

India's richest 20% account for 45% of income

By: Primit Bhattacharya | Mint | December 01, 2016

Middle India is largely rural and uneducated, shows the 'Household Survey on India's Citizen Environment & Consumer Economy'.

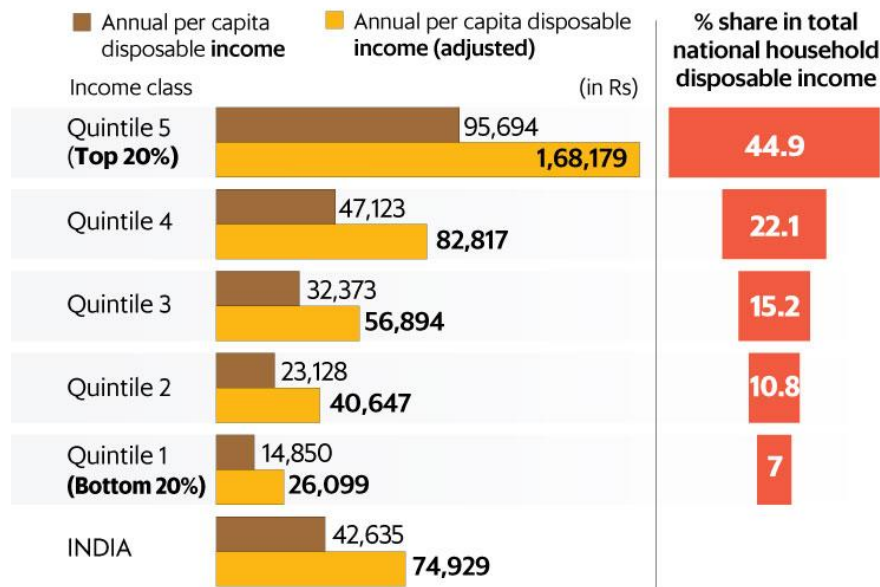
India's richest quintile accounts for 45% of aggregate household disposable income while the poorest quintile earns barely 7% of the aggregate income pie, according to the latest data from a nationally representative survey conducted this year.

The Household Survey on India's Citizen Environment & Consumer Economy (ICE 360° survey), covering 61,000 households, is one of the largest consumer economy surveys in the country since the National Sample Survey Office (NSSO) conducted the consumer expenditure survey in 2011-12.

The survey results show that households in the top quintile earn nearly four times as much as households in the bottom quintile. But given that poorer households also tend to be bigger, the difference in per capita incomes is greater. The per capita income of the top quintile, at Rs7,974 per month, is nearly 6.5 times that of the bottom quintile. Given the lower income and the bigger household size, poorer households end up spending most of what they earn. The poorest quintile is able to save just 10% of household earnings. In contrast, the top quintile is able to save 47% of household earnings, the survey shows.

Class difference

The top 20% accounts for 45% of total national disposable income while the bottom 60% accounts for barely a third.



The aggregate income estimated by the ICE 360° Survey constitutes only 56.9% of household disposable income reported by national accounts statistics. The adjusted incomes shown here are calculated by inflating the estimated incomes by a factor of 100/56.9. The adjusted incomes suggest the maximum mean household income threshold for each income quintile.

