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The real acche din: Why development mantra should be about improving the lives of those in rural India

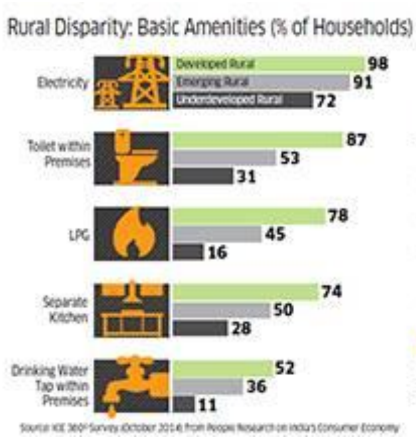
Rama Bijapurkar and Rajesh Shukla | The Economic Times | August 09, 2015, 11.16 am

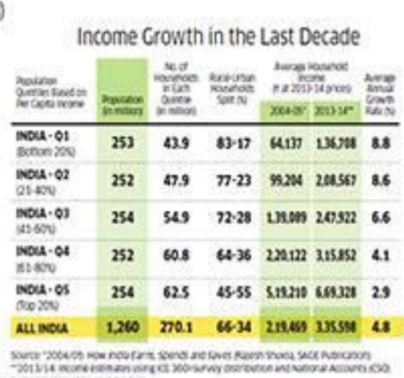
Discussing gross domestic product (GDP) growth rates has become a national pastime with Indians in the world of business and policymaking alike, and the intelligentsia and the media. We dissect it with as much passionate intensity as the judges in MasterChef do their contestants' entrees: the texture, the flavour, the balance, the overall look-feel of it.

We lobby for reforms that will boost it, we weigh electoral victories against it. Is economic logic overtaking identity politics in India? Is a good GDP growth rate when in power an amulet for the next election? Greece, the US, China, Russia, the Middle East as well as the will-hewon't-he (cut interest rates) are all thrown into the reckoning for an assessment of whether we will score a disappointing 6 or 7, or a happy 8 or a blissful 9.

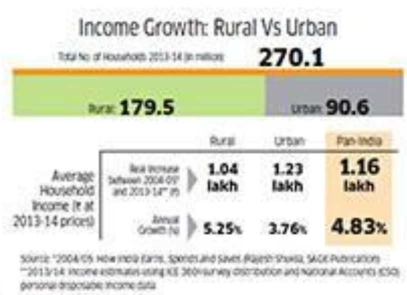
We acknowledge that consumer spending is a major pillar of GDP growth but we look to sales figures of companies to decide whether consumer spending is healthy or not, and at interest rates to decide whether it will be healthy or not. Never mind that a lot of our consumer spending is going to Chinese manufacturers and Indian traders whose accounts are not audited and only one third of our households carry debt, formal or informal. A major driver of GDP growth is consumer spending (household spending), and all this GDP analysis that we do has to take into account how past GDP growth has affected the incomes of Jayant the rural labourer and Sumant the small-town businessman and Sita who is a cultivator in a village close to a metro city.

We also need to know how confident they feel about spending it.




Income Growth in the Last Decade

Population Quintiles Based on Per Capita Income	Population (in million)	No. of Households in Each Quintile (in million)	Rural-Urban Households Split (%)	Average Household Income (₹ at 2013-14 prices) 2004-05*	2013-14**	Average Annual Growth Rate (%)
INDIA - Q1 (Bottom 20%)	253	43.9	83-17	64,137	1,36,708	8.8
INDIA - Q2 (21-40%)	252	47.9	77-23	99,204	2,08,567	8.6
INDIA - Q3 (41-60%)	254	54.9	72-28	1,39,089	2,47,922	6.6
INDIA - Q4 (61-80%)	252	60.8	64-36	2,20,122	3,15,852	4.1
INDIA - Q5 (Top 20%)	254	62.5	45-55	5,19,210	6,69,328	2.9
ALL INDIA	1,260	270.1	66-34	2,19,469	3,35,598	4.8



Also, while we think about all this, it is also interesting to see why the Congress lost despite clocking good GDP growth rates and putting money directly in the hands of poor people through all its schemes.

