

The Middle Class in India

FROM 1947 TO THE PRESENT AND BEYOND

By Abhijit Roy

"A healthy middle class is necessary to have a healthy political democracy. A society made up of rich and poor has no mediating group either politically or economically."

— Lester Thurow

The middle classes of all countries have been the key drivers of the global economy in the last century. During the past several decades, world economic growth has occurred, mostly because of increased consumption in the middle classes of the United States, Europe, and other advanced countries. This class has been considered a thriving and vibrant catalyst for economic growth.¹ It provides a strong base that drives productive investment and is a critical factor in encouraging other social developments that also stimulate growth and foster expansion of elements that contribute to a healthy society.

The middle classes constitute a critical market for most goods and services. A sizable portion of any nation's tax revenue is collected either directly or indirectly from this group, and they also have an important role in any relative political stability that a country experiences. The significance of this class was best elucidated by the late Lester Thurow, the eminent MIT economist: "A healthy middle class is necessary to have a healthy political democracy. A society made up of rich and poor has no mediating group either politically or economically."²

In this essay, various definitions of the middle class are offered, followed by a depiction of the status of this class in India from its independence in 1947 through the expansion of the private sector in India through liberalization, a policy change that created substantial economic growth that continues today. The future growth of this class in the next three decades and its implications for global businesses and world order are also discussed.

How Is the Middle Class Defined?

The middle class falls in the middle of the social hierarchy and occupies a socioeconomic position between the working and upper classes. The measures of what constitutes members of this class differ significantly among nations because of international cultural and economic variations. Examples of what constitute the "middle class" in a given nation are dependent upon purchasing power, educational levels, perceptions of who constitute "the wealthy," and levels of social services, as well as other factors. According to most organizations, like the World Bank and the Organization for the Economic Cooperation and Development (OECD), people living on less than US \$2 a day are considered poor. For those in the middle classes, the earnings typically lie in the range of US \$10 to \$100 per day, as expressed in the 2015 purchasing power parities.³

The US \$10 lower threshold is preferred because it is five times the poverty line and individuals are less likely to fall back to poverty from this level of income. According to the World Bank, in 2015, 15 percent of the global population was considered poor, 56 percent in the low-middle income category, 13 percent in the middle income, 9 percent in the upper-middle income, and the remaining 7 percent in the high income categories. Earlier, in February 2009, *The Economist* declared that over 50 percent of the world's population had entered the middle class, primari-

ly because of explosive growth in emerging markets. This was mostly because of access by foreign (and some domestic) companies to cheaper labor in these countries as a result of liberal international trade laws. Many countries also experienced rapid urbanization when subsistence farmers left their farms to work in factories for guaranteed wages.

In developing economies, distribution of socioeconomic classes can best be graphically represented by a heavily skewed distribution to the left of a distribution curve (with most people belonging to the lower classes). In developed economies like the United States, the social classes distribution more or less approximate a bell curve. The middle class in such societies has been defined as those with incomes between 75 percent to 125 percent of the median income. Some analysts have used a broader middle income range of 60 percent to 225 percent of the median income. Using the former benchmark, demographic studies indicate the percentage of American middle-class households declined from 28.2 percent in 1967 to 23.7 percent in 1983⁴; while using the latter benchmark, the decrease in the US was from 62.4 percent to 55.9 percent over the same timespan.⁵ More recent studies have pointed to further polarization in the United States and some polarization in Canada that now appears to have reversed course or at least stabilized.⁶

Compared to the 2009 *Economist* report, other reports cite a more conservative estimate of the total number of people in the middle classes—OECD estimated 1.8 billion individuals in this group in 2010, while Credit Suisse's *Global Wealth Report 2014* had a smaller number (one billion) in the global middle class, with wealth anywhere between US \$10,000 and \$100,000. Between 1990 and 2005, the middle class grew from 15 percent to 62 percent of the population in China. In India, 50 percent of the population reached this status in 2015.

The Middle Class in India: 1947–1990

India achieved independence from Great Britain in 1947. The population of the country at that time was 300 million. The first official census taken in 1951 showed the population to be 361 million, a growth of 13.3 percent since 1941. Hindus accounted for 303.6 million (84.1 percent), while Muslims and Christians were the next two largest groups, with 35.4 million (9.8 percent) and 8.3 million (2.3 percent), respectively. India was recovering from religious strife because of the Partition and the gross domestic product (GDP) of the country was a meager US \$20 billion and GDP per capita was around \$70. By 1990, the population of the country had increased almost threefold and risen to 870 million. The World Bank estimated the GDP of that year to be approximately US \$317 billion and GDP per capita to be approximately \$364. However, these figures were less than half of what they were for China at that point, even though the countries had approximately the same living standards in 1947.

