ANALYSIS RIGHTS

A Knotty Affair: India's Burgeoning Population and Stagnating Middle-Income

The middle class in India is feeling the squeeze because real wages have not risen, but costs are rising.

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As per the State of World Population Report published by the United Nations Population Fund, India will soon become the most populous country in the world. At this point, India also has a relatively 'younger' working-age population compared to China. Depending upon how one reads the data, this can be a boon or bane, as labour is an important component of growth in national income or gross domestic product (GDP).

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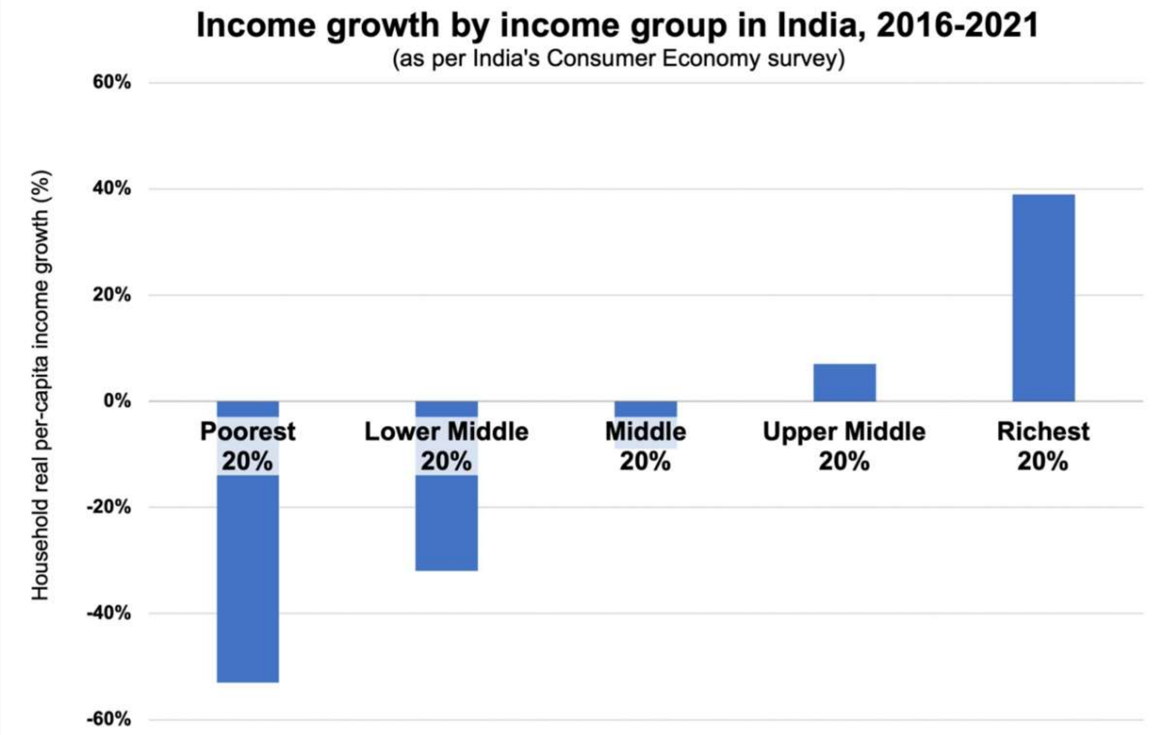
If labourers are productive, then their income and the economy grow. Much of the GDP growth that occurred among the emerging Asian economies during the second half of the last century was through increased labour force participation. These countries, for example, China, South Korea, Singapore, Taiwan, and Vietnam, were able to absorb labour from the low-productive agricultural sector to the high-productive manufacturing sectors. Much of the supply of white goods like mobile phones, air conditioners, refrigerators, computers, etc. are manufactured in these countries, thereby making their economy transition from low to middle and high-income economies.

This is why there is a flourishing middle class in these economies. According to Pew Research, the share of Chinese who are in the middle-income group jumped from 3% to

18% during this century, however, the share of Indians middle-income group remain unchanged for the most part. Although, thanks to reforms and the consequential high growth rates in GDP, India was able to reduce poverty – from 40% in 2004 to 10% in 2019 – however, the drop in poverty merely resulted in an increase in the low-income population. Data from the recently published India Consumer Economy 360 survey points towards a fall in income growth for the poor and middle-income households, whereas that of the high-income households surged.