And as we add the catch-all phrase of 'development', the poll plank on which the Narendra Modi government came to power and needs to deliver on, we need to know what sort of development will bring achhe din to different strata of Indians. Isn't household income growth the end result of development? And how is development different from GDP growth?

We want, in this column, to take you on a worm's-eye view of GDP and development, a guided tour through the various strata of 270 million Indian households, and see what GDP growth and development mean in their day-to-day lives. We are tired of supply-side conversations, of inclusion targets, of phrases like urbanisation and smart cities.

> **Only 35% of urban India and 13% of rural India get a regular salary.** In underdeveloped rural, it is mostly casual labour. Make in India will not generate productive employment for so many people

We have screaming headlines from the Census of India of how so many households have no toilets, no electricity and no water and yet our average numbers of consumer durables sold keep increasing, both contributing to and drawing from the steadily increasing average per capita income of an average Indian household.

The average metrics for a typical Indian household is also something we wage war against. Pundits have it that all is well for a consumption-driven economy once the magic number of average per capita income of $1,000 (Rs 63,800) per year has been reached. But if the average is that of a top 5 per cent rich who earn 20 times more than the bottom 5 per cent, is it equal cause for celebration?

First let's look at how GDP growth has translated into household income. After a very dry spell of no robust household income data (not surprising given how expensive it is to collect it), we now have good comparable data for 2004-05 and 2013-14 — a near decade — and we saw quite a few surprises.

A Question of Expectation

The annual average GDP growth for the period was a not unhappy 7.3 per cent, with five wonderful years of over 8.5 per cent GDP growth, three average years of between 6.5 per cent and 7.0 per cent and two bad years of under 6 per cent. In this period, for the first time ever, perhaps, the poorer households grew their income at a faster pace than the richer households (see Income Growth in the Last Decade).

The income of 180-million-strong rural households also grew and at a faster clip than their urban counterparts'. Following this lead, we uncovered a segment of 30 million rural households that we called developed rural, typically around metro cities, where incomes are higher than what we call niche cities (or tier II towns). Instead of struggling with ideas of upper-class and middle-class, let's settle for slabs of 20 per cent each of population based on their per capita income (or per capita income quintiles). The poorest two slabs of households more than doubled their income in a near decade. The two richest slabs of households, on the other hand, grew their income just 1.3-1.4 times.

Though this amounts to more money than the poor added, the value and joy they got out of it was very little. Think about it: in one case you earn Rs 64,137 and nine years later, net of inflation, you add Rs 79,696; in the other, you start at Rs 5,19,210 and you add Rs 2,63,005 to it.

It is also a question of expectation. This group, the so-called middle-class, has been used to having its income double in every decade or less and for the first time in a long time they saw it moderate. The largest incidence of loans, and the worst hit with high interest rates, is also in the urban top-income slab, the creme de la creme albeit of a very modest income country, where almost one out of two families have a loan (as compared to say the poorest 20 per cent of rural India where only one out of five have a loan and of a smaller quantum). And even here, half of the chief wage earners do not earn a regular salary, and hence feel vulnerable.

Of Surplus Income & Reverse Saving

Income growths are one measure of well-being but another more effective test of it, especially when so much aspiration to live better abounds, is what we call 'surplus income'. It is a rough and ready measure of how much money a family has left after spending on its routine and non-routine expenses. Despite doubling their income, the poorest 20 per cent of Indian households, mostly rural, are having to spend more than they earn even on their routine expenditure and are hugely out of pocket after non-routine expenditure, which includes health emergencies and social commitments.

The next higher-income slab of households manages a surplus provided there is no non-routine expenditure. The richest 20 per cent of Indian households are very comfortably off in terms of surplus income being between one-third and half of their total income. However, they are not happy with their muted income growth.