The country was governed by mostly one party (the Indian National Congress) and by the Nehru–Gandhi family, except for a brief period between 1977 and 1980. Economic policies mirrored the socialist policies of the old Soviet Union, and private enterprises were not encouraged. Most nascent industries, like automobiles and steel, were protected from outside competition by stiff tariffs on imports of these products. Several industries, including banking and coal, were nationalized and the overall growth rate of the country stagnated. India's share in the world economy (nominal GDP), which had declined from 24.4 percent in 1700 during the end of the Mughal rule to 4.2 percent in 1950, right after independence from British rule, further stagnated to around 3.5 percent of the world economy from the 1950s to 1990, while per capita growth averaged a meager 1.3 percent annually.

Around the same time period, other Asian countries such as South Korea and Taiwan grew at a much faster rate of 10 percent and 12 percent, respectively, while India continued to follow central planning, which included extensive public ownership, regulation, red tape, and trade barriers. The size of the Indian middle class in India remained relatively small—it consisted of primarily the approximately five million workers mostly in the national, state, and local divisions of the government in the 1950s,⁷ with an additional six million added in the next two decades, with a count of 11.2 million in 1971, according to the government statistics.⁸

The 1970s and 1980s saw a move toward a mixed economy, with the private sector adding a significant number of jobs as well. The “colonial” middle class from the days of British rule prior to 1947 was slowly transformed into a “new” middle class, who increasingly began being defined in terms of consumption behavior, with the country moving gradually toward a market-led capitalist economy.⁹ As noted earlier, India tried democratic socialism for the first

four decades after independence from the British, but this failed to produce robust growth. The growth occurred later in the 1990s once the country began following free market policies.

The Growth of the Middle Class: 1991–2015

In 1991, after an economic downturn in the markets, the Indian government, ruled by the Indian Congress Party at the time, began opening up markets and launched an economic liberalization program.¹⁰ The substantial pace of growth of this class was primarily attributable to the incentivization for private capital investment and opening the economy to foreign investments. The total number of people in the middle class approximated thirty million in the 1990s, or less than 1 percent of the population. The percentage of those in the middle class began rising steadily to about 5 percent of the population in 2004.¹¹

Until 1990, India's GDP growth had always remained under 4 percent a year. During the same period, other Asian countries had much faster rates of growth, e.g., Indonesia (6 percent), Thailand (7 percent), Taiwan (8 percent), and South Korea (9 percent). South Korea's long-term GDP growth, when contrasted with India's economic growth, is a particularly stark example. In 1960, South Korea's GDP was approximately four times as large as India's; by 1990, the ROK's GDP was twenty times the GDP of India. Since India's 1991 economic reforms, the nation's annual GDP growth rate has stabilized at a more robust growth of 6 to 7 percent per year.

During the eight-year period between 2004 and 2012, the middle class doubled in size from 300 million to 600 million. By 2015, the size of the middle class in India was between 300 and 600 million, according to Deutsche Bank Research. In 2015, fewer than 19 percent of Indians lived below the poverty line, nearly a 10 percent reduction from 22 percent in 2011. The Indian household savings rates also tripled between 2005 and 2015, with many more

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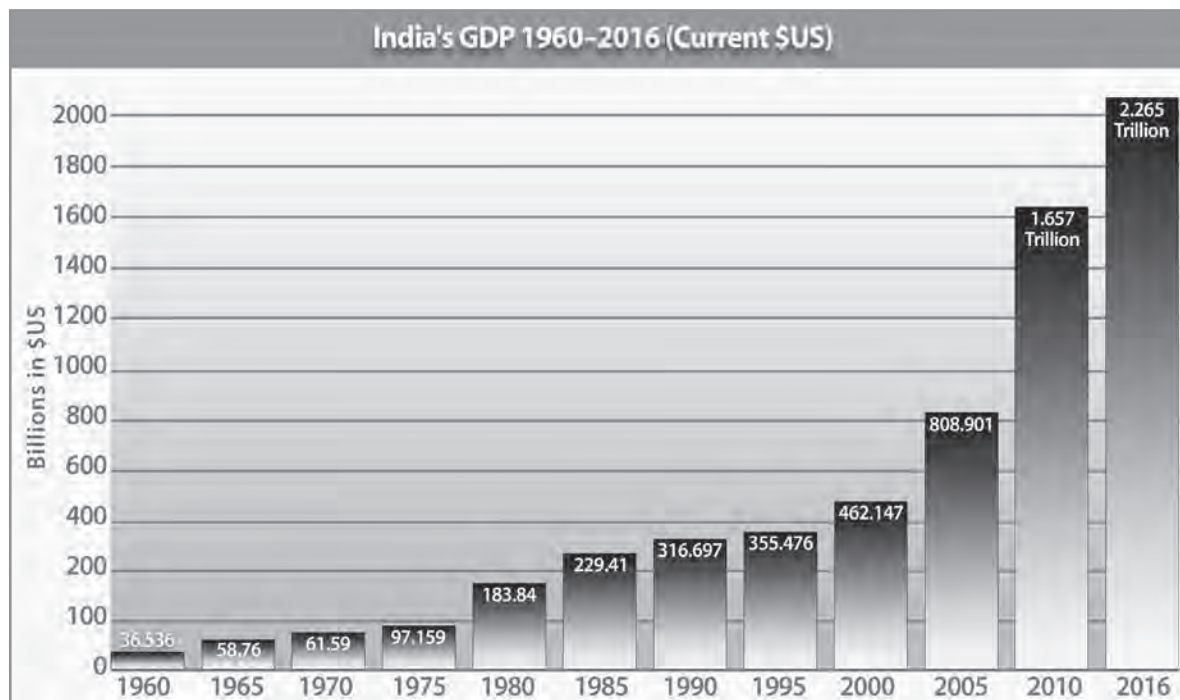


