From Middle India to the Middle Class of India: **Inclusive Growth as the Path to Success**

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Executive Summary

The sustainability and eventual success of India's economic takeoff will depend on an expanding and increasingly prosperous middle class. However, what is commonly referred to as the "middle class" in India has nothing to do with Middle India, the households located in the middle 60% of the income spectrum. In her meticulous and ground-breaking research, Rama Bijapurkar has ascertained that the so-called middle class households are located between the 78th and 98th percentiles by household income. In other words, they are actually the upper class of India.

Middle India has been neglected in the last two decades since India's first wave of economic reforms in the 1990s. If Middle India continues to be left behind, then domestic demand is unlikely to be strong enough to help drive India's growth acceleration. Middle India is therefore critical to India's economic takeoff.

Transforming Middle India into the nation's genuine middle class would fundamentally support the government's ambitious efforts to increase GDP growth rates to the 8-10% range. With faster growth in household income in Middle India, domestic demand would become stronger more quickly. This in turn would open up new opportunities for more productive business investment targeting the domestic market, including opportunities for small businesses and start-ups. A virtuous circle can then be set in motion.

This report assesses the prospects of transforming Middle India into the middle class of India using detailed household income and expenditure survey data produced by R. Bijapurkar, R. Shukla, and others in 2014 in the research report Middle India: Key to Inclusive Growth and a Prosperous Future India, published by People Research on India's Consumer Economy (PRICE). Deploying these data, three sharply contrasting pictures of Poor, Middle, and Rich Indias can be drawn in terms of income, education, employment, and other socio-economic characteristics. However, all three Indias also face many common difficulties such as having to cope with a debilitating lack of basic infrastructure and scarcity of formal employment. For example, even for households in Rich India (those located in the top quintile of household income), only 38% are paid a regular salary by their employers; that drops to 17% in Middle India and 8% in Poor India.

Transforming Middle India into the nation's genuine middle class would fundamentally support the government's ambitious efforts to increase GDP growth rates to the 8–10% range. With faster growth in household income in Middle India, domestic demand would become stronger more quickly.

In terms of financial inclusion, significant progress has been made under the government's Pradhan Mantri Jan Dhan Yojana (PMJDY) program that aims to open a bank account for every household in India. The challenge is that many of the newly opened bank accounts have remained inactive. For example, while practically all Middle Indian households now have bank accounts, only 12.7% of them have succeeded in securing some form of a bank loan. Only material improvement in the socioeconomic conditions of Middle India will enable more of its households to reach the income threshold for becoming profitable customers for the banks.

In spite of the myriad challenges facing Middle India, however, survey data also reveal a healthy level of confidence in India generally and in Middle India in particular.

Under the right conditions, Indians' "animal spirits," which have been dormant until now, could be ignited.

Introduction: India's Economic Outloook

India's government is leading a radical re-direction of the Indian economy on a pro-growth, pro-trade, and pro-private investment platform with the goal of accelerating annual GDP growth to the 8-10% range to match the record set by the East Asian Tigers in previous decades. The extent to which this can be successful will determine India's growth trajectory for years to come. In this report, we argue that it is critically important that the government's efforts are complemented with a strong focus on transforming Middle India, households in the middle 60% of the income spectrum, into the middle class of India in order for growth acceleration to succeed. To accomplish that, inclusive growth is needed.

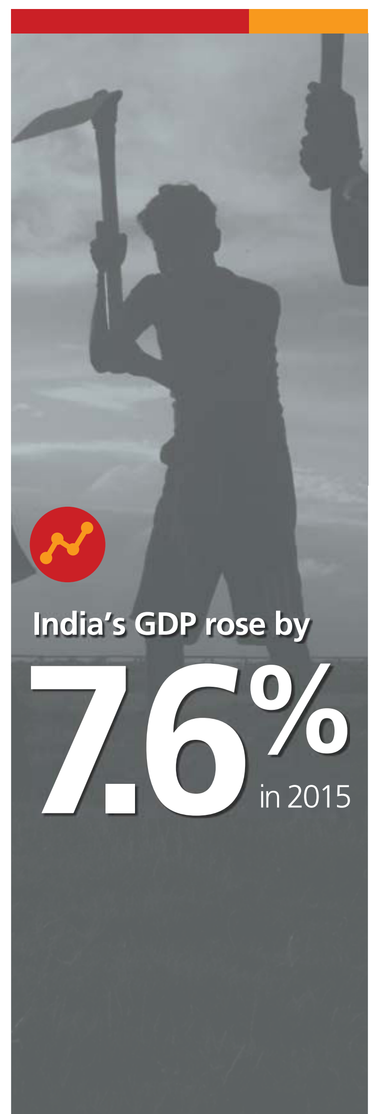
The government has launched a number of ambitious growth-acceleration policy initiatives, including easing restriction on foreign direct investment, improving infrastructure, skill training on a massive scale, developing a more business-friendly regulatory environment, imposing stronger fiscal discipline, and rapidly expanding manufacturing's share of GDP to 25% from around 17%. These initiatives are exactly the right recipes for accelerating India's economic growth. The question is whether they can be successfully and fully implemented as planned, which is contingent on domestic and global economic conditions.

From a global economic perspective, India has been benefiting from record low oil prices, which significantly eased its chronic balance of payment difficulties. That, in turn, lowered inflationary pressure while cutting the government's subsidy spending. So there has been a very helpful tail wind in this regard. On the other hand, the global economy has remained weak and volatile, and India is being affected along with the rest of the world. India's growth today is much more closely correlated with the world economy than it was 20 years ago, thanks to its economic opening from the first wave of reforms in the early 1990s. So a weak global economy is a serious drag on India's growth acceleration efforts.

Domestically, much stronger private-sector investment and a revitalized banking sector will be needed for successful growth acceleration. In this context, India is burdened by legacies of past policy mistakes: Banks are saddled with increasingly bad and non-performing loans while large companies are heavily indebted and either cannot or will not service their debts.[1] Among India's state banks, for example, non-performing loans increased from 2.1% in 2008 to 4.3% in 2013.[2] According to the Reserve Bank of India, stressed loans among state banks rose from 6.5% of total loans in 2011 to 14% in 2015. These non-performing loans plus restructured loans give a more complete picture of the bad debt situation than non-performing loans on their own. Fixing the bad loan situation in the banking sector will take time, even under the best conditions. And a banking sector burdened with unsustainable bad debts will not be able to support stronger domestic investment. Under these conditions, raising domestic investment sustainably will be a challenge.

Perhaps the most ambitious of Prime Minister Narendra Modi's growth acceleration initiatives is that of increasing the manufacturing sector's share of GDP to 25%. This is an attempt to follow the pattern set by East Asia where labor-intensive manufacturing played a crucial role in economic development success. In the case of China, manufacturing's share of GDP peaked in 2010 at close to 40% of GDP. As a result of the rebalancing of its economy in recent years, China's manufacturing as a share of GDP has dropped to about 36%, still very high by any standard. In

1 Arvind Subramanian. "Economic Survey 2015- 16: Economic Outlook, Prospects, and Policy Challenges."
2 Estimates by Credit Suisse.



comparison, manufacturing's share of GDP in India in 2014 is estimated to be 17%.[3] For India, hitting the 25% target would mean the creation of tens of millions of better-paying jobs for low skilled workers in the formal sector each year, dramatically increasing exports. This would help immensely to address the serious challenge of providing meaningful employment to the estimated 150 million young people that will enter the labor force in the coming decade. Furthermore, it will have positive knock-on effects in putting to rest India's chronic balance-of-payment difficulties, eliminating poverty on a mass scale, and attracting more foreign direct investment to take advantage of India's expanding manufacturing capacity.

However, several emerging trends are making the success of the "Make in India" plan increasingly uncertain. Weak global demand is sharpening competition between countries aspiring to accelerate their economic growth through expanding the manufacturing sector. In Asia alone, Vietnam, the Philippines, Indonesia, Bangladesh, and Sri Lanka are all trying to step into China's shoes as cheap labor options in manufacturing. India will have to work very hard to expand its manufacturing sector in this crowded field of intense competition.

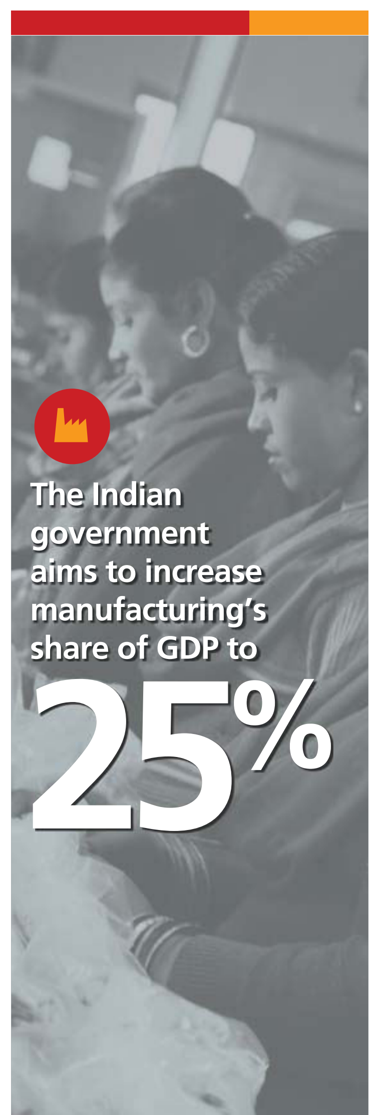
Whereas global demand is cyclical and will certainly pick up in the future, a more alarming development is in how technology is changing the manufacturing sector itself, a development likely to persist far beyond the current economic cycle. Put simply, new technologies are making manufacturing increasingly less labor intensive and more high tech and capital intensive and service intensive. The implications for economic development are therefore profound. Indeed, one recent study suggests that export-oriented industrialization, the backbone of which is labor-intensive manufacturing, which has been the well-trodden path for countries to get rich in the past two hundred years, may well have run its course as a result of technological changes, especially in major advances in cost-efficient, flexible, and increasingly capable robotics.[4]

Interestingly India already exhibits this very feature of capital-intensive manufacturing in spite of its mass of cheap and underutilized labor supply. The strong information and communications technology sector (ICT) in India, ironically, attracts foreign investors to India not to leverage its abundant supply of low cost labor but its ICT capability. For example the Swedish electronics group Ericsson employs some 22,000 people in India, making it a major foreign manufacturer in India. However, only about 1,000 of the Ericsson employees are actually engaged in the labor-intensive part of production, with the rest employed in highly skilled roles having to do with high tech engineering and ICT that service robotics.[5]

Harvard economist Dani Rodrikhas characterized this phenomenon as "premature deindustrialization," which he sees as a major threat to developing countries attempting to follow the pattern of export-led rapid industrialization that served the East Asian countries so well in the last half a century.[6] In the case of India, its strong ICT sector is an added complication. As the example of Ericsson shows, foreign investors are often attracted to set up high-tech and capital-intensive factories in India to take advantage of its ICT capability. But those moves are unsuitable for income and employment creation for the vast majority of the Indian labor force, which is mostly unskilled or poorly skilled.[7] While the ICT sector, which includes tradable services, is useful in assisting growth acceleration, the heavy lifting has to come from

3 World Bank data.

4 Frey, Carl B. 2016. "Technology at Work v2.0. Oxford." Martin Programme on Technology and Employment.
5 Crabtree, J. "India: If they can make it ...." ***Financial Times.*** February 23, 2016.
6 Rodrik, D. "Premature Deindustrialization."National Bureau of Economic Research Working Paper Series, W20935. February 2015.
7 Employment in India's world class ICT sector accounts for only a few percentage points' share of total employment, and the potential for expanding the ICT sector's employment is limited by the supply of qualified skilled workers, as observed by the National Association of Software and Service Companies (NASSCOM) in its various Quarterly Industry Reviews.



raising productivity economy-wide, especially in the non-tradable service sector that employs the bulk of India's labor force, where workers are engaged mostly in low-productivity jobs in retail and housework.

