

INDIA RE-EXAMINATION OF MIDDLE CLASS: WHO IS SUPPORTING THE INDIAN ECONOMY?

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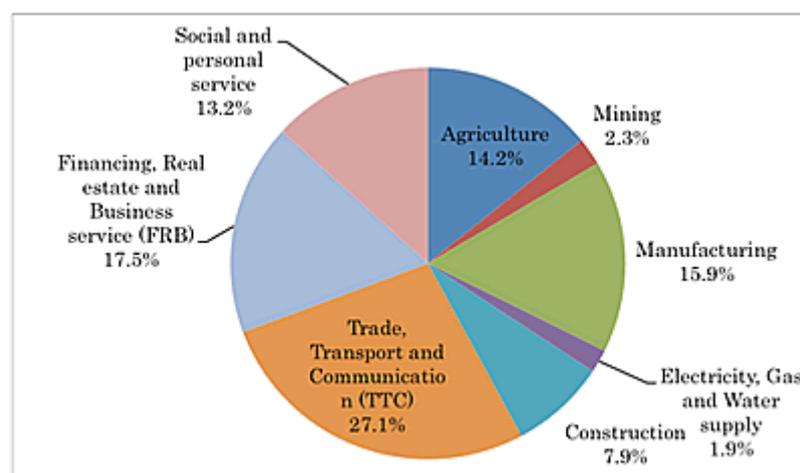
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On 7 February 2011, India's Central Statistics Office issued a Press Note on Advance Estimates of National Income, in which the GDP growth rate at constant (2004-05) prices during 2010-11 was estimated to be 8.6%. After three consecutive years of rates above 9% starting in 2005-06, India's GDP growth rate was only 6.9% in 2008-09 as a result of the world-wide recession. Since 2009-10, it has again risen above 8%. This paper investigates which industries have led Indian economy and tries to determine whether the "middle class" has supported these leading industries as consumers.

Leading Industries during the 2000s

Figure 1 shows the composition of GDP in 2010-11. Trade, transport and communication (TTC), financing, real estate and business service (FRB), and manufacturing accounted for 27.1, 17.5, 15.9% of growth, respectively. Gross value added (GVA) in TTC, FRB, and manufacturing increased by 9.8, 11.2 and 8.9%, respectively, between 2004-05 and 2010-11 (**Table 1**).

Figure 1 Share of GDP in 2010-11



Source: Central Statistics Office, *Press Note on Advance Estimates of National Income 2010-11*.

Table 1 Growth Rates of Gross Value Added between 2004-05 and 2010-11 (%)

Agriculture	3.3	Trade, Transport and Communication (TTC)	9.8
Mining	4.3	Financing, Real estate and Business service (FRB)	11.2
Manufacturing	8.9	Social and personal service	7.6
Electricity, Gas and	7	GDP	8.2

Water supply	
Construction	8.3

Source: Central Statistics Office, NATIONAL ACCOUNTS STATISTICS 2010.

Two of these industry categories, TTC and FRB comprise a large share of GDP and have contributed substantially to economic development and, thus, warrant more detailed analysis. The most recent GVA data is for 2008-09. GVA of trade and transport increased rapidly between 2004-05 and 2008-09, accounting for 57.5 and 25.1%, respectively, of TTC in 2008-09. Although the share of private communication in TTC was only 5.8% in 2008-09, this represents a four-fold increase over 2004-05. The increase is primarily attributable to cell phone usage. Telephone service in India has changed dramatically after liberalization. In the 1980s, it could take several years after an application of landlines was made before a phone line was actually installed. It was also necessary to go to nearest telephone office to make inter-state and international call. After liberalization of telephone service started in the 1990s, many telephone stands for inter—state and international call became ubiquitous in cities, making it easier to make inter—state and international call. As cell phones began to spread in the 2000s, telephone stands disappeared. The low tariff rates of cell phones relative to other living costs enable even low income individuals to own cell phones and to utilize cell phone services. With respect to GVA of FRB in 2008-09, financing and ownership of dwellings accounted for 36.8 and 24.6%, respectively. While the average GVA growth rate of ownership of dwellings in urban areas between 2004-05 and 2008-09 was 1.4%, that in rural areas was 4.4%. The absolute value of GVA in rural areas was 1.6 times that of urban areas, attributable to growth in the suburbs of cities whereby open fields in rural areas were converted to residential and industrial areas. Although GVA of computer-related services doubled during the four years, it accounted for only 18.9% of GVA in FRB in 2008-09.