Figure 1: India's GDP 1960–2016. Source: *The World Bank* website at <https://tinyurl.com/ycmrc8jj>.

The number of households in India with disposable incomes of more than US \$10,000 has risen twentyfold in twenty-five years.

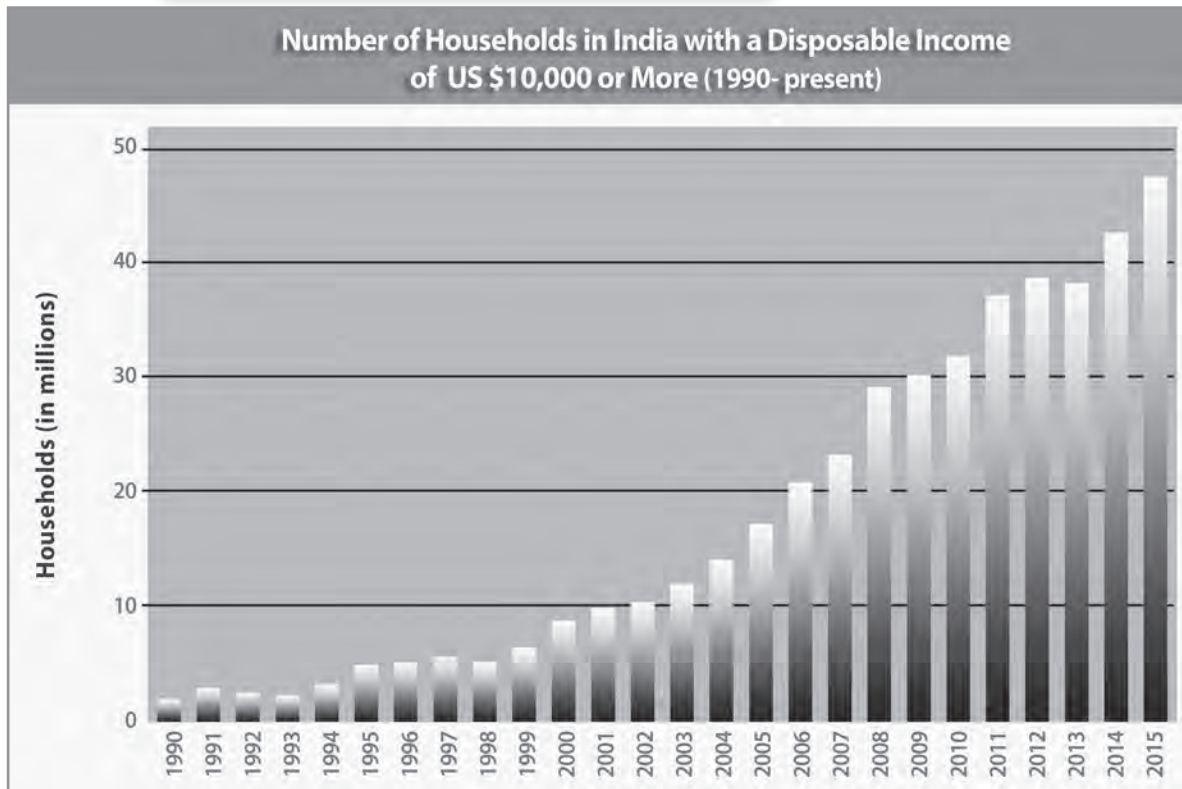


Figure 2: Number of households in India with a disposable income of \$10,000 or more (1990–present). Source: Euromonitor International national statistics/UN on the World Economic Forum website at <https://tinyurl.com/y7tysq2q>.

