike other memorial lectures instituted by the Reserve Bank which are typically delivered in Mumbai, the venue for the Tendulkar Memorial Oration will be the Reserve Bank's College of Agricultural Banking in Pune which was the native place of Prof. Tendulkar and the oration will be devoted to a topic in Development Economics.

Professor Abhijit Banerjee

We are fortunate that the inaugural Tendulkar Memorial Oration is going to be delivered today by an internationally renowned economist like Professor Abhijit Banerjee who shares with Professor Tendulkar a passion for understanding poverty based on hard core ground research. Professor Banerjee's scholarship is deep and extensive, but most of us know him through his seminal book – *Poor Economics* – that he co-authored with Esther Duflo in 2011.

Poor Economics provides refreshingly original insights into how the poor live and why they make such seemingly irrational choices. The unique feature of this book is that it eschews generalizations and uninformed guesses about the nature of poverty. Banerjee and Duflo have literally got their hands dirty by visiting dozens of countries and studying first hand how the poor live and how they make decisions about everyday issues. The message of the book is that there is no grand, universal formula for poverty reduction. The battle has to be fought on several fronts. What works somewhere does not necessarily work everywhere. The way forward lies in grass root field experiments to understand the causal relationships in poor people's behavior and in learning by doing.

Professor Banerjee is currently the Ford Foundation International Professor of Economics at the Massachusetts Institute of Technology. In 2003 he founded the Abdul Latif Jameel Poverty Action Lab (J-PAL) with the objective of promoting randomized trials – similar to the ones used in medical research – to study antipoverty programs. Prof. Banerjee and his colleagues have a simple, but radical goal. They want to overhaul development aid so that more of it is spent on programs that actually make a difference. In 2009, J-PAL won the BBVA Foundation "Frontier of Knowledge" award in the development cooperation category.

Professor Banerjee has had a distinguished academic career. He studied Economics at the Presidency College in Calcutta and later at the Jawaharlal Nehru University in Delhi. He earned his PhD, like Professor Tendulkar, at Harvard for his thesis entitled "Essays in Information Economics". He won several academic awards for his research which has been widely acknowledged as pushing the frontiers of development economics.

Identifying of the poor

Professor Banerjee will be speaking today on "Identifying the Poor". This is a topic that, for us in India, has been intellectually challenging and politically contentious. Yet, poverty measurement and identification are important for at least three reasons.

i.   First, a credible measure of poverty is a powerful instrument for focusing the attention of policy makers on the living conditions of the poor. To put it another way, it is easy to ignore the poor if they are statistically invisible.

ii.   Second, in order to target interventions, one cannot help the poor without at the minimum knowing who they are. This is the purpose of a poverty profile, which sets out the major facts on poverty and then examines the pattern of poverty to see how it varies by geography and by community.

iii.   Third, measuring poverty helps to clearly define the expected outcomes of an anti-poverty programme and also to compare the actual outcomes against the expected outcomes.

Poverty and the Reserve Bank

While all of us understand the importance of poverty measurement for framing good development polices, one could legitimately ask about why the Reserve Bank is moving out of its traditional domain into identification and measurement of poverty. I believe this is a topic of importance for the Reserve Bank for at least two reasons.

First, it is well known that inflation impacts different segments of the income distribution differentially. For example, low income segments, which spend a greater proportion of their budgets on food, are more adversely impacted by high food inflation. On the other hand, sluggish demand could well be constraining their employment opportunities. Measuring the aggregate welfare consequences of a particular monetary stance is clearly something that central banks need to be able to do in order to make a holistic assessment of their policies. Identification is one important step in that direction, which needs to be complemented with focus group or panel tracking approaches. The research community has made some effort in this direction; perhaps it is time to give the approach more prominence in the macroeconomic policy dashboard.

The second reason for the Reserve Bank's interest in poverty identification and measurement stems from the priority the Bank attaches to financial inclusion and literacy. I must add here that over the last five years, our financial system, particularly our banking system, has been furthering financial inclusion and financial literacy with commitment, enthusiasm and earnestness. But financial inclusion is not an end in itself; it is a means to higher and more stable levels of household welfare. In order to assess whether this more fundamental goal is being achieved, we need to measure the impact of inclusion programmes on individual households, particularly those at the lower end of the income distribution. Here again, identification and tracking are pre-requisites for an effective monitoring and control mechanism.

Despite all our collective experience and expertise, one thing is clear: we need to improve our understanding of the poor and of poverty. Who better to take us along the path of continuing education than Professor Abhijit Banerjee? Ladies and gentlemen, please join me in welcoming Prof. Banerjee to deliver the First Professor Tendulkar Memorial Oration on "Identifying the Poor".