The Middle Class and Spread of Consumer Durable Goods

It has been argued that the “middle class” in urban areas has supported India’s economic growth as the country’s primary consumers. During the 2000s, urbanization progressed rapidly in suburban areas of large cities, witnessing the continuous construction of high-rise apartments and huge shopping malls. Even in regional cities, shopping malls were built in locations that are difficult to access without car. Many people now enjoy shopping at malls on weekends. There is ample evidence of the rise of the “middle class.” If we consider Japan’s economic development, the country experienced two consumption booms marked by different sets of three primary consumption items. These were black and white television, washing machines and refrigerators in the 1950s and air conditioners, color televisions, and automobiles in the 1960s. At first, the buyers of these consumer durable goods were mainly company employees in urban areas, later spreading to farmers in rural area until there was no longer a difference in the consumption patterns of urban and rural areas.

In India, the “middle class”, which includes white collar workers and managers and owners of small and medium enterprises in urban areas, also contributed to the expanding demand for consumer durable goods.

Members of this income group have enough income to purchase automobile and apartments in high-rises in the suburbs of metropolitan areas and can enjoy trips to foreign countries. Eating out in a restaurant in a mall can cost 200 to 400 Rs (4.4 to 8.8 USD) per person. Even when there is a food court offering relatively cheaper food, the cost per person may be 100 to 200 Rs (2.2 to 4.4 USD). Children in these families study at English-language school and have tutors to help them survive the fierce competition for admission to good universities. Based on my experience living in Delhi for one year in 2010, a family of four (husband, wife and two children) require a monthly household income of approximately 100,000 Rs (2,200 USD) to maintain such life in a suburb of a metropolitan area. Even a family with a monthly household income of more than Rs 50,000 (US \$ 1,100) would have difficulty purchasing an automobile, but could likely afford other consumer durable goods such as color televisions and refrigerators. If the “middle class” is defined as families with monthly household incomes greater than 50,000 Rs, only a few percent of the population in metropolitan areas would be included. At present, many individuals in the slums of metropolitan areas can afford cell phones and color televisions. Even migrant workers from rural villages can call home using their own cell phones. Thus, consumer durable goods have spread beyond the “middle class” of metropolitan areas i.e. to people in rural areas and lower income groups.

Improvement of Housing Conditions and Trends in Household Expenditures

The National Sample Survey provides data on housing conditions. Pucca structures are defined as houses whose walls and roofs (at least) are made of pucca materials such as cement, concrete, oven-baked bricks, stone, stone blocks, jack boards (cement plastered reeds), iron and other metal sheets, timber, tiles, slate, corrugated iron, zinc or other metal sheets, asbestos cement sheet, etc. Katcha structures have walls and roofs made of non-pucca materials including unbaked bricks, bamboo, mud, grass, leaves, and/or other thatch. Semi-pucca structures have either walls or roofs, but not both, made of pucca materials. **Table 2** shows that the share of pucca structures increased substantially in both rural and urban area. As a pucca structure is defined by its materials, it does not necessarily mean good living conditions. Pucca structures can be located in slums. As water supply is not available in many slums, people must go out to access water. Heavy rains may cause houses to flood. Even pucca structures may have sanitation problems. But, in general, the increase of share of pucca structures implies the improvement of housing conditions all over India. The rebuilding houses in rural areas have a substantial impact on rural communities, expanding demand for construction and creating employment for agricultural laborers. Agricultural laborers work on another person's land for wages in cash. They typically do not have stable and sufficient incomes to sustain their families. Construction, then, provides an opportunity for employment to these workers in the agricultural off-season.

The composition of monthly per-capita consumer expenditure between 1987-88 and 2007-08 is presented in **Table 3**. In contrast to the dramatic decline in the share of food in consumer expenditures during the 1990s and the 2000s, the shares of education and medical care increased. These trends reflect the fact that more students were enrolled in secondary and higher education, even in rural areas. In regional cities, many English-language schools have been established.