households having a significant disposable income. As shown in Figure 2, the number of households in India with disposable incomes of more than US \$10,000 has risen twentyfold in twenty-five years, from 2.5 million in 1990 to nearly fifty million in 2015.¹²

Economists from Mumbai University in India defined the middle class as consumers spending from US \$2 to \$10 per capita per day.¹³ By this definition, approximately half of India’s population of 1.3 billion is now in the middle class. The fastest growth is in the lower middle classes, who spend between US \$4 and \$6 per day. This group now includes carpenters, street vendors, decorators, and driv-

ers, amongst others. Most of these sectors have minimal barriers to entry, and many from the lower classes can easily “move up” to this group. The lower middle classes have approximately a third of their income left for discretionary spending after accounting for food and shelter. This allows them to buy consumer goods, get health care, and pay for their children’s education.

The number of households in India with a disposable income of \$10,000 or more in the last three decades, household savings in India in the past decade, and the occupations of the lower middle class are shown in Figures 2 and 3, and Table 1, respectively.

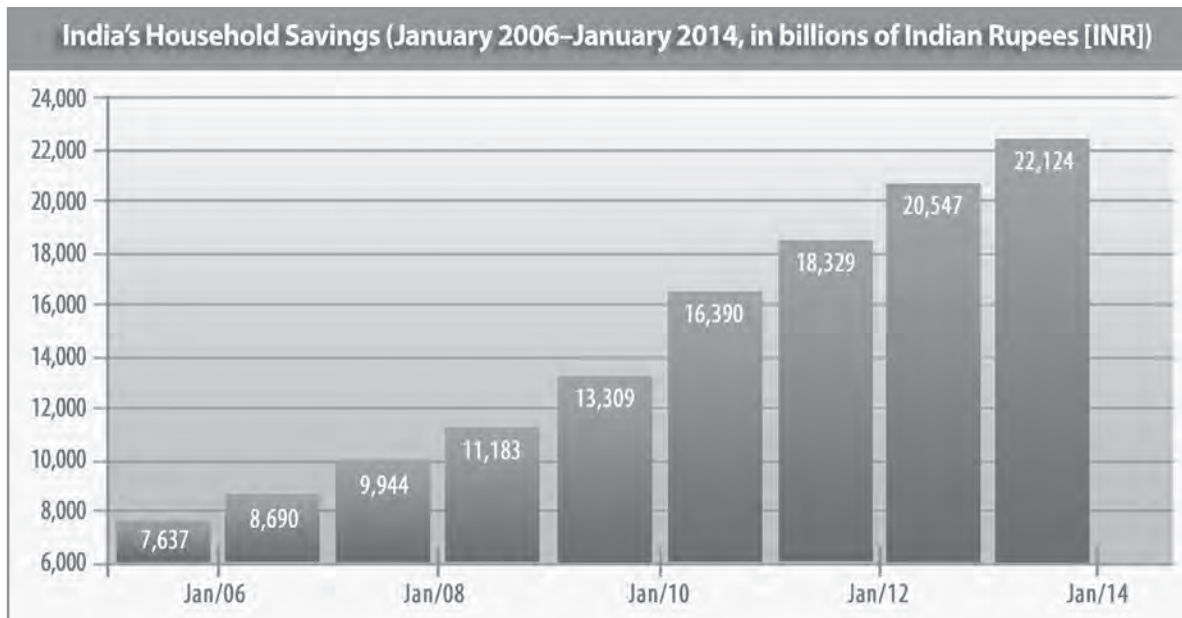


Figure 3: Household savings in India (January 2006–January 2014). Source: *Trading Economics* website at <https://tinyurl.com/ya2cru6w>.

