

# Growth Trajectories and the Rise of Middle Class – India in a Comparative Perspective

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# India's Economic Performance

- Growth acceleration in since 1980, especially during the last boom, 2003-08, to 9% per year.
- Macroeconomic stability, with rising domestic saving and investment rate, to 35-37% GDP, foreign capital adding 1 ½-2% of GDP.
- Export-led growth with Exp-GDP ratio 26%, led by IT and outsourcing, and capital intensive mfg.
- Income poverty declined to 27%, down from close to 50% around 1980.

# The Flip Side

- Jobless growth
- Deceleration in agriculture.
- Poor performance of labour intensive industries.
- Modest structural transformation of labour force – 52% in ag., nearly 70% rural in 2009-10.
- Since services are urban based, rural-urban inequality in per capita income has risen from 3.5:1 in 1980, to 5:1 in 2005.
- Within urban, formal-informal inequality has also risen as high-paying services jobs are in formal sector.

# Poverty and Social Services

Poverty Reduction is skewed, regionally and socially.

Poverty reduction has only marginally improved nutritional status.

Improvement in health outcomes remain modest.

Bangladesh with  $\frac{1}{2}$  India's per capita income has shown better health outcome lately (Amartya Sen has recently shown).

# India's "Middle Class"

- International business and consultants have defined this class, as consisting of the top 150-200 mn – less than 20% of population.
- ADB has defined the middle class in Asia as those with 2-20 per day ppp\$ consumption.
- By this definition bottom 80% in India is **below** the middle class.

# Comparing India and LA

- Emergence of the middle class in India and LA refer to two entirely different segments of income distribution.
- In LA, it is those with daily income \$10-50 ppp\$ at 2005 prices, forming 30% of population, which has crossed the poverty line is referred to as the new middle class”

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# Understanding the Difference

- The new middle class in LA is the outcome of redistributive policies (cash transfer), and many progressive social policy initiatives, though per capita income growth compared to Asia, is still modest.
- Significant accomplishment, as it came after prolonged period of high inflation and very little growth.
- India's recent export-led growth acceleration polarised the economy, due to poor employment growth, and modest social policy efforts.

# Vulnerabilities

- Those emerging out of poverty seems to remain economically vulnerable, both in India and LA.
- In LA their share is estimated to be 35-40% of pop.
- Anirudh Krishna (2010), put their position sharply as:
  - **Poverty = Frequent downward tugs + Restricted upward mobility**

# India's Social Policies

- Public expenditure as % GDP on health and education have remained at 1% and 3.5%.
- Educational and health outcomes remain very poor.
- Public health in terms of access to sanitation and drinking water is extremely inadequate , with no improvement in the last decade, during a period when the economy boomed.

# Employment Guarantee Programme

- NREGA, launched in 2004, was perhaps most ambitious effort yet, to provide 100 days of wage employment in rural India.
- Modest and uneven success in implementing it, with no income guarantee.
- Usual stories of the proverbial leaky bucket abound.
- Yet, NREGA has apparently raised floor of rural wages, tightening labour market in some pockets.

# Shift to Cash Transfers

- To plug the leakages, cash transfers will be implemented from next month.
- To carry it out, technically advanced “Unique ID” has been prepared, and bank accounts are opened for the eligible poor.
- Enormous skepticism considering:
  - Lack of markets or highly inefficient markets.
  - Supply constraints
  - Misuse of cash by male heads of families in social evils of drinking and gambling.

# Social Security

- Mostly restricted to public sector, corporate based sector and factory sector.
- Efforts to expand the coverage to informal sector is modest and uneven, restricted to a few vulnerable groups.
- Policy advocacy for universal social security is contested against creating “entitlement society” at an early stage, and for creation enabling environment by provision of infrastructure and education.

# Sum up

- Starting with a low base, growth accelerated in India; most recently driven by export of services and capital intensive manufactures.
- Growth has been polarising, with rising inequalities, and a modest decline absolute poverty.
- Decline in poverty has improved quality of life very modestly.

# Sum up

- “Middle class” is identified by very differently segments of the income distribution in India and LA.
- In LA, the new middle is the outcome of improved income distribution based progressive policies, though GDP growth is as yet modest.
- Middle class in India represents the top end the income distribution, which gained the most from the growth acceleration, though absolute poverty has declined modestly.

Thank You