Virtually all activities in India's non-tradable service sector could benefit from having better infrastructure, technology, and organization. Improvement in any of these areas could raise productivity quickly. However, for productivity growth to be sustainable in the context of non-tradable services, improvement has to be made on the broadest basis possible. This is because demand for non-tradable services is constrained by the size of the domestic market, unlike export-led manufacturing that can tap into global demand. This means that partial productivity improvement in only a few activities would quickly become self-limiting. This is due to the fact that individual service activities cannot expand without turning their terms of trade against themselves in the context of a relatively fixed domestic demand: Their improved efficiency and rising output end up pushing down their prices and profitability. The only way for productivity growth to work is to have an across-the-board improvement in productivity that benefits the vast majority, if not all, of domestic service activities. That would then lead to increasing total demand, allowing the entire non-tradable sector to become more productive and profitable at the same time. That requires inclusive growth.

Inclusive growth can set in motion improvements in efficiency and profitability on the supply side immediately translating into rising household income and expenditures on the demand side, resulting in an expanding and increasingly prosperous middle class. In this connection, it is sobering to realize that what is commonly referred to as the middle class in India has nothing to do with households located in the middle of the income distribution spectrum. Rather, they are actually the top 20% of households by income.

In seeking to identify market opportunities in India, business and market analysts tend to define such opportunities in terms of the spending power of households that fit into a range that can afford products and services on offer. So they focus on household expenditure data, which also happen to be readily available from a key government survey.[8] In a famous and frequently cited study by the McKinsey Global Institute, for example, the key consumer market opportunity was identified as households earning US$11,000 to US$20,000 a year (labeled "seekers") and households earning US$5,000 to US$11,000 a year (labeled "strivers"). Combining seekers and strivers then makes up the "middle class" of India.[9]

In a ground-breaking study of India's consumer market that is anchored in both household income and expenditure data, Rama Bijapurkar pinpoints where these "middle class" households are located: They reside between the 78th and 98th percentile of Indian households by income.[10] In other words, they are at the top of the pyramid. Bijapurkar suggests that a more accurate label for this household segment is the "consumer class" - households that have enough discretionary spending power to be interested in goods and services that are commonly associated with the middle class in developed countries.[11]

This consumer class, which is actually upper class households by income, consists of some 62 million households. It is sharply differentiated from the rest of the population – 208 million households and close to a billion people. At

8 The National Sample Survey, which is a household expenditure survey and does not provide data on household income.
9 Ablett, Jonathan et al. "The 'Bird of Gold': The Rise of India's Consumer Market." McKinsey Global Institute. 2007.
10 The top 2% of households by income are the super rich of India. Bijapurkar, R. *A Never-Before World: Tracking the Evolution of Consumer India*. New Delhi: Penguin.2013, 111.
11 Bijapurkar, R. 2013. A Never-Before World: Tracking the Evolution of Consumer India. New Delhi: Penguin.

20% of total households, the consumer class accounts for 55.5% of total household income and has an average per capita GDP of US$3,982. In contrast, the remaining 80% of Indian households are left with only a 44.5% share of total household income. Their per capita GDP is estimated at just under US$700.[12]

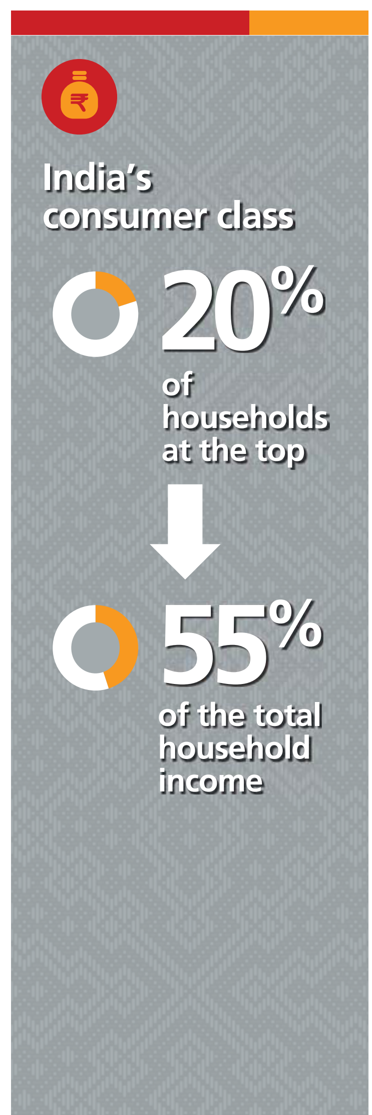
This consumer class is the prime beneficiary of the partial economic opening and reforms in India in the last twenty years. Globalization has been good for them. Over the same time period, the government's focus on income transfer and subsidies for the poor has tended to benefit households at the bottom of the income spectrum. What has been neglected is Middle India, households residing in the middle 60% of the income spectrum that should have been the genuine middle class of India.

Without a fast-growing Middle India, domestic demand is unlikely to be strong enough to become a key engine that can contribute to India's growth acceleration. As Bijapurkar observes: "The truth about the India market opportunity hype is that the Consumer India emperor may not be naked, but he is definitely underdressed. There are not enough households to make it interesting by developed-market or even by other BRIC-economy standards."[13]

Middle India, therefore, has a critical role to play in India's growth acceleration ambition. For reasons identified above, the extent to which the different government initiatives for accelerating economic growth can be brought successfully to fruition remains uncertain due to conditions in the global environment, challenges in India's domestic political economy, and emerging technological trends. These technological trends are especially significant as they would reduce global demand for labor-intensive manufacturing even if the global economy returns relatively quickly to expanding robustly in the near future. This could become a stiff headwind for the "Make in India" program in attempting to raise manufacturing's GDP share to 25% by 2025.

Transforming Middle India into India's genuine middle class would fundamentally support the government's efforts in growth acceleration. With faster growth in household income in Middle India, domestic demand would become stronger faster. This in turn would open up new opportunities for more productive business investment targeting the domestic market, including opportunities for small businesses and start-ups. Expanding domestic demand also provides more leg room for India's vast non-tradable service sector to improve productivity and profitability simultaneously, boosting income growth for the huge number of households who make their living in non-tradable services. This sets in motion a virtuous circle.

In Chapter 2 of this report, we provide a more detailed description of Middle India and compare it to Rich India and Poor India. In Chapter 3, the challenge and promise of financial inclusion is highlighted and evaluated in the context of how it could serve inclusive growth to empower Middle India. The bottom line is that while financial inclusion is an integral part of inclusive growth, it cannot succeed on its own without inclusive growth. In Chapter 4, we evaluate the transformational potential of Middle India from the perspective of its "animal spirits". This potential at the individual grassroots level, is what really counts. Chapter 5 summarizes the discussion of how Middle India can be transformed into the middle class of India through inclusive growth.



12 Bijapurkar, R. *A Never-Before World: Tracking the Evolution of Consumer India*. New Delhi: Penguin, 2013. 100.
13 Bijapurkar, R. ibid, 2013. 92

Snapshot of Middle India: Comparison with Rich and Poor India

Middle India is defined as the middle three quintiles of households by income. Thus, there are 164 million households in Middle India, compared with Rich India at 62 million (the top quintile) and Poor India at 44 million (the bottom quintile).

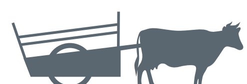
Where they live

The urbanization patterns between the three Indias are clear: Higher household income is correlated with more urbanization. Just under 30% of Middle India lives in urban areas, including metro areas such as Delhi, Mumbai, Kolkata, and Chennai. That compares with 55% of Rich India and 17% of Poor India. At the other end of the spectrum, almost two-thirds of Poor India live in the least developed rural areas versus one-third for Middle India and 12% for Rich India.

There is also a strong correlation between household income and education. Only 16% of Middle India has an education level of graduate and above, much lower than the 42% of Rich India. On the other hand, only 11% of Poor India has been educated to graduate level and above, and a full quarter of people in this segment have less than a primary education.

How much they earn and save

Rich India naturally has the highest average annual household income of 394,271 rupees (US$6,600 using the average exchange rate in 2014), which is about 2.6 times higher than that of Middle India (151,651 rupees or US$2,527), and almost 5 times higher than that of Poor India (80,529 rupees or US$1,340). While Rich India could save up to 32% of household income, Middle India could only save 7.7%. Poor India suffers a deficit of 15%, which means they need to borrow regularly to make ends meet.



