Assets and Inter-temporal Wellbeing- A Micro-econometric Analysis of Mobility and its Determinants in India (using IHDS panel data 2004-05 to 2011-12)

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Researchers and Policymakers have been and still are interested in knowing ways to reduce poverty in India. India has seen a marked reduction in poverty rates over the past few decades. The magnitude of fall in poverty is debatable due to the changing methodologies in data collection as well as estimation procedures, but largely there remains a consensus about significant fall in poverty rates. Even with this marked reduction, poverty in India persists at a high level. This macroeconomic trend of consistently falling poverty rates hides the fact that newer households have also entered the state of poverty. Different households have had different experiences under the same macroeconomic setting. Indeed few households have escaped poverty, but some have remained poor, some have entered poverty and some have remained non-poor. These are commonly referred to as poverty transitions. This dynamism needs to be studied so that we know what determines escapes from poverty viz. a viz. factors that push households into poverty. Only once we have an understanding of this, can we move closer to framing a policy aimed at sustainable poverty reduction that maximizes escapes from poverty and minimizes entries to poverty. People with different poverty experiences require different policies- for e.g. for people who remain poor throughout, policies should aim at building their asset base and augmenting their wellbeing generating capacity whereas for people who temporarily move into poverty due to external shock, policies in form of safety net may be much more useful.

Although there are various ways to study poverty dynamics and chronic poverty, use of household level panel or longitudinal data is the most preferred one as it allows us to track the wellbeing outcomes as well as other important socio-economic variables for the population being studied. Poverty analysis in India has been largely based upon cross sectional analysis. Baulch and McCulloch (2002) explain that correlates of poverty status (being poor vs. being non poor) are different from the correlates of poverty transitions. Cross sectional analysis permits only the study of correlates of poverty status, therefore while it tells the policymakers who these poor are it does not guide them about how to overcome these (Baulch and McCulloch, 2002).

Our work is a natural progression to the work on poverty transitions. We argue that even within households who say, have had the same experience in terms of moving out of poverty, there are significant differences to be studied that enhance our understanding of changes in wellbeing. Households that move out of poverty land up at different positions in say, consumption expenditure space. Similarly households that move into poverty in a particular period are different in terms of which part of the consumption expenditure distribution they come from. A household could come from the highest quintile (or even decile) of consumption expenditure distribution while another household may come from just above the poverty line. There could be different factors for both the households that pushed them into poverty. Studies of poverty dynamics have not incorporated this important aspect of starting and end point nor does it take into account the extent of change experienced by the household in poverty transitions.

Drawing insights from the above, we study wellbeing transitions as opposed to just poverty transitions. This study looks into the changes in wellbeing in India between 2004-05 and 2011-12 using Indian human Development Survey's household panel data. Wellbeing is defined in terms of consumption which is different from consumption expenditure in significant ways. Inter-temporal wellbeing is examined by studying consumption transitions or consumption mobility, where mobility is defined in terms of growth and relative position. The study then looks at the determinants of these mobility transitions in terms of household's asset base. It is among the very few studies to look into factors of upward mobility (positive wellbeing changes) and downward mobility (negative wellbeing changes) separately. It is unique in terms of how it marks a distinction between factors that assists in covering shorter distances vs. longer distances in consumption space. It also sees how these determinants of upward and downward mobility change across different consumption groups and how they vary between rural and urban areas.

Another central point of this study is that in determining the factors of mobility it focuses on the role of village infrastructure in rural areas to see if the transitions are a function of household characteristics or the characteristics of the village or town they inhabit. Social capital in form of networks and membership is also incorporated in the analysis.

Some key findings from this study are that immobility in consumption (both- growth and relative immobility) exists in the highest and lowest consumption quantile. The immobility in consumption in relative terms is much higher. If we do away with the construction of quantiles based on equal frequency and construct categories in accordance to poverty line in India (e.g. twice of poverty line, thrice of poverty etc) the immobility comes out to be much stronger than before. The study also corrected for marginal transitions-i.e. some people move between quantiles because they are situated near the threshold which gives the impression that they have and significant changes in consumption.

Studying factors for these changes in wellbeing, we find that upward mobility for all consumption groups in rural areas depends upon Irrigation facilities, moderate and high level of education, salaried or wage employment, membership in cooperatives/unions/help groups, social network and most importantly village infrastructure. Village infrastructure was particularly important for households who were initially in low consumption group. Also effects of social capital in upward mobility were only restricted to covering shorter distances. For lower consumption categories household characteristics in terms of age and sex of the household head were also important. Male headed households fared better. Downward mobility was associated with availing credit regardless of the purpose of loan and with belonging to SC and ST caste. It was also associated with the low return on lower level of education. With few exceptions the above results remained true for urban areas.