India’s New Not-Poor Not-Middle Class -- and its implications?

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President
Center for Global Development
So what? Does the middle class matter in developing countries?

- Aristotle
- Engerman and Sokoloff; Easterly
- Acemoglu and Robinson
- Does it matter for the policy mix?
Middle class = secure from poverty
Emerging consensus: $10 per capita per day as global minimum

- Milanovic and Yitzhaki (2002)
- B&D ('08)
- Ravallion ('09)
- Birdsall (2010)
- Easterly (2001)
- Birdsall et al. (2000)

Brazil’s income distribution (2009)

Income/expenditure per capita per day (2005 PPP dollar)

Easterly (2001) and Birdsall et al. (2000) have argued for a higher global minimum income of $10 per capita per day.
With $10 minimum the global middle class is mostly in the global top quintile, Brazil …

Deciles of household income distribution of Brazil 2009

Source: CGD calculations, based on SEDLAC.
in India entirely in top decile.

Deciles of household income distribution

Source: CGD calculations, based on India NSSO Socio-Economic Survey 66/1.0 (2009-2010) and SEDLAC.
Between the poor and secure middle class is a new global class, living on $4 to $10 a day.

Source: CGD calculations, based on India NSS Socio-Economic Survey 66/1.0 (2009-2010) and NCAER NSHIE.
... who are relatively rich, but economically *vulnerable*. They are likely to be politically restive – or *catalytic* (agents).

**Source:** CGD calculations, based on India NSSO Socio-Economic Survey 66/1.0 (2009-2010) and SEDLAC.
Economic and social indicators of the vulnerable/catalytic and middle class (2009/2010)

<table>
<thead>
<tr>
<th></th>
<th>Median income per capita per day</th>
<th>Median education (adults 25-65)</th>
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<tbody>
<tr>
<td></td>
<td>$4 to $10</td>
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</tr>
<tr>
<td>India</td>
<td>$5.40</td>
<td>7-8 yrs *</td>
</tr>
<tr>
<td>Brazil</td>
<td>$6.70</td>
<td>7 yrs</td>
</tr>
<tr>
<td></td>
<td>$10 to $50</td>
<td>$10 to $50</td>
</tr>
<tr>
<td></td>
<td>$12.80</td>
<td>12 yrs*</td>
</tr>
<tr>
<td></td>
<td>$16.20</td>
<td>11 yrs</td>
</tr>
</tbody>
</table>

* Average numbers for primary/middle/higher secondary. Refers to level completed by median adult.
Source: CGD calculations, based on India NSSO Socio-Economic Survey 66/1.0 (2009-2010) and SEDLAC.
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Projecting real GDP per capita growth:
Simple three-factor production function (CEPII / Foure et al., 2012)

Growth estimates based on constant elasticity of substitution (CES) function with two factors: energy and a composite Cobb-Douglas combination of capital and labor.

India’s vulnerable class peaks in population and income share in 2030

Income and population share of $4 to $10 group (absolute population in brackets)

Note: Constant 2009/2010 NSS income distribution re-scaled using GDP growth projections.

The $10-$50 group in the middle in 2030

Deciles of household income distribution

Brazil

India (Rural)

India (Urban)

In Brazil & China, coming three decades is about growth of the MC: In India it’s growth of the vulnerables/catalyzers

* Chinese income distribution data likely underrepresents incomes at the top of the distribution. 
  Note: Constant 2005 income distribution re-scaled by vigintile using GDP growth projections. 
The State and the $4- $10s: Protector or Predator?

• Can India have good government (policy and implementation) before it has a large and secure middle class?

What kind of social contract by and for the $4-$10 group?
Redistribution and Income Inequality in the OECD

Source: Foxley (2013, forthcoming), based on OECD data.
India: Options for fiscal redistribution to relieve poverty are limited.

<table>
<thead>
<tr>
<th>Population share (%)</th>
<th>Income share (%)</th>
<th>Hypothetical tax rate On top 5% to bring everyone to $4</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>India</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>81.9%</td>
<td>40.3%</td>
<td>157.4%</td>
</tr>
<tr>
<td><strong>Brazil</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28%</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td><strong>Honduras</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>55%</td>
<td>14%</td>
<td>62%</td>
</tr>
</tbody>
</table>

* income distribution for illustration only.

Source: CGD calculations, based on India NSSO Socio-Economic Survey 66/1.0 (2009-2010) and SEDLAC.
Income inequality, India
Much lower than Brazil, and than China, but?

Are there policy implications?
Thank you

Nancy Birdsall

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@nancymbirdsall
## Median Income by Income Group: Projections for India

<table>
<thead>
<tr>
<th>Year</th>
<th>National</th>
<th>$4 to $10</th>
<th>$10 to $50</th>
<th>&gt;$50</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009/10</td>
<td>$1.90</td>
<td>$5.40</td>
<td>$12.80</td>
<td>$59.20</td>
</tr>
<tr>
<td>2020</td>
<td>$3.20</td>
<td>$5.30</td>
<td>$17.80</td>
<td>$67.40</td>
</tr>
<tr>
<td>2030</td>
<td>$5.20</td>
<td>$5.60</td>
<td>$15.20</td>
<td>$68.00</td>
</tr>
<tr>
<td>2040</td>
<td>$8.20</td>
<td>$6.50</td>
<td>$15.80</td>
<td>$64.30</td>
</tr>
<tr>
<td>2050</td>
<td>$12.30</td>
<td>$7.70</td>
<td>$16.40</td>
<td>$77.30</td>
</tr>
</tbody>
</table>

**Note:** All dollar values are in constant 2005 PPP dollar.

**Source:** CGD calculations, based on India NSSO Socio-Economic Survey 66/1.0 (2009-2010), Foure et al. (2012), Milanovic (2011), and UN Population Division (2012).