Table 2 Improvement in Housing Conditions between 1987-88 and 2007-08 (%)

Area	Structure type	1987-88	1993-94	2007-08
Rural	Katcha	48.6	31.7	18.8
	Semi-pucca	31.9	36.0	31.4
	Pucca	19.5	32.3	49.8
Urban	Katcha	17.8	8.3	2.9
	Semi-pucca	24.3	17.9	9.1
	Pucca	57.9	73.8	88.0

Source: National Sample Survey Office, HOUSE CONDITIONS IN INDIA, NSS 49th Round, Report No. 429. National Sample Survey (NSS) Organization, HOUSEHOLD CONSUMER EXPENDITURE IN INDIA 2007-08, NSS 64th Round, Report No. 530.

Table 3 Composition of Monthly Per-capita Consumer Expenditure between 1987-88 and 2007-08 (%)

Area	Item	1987-88	1993-94	1999-2000	2007-08
Rural	Food	63.8	62.2	59.4	52.4
	Pan and tobacco	3.2	3.1	2.9	2.4
	Fuel and light	7.4	7.2	7.5	9.7
	Clothing	7.6	8.4	8	7.3
	Education, medical care, rents and taxes	14.4	16.8	19.6	24.6
	Durable goods	3.6	2.3	2.6	3.6
Urban	Food	55.9	53.9	48.1	39.6
	Pan and tobacco	2.6	2.3	1.9	1.4
	Fuel and light	6.7	6.5	7.7	8.5
	Clothing	7.1	8.3	7.2	6.4
	Education, medical care, rents and taxes	23.5	26.4	31.5	39.9
	Durable goods	4.2	2.6	3.6	4.2

Source: National Sample Survey (NSS) Organization, HOUSEHOLD CONSUMER EXPENDITURE IN INDIA 2007-08, NSS 64th Round, Report No. 530.

The Decline in Prices of Consumer Durable Goods

According to **Table 3**, it appears that the share of durable goods in monthly per-capita consumer expenditure has not changed much between 1987 and 2008. Does this data, then, contradict the widening consumption of televisions and cell phones? While the wholesale price index (1993-94=100) of all commodities increased to 215.7 between 1993-94 and 2007-08, that of color televisions, telephone equipment, and consumer electronics and electrical appliances fell to 37.1, 64.7, and 74.2, respectively. That is, the price of consumer electronics and electrical appliances as a whole decreased. With the rise of the “middle class” as a result of the progress of economic reforms since 1991, demand for consumer durable goods has expanded. The prices of consumer electronics and electrical appliances, including color televisions and telephones, and the tariff rates of cell phones has declined as their domestic demand has

increased. The decrease in prices has stimulated demand for these products among lower-income populations, enabling households to purchase more consumer electronics and electrical appliances without increasing the share of expenditures for them. Consumer electronics and electrical appliances, along with cell phones, have spread from high-income to lower-income households. The prices and function of products purchased by different socio-economic groups vary. Low-income households tend to buy cheap products with limited function, while high-income households choose products depending on their needs. Nevertheless, both low- and high-income households are now able to buy consumer durable goods. The average income in rural areas has also risen over this period. While the monthly per-capita consumer expenditure in 1987-88 prices in urban areas grew from 250 Rs (5.50 USD) in 1987-88 to 364 Rs (8 USD) in 2007-08, that in rural areas also increased from 158 Rs (3.50 USD) to 196 Rs (4.3 USD) during the same period. The increase of income in not only urban areas but also rural areas has encouraged the wide-spread distribution of commodities across the country. As a result, the GVA of trade and transport exhibited a sharp increase. However, in spite of India's sustained growth over a fairly long period, the problem of poverty has not yet been resolved. The Planning Commission report published in 2009, estimated that 41.8% of the rural population and 25.7% of the urban area population live below the poverty line, which is set as the minimum income required to meet basic human needs. Thus, although consumer durable goods have gradually spread to lower income groups, the spread has not been complete.

It is difficult to define the "middle class". The number of white collar workers has increased as financial, IT services, and manufacturing sectors have developed as a result of economic reforms. However, this view does not capture the fact that the consumption of durable goods has spread as the income of rural and low-income households in urban areas has improved. It is important to note that, although the middle class are still the primary consumers of durable goods, lower-income groups have also contributed to the expansion of domestic demand. It is likely that the process by which the incomes of rural and low-income urban households have increased differs from that of the "middle class," and thus warrants further investigation.

Reference :

Planning Commission, *Report of the Expert Group to Review the Methodology for Estimation of Poverty*, Delhi, 2009.