Middle India at a glance

164m
Households

70%
Live in rural areas

$2.5k
Average household income
(151,651 rupees)

16%
Only 16%of chief wage earners have an education level of graduate or above

7.7%
Only saves 7.7% of household income

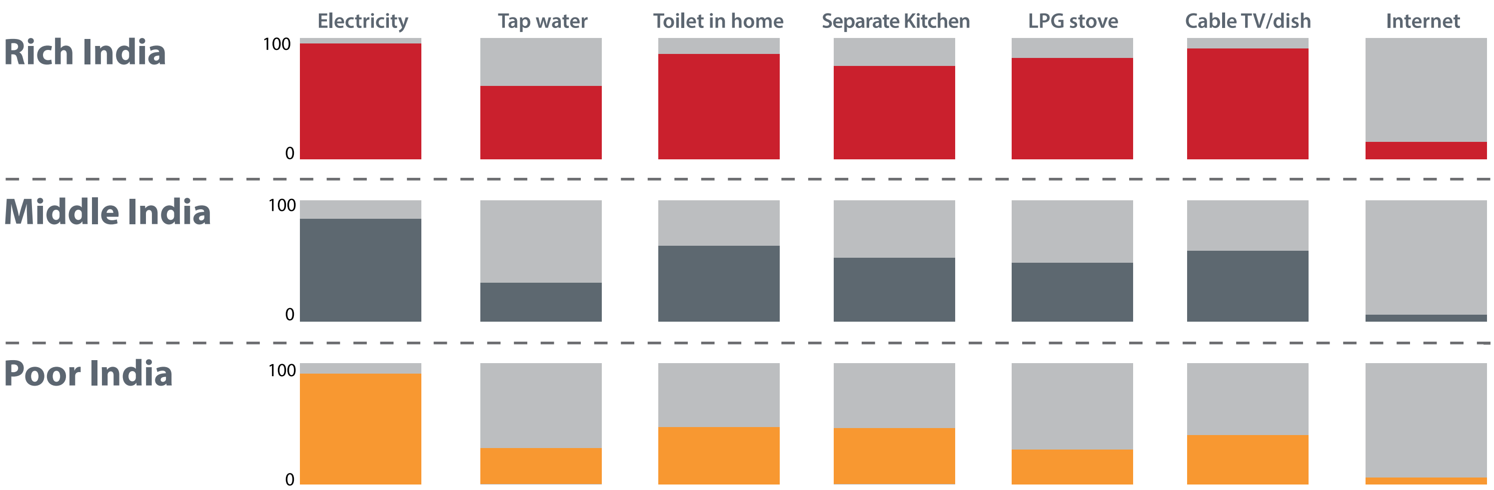


Figure 1: Household Amenities and Services (%)

Their living conditions

In household surveys, attempts have been made to corroborate self-reported incomes with observations of conditions of the home and household amenities. These are reported in Figure 1. The home conditions of Rich India are indeed far superior than both Middle and Poor India, the exception being electricity connection, which is relatively high even for Poor India.[1] Having amenities like tap water, a separate kitchen, an in-house toilet, and a liquified petroleum gas (LPG) stove also means less time-consuming labor in performing daily chores. Households in both Middle and Poor India lack many of these amenities and suffer from greater loss in productivity. A final observation is that internet connection is generally rare, even for Rich India.

How they are employed

Apart from income levels, different employment types have different implications in terms of getting paid regularly. Regular salary provides a predictable income stream and is most likely associated with stronger job security. Only 17% of Middle India households reported that they are paid a regular salary, much lower than 38% in Rich India. Poor India, on the other hand, has only 8% of its households receiving a regular salary, with over half dependent on a daily wage from casual labor.

Even within the same employment type, there are significant differences in pay levels between the three Indias. For regular-salary earners, a Rich India household on average makes 460,000 rupees a year (US$7,700), about 4.4 times and 5 times higher than its counterparts in Middle and Poor India, respectively. Even more astonishing is that the daily wage earned from casual labor also shows a massive difference: In this category of employment Rich India households earn 1.7 times and 2.7 times more than Middle India and Poor India, respectively.

1 The problem has been the frequency and prolonged black outs in electricity supply.

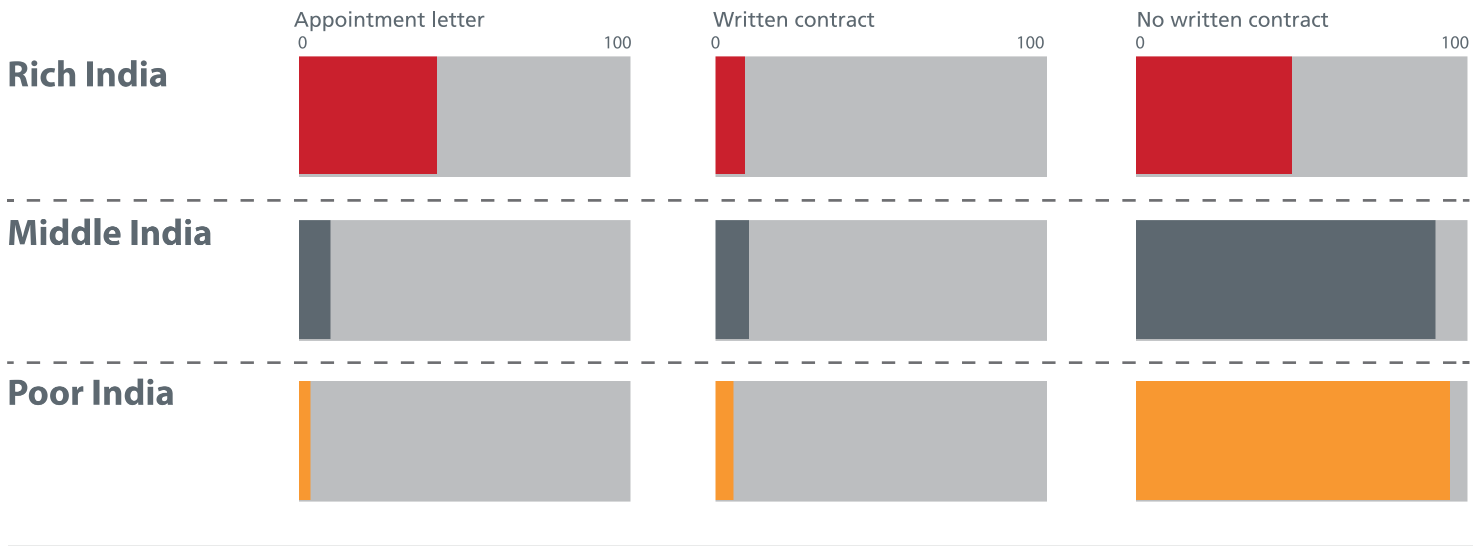
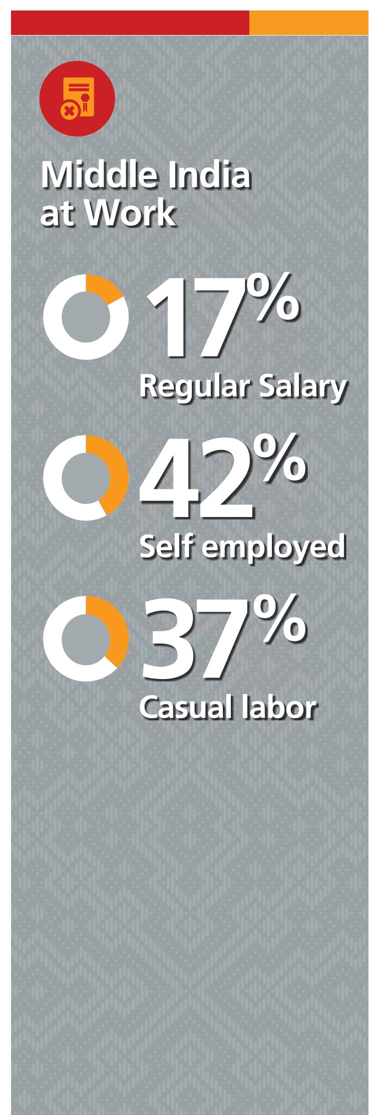


Figure 2: Employment Conditions of the Chief Income Earner in the Household (%)

As for unemployment, reported levels are very low, and the difference between the three Indias is very small, with around 11% for Rich and Middle India and 16% for Poor India. This reflects the reality that most adult Indians work by necessity, even if they have to find work as a casual day laborer. Often, involuntary unemployment is a direct consequence of physical disabilities or being ill. As discussed below, unemployment is less of a challenge than whether people have job security, regularity of payment, and other benefits.

The nature of a person's employment contract has far-reaching ramifications on job security. That affects perception of the dependability and stability of future income streams and how much could be spent today versus how much should be saved. In other words, how a household decides what to do with its current income is significantly affected by what kind of employment it has. Figure 2 identifies three different categories of employment contracts and distribution of households of the three Indias across these categories. The most secure form of employment contract is an appointment letter with no time period attached; so the employment duration is indefinite. For Rich India, 46.6% of its households enjoy such an employment contract. In sharp contrast, only 8% of Middle India households and 3.2% of Poor India households have such a contract. At the other end of the spectrum is employment that has no written contract at all. This is typical when people are hired as casual day laborers. This is a prevalent form of employment and includes self-employment in both agriculture and non-agriculture. A shocking 82.4% and 91.3% of Middle India and Poor India households, respectively, are employed in this way.

Rich India has many more households enjoying employment benefits, with 58% receiving at least one day off, compared to 27% of Middle India and 17% of Poor India. In Rich India, 59% are eligible for paid leave, compared to 33% of Middle India and 23% of Poor India. More than 43% of Rich India households receive annual gratuities and pensions.

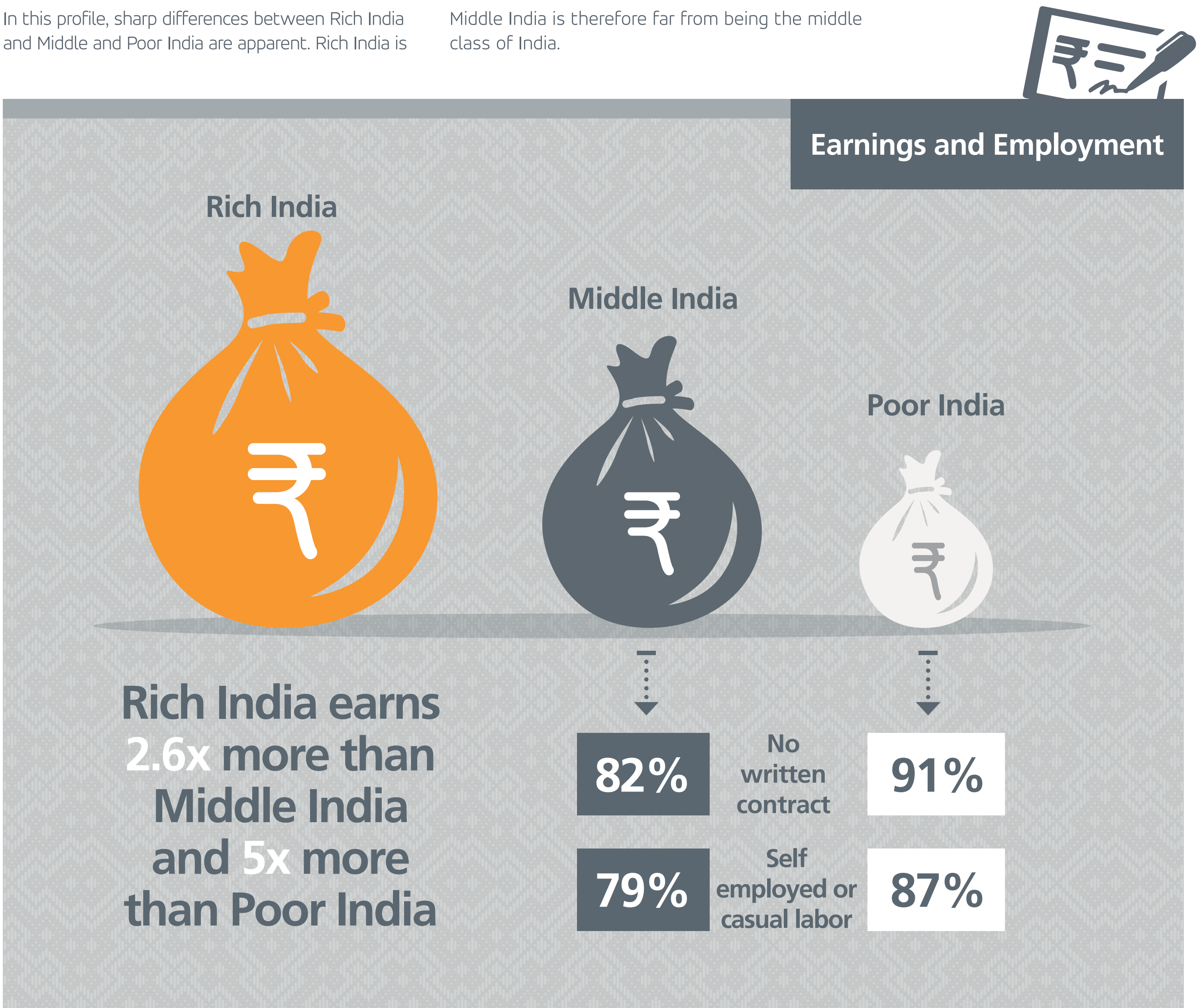


Annual gratuity involves lump-sum bonuses at the end of the year, providing for higher discretionary spending power. The benefit of pensions is even more significant as they promise steady income after retirement. Such benefits are prerequisites for a household to have the ability for long-term financial planning in both consumption and saving decisions. Lacking such benefits restricts households to focus on day-to-day needs, making it very difficult, if not impossible, for them to plan meaningfully for the future. This appears to be the situation for the majority of households in Middle and Poor India.