That aside, we found more dissaving (expenditure exceeding income) in urban poor than we did amongst rural poor; even though the poorest urban household on an average earned 25 per cent more than the poorest rural household, the urban household spent 43 per cent more.

So, despite reasonable GDP growth, was it bad economics that hurt the Congress? Or was it bad marketing, as RaGa says? Our view is that the richer half of households were upset with their income growths and were not optimistic about getting their income growths back unless something changed dramatically.

Thanks to costs going up, poorer households also did not see surplus income grow though they saw total incomes grow. Rural income growths were also probably attributed more to actions of local governments rather than actions of the Centre. What about the large amount spent on welfare schemes? If we do the math of money spent on people (40 million poor households), the average money received per household, even after assuming no leakage, is still very small. The urban poor got nothing at all.

To add to this, the combination of unchecked inflation, perception of corruption, non-visible grassroot workers led to the doubt: "Is anybody in charge out there?" Enter Narendra Modi and his promise of development leading to achhe din aane waale hain.

And the clear picture that someone is in charge. In July-September 2014, we asked 20,000 households all-India the extent to which they agreed that achhe din aane waale hain. 40-50 per cent of every income group agreed strongly and another 25-30 per cent agreed somewhat.

It was the same pattern for urban versus rural India and the highest agreement of over 50 per cent agreeing strongly was the rural poor.

So what kind of development will add value to them? Development means access to personal consumer goods that make living better. We don't do well on decent housing, we do okay on clothing thanks to China and on food in good years. Access to other consumer goods is a lot better with prices falling, but the net result is captured in a grizzly cartoon we recently saw of a man using the railway tracks as a toilet and cooing to his girlfriend on a mobile phone.

Development also means access to affordable decent quality public services like water, electricity, education, health, all woefully inadequate still. 13 per cent of the top 20 per cent richest rural households have no literate member in the household and, for another 20 per cent of households, the highest educational attainment of any family member is below class X.

GDP growth of 7.3 per cent in nine years has improved a lot of households but has still left us with 96 million households that we call underdeveloped rural (based on a combination of indicators from the census, at a rural district level), only 11 per cent of whom have a drinking water tap within the premises, 16 per cent have LPG, 3 per cent have a tap within the premises and mostly kuchha houses.

Even a 10 per cent growth over the next decade will not fix this. The underdeveloped rural and the emerging rural that we have identified together comprise more than half of Indian households. Underdeveloped rural alone is almost a 100 million households.

So the development agenda has to focus on this group specifically. Smart cities and Make in India investments will not help them get basic amenities. An accelerated amenities programme is essential.

This is the job of the State. It is not the job of the citizen to earn more and then fix his basic living needs.

Back to Bijli-sadak-pani

Development also means productive employment so that people can reach a position to buy things to lead a better life. But here's the catch. Most Indians do not have a regular job. The occupation profile of India always jolts us. Only 35 per cent of urban India and 13 per cent of rural India get a regular salary. In underdeveloped rural India, it is mostly casual labour. Make in India will not generate productive employment for so many people. A better infrastructure ecosystem can perhaps help them be more productive.

This works for the large cities too, where poor quality transport leads to lower productivity and the inability to grab opportunities that prevail.

Development in the form of bijli-sadak-paani and liveable houses is the need for the underdeveloped rural. Efficiency-improving infrastructure will help boost incomes of urban India and developed rural; and an infrastructure and digital ecosystem to help a nation of mostly self-employed people become more productive; and finally what we all know — that if 40 per cent of rural households and 23 per cent of urban households have their chief wage earner doing labour, then finding ways and means for the labour to become more value-added service providers is the need of the hour. The development slogan and promise needs to be translated into better infrastructure and amenities.

Even education can follow next.

(The authors are cofounders of People Research on India's Consumer Economy)