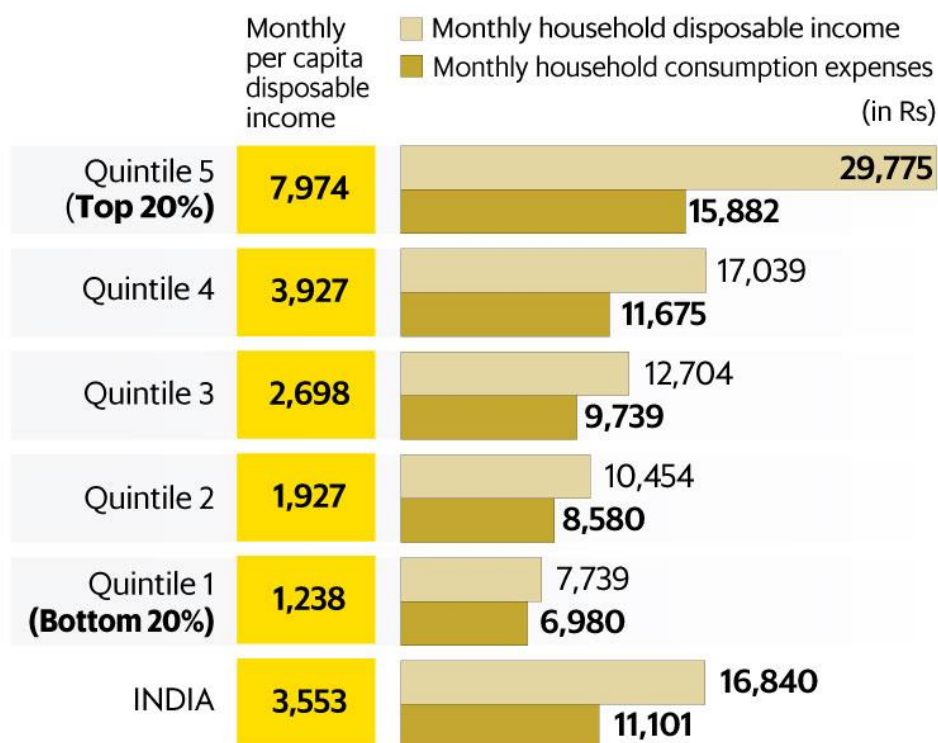
The survey also shows that an overwhelming majority of people living in metros belong to the top two income quintiles. In stark contrast, an overwhelming majority of those living in underdeveloped rural areas belong to the bottom three income quintiles.

What this means is that you are quite unlikely to encounter the truly poor in your daily life if you live in a metro, and those you think of as the urban poor (your maid or your driver, for instance) are likely to be closer to the top of India's income distribution than to the bottom.

The ICE 360° survey was conducted by the independent not-for-profit organization, People Research on India's Consumer Economy, headed by two of India's best-known consumer economy experts, Rama Bijapurkar and Rajesh Shukla.

Monthly incomes

The bottom quintile spends 90% of household income on routine consumption expenses. The top quintile spends just 53%, and is able to save more.



Although the sample size of the survey is lower than that of the NSSO consumer expenditure survey, the urban sample size of both the surveys are comparable.

While the NSSO surveyed 101,651 households of which 41,968 (41.3%) were urban households, the ICE 360° survey covered 61,000 households of which 36,000 (59%) were urban households. However, the rural sample of the ICE 360° survey is less than half of the NSSO sample. Nonetheless, all the estimates of each region have been derived by adjusting for the respective population of those regions.

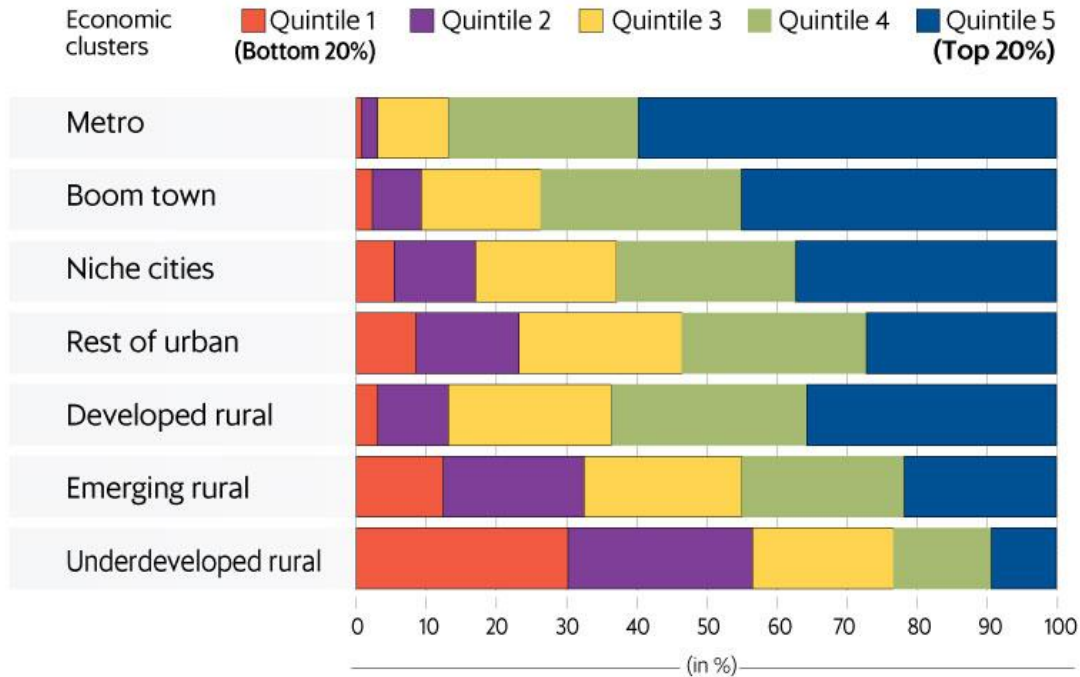
One of the most attractive features of the survey is that it is representative at the level of economic clusters. Urban India has been divided into four clusters: metros (population of more than five million), boom towns (2.5-5 million), niche cities (1-2.5 million) and other urban towns (less than one million).