In this profile, sharp differences between Rich India and Middle and Poor India are apparent. Rich India is much more urbanized in the largest cities compared with Middle and Poor India. In terms of average household income, Rich India earns 2.6 times and 5 times more than Middle and Poor India, respectively. Rich India is also much better educated.

In many aspects Middle India closely resembles Poor India. For instance, the percent of Middle India households having appointment letters and regular salary is almost as low as that for Poor India. And there is virtually no difference between Middle and Poor India in terms of their shockingly high dependency on casual labor as employment.

Middle India is therefore far from being the middle class of India.



Middle India and Financial Inclusion

There is a broad consensus that the lack of access to financial services is one of the reasons why the poor are trapped in poverty. Accordingly, financial inclusion has been embraced as a new focus in development efforts generally and in public policy in particular. Financial inclusion is now widely seen as having the potential to be an effective means to reduce poverty, close the gender gap, and mitigate income inequality.

The impacts of financial inclusion on economic development show themselves in several ways. First, as the public's access to financial services improves, the efficiency of payments and transactions also improves, especially when it comes to reducing the use of cash. Second, greater access to credit and savings options enable households to make better long-term decisions regarding their consumption and investment needs, increasing growth in domestic demand at the macro level. Third, small and medium-sized businesses, which account for the vast majority of employment in developing countries, could benefit from easier access to credit in the formal sector, thereby making it easier for them to expand and create more employment and income. Fourth, financial inclusion could help in creating a more stable financial sector by widening both the depositor and borrower bases of the banks. And, when financial inclusion expands to cover specific disadvantaged demographic segments like women and minorities, the effect on poverty reduction is especially pronounced.[1]

In India, Modi has made financial inclusion a central part of his efforts in growth acceleration. In August 2014, he launched the so called Pradhan Mantri Jan Dhan Yojana (Prime Minister's People's Wealth Program, or PMJDY), with the objective of expanding banking services to all Indian households. This is believed to be a game changer in India. In addition to the commonly recognized benefits of financial inclusion, in the context of India there is an additional and very significant application: In bringing banking services to the vast unbanked population, the government could eliminate the notoriously leaky system of delivering subsidy and welfare benefits by depositing payments directly into the bank accounts of the intended recipients.

The Indian government spends huge sums each year on income transfer and subsidies, often with very poor results. Because corrupt officials routinely siphon off large amounts from these payments, only a fraction reaches the intended beneficiaries. The government is estimated to have spent close to US$45 billion on subsidies and income transfer in 2015, including US$20 billion on food subsidies, US$12 billion on fertilizer subsidies, and US$9 billion on fuel subsidies. These subsidy payments have seriously burdened the government's budget. If financial inclusion could ensure that the payments can reach the beneficiaries in full, that alone would be a major achievement.

PMJDY was launched with great fanfare on August 24, 2014, and Modi could honestly boast that 15 million bank accounts were opened on that first day of the program. As he correctly pointed out, "there are millions of families who have mobile phones but no bank accounts. We have to change this." And he continued with evident pride that "the change will commence from this point. Never before in economic history have 15 million bank accounts been opened in a single day. Never before have insurance companies issued 15 million accident policies in a single day. Never before has the Government of India organized a program of such scale – over 77,000 locations – with the participation of so many chief ministers, union ministers, and government and bank officials."[2]

To date, PMJDY is deemed to be extremely successful. The ICE 360° Survey data show that

1 Park, C.Y. and R.V. Merado."Financial Inclusion, Poverty, and Income Inequality in Developing Asia." ADB Economics Working Papers Series, No. 426. January 2015. Rahman,A. "The Mutually- Supportive Relatonship Between Financial Inclusion and Financial Stability." AFI Viewpoints. May, 2014.Kimenyi, M.S. and V. Songwe. "Why G-20 Must Prioritize Financial Inclusion to Promote Global Growth." June 2012. In K. Dervis etal, Bolstering the World Economy Amid Growing Fear of Recession. Brookings: Global Economy and Development.

2 Press Trust of India. "PM launches Jan Dhan Yojna, 1.5 crore bank accounts opened on Day 1." *The Times of India*. August 24, 2014.

87%

of Indian households report access to at least one bank account

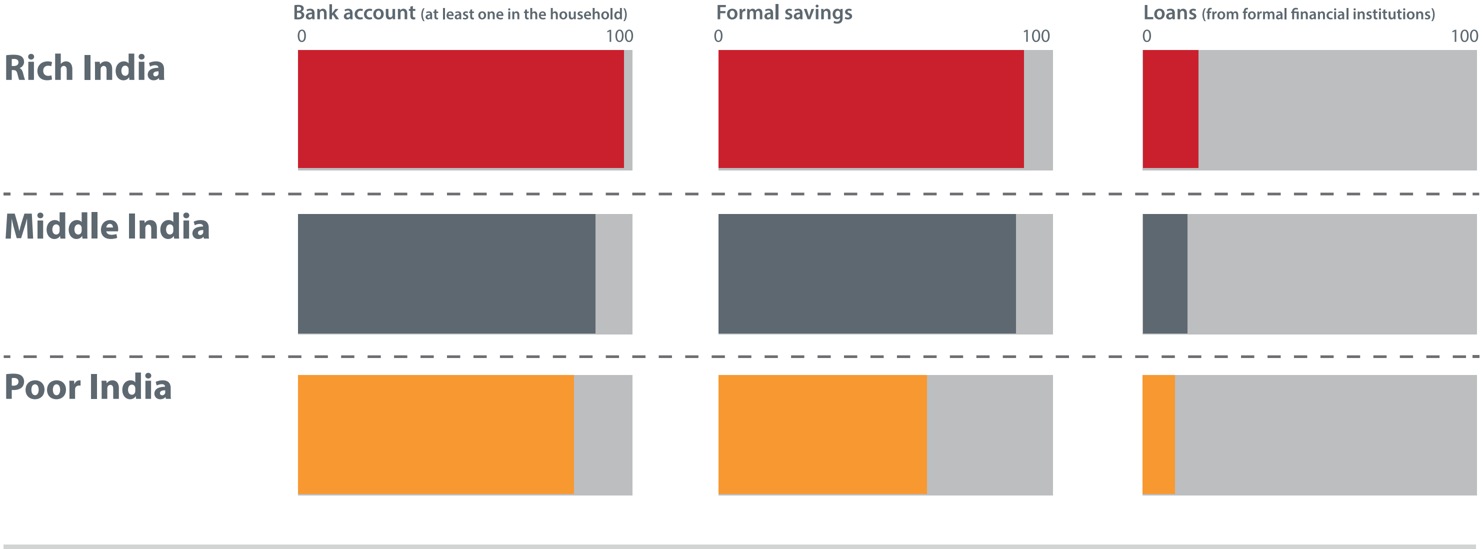


Figure 3: Penetration of Financial Instruments and Services (%) (ICE 360° 2014 Survey)

87% of all Indian households had at least one member with a bank account.[3] In addition, 83% of households have some kind of formal savings, and the Aadhaar card (a unique ID card based on biometric data recognition) has reached 73% of all households. These are significant achievements.

Not surprisingly, Rich India shows the highest levels of penetration of these financial instruments and services, as Figure 3 shows. But Middle and Poor India are not far behind. For example, while 94.3% of Rich Indian households have some kind of formal savings, that is also true for 84.4% and 63.0% of Middle and Poor India households, respectively. The weakest link is in loans from formal financial institutions. The penetration rates are low for all three Indias.

3 In January 2016, the Indian government claimed that all Indian households now have at least one adult that has a bank account.

Table A provides further details on how the three Indias save and invest. Keeping some cash in one's bank account is the simplest and most common method for all households. Having a fixed deposit account in a bank is much rarer; only 27% of Rich Indian households have such a savings account, and that drops to 13.6% for Middle India and 8.3% for Poor India. A fixed deposit account is less liquid than keeping cash in an ordinary bank account, but the former provides higher returns. Households would choose to lock away a portion of their savings in a fixed deposit account only if they felt secure enough about their future income streams. More households in Rich India are able to do so than in Middle and Poor India.

About the same levels of households across the three Indias lend money to others as a means of investment. And 12.4% of Rich Indian households

Table A: Households Having Saved or Invested in Some Financial Products Last Year (%) (ICE 360° 2014 Survey)

	Rich India	Middle India	Poor India
Bank account savings	81.0	74.0	52.0
Life insurance	42.0	24.6	11.0
Bank fixed deposit	27.0	13.6	8.3
Postal savings	9.0	12.9	12.1
Private lending	9.0	8.8	8.1
Gold	12.4	4.4	2.0

hold gold as a means of savings, compared with 4.4% in Middle India and 2% in Poor India.

From the point of view of financial inclusion, outstanding results have been achieved in recent years. Indeed, according to a report by the Economist Intelligence Unit, which scores progress in financial inclusion, India was ranked fourth among all the countries covered by ACCION International (top ranked within the East and South Asia region), having moved up 10 points between 2014 and 2015.[4]

However, in spite of these achievements, the challenge of financial inclusion in India has not been fully met. If we shift the reference from households to individuals, only 52.8% of the adult population has a bank account. Furthermore, there is also a significant gender gap – 62.5% of men have a bank account versus 42.6% of women.[5]

More importantly, opening bank accounts for the unbanked is only a single step, albeit an important one, in financial inclusion. A comprehensive approach to financial inclusion is commonly conceived to have three interrelated dimensions:

(i) access to financial services and products (the objective being universal access, eg. having bank accounts);

(ii) usage of financial services and products (the objective being individuals and households actively using such services and products);

(iii) providing financial services and products of a certain minimum quality (where users having the ability to benefit from these services and products).[6]

To make real progress with these three dimensions, what is required is to design financial services and products with the user in mind. It is important to ensure that product and service features are exactly what clients are looking for and to understand the differences between clients and their distinctive needs.[7] Given that many of these new banking clients are from low-income households, the traditional banking model will need to be revised to adapt to serving clients with very low revenue while staying profitable. The real question is whether a PMJDY bank account

More importantly,opening bank accounts for the unbanked is only a single step, albeit an important one, in financial inclusion.

is an effective instrument that could empower account holders to begin using financial services such as accessing credit. PMJDY, being a central government-led, top-down program, appears to have fallen short of these comprehensive criteria despite the vigor and speed of implementation.

