

Middle Class in India

Sonalde Desai
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In recent years, the discourse about the Indian middle class—by some accounts the largest in the world—seems to have caught the public's imagination. However, two different stories are simultaneously being told. According to one story, the high rate of economic growth over the past decade has resulted in a large number of people moving from poverty into the middle class. This broad-based economic boom has affected all sections of society and resulted in a growing market. It is expected that this growing market will increase opportunities for domestic and foreign companies, thereby augmenting the virtuous cycle of growth (Das, 2000). The second story, however, focuses on the elitist nature of this growth and suggests that the Indian middle class has become increasingly insular, with the perks of middle-class existence reserved for the privileged sections of society (Varma, 1998).

The exact size of this middle class remains difficult to estimate. There are few national surveys that collect data on income. The most-cited source, a household survey conducted by the National Council of Applied Economic Research (NCAER, 2000), contained only one question on total household income and is considered an approximation at best. Moreover, the proprietary nature of this data does not allow for independent evaluation. National Sample Surveys (NSS) offer other sources of data for examining changes in consumption

expenditure over time. While consumption data tend to underestimate certain types of consumption—such as of alcohol or tobacco—they still provide a good proxy for changes in consumption over time. Results from the NCAER surveys as well as NSS surveys are summarized in Table 1. These results suggest a steady increase in the households at middle and upper income levels in the past twenty years, particularly in urban areas.

[Table 1 about here]

The sheer size of the Indian middle income group is important for estimating the size of the Indian market, but for social scientists, the structure and composition of the middle class is even more important. While the definition of ‘middle class’ varies widely between Marxists and non-Marxists, much of the research on the ‘middling sorts’ has tended to focus on the nexus between education, occupation, and income. Changes in these three categories over the past twenty years in India paint a very interesting sociological picture.

While all segments of Indian society have benefited from a high rate of economic growth in the past two decades, the gains have been differentially captured by different segments of society. Table 2 summarizes the proportion among various occupational groups of households with an annual expenditure of Rs. 60,000 or more, using data from the NSS. These data suggest that while all segments of society have gained over the past twenty years, the growth is greatest among professionals and government officials/managers. The proportion of households with a monthly expenditure level of Rs. 5,000 and above has risen sharply for upper-level professionals—consisting of doctors,

engineers, and lawyers, among others. Fewer than one-third of such households fell into an expenditure category of Rs. 5,000 and above in 1983, whereas nearly half of the professional households had attained the expenditure level of Rs. 5,000 and above by 2000. Managers and government officials seem to have been particular beneficiaries of the past two decades, with nearly 65 per cent of households attaining expenditure levels of Rs. 5,000 and above. In contrast, manual workers and artisans show hardly any gains, and farmers and self-employed entrepreneurs show only limited gains.

[Table 2 about here]

While there is no doubt that a higher rate of growth in the service sector and the entry of multinationals into India have played an important role in the income growths of professionals and managers, two other structural changes are far more important. Personal income tax rates in India steadily declined between 1985 and 2000. In the early 1970s, at its height, the maximum marginal tax rate was 85 per cent (which turned into a top tax rate of 97.5 per cent with the addition of surcharges). In 1985–86, the effective top tax rate dropped to 50 per cent, and it was further reduced to 30 per cent in 1997. High rates of taxation led to substantial tax evasion, but only farmers and self-employed people were able to evade paying full income taxes; employees and professionals had fewer such opportunities. Thus, the decline in personal income tax rates raised their disposable income, but the effect was much smaller for farmers and entrepreneurs who paid fewer taxes to begin with.

The second factor that played an important role in the growth of salary incomes was the growth in government salaries. In spite of the stagnation in government employment, the public sector continues to employ nearly two-thirds of the workers in the formal sector. Salaries of government workers were raised sharply in 1997, following the implementation of the Fifth Pay Commission Report. This increased the incomes of a variety of government servants, including government officials, clerical workers, and lower-level peons.

Thus, as we focus on income growth in India, it is important to note that much of this growth has been concentrated in the hands of educated workers in the formal sector, with some trickle-down effect for service-sector workers such as domestic servants, transportation workers, and merchants. In contrast, the two groups that were highly protected under the regime of central planning and license Raj, middle- and large-scale farmers and entrepreneurs in small-scale industries (Raj, 1973), have not gained proportionately.