Based on a district development index, rural India has also been sliced up into three different clusters: “developed rural”, “emerging rural”, and “underdeveloped rural”.

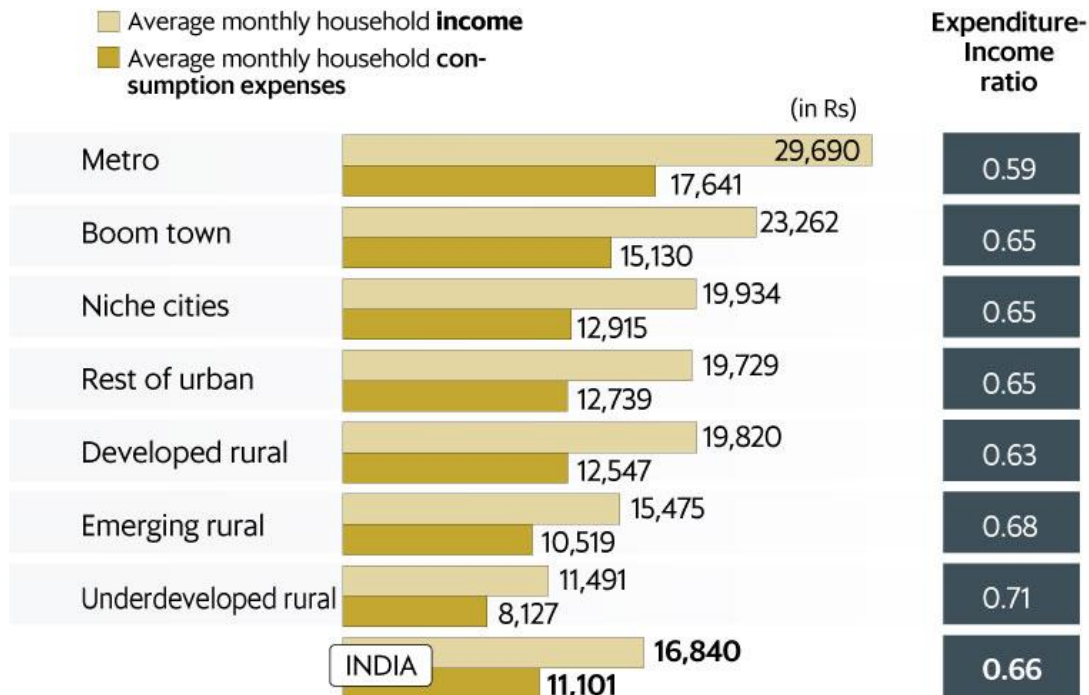
The first category includes districts such as Bathinda (Punjab) and Kangra (Himachal Pradesh). The second category includes districts such as Latur (Maharashtra) and Kamrup (Assam) while the last category includes districts such as Kalahandi (Odisha) and Bastar (Chhattisgarh).

The geography of wealth

An overwhelming majority (87%) of people living in the metros belong to the top two income quintiles, while an overwhelming majority (76%) of the people living in underdeveloped rural areas belong to the bottom three quintiles.



The average household living in a metro earns and saves twice as much as an average household in an underdeveloped rural area.



The average income of households living in metros, at Rs29,690, is two-and-a-half times the average income of households living in underdeveloped rural areas. The average consumption expenditure of households living in metros, at Rs17,641, is roughly two times the average consumption expenditure of households living in underdeveloped rural areas.

Interestingly, the average income and average consumption expenditure of households in developed rural areas is roughly equal to that of households living in niche cities, shows the survey.