One problem is that many newly opened accounts have remained inactive. PMJDY may have met the objective of opening bank accounts for the unbanked, but it has yet to meet the usage objective.

Official data show that as of July 2016, a quarter of all the newly opened bank accounts under the PMJDY program remained empty and inactive. The situation is worse for the participating private banks where the empty accounts are estimated to be around 37% of the total.[8] Many of the "active accounts" on the other hand, are accounts where government subsidies have been successfully deposited and then withdrawn in full by the account holders, but the account holders have not deposited any of their own savings into the accounts or through the account obtained credit of any kind. Many such accounts are kept active only for receiving government subsidies and transfers, not as fully functioning bank accounts involving multiple products and services that are utilized beneficially by the account holder. This is corroborated by the very low percentage

4 Economist Intelligence Unit. "Global Microscope 2015: The Enabling Environment for Financial Inclusion." 2015.
5 Findex data, World Bank.
6 The World Bank. "Financial Inclusion Strategies Reference Framework." June 2012.

7 Gardeva, A., and Rhyne, Rhyne."Opportunities and Obstacles to Financial Inclusion: Survey Report." Center for Financial Inclusion at ACCION International, July 2011.
8 Department of Financial Services, Ministry of Finance, Government of India.

of households in all three Indias that have succeeded in obtaining any loans from formal financial institutions. (See Figure 3.)

Even in the limited application of using these bank accounts to reach the intended beneficiaries of the government's subsidies and income transfers, progress has been held up by the slow pace of linking Aadhaar to PMJDY. As of July 20, 2016, less than half of the PMJDY accounts have been populated with Aadhaar details so that they can be used by the government for depositing subsidies and transfers directly.[9]

Inactive PMJDY accounts put stress on the banks. The fixed cost for opening PMJDY accounts for banks is up to 15% higher than for traditional accounts, according to one estimate.[10] And many of the poor are unlikely to be able to generate enough business volumes to justify the fixed cost involved in serving them. This could create a problem of disincentives: Banks (especially private banks) lack incentives to learn more about these new account holders and to design products and services that can meet their needs, and account holders are discouraged from using their bank accounts more actively because of the lack of products and services that they need.

The longer term sustainability of PMJDY is therefore an open-ended question. PMJDY is not the first program in India that has attempted to fast track financial inclusion. Between 2005 and 2010 the Congress-led coalition government opened over 50 million so called "no-frills" bank accounts for the unbanked. Half a decade later, up to 90% of these accounts have been found to be inactive.[11] This is not to suggest that PMJDY would inevitably meet a similar fate. There is no question that PMJDY has been implemented with unprecedented vigor and speed. And difficulties with populating PMJDY accounts with Aadhaar details will likely be resolved given more time. Sustainability is not so much a question about PMJDY but more about whether financial inclusion can succeed on its own without real progress in inclusive growth.

This brings us back to Middle India. As Figure 3 shows, while 87% of Middle Indian households have bank accounts, only 12.7% of them have succeeded in securing some form of a bank loan. Many of these new account holders are clearly not yet real customers of the banks. However, any material improvement in the socioeconomic conditions of Middle India will enable more of its households to reach the income threshold for becoming profitable bank customers. Banks will then be able to tap into a much bigger pool of new customers, and the banks will have more incentive to cater to their needs. It is difficult for financial inclusion to succeed on its own, and it has a much better chance of delivering on its promises when it is part of a broader effort of inclusive growth.

9 Ghosh, H."Slow Progress for PM's Financial Inclusion Dream." www.IndiaSpend.com. February 20, 2016.
10 Chang. A."Jan Dhan: Narendar Modi's Speed Problem." www.IndiaSpend.com. October 5, 2014.

11 Platt, Ann-Byrd. "No Thrills – Dormancy in NFA Accounts." MicroSave (Market-led Solutions for financial services). May 2011.

The Animal Spirits of Middle India

What about the state of mind of Middle India? What are the attitudes of Middle Indians regarding the future of their nation, and what do they see as the most important challenges that the country has to meet in order to be successful?

Getting a handle on this subjective dimension of Middle India is not just a matter of idle curiosity. John Maynard Keynes long ago recognized the power of the state of mind in a society in affecting economic outcomes. How optimistic or pessimistic people are can affect how they invest and spend, with very direct consequences on the ups and downs of the business cycle, economic growth, and overall development. Very often, it comes down to what Keynes called the "animal spirits."

In a famous passage in his *General Theory*, Keynes said: "The outstanding fact is the precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. ... If we speak frankly, we have to admit that our basis of knowledge for estimating the yield ten years hence of a railway, a copper mine, a textile factory, the good will of a patent medicine, an Atlantic liner, a building in the City of London amounts to little and sometimes to nothing; not even five years hence. ... If people are so uncertain, how are decisions made? They can only be taken as a result of animal spirits. They are results of a spontaneous urge to action."[1]

For Keynes, there are therefore two equally important factors that affect the dynamism of the market: the estimated efficiency and productivity of capital, which can be objectively assessed; and the state of confidence, which is entirely subjective. The term animal spirits refer to how much confidence we have in the face of ambiguity or uncertainty. Lacking animal spirits, we could be paralyzed by uncertainty. At other times, however, uncertainty merely seems like an untapped abundance of opportunities when our animal spirits are alive and well. With confidence, uncertainty could actually recharge us, with the animal spirits overcoming our anxiety and hesitation.

Taking Keynes' concept of the animal spirits a step further, Robert Shiller, a Nobel Laureate in economics, and his colleague George Akerlof argue that the subjective states of market participants could become part of the market itself. They point out that the confidence of a nation, or indeed of any market or large group of people, are typically expressed in stories. For them, a proper explanation of the ups and downs of most economies needs to take into account popular economic narratives that have captured people's imagination. Because a lot of people look for such narratives to help make up their minds on what to do, these narratives are no longer explanations of the "facts" of the economy. They are now part of the "facts." These narratives have become a real part of how the economy functions. Thus, confidence in the economic context is much more than the emotional state of an individual. It also represents people's perceptions of other people's confidence.[2]

Market participants, be they workers, investors, savers, or consumers, very rarely make decisions solely on the basis of objective calculations, mechanically working out the weighted average of quantitative benefits multiplied by quantitative probabilities. The animal spirits, the state of confidence in face of ambiguity and uncertainty, play an equally important part. In this connection, the extent to which Middle India displays the requisite animal spirits could have far-reaching consequences for India's ambition in growth acceleration. It is therefore fortunate that the data from the ICE 360° 2014 Survey contain interesting insights on the state of mind of Middle India.

To begin with, it appears that Middle India has certainly got a clear idea of what the country needs to do in order to move ahead. And it is also significant that this is true not only for

1 Keynes, John Maynard., *The General Theory of Employment, Interest and Money*. Classic Books America. 2009 (1939). Chapter 12

2 Shiller, R. J., and G. A. Akerlof. *Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism*. Princeton and Oxford: Princeton University Press. 2009

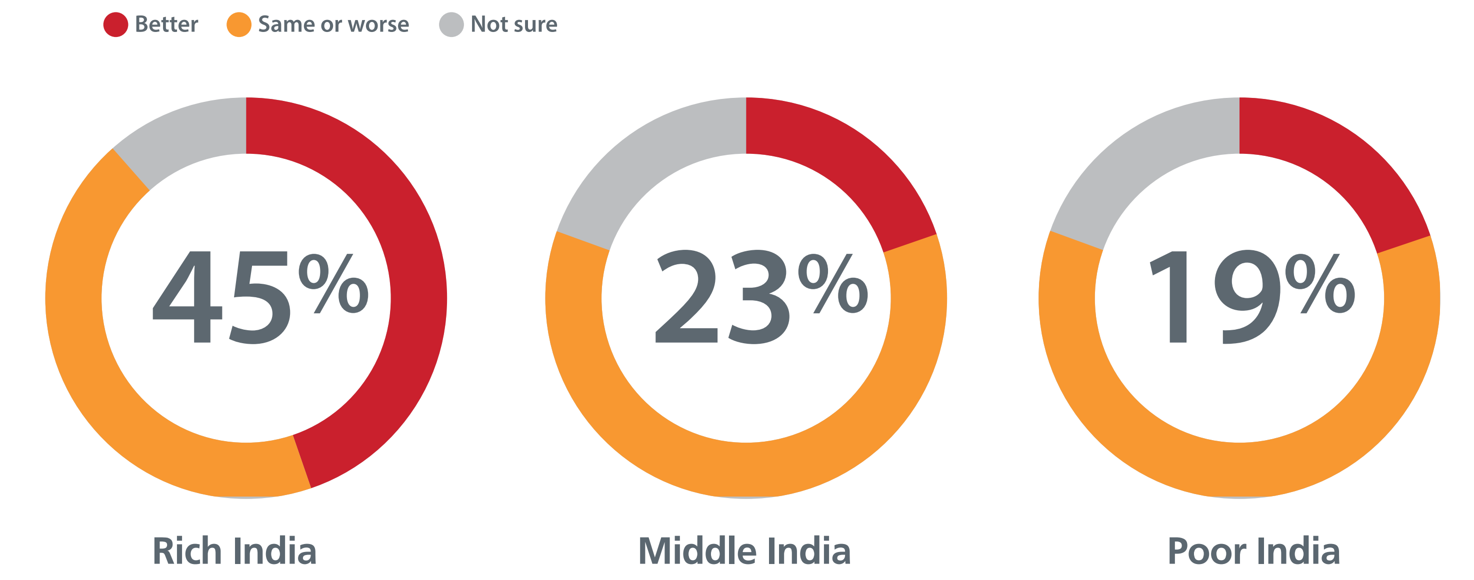


Figure 4: Changes in Financial Situation in the Last 3 Years (%)

Middle India but for both Rich and Poor India as well. More than 80% of Indians think India must meet the challenge of generating more inclusive growth, creating more jobs, increasing and improving education, and developing better infrastructure in order for the country to move ahead. There is a strong consensus regarding India's longer term future, and it is obvious that not only Middle India, but India as whole, is focusing on the right things that could take India forward.