Source: India's Consumer Economy (ICE) 360 survey

Ergo, although in India the poor are becoming richer, the society is also becoming more unequal, that is, the rich are becoming richer much faster. New World Wealth, a Johannesburg-based company, published a report claiming that India is the second-most unequal country in the world, with millionaires controlling 54% of the wealth. In Japan, the most equal country in the world, millionaires control only 22% of the national wealth. In India, the number of ultra-high-net-worth individuals (with net assets of $30 million or more) has grown by 11% year-on-year in 2021, the highest percentage growth in the Asia-Pacific.

A reason for unequal income distribution is that most of our labourers are stuck in low-productive sectors. According to the Periodic Labour Force Survey (PLFS) 2021-22, agriculture still remains the largest source of employment, employing 45.5% of the workforce. Construction is at a distant second, employing 12.4%, closely followed by trade, hotel and restaurant, employing 12.1% of the workforce. Now all these sectors require low/semi-skilled labourers, with low productivity.

India's labour productivity – economic output per hour of work – is just 12% of the US levels. In purchasing parity terms, GDP per hour worked is $70.68 for the US, in comparison to India's $8.47, and this cannot be explained by differences in the working population alone. Types of employment, and access to finance and technology matter. For a long time, output per hectare, a common measure of agriculture productivity, remained low in India. For example, in potato farming, the productivity of an Indian farmer is less than half of that of the US, Germany, and the Netherlands. In the case of rice, it is less than half of that of the US and Egypt, and for wheat, it is less than half of that of the UK and Egypt.

India leapfrogged into services without being able to create enough jobs in the manufacturing sector. Even the success stories of the manufacturing sector – Reliance, Godrej, Tata Group, etc – employ a capital-intensive mode of production. For a long, everyone thought labour market reforms such as giving more power to the companies to hire and fire workers will bring in the required change. That did not happen in spite of the Central labour law reforms in 2020.

Instead, over the last five years, there has been an increase in self-employment in low-productive agriculture and the urban informal sector. There are not enough jobs getting created and according to PLFS 2021-22, on the basis of current weekly status unemployment level remained stagnant at 8.8%, without declining much since 2017. High skilled-services sectors such as banks, Information Technology, etc., are not able to absorb workers. In India, according to PLFS 2021-22, only 1.3 % have technical education and only 0.7% have diploma/certificate graduate level in vocational education. Technical knowledge and education are a must for getting a job in the manufacturing or service sectors. On the other hand, a concomitant rise in income inequality is leading to the creation of low-paid and low-productive jobs such as housekeeping, security services, and other gig-type jobs such as Zomato delivery workers.

Rising costs, wages stagnant

A low productive workforce means a lower income, in particular when the informal labour markets are monopsonistic (a higher number of labourers looking for jobs as opposed to employers or aggregators). There has been no significant growth in real wages at the all-India level over the past eight years.

On the contrary, the cost of healthcare and education is rising, most of which has to be borne privately. As per the latest household social consumption data (NSS 75th Round), only 4% of the rural population and 19% of the urban population reported that they had health expenditure coverage. According to the Economic Survey 2022-23, almost half of all medical expense is still borne by the patient themselves. 70% of India's population who still reside in rural areas has to borrow more (25%) in comparison to their urban counterparts (18%) to meet their healthcare needs, driving an estimated 6 crore Indians into poverty, every year.

The government's insurance coverage programme Ayushman Bharat, does not cover primary healthcare such as prenatal care, and other common diseases such as influenza and diarrhoea, which form a major part of household expenses on health. Even for the tertiary sector, and if one is lucky to get covered under government insurance coverage, new medicines for terminal illness diseases and surgical procedures remain outside the budget of a majority of the Indian household. For example, each round of chemotherapy and radiation costs more than Rs 1 lakh, whereas a vital organ transplant (liver and kidney) can cost anywhere between Rs 20 and 30 lakh.

The same applies to quality education. At a time when public spending (Central and state governments taken together) is only 4.5% of GDP, it is not surprising that for a majority of the population, education is delivered by the private sector. Because of the failures of government schools to provide a decent education, studies show even the poor income households prefer sending their kids to private schools. The learning outcomes in government schools deteriorated post-pandemic. The ASER 2022 report flags widening learning gaps. Basic literacy levels of children have taken a big hit, with their reading ability compared with their numerical skills worsening sharply and dropping to pre-2012 level. However, sending kids to private schools cost money. As per a survey conducted by ET Online research, educating a child between the age of three to 17 years costs around Rs 30 lakh; a 4-year BTech or a 3-year BSc costs around Rs 4-20 lakh; and a five-and-half-year MBBS degree can cost up to Rs 1 crore.

No wonder in India, the middle class is getting squeezed.

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