These changes in the incomes of educated professionals need to be evaluated in the context of changes in educational and occupational distribution in India. The education level in India has risen steadily at all levels. The proportion of 30- to 50-year-old men with higher secondary and college education rose from 5 per cent in 1983 to 13 per cent in 2000; the proportion of women in this category increased from 1 per cent to 5 per cent (Desai and Das, 2004). At the same time, occupational distribution has not changed substantially. Among 30- to 50-year-old men, about 10.5 per cent held professional, clerical, or other white-collar jobs, and this percentage had dropped to 9.14 per cent by

2000; among women, the proportion had risen slightly, from 1.5 per cent to 2 per cent.

These changes have led to increasing competition for white-collar jobs. While education remains a necessary condition for obtaining a professional or white-collar job, it is no longer a sufficient condition. Among 30- to 50-year-old men with higher secondary and college education, the likelihood of obtaining a white-collar job was about 0.73 in 1983, but it had dropped to 0.43 by 2000; the comparable likelihood for women dropped from 0.38 in 1983 to 0.24 in 2000.

The data presented above paint an interesting picture of the social changes in India over the past twenty years. Incomes of educated urban professionals and white-collar workers have steadily risen, while these jobs have not grown as a proportion of the economy. At the same time, educational levels have increased, creating high levels of competition for increasingly attractive white-collar jobs. In this, the growth in the Indian middle class differs from the growth of the middle class in Europe and the United States, where changes were driven by increasing jobs in white-collar occupations, not just by changing the occupational reward structure.

This dominance of educated professionals among Indian middle classes, even as competition for white-collar jobs is increasing, creates social tensions that have been of great interest to political scientists and social commentators (Varma, 1998; Ahmad and Reifeld, 2003). However, although much attention has been directed towards consumer orientation of the growing middle class—some studies even define middle class in terms of consumer durable ownership—little

attention has been paid towards the social stratification processes that determine access to white-collar jobs and thereby entry into the great Indian middle class. Two areas of research require particular attention: (a) stratification within the educational system; and (b) role of social networks in access to white-collar jobs. With increasing education, a degree or a diploma is necessary but not sufficient for access to well-paying jobs in the formal sector. Consequently, quality of education—or perceived quality—is likely to become increasingly more important. Growth of private schools even in rural areas is a testament to this desire on the part of parents to obtain every possible educational advantage they can for their children. At the same time, it is possible that caste- and family-based social networks will become increasingly important in job searches.

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Table 1: Changes in Household Consumption Expenditure and Household Income

	Consumption Expenditure above Rs. 60000 (1)			Income Above Rs. 70000 (2)			
	Rural	Urban	Total	Rural	Urban	Total	
1983	0.05	0.13	0.07	1985-86	5	22.2	9.5
1987-88	0.05	0.14	0.08	1989-90	8.8	28.2	14.2
1993-94	0.05	0.15	0.08	1995-96	13.7	37.2	20.4
1999-2000	0.06	0.22	0.11	1998-99	17.3	47.3	25.8

(1) Author's calculations using data from NSS rounds 38, 43, 50, 55. In 1999-2000 Rs.

(2) National Council of Applied Economic Research data. In 1998-99 Rs.

Table 2: Growth in Proportion of Households Spending Rs. 5,000 and above per month between 1983 & 2000 by Household Occupation

Primary Occupation of the Household	Rs. 5000 and above			
	1983	87-88	93-94	99-2000
Upper Professional	0.30	0.37	0.39	0.48
Lower Professional	0.16	0.19	0.21	0.28
Manager & Govt. Official	0.47	0.50	0.59	0.65
Proprietor - Working	0.30	0.29	0.31	0.34
Clerical	0.17	0.18	0.19	0.28
Teacher	0.21	0.24	0.22	0.29
Merchant	0.10	0.11	0.12	0.17
Salesman	0.05	0.05	0.04	0.07
Service Workers	0.06	0.05	0.06	0.11
Small Farmer (<= 5 acre land)	0.05	0.05	0.05	0.07
Large Farmer (> 5 acre land)	0.19	0.17	0.16	0.23
Planter, Poultry	0.12	0.12	0.11	0.14
Agricultural Labor	0.01	0.01	0.01	0.01
Fisherman, Forestry worker	0.03	0.03	0.03	0.03
Machine Operator	0.09	0.11	0.11	0.14
Artisan	0.05	0.05	0.04	0.07
Transport Worker	0.07	0.07	0.06	0.11
Laborer	0.04	0.03	0.03	0.04
No Occupation-Retiree, Unempl.	0.03	0.03	0.04	0.08
Occupation Missing	0.05	0.03	0.02	0.09
All India	0.07	0.08	0.08	0.11

Author's calculations from NSS rounds 38, 43, 50 and 55. In 1999-2000 Rs.