Against this unanimity with respect to the longer term future, the three Indias have very different perceptions of how they have fared in the last three years. Middle India's perception is much closer to that of Poor India than Rich India, as seen in Figure 4. Only 22.9% of Middle Indians believe that their financial situation has improved in the last three years, not much different from 19.5% in Poor India. That is about half of the 44.8% in Rich India. Similarly, 56.8% of Middle Indians believe that their financial situation has stayed the same or worsened in the last three years, only slightly lower than the 60.8% that responded this way in Poor India.

Not surprisingly, the three Indias have very different levels of satisfaction regarding their financial situations, as Figure 5 shows. While 14% of Rich India expressed complete satisfaction regarding their financial situation, only 4% and 3% in Middle India and Poor India, respectively, were able to do so. There is hardly any difference between Middle and Poor India in this regard. At the other end of the spectrum, Middle India is significantly better off than Poor India, with only 4% expressing complete

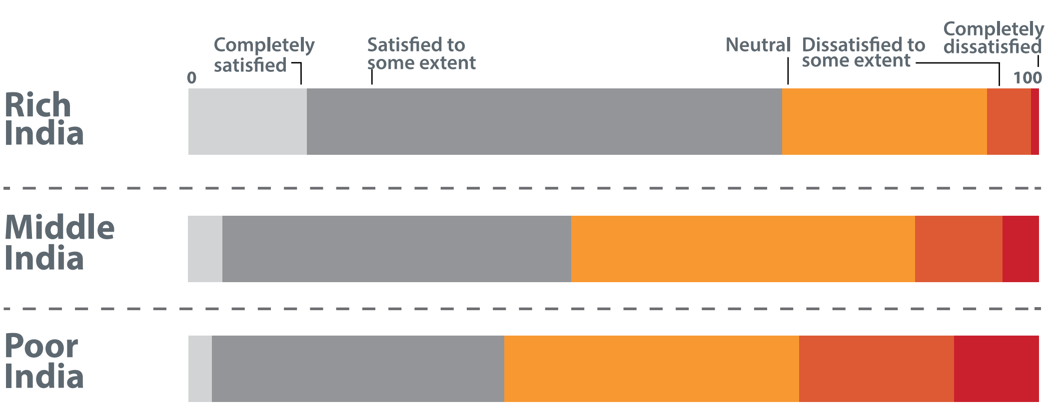


Figure 5: Aspirations: Levels of Satisfaction About Financial Situation (%)

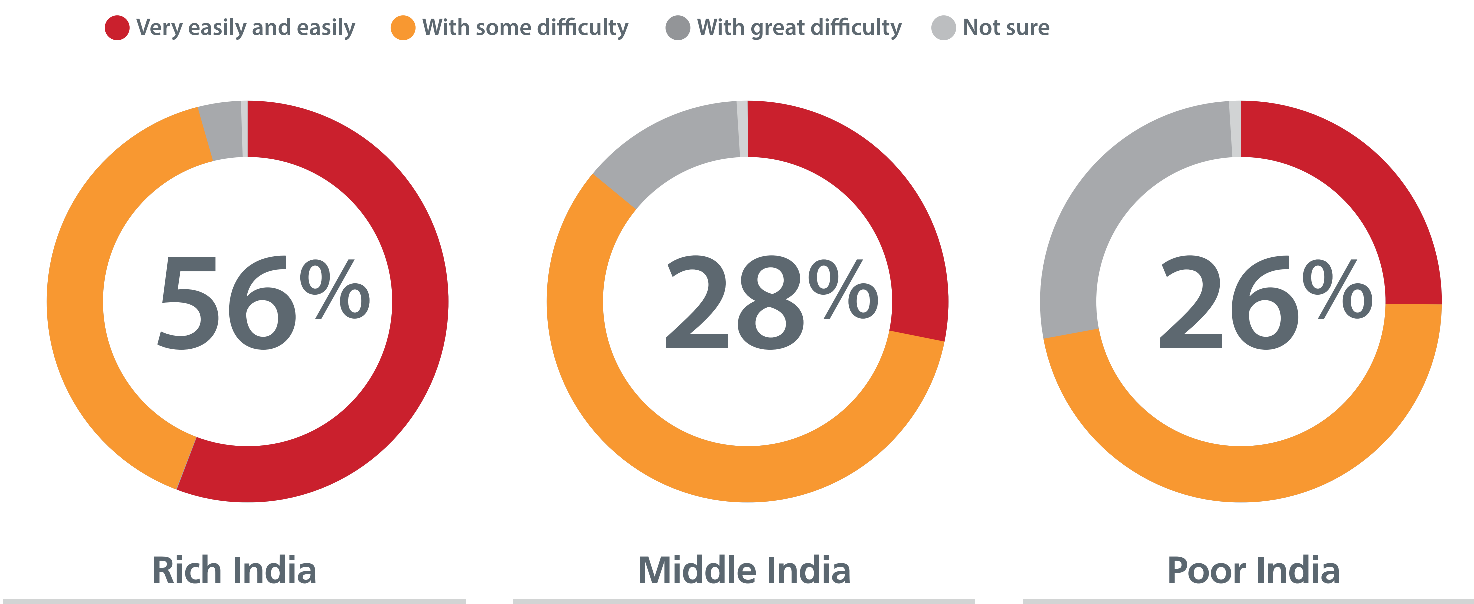


Figure 6: Ability to Meet Basic Needs with Household Income

dissatisfaction with their financial situation, lower than 11% in Poor India. Only 1% of Rich India expressed such a sentiment.

These different levels of satisfaction and dissatisfaction are based on some real concerns, as seen in Figure 5, which reports on the three Indias' ability to meet basic needs with their current household income. Again, there is a significant gap between Rich India, with 55.6% reporting that meeting basic needs with their household income is either very easy or easy, and Middle and Poor India, with only 28.3% and 26.4%, respectively, reporting the same. The difference between Middle and Poor India in terms of this response is very small. While only 5.7% of Rich India reported that they have great difficulty meeting basic needs with their income, 13.8% of Middle India and 25.7% of Poor India did so.

The vast majority, more than 70%, of the three Indias identified the following as their key worries: (i) losing their jobs or not being able to find a new job should they need to, (ii) not being able to provide their children with a good education, (iii) personal safety and security, and (iv) discrimination against women and girls. The results are impressive in that there is a virtual national consensus regarding these key worries.

The worry about losing one's job or not being able to find a new job when looking for a job is not surprising. With India lacking a comprehensive social safety net, having a job remains the only means of earning an income for the vast majority of Indians. Thus, there is little difference in response between the three Indias. What is somewhat surprising is the strong response across all three Indias regarding their concerns with having the wherewithal to give their children a good education. This reflects a welcomed and widening recognition that education pays over the long term and investing in education for ones' children is the right thing to do. It is also interesting to see that worries about discrimination against women and girls are uniformly high among the three Indias, undoubtedly reflecting concerns about widespread violence against women and girls in society. Identifying it as one of their top worries bodes well for concerted actions by civil society and pressure on the government to combat such violence.

However, it is striking that concerns over personal safety and security stand out as the highest among the key worries across all three Indias. This reflects the reality of the day-to-day struggle of most Indians in coping with poor infrastructure, unreliable and often unsafe public transportation, poor law enforcement, poor quality of affordable health care, and other routine hazards.

Despite all the challenges identified in the survey data, most Indian households also revealed a strong sense of self-reliance and resilience. Between one-half (Rich India) and close to one-third (Poor India) responded that they would use their own savings as a first step

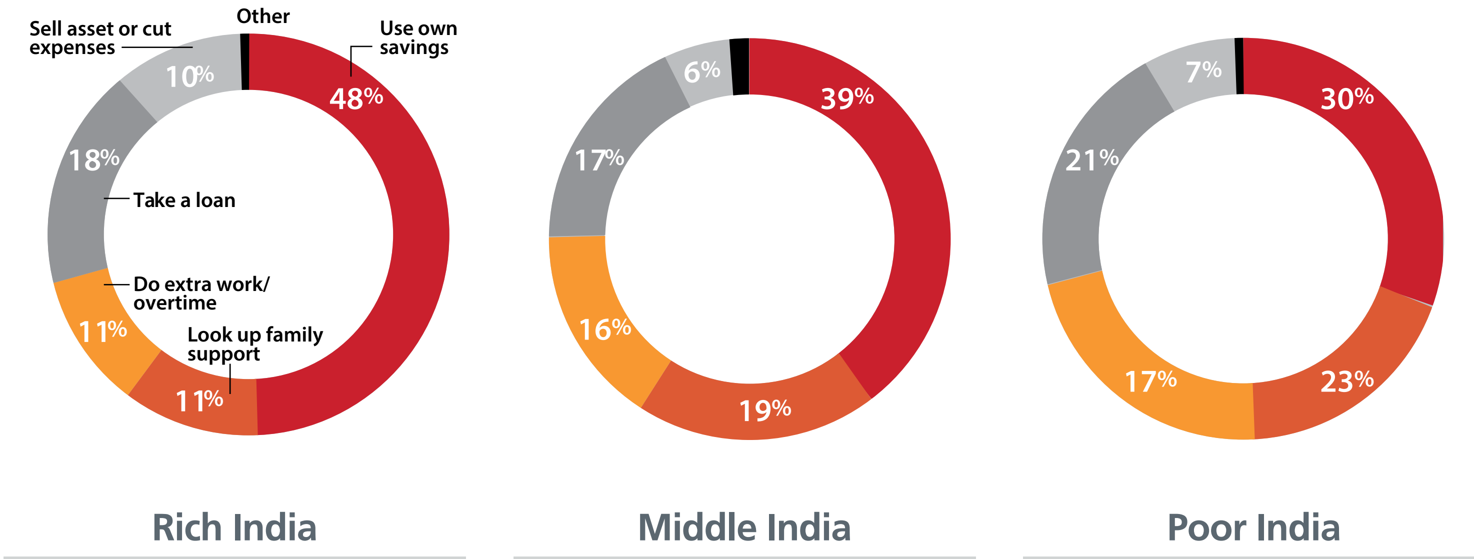


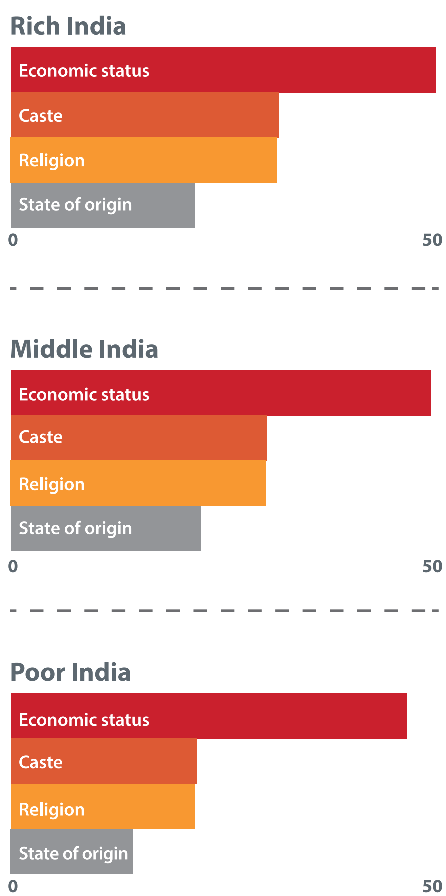
Figure 6: First Step to Take in a Financial Crisis (%)

to cope with a financial crisis. Secondarily (for both Middle and Poor India), they would seek support from family (it is the third option for Rich India, after taking a loan). Selling assets and curbing expenses are among the least preferred options.

