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Tracking income growth of Indian households

Rajesh Shukla and Adite Banerjee | The Financial Express | December 11, 2015, 05:07 am

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Two and a half decades ago, India's policy makers embarked on a journey that would lead the country towards economic liberalisation and development in the belief that it would offer better opportunities for every family to grow its income and lead more prosperous and fulfilled lives. While the outcomes of that decision have been measured by economists in terms of GDP growth, there have been few efforts to look at the impact on Indian households in terms of well-being. Though consistent and reliable time-series data is difficult to come by, the ICE 360° Study has been able to mine comparable data over the FY05 to FY14 period (nearly a decade). Let's consider some of the findings to see how the economic development story has panned out for households at different rungs of the socio-economic ladder.

The number of households grew from 219.3 million to 270.1 million during the decade and the average size of household declined a tad from 5.00 to 4.68 persons. During this period, among other demographics, there has been a dramatic shift in the occupational structure of households, with a large number of households no longer dependent on agriculture for their livelihood. The reasons for this shift are not difficult to find—fragmented and marginal land holdings, declining agricultural productivity, irregularity and uncertainty of income and also the creation of alternative, non-farm sources such MNREGA are some of the major compelling reasons.

Compared to 63.4 million households that earned a living from self-employment based activities in agriculture in FY05, there were 57.4 million such households in FY14. Simultaneously, households engaged in manual labour increased sharply from 71.3 million to 90.3 million. There was also a significant rise in the number of households that were self-employed in non-agriculture activities: from 37.4 million to 54.8 million.

Who gained and how much

	Share of Indian households (%)		Share of Indian's income (%)		Average annual household income (₹ at 2013-14 prices)		Annual growth in the household income between
Source of income	FY05	FY14	FY05	FY14	FY05	FY14	FY05-FY14
Regular salary/wages	18.4	20.2	31.3	30.8	3,72,335	5,11,525	3.59
Self-employment in non-agriculture	17.1	20.3	24.9	26.0	3,20,628	4,29,784	3.31
Agriculture labour	11.7	11.3	4.8	5.7	91,057	1,67,890	7.03
Casual labour	20.9	22.1	10.6	14.5	1,11,945	2,20,588	7.83
Self-employment in agriculture	28.9	21.2	24.7	18.7	1,87,789	2,96,029	5.19
Others	3.1	4.8	3.6	4.2	2,54,653	2,96,773	1.72
India total	**100**	**100**	**100**	**100**	**2,19,469**	**3,35,598**	**4.83**

Source: FY 05: How India Earns, Spends and Saves (Rajesh Shukla, SAGE Publication); FY14: Income estimates using ICE 360? survey data equated to personal disposable income of National Accounts

The biggest impact of this change has been felt in rural India, where the number of labour households has increased from 55.9 million to 69.5 million. Rural households that eke out their livelihood from self-employment in non-agricultural occupations increased from 17.2 million to 24.3 million. Though there has been a small spurt in the number of salaried households too—thus pointing to new employment opportunities in rural India—the fact remains that for the vast majority of Indian households the source of income continues to be irregular. Income instability continues to be quite the norm.

This further raises the question: how has occupation structure changed in rural India over the past decade? It comes as no surprise that 97% of all agricultural labour in India still resides in rural India. In FY14, nearly 41% of households whose source of income were regular salaries/wages were to be found in rural India (compared to 39% in FY05). The percentages for self-employed households in non-agriculture sector were 46% and 44%, respectively. In terms of share of incremental household income among the group, the share of self-employed, non-agriculture group in the rural areas was nearly 42%. Similarly, nearly 35% of incremental income for the salaried earners was cornered by rural households. It is evident that during the last decade there hasn't been much of a change in terms of the occupational structure of rural India and it is unlikely that any major shift is likely to happen in the future. Though there will most likely be growth in the quantum of income.

When it comes to material well-being of households, income equated to personal disposable income of National Accounts (NAS) is perhaps the most significant component. The good news is that during the past decade, in terms of growth in income, the bottom-of-the-pyramid households at an all-India level—particularly those engaged in labour—have benefited the most. This group, for instance, nearly doubled its annual income from R104,458 (at 2013-14 prices) to R202,738 during the ten-year period. Income of rural households engaged in manual labour jumped from R96,395 to R190,541. Their counterparts in urban areas saw an increase of household income from R133,711 to R243,463.

How does this translate in terms of growth in personal disposable income across all Indian households, and are there differences between rural and urban households? Consider this: the growth rate for labour households was the highest at 10.51%—the percentages for both rural and urban were at a similar level. The next highest growth rate was for the self-employed in non-agriculture occupation category at 7.79% (all-India level), 9.42% (for rural) and 6.92% (for urban).

Let's consider which among the occupation groups has gained the most during the period. It emerges that in rural India, labour households have been the biggest gainers. Their share in total incremental income was 34% (or R113,036 in absolute terms) followed by the self-employed in non-agriculture group whose share was 21% (or R202,425). In urban India, the biggest gainers were the salaried whose share in incremental income was 43% (R260,078), followed by the self-employed in non-agriculture group with 35% (R217,836).

Evidently, the last decade has lifted a large number of households above grinding poverty. But this is only half the picture. 'Income growth' as an indicator of well-being can is only one of the many indicators of development. While better disposable income can help provide for some basic essentials of good living, for a satisfactory state of well-being, there is an urgent need for these households to have access to affordable public services like electricity, water, education and healthcare. Given that the chief wage earners of nearly 40% of rural households and 23% of urban ones are engaged as manual labour, policy makers need to focus on how they can help this group to become value-added service providers and give them a better chance at progress and prosperity.

Rajesh Shukla is Director & CEO, and Adite Banerjie is Consultant at People Research on India's Consumer Economy (ICE 360°)