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Measuring household well-being

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Income, expenditure and saving-related indicators, when taken together, provide holistic insights into levels of household well-being.

The most important monetary measures of well-being, among others, are household income, expenditure and saving. Yet we have very little reliable data on such indicators. In view of this, ICE 360° surveys have been instrumental in building and disseminating high-quality, interconnected, reliable and up-to-date data to capture the ground realities of households, on how the country earns, spends, saves, lives, thinks, accesses public goods, and on inclusion, employment and infrastructure. We have attempted to understand dimensions of well-being using income, consumption and saving as composite indicators available from ICE 360° surveys, 2014.

To look at the sensitivity of the results of the choice of consumption or income or saving, we considered all three indicators and computed a transition matrix. We divided the population into per capita quintile groups—with each of them representing 20% of the population, from the poorest 20% to richest 20%. Each household belongs to only one quintile for each indicator, but some households belong to one quintile for income and another for consumption, in which case many households would not belong to the diagonal of the matrix. This matrix provides 13 categories in which income has been considered as base. Based on per capita savings, 6.5% of Indian population belongs to top income quintile (Qi5) and bottom four expenditure quintiles (Qe1 to Qe4). This indicates that top 5% 'affluent' population are the highest income earners but, relatively speaking, their expenditure level is lower. Similarly, the most 'vulnerable' population (5%) belongs to the bottom income quintile (Qi1) but rank among the top four expenditure quintiles (Qe2 to Qe5).

The most affluent households save 51% of their earning, while the most vulnerable dis-save 60%. Vulnerable households borrow 60% of their earnings, mostly from informal sources, to meet basic needs. On one hand, the income-to-expenditure ratio of most vulnerable households lies in range of 0.18-0.78, which indicates they have extremely low income levels in proportion to their expenditure levels. On the other hand, the income-to-expenditure ratio of most affluent households is in range of 1.94-5.83, which depicts high levels of income in comparison to lower expenditure levels.

Looking at policy perspective, a layer of insight emerges when we try to probe deeper into the characteristics of these two extreme sets of population groups. Our findings reveal that 36% of affluent households belong to the general caste, which is 5% higher than the national average. Significantly, 12% of vulnerable households are also Scheduled Tribes, whose share is 2% more than the overall share of households. Also, more than half (52%) of vulnerable households are those that can be categorised as BPL households.

When looked through the lens of educational status, chief wage earners of 60% of affluent households have completed higher secondary education; however, similar percentage of vulnerable households is only below primary. The probability of a household becoming vulnerable is higher if chief earners are low literate. Considering occupational pattern, a majority (48%) of affluent households are self-employed (agriculture and non-agriculture), followed by 30% in regular salaried employment, with only 16% working as labourers. In contrast, vulnerable households are engaged in labour (44%), agricultural self-employment (39%), while just 11% have salaried employment. Thus, labour households, particularly those in agricultural self-employment, are among the most vulnerable, while salaried income households are predominantly affluent.

Understanding well-being through household income and expenditure levels

	Per capita population quintile			Surplus income*	
Population groups	Income	Expenditure	Households (million)	Annual per capita (₹)	Share to income (%)
Most affluent (13)	Qi5	Qe1-4	17.4	65,842	51%
12	Qi4	Qe1-3	20.3	29,680	40%
11	Qi3	Qe1-2	15.4	18,255	35%
10	Qi2	Qe1	8.9	11,288	30%
09	Qi5	Qe5	45.0	47,302	26%
08	Qi4	Qe4	26.6	10,953	14%
07	Qi3	Qe3	23.6	6,789	13%
06	Qi2	Qe2	20.9	4,118	10%
05	Qi1	Qe1	30.8	1,225	5%
04	Qi3	Qe4-5	16.0	(-15,357)	-28%
03	Qi4	Qe5	14.0	(-22,703)	-28%
02	Qi2	Qe3-5	18.0	(-13,818)	-33%
Most vulnerable (01)	Qi1	Qe2-5	13.1	(-15,636)	-60%
All India			270.1	12,725	18%

Source: ICE 360° Survey (October 2014) from People Research on India's Consumer Economy (PRICE)

* Surplus income (proxy to household saving): Household income *minus* (routine *plus* non-routine household expenditure)
Household income: Earning by members of the household from all sources during FY14;
Routine expenditure: Consumption expenditure on food, housing, health, education, transport, clothing, durables, etc;
Non-routine expenditure: Unplanned large expenditure on ceremonies, medical, higher education, leisure travel and so on

Layering consumption and expenditure patterns of households provides even more insights into the vulnerability status. The average household in India has an annual income of R3,35,630 ($5,048 per annum) and an expenditure of R2,76,036 ($4,152 per annum), leaving it with a surplus of R59,594 ($896 per annum) to save and invest. The average annual household income of the most affluent households is R5,68,489 ($8,550), about four times higher than the average annual income of the vulnerable group at R1,42,031 ($2,136). Similarly, the average annual total household expenditure of affluent households is R2,76,683 ($4,161), which is 1.21 times higher than that of the vulnerable group. The average annual household surplus income of the affluent is R2,91,806 ($4,389), while vulnerable households borrow about R85,555 ($1,287) to meet basic requirements.

Among routine expenditure, 62% vulnerable households spend on food, which is 54% for affluent households. The top three items of spending in the non-routine expenditure share of vulnerable households are social obligation (32%), health (22%) and education (16%). Affluent households spend mostly on social obligation (26%), education (17%) and travel (15%).

The basic difference between the vulnerable and prosperous groups is savings. There has been a significant change in savings of these two groups during last five years. Little over double (56%) of affluent households confirm that their savings increased during the last five years, compared to just 21% for vulnerable households. While there has been no change in savings for 42% of vulnerable households mentioned, only 22% of affluent households fall in this category. The basic reason for vulnerability among 39% households is that they are spending more than their income and have no money left to save.

The tough conditions of their financial status are reflected in the response of vulnerable households when asked about how confident they feel about their financial situation. An overwhelming 61% of vulnerable households' wage earners say they have difficulty in meeting their basic needs. Lack of confidence about the stability of their major income source is cited as the main reason. Only 27% of the vulnerable households express confidence about income stability, compared to 57% for affluent households. On the positive side, there is a sense of optimism about the future, with 29% vulnerable households asserting that their economic situation will remain the same and another 29% hopeful that their financial status will improve in the next five years. Nearly 40% affluent households are absolutely confident that their economic situation will improve in the next three years.

This analysis reflects that arguing over the best approaches of well-being measurement is futile. Instead, income, expenditure and saving-related indicators, when taken together, are better able to provide insights into levels of household well-being and a holistic picture of economically vulnerable segments of society. Policy-makers need to focus on vulnerable households that are on the brink of poverty. If the tide can be stemmed, it would have a major impact on overall poverty alleviation in the country.

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