The level of confidence in the stability of the household's major source of income is reasonably high, with 69% of Rich India, 44% of Middle India, and 35% of Poor India saying they are either most confident or confident. This is more a reflection of self-confidence than objective reality, given the preponderance of Indians employed as day laborers or self-employed in agriculture and housework, as reported in Chapter 2.

Finally, the perceptions of the three Indias regarding discrimination shows a very interesting, and to some extent counter-intuitive, pattern. All three Indias reported fairly high levels of perception of being discriminated against on the basis of their economic status. Indeed, there is no difference between Rich and Middle India in this regard, with Poor India reporting a slightly higher level. On discrimination on the basis of caste, religion, and state of origin, however, the perception levels are much lower. This is of interest because economic status is an "achieved" status, in contrast with caste, religion, and state of origin, which are "prescribed" statuses. The former is fluid, whereas the latter

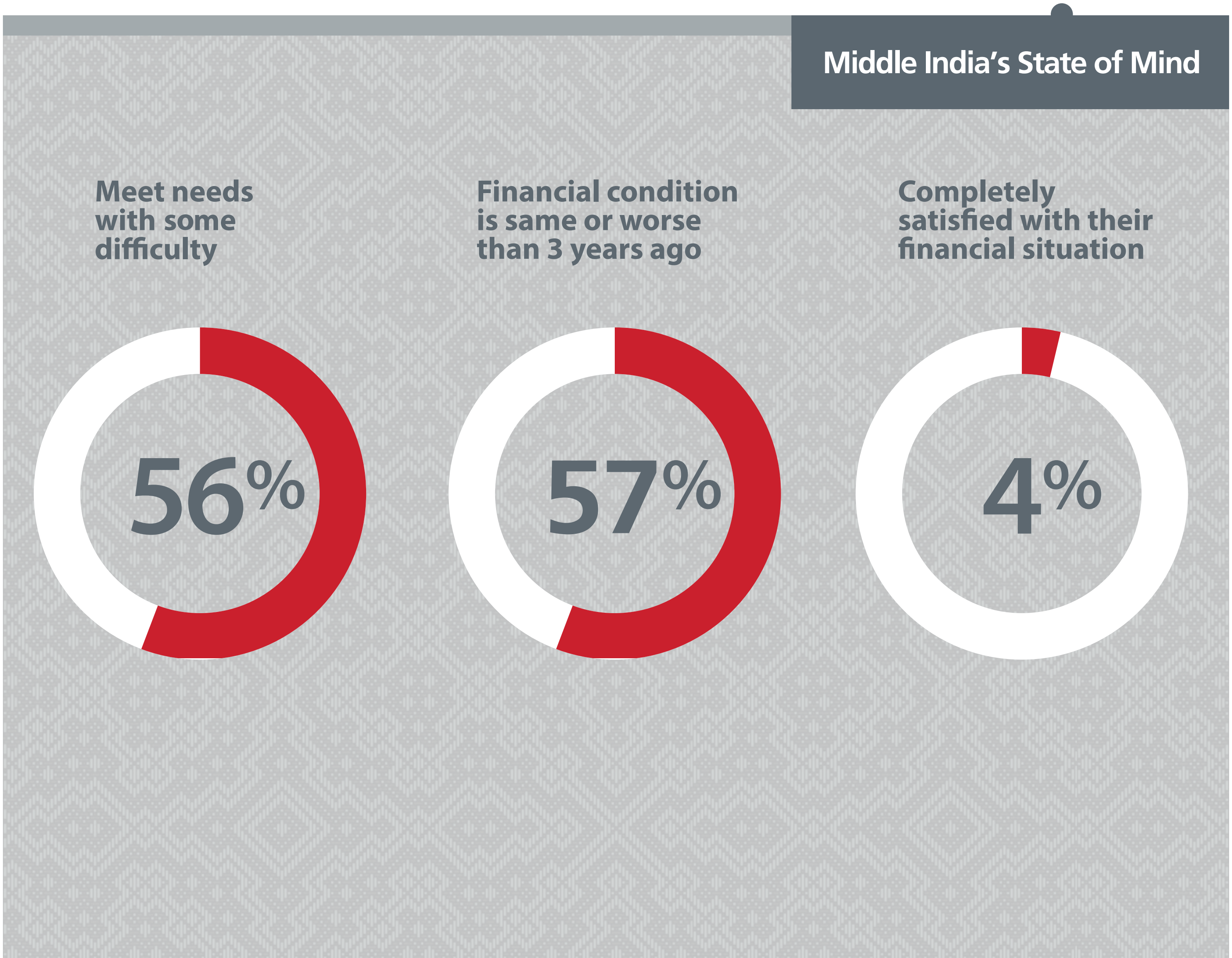
Figure 7: Key Worries Identified by the Three Indias:



are presumably more static. The fact that all three Indias are far more concerned with being discriminated against on the basis of their economic status compared with discrimination on the basis of prescribed statuses may indicate that the Indian population is likely to be more dynamic and mobile than the stereotypical image of a traditional society would suggest.

The data reviewed above on the state of mind of the three Indias show both strong convergence as well as differences. Significant differences in perceptions are revealed between the three Indias in terms of satisfaction with their situation, how able they are to meet their basic needs, and how much their situation has improved in recent years.

Yet there is a clear recognition, common to all three Indias, of what needs to be done in order for India to get ahead and for people's daily lives to improve. The consensus shown in this regard is most impressive, transcending the huge income, education, and employment gaps between Rich, Middle, and Poor India. Coupled with the sense of self-reliance and resilience expressed by all three Indias, it is fair to say that there is a healthy level of confidence in India generally, and Middle India in particular. Under the right conditions, animal spirits in India, which may have been dormant up to now, could be ignited. Once those spirits are ignited, Middle India, with 60% of all India's households, could become a new source of economic dynamism in the years to come.



Middle India and Inclusive Growth

Middle India, accounting for 60% of all Indian households, holds the key to India's prospects for inclusive growth.

Middle India has been neglected after India's first wave of economic reforms of the 1990s, despite a pick up in economic growth compared with the pre-reform decades. As Figure 8 shows, while Rich India accounts for almost 39% of the total incremental increase in income from 2004 to 2013, two of the three quintiles of Middle India received less than their fair share. Only the "upper middle" quintile received a share in line with its percentage of households. Poor India fared the worst, receiving only 8.2% of the total increase in income.

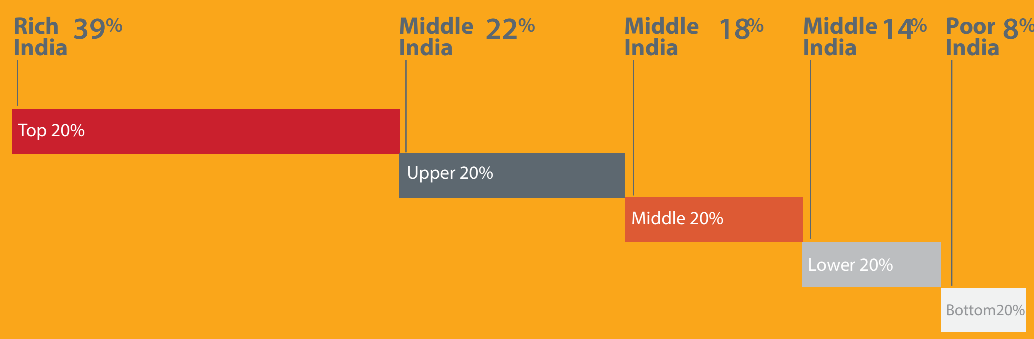
A great deal can be achieved, therefore, if conditions in Middle India can improve. As argued in Chapter Four, the animal spirits of Middle India appear to be alive and well and can easily be ignited under the right conditions. In fact, households in all three Indias appear to be very self-reliant and exhibit strong traits of resilience in spite of many worries and perceptions of difficulties in a wide range of living and working conditions. As pointed out earlier, it is impressive that all three Indias have very clear and similar ideas about what the country needs to do in order to succeed. Among those priorities, the vast majority of Indian households see better infrastructure as among the most important.

Better basic infrastructure is closely intertwined with productivity and inclusion. Efficient and affordable transportation, for example, is central to ordinary Indians being able to seek better work farther away from home, having more time to spend with family after work, and venturing beyond the immediate neighborhood for leisure, recreation, and shopping. Thus, improving public infrastructure is very inclusive because it benefits everyone.

At home, having tap water available saves a lot of time, making the entire household more productive. Having a separate kitchen and being able to cook with LPG means not only time saved in preparing meals but likely better-cooked meals as well, thus benefiting the entire household in terms of food safety and nutrition. Having a toilet within the home provides not only a healthier environment, but it is also important for reasons of personal security, especially for women, young girls, and the elderly.

Some of the most common worries found across all three Indias, but especially pronounced in Middle and Poor India, have to do with lack of job security. The ICE 360° 2014 Survey data provide estimates of the percentage of households not connected to the formal economy. Figure 8 summarizes the results.

Figure 8: Share of Incremental Increase in Income: 2004 to 2013 (%) (ICE 360° 2014 Survey)



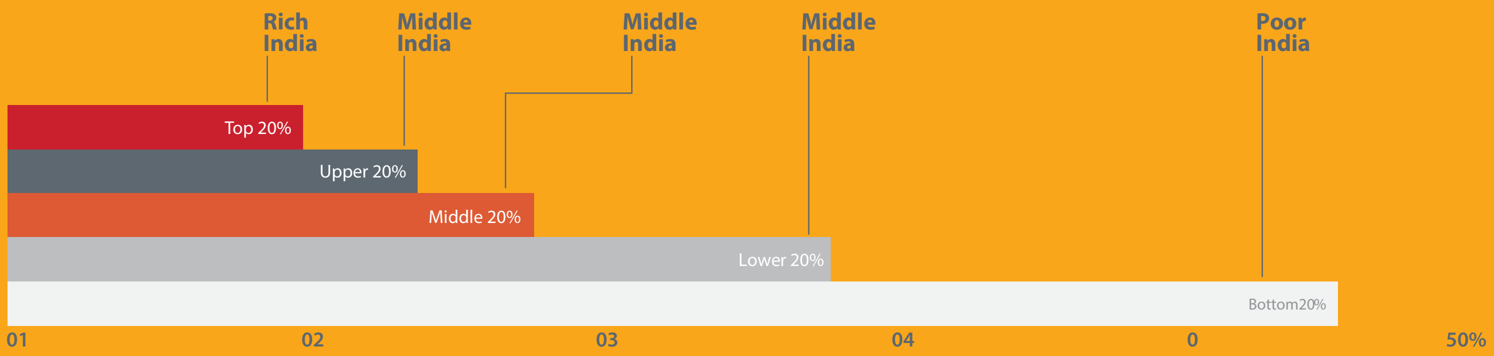


Figure 9: Households Not Connected to the Formal Economy (%)

At the bottom, 45% of Poor India households are not connected to the formal economy. For Middle India, it ranges from 14% (upper quintile) to 28% (lower quintile). By comparison, only 10% of Rich India households are not connected to the formal economy.