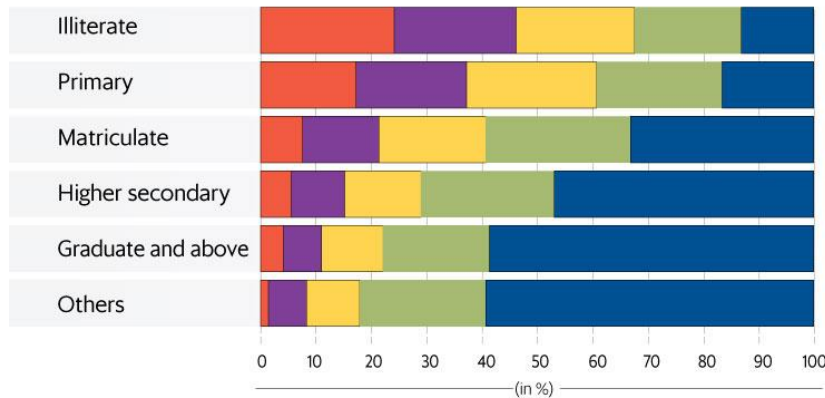
The survey underlines the profound influence of education on household earnings. While there are illiterates across all income quintiles, on average, the better educated the chief wage earner is, the better-off is the household. For instance, households with a matriculate breadwinner earn Rs20,064 a month, 39% higher than households where the chief wage earner has a primary school education. Similarly, households where the chief wage earner is a graduate earned 34% more than households where the breadwinner has just cleared 10+2.

Education begets income

Most households with graduate breadwinners end up in the top 40% of India's income distribution, while most households with illiterate breadwinners end up in the bottom 60% of the income distribution.

Level of education of chief wage earner

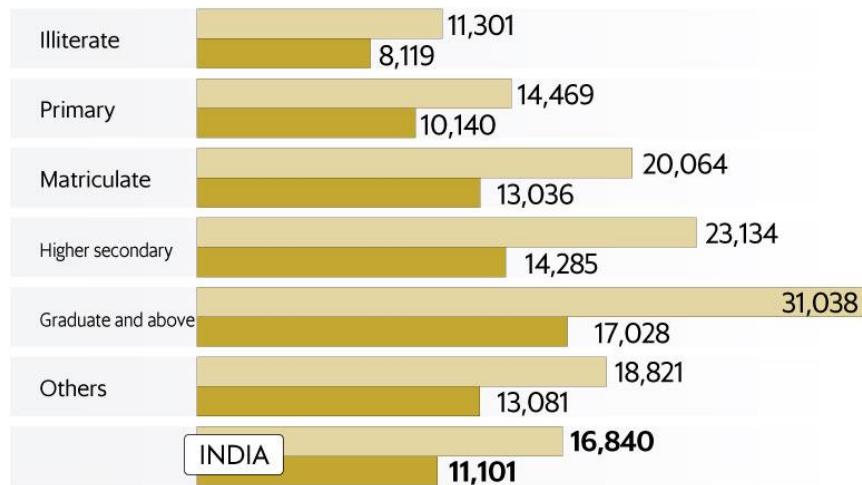
■ Quintile 1 (Bottom 20%)
 ■ Quintile 2
 ■ Quintile 3
 ■ Quintile 4
 ■ Quintile 5 (Top 20%)



Households with graduate bread winners earn nearly three times as much as households with illiterate breadwinners.

■ Average monthly household **income**
■ Average monthly household **consumption expenses**

(in Rs)



Source: ICE 360° Survey, 2016

Not only are those at the bottom of the income distribution poorly educated, even those in the middle of India's income distribution have very little schooling, suggests the survey. It shows that "Middle India" (those located between the 20th and 80th percentiles of income distribution) is largely composed of those who lack a high-school education. Households with an illiterate breadwinner constitute 25% of Middle India, while 47% of households in Middle India are those where the breadwinner has just completed primary schooling. The average household income of Middle India is Rs13,636, of which 74% is spent on routine consumption expenses. The largest

section of Middle India (37%) lives in underdeveloped rural areas. Only a small fraction of Middle India (6%) lives in the metros.

This is the first in a 16-part data journalism series that looks at how India lives, thinks, earns and spends, based on the latest results from a survey conducted by People Research on India's Consumer Economy in 2016 and shared exclusively with Mint. The Household Survey on India's Citizen Environment & Consumer Economy (ICE 360° Survey), covering 61,000 households, is the largest consumer economy survey in the country since the National Sample Survey Office conducted the last consumer expenditure survey in 2011-12. The next part will look at the socio-economic profile of India's top 1%.