Connecting more working Indians with the formal economy could generate huge benefits at both the micro and macro levels. At the micro level, a greater sense of job security would positively affect longer term financial planning, making it easier for the household to make better decisions about saving, spending, and investing. Formal-sector employment would also provide better employment benefits, including annual gratuities and pensions. At the macro level, aggregate household consumption would rise, resulting in stronger domestic demand. An expanding domestic market in turn offers more and better opportunities for local entrepreneurs and small businesses to thrive.

Because the unit of observation of the ICE 360° 2014 Survey is household, most of its data do not cover gender-specific issues. But gender inclusion is an integral part of inclusive growth. In India, data show that women's participation in the formal labor force is extremely low at around 30%, compared with the 70-80% range for men.[1] Thus, there is a huge and persistent gender gap even in the formal sector in spite of rapidly rising education levels for women in the last few decades.[2] Closing that gender gap would yield rich dividends. Apart from advancing gender equity, which is a virtue in itself, it is estimated that closing the gender gap could have a potential for increasing GDP growth up to 2% a year.[3]

As discussed in Chapter 3, inclusive growth is also the best guarantee that India's PMJDY-led financial inclusion drive can succeed. Without inclusive growth, PMJDY would at best be a partial success – achieving greater access to financial services but not greater usage.

Finally, the government's ambitious project of growth acceleration would stand a much better chance of success if Middle India can be transformed into the genuine middle class of India through inclusive growth. India has always and justifiably prided itself as the largest democracy in the world. From the point of view of economic growth, however, opportunities for economic success have hardly been democratized. In transforming Middle India into the middle class of India, inclusive growth would democratize opportunities and productivity for the vast majority.

1 International Labor Office data.
2 Pande, R., C.T. Morre and J. Johnson. March 8, 2016. "5 Key Lessons About Women and Work in India." www.IndiaSpend.com
3 Aguirre, D. et al. ."Empowering the Third Billion: Women and the World of Work." Booz & Co.2010.

Chapter 2 tables

Table 2.1: Residence in Urban and Rural Areas (%)

	Rich India	Middle India	Poor India
Urban			
Metro	17.8	4.7	1.0
Other urban	37.1	25.0	16.2
Rural:			
Developed rural	18.5	9.9	3.1
Emerging rural	14.4	22.7	15.2
Under-developed rural	12.2	37.7	64.5

Table 2.2: Education Levels (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Graduate and above	42.0	16.0	11.0
Higher secondary	25.0	20.0	13.0
Secondary	13.0	17.0	16.0
Primary / middle	10.0	24.0	36.0
Below primary	9.0	22.0	25.0

Table 2.3: Annual Income, Expenditure, and Surplus (rupees) (ICE 360˚2014 Survey)

	Average annual income	Average annual expenditure	Surplus as % of total
Rich India	394,271	267,297	32.0%
Middle India	151,651	139,939	7.7%
Poor India	80,529	92,608	(15.0%)

Table 2.4: Household Amenities and Services (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Electricity	96.9	86.7	76.0
Tap water	56.0	33.0	23.0
Toilet within the home	85.1	56.1	39.7
Separate kitchen	76.5	47.9	37.3
LPG stove	81.9	46.9	23.1

Table 2.5: Types of Employment of the Chief Wage Earner in the Household (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Regular salary	38.0	17.0	8.0
Self-employed in non-agriculture	29.0	19.0	12.0
Self-employed in agriculture	14.0	23.0	23.0
Casual laborer	12.0	37.0	52.0

Table 2.6: Average Annual Household Income from Employment Type (rupees) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Regular salary	460,000	188,000	90,000
Self-employed in non-agriculture	435,000	174,000	97,000
Self-employed in agriculture	322,000	165,000	81,000
Casual labor	208,000	124,000	78,000

Table 2.7: Unemployment (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
% of Households with at least one unemployed member	10.8	11.2	16.0

Table 2.8: Employment Conditions of the Chief Income Earner in the Household (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Appointment letter	41.4	8.0	3.2
Written contract for 3 years +	5.8	2.0	0.5
Written contract for 1 – 3 years	2.6	1.7	1.8
Written contract for 1 year or less	3.7	5.9	3.1
No written contract	46.6	82.4	91.3

Table 2.9: Employment Benefits and Payments of the Household Chief Income Earner (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Regular monthly payment	76.0	38.0	22.0
At least one day off per week	58.0	27.0	17.0
Eligible for annual paid leave	59.0	33.0	23.0
Annual gratuity	44.0	20.0	10.0
Pension	43.0	17.0	17.0

Chapter 3 tables

Table 3.1: Penetration of Financial Instrument and Services, All India (%) (ICE 360˚2014 Survey)

Bank account (at least one in a household)	87.0%
Formal savings	83.0%
Aadhaar card	73.0%
Life insurance (at least one insured in a household)	30.0%
Loans from formal financial institution	14.0%

Table 3.2: Penetration of Financial Instruments and Services (%) (ICE 360° 2014 Survey)

	Rich India	Middle India	Poor India
Bank account (at least one in a household)	96.0	87.0	74.0
Formal savings	94.3	84.4	63.0
Aadhaar card	82.2	72.0	64.8
Life insurance (at least one insured in a household)	48.5	26.1	16.6
Loans from formal financial institution	18.4	12.7	10.2

Chapter 4 tables

Table 4.1: Aspirations: What India Should Accomplish in the Next 10 Years (%) (ICE 360° 2014 Survey)

% response: important + very important	Rich India	Middle India	Poor India
More inclusive growth	91.7	89.8	88.9
Creation of more jobs	89.9	88.1	91.1
More and better education	87.0	86.1	89.4
Better infrastructure	84.0	82.8	82.7

Table 4.2: Changes in Financial Situation in the Last 3 Years (%) (ICE 360° 2014 Survey)

	Rich India	Middle India	Poor India
Better	44.8	22.9	19.5
Same or worse	43.7	56.8	60.8
Not sure	11.5	20.3	19.7

Table 4.3: Aspirations: Levels of Satisfaction About Financial Situation (%) (ICE 360° 2014 Survey)

	Rich India	Middle India	Poor India
Completely satisfied	14.0	4.0	3.0
Satisfied to some extent	56.0	41.0	34.0
Neutral	24.0	40.0	35.0
Dissatisfied to some extent	5.0	11.0	18.0
Completely dissatisfied	1.0	4.0	11.0

Table 4.4: Ability to Meet Basic Needs with Current Household Income (%) (ICE 360° 2014 Survey)

	Rich India	Middle India	Poor India
Very easily and easily	55.6	28.3	26.4
With some difficulty	37.5	55.5	46.4
With great difficulty	5.7	13.8	25.7
Not sure	1.2	2.4	1.5

Table 4.5: Key Worries (%) (ICE 360˚2014 Survey)

% response: important + very important	Rich India	Middle India	Poor India
Losing job/not finding job	77.4	77.8	77.5
Not able to give children a good education	72.5	76.5	78.3
Personal safety and security	80.5	80.5	80.9
Discrimination against women/girls	74.1	76.1	74.6

Table 4.6: First Step to Take in a Financial Crisis (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Use own savings	47.8	38.5	30.3
Look for family support	10.9	18.6	23.1
Do extra work / overtime	10.9	16.0	17.2
Take a loan	18.1	17.4	20.7
Sell an asset	7.5	3.2	3.5
Curtail expenses	2.6	3.0	3.9

Table 4.7: Confidence about Stability in Household's Major Source of Income (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Most confident and confident	68.6	44.1	34.6
Less confident	24.1	39.6	40.9
Least confident	3.1	8.8	15.3

Table 4.8: Perceptions of Discrimination (%) (ICE 360˚2014 Survey)

	Rich India	Middle India	Poor India
Economic status	46.0	46.0	52.0
Caste	29.0	28.0	24.0
Religion	29.0	28.0.	24.0
State of origin	20.0	21.0	16.0

Chapter 5 tables

Table 5.1: Share of Incremental Increase in Income: 2004 to 2013 (%) (ICE 360˚2014 Survey)

Rich India (top 20%)	**38.6**
Middle India (upper 20%)	**21.9**
Middle India (middle 20%)	**17.6**
Middle India (lower 20%)	**13.7**
Poor India (bottom 20%)	**8.2**

Table 5.2: Households Not Connected to the Formal Economy (%) (ICE 360° 2014 Survey)

Rich India (top 20%)	10.0
Middle India (upper 20%)	14.0
Middle India (middle 20%)	18.0
Middle India (lower 20%)	28.0
Poor India (bottom 20%)	45.0

Appendix B. Research Methodology

The ICE 360° 2014 Survey covers 20,195 households from 21 states in India. In order to generate representative samples given the extremely diverse environment in India, all districts in the covered states were organized into seven economic clusters based on development indicators generated from 2011 Census data for rural and urban areas. A three-stage stratified sample design was adopted for the survey, with districts, villages, and households constituting the first, second, and third stage of sampling, respectively.

Table A1 Sample Size and Allocation

		No. of districts	Sample districts	Sample blocks/ villages	Listed households	Detailed households
Urban	Metros	10	8	200	20,159	4,000
	Boom towns	18	12	128	12,917	2,500
	Niche cities	39	24	198	19,865	3,960
	Rest of urban	559	37	184	18,545	3,679
Rural	Developed rural	151	25	69	6,870	1,379
	Emerging rural	159	20	100	10,176	2,019
	Underdeveloped rural	317	27	131	13,002	2,599

Appendix C. About People Research on India's Consumer Economy

PRICE is a Delhi-based non-profit research center that develops and disseminates cutting-edge knowledge on India's consumer economy for use in public policy and business strategy. Its research offers a 360° view on how Indians earn, save, invest, live, think, access amenities and public goods, and consume. It is headed by Rama Bijapurkar, who also serves as one of the Mastercard Center for Inclusive Growth's Senior Fellows.

For more details on Rama Bijapurkar, please see *http://www.ramabijapurkar.com/about-rama*
For more details on PRICE, please see *http://www.ice360.in*

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Mastercard Center for Inclusive Growth

About us

The mission of the Mastercard Center for Inclusive Growth is to advance equitable and sustainable economic growth and financial inclusion around the world. As an independent subsidiary of MasterCard, we combine data, expertise, technology, and philanthropic investments to empower a community of thinkers, leaders, and innovators working on the front lines of inclusive growth.

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