The Global Middle-Class Wave

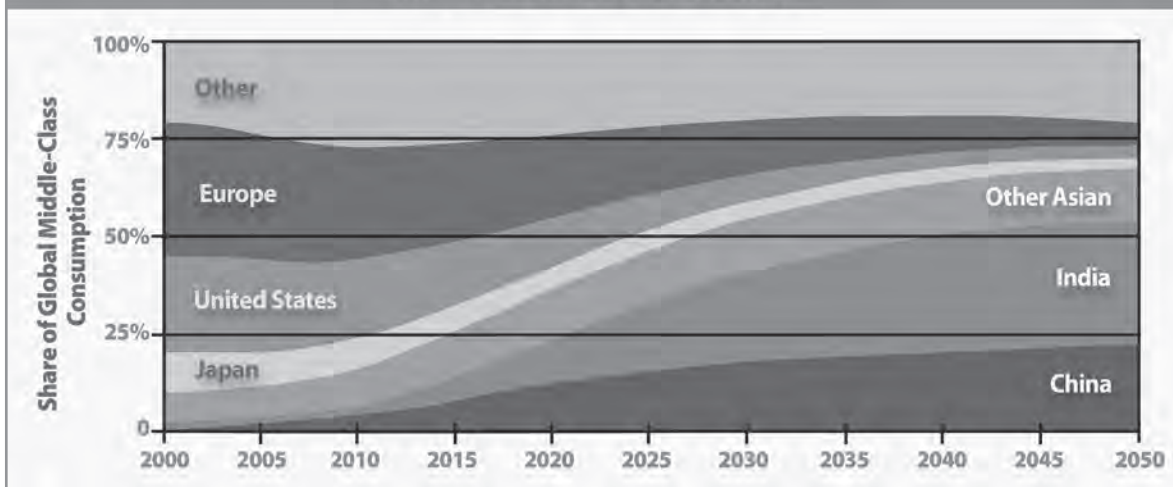


Figure 4: The shift in global middle-class consumption in the first half of the twenty-first century. Source: Homi Kharas 2010, OECD Working Paper No. 285 on the *Celtel* biz website at <https://tinyurl.com/y7b2pn8b>.

Middle Class in India: 2015–2050

India's population continues to grow rapidly—by 2022, it is expected to surpass China's, according to a United Nations report. The middle-class population in the country is expected to grow rapidly in the next decade, and by 2027, the size of this group is expected to be larger than that of China, the United States, and Europe. According to current projections, India's share of world GDP will increase substantially from 7.6 percent in 2017 to 8.5 percent of the world share in 2020.

Multinational professional services firm Ernst & Young is predicting a middle class of about fifty million in 2015, or about 5 percent of the population, to reach 200 million by 2020, and to further accelerate to 475 million by 2030, hence having more middle-class consumers than China by that time. *The Economist* has also predicted that more people could move out of poverty in the next couple of decades. The global middle class is expected to grow significantly until 2030, with a significant number of people from India moving into this group. A wide variety of goods and services will continue to see a growth in demand driven by a greater influence of branding and product differentiation.

The expansion of the middle class in India will not only enhance domestic consumption but also continue to grow the country's outbound tourism. By 2020, this sector is expected to exceed US \$40 billion and be close to \$45 billion in 2022.¹⁴ This implies a double-digit compound annual growth rate (CAGR) of 10 percent over the next five years. The four most preferred destinations are Singapore, Thailand, the United States, and China. The *Renub Research Report* also ranks Indian tourists as the biggest spenders on their trips to the United States, mostly attributable to the growth of the middle class, prompting most major countries to open their tourist offices in India.

As shown in Figure 4, most of middle-class consumers currently live in the European Union (EU) and the United States, but over the next decade, the majority will shift heavily toward India, China, and other Asian countries, excluding Japan.¹⁵ By 2035, one in four middle-class consumers are expected to reside in India.

Table 1
Occupations of India's Lower Middle Class
(Percent of Population)

Occupation	%
Vendors	30
Food Industry	13
Leather Work	8
Painters/Carpenters	7
Construction	6
Miscellaneous	7
Cloth/Shop Washing	5
Security Services	5
Unspecified	4
Welding & Repairing	4
Bangle Workers	2
Cable/Electrical Work	2
Data Entry	2
Driver/Transport Services	2
Imitation Jewellery Makers	2
Bangle workers	2

Source: ATLAS: *The Local Impact of Globalization in South and Southeast Asia*. See the *World Economic Forum* website at <https://tinyurl.com/y7tysq2q>.

Furthermore, as can be seen from Figure 5, India is expected to see a dramatic growth in the middle class, from 5 to 10 percent of the population in 2005 to 90 percent in 2039, by which time a billion people will be added to this group. In 2005, the mean per capita household expenditure was just US \$3.20 per day, and very few households exceeded incomes of US \$5 per day. Yet, by 2015, half the population had crossed this threshold. By 2025, half the Indian population is expected to surpass US \$10 per day.¹⁶

Finally, as shown in Table 2, India is currently the third-largest middle-class market, after China and the United States, and is expected to be the largest in another twelve years. Between 2016 and 2050, the country will continue to grow at a breakneck speed and could add an additional one billion consumers to the global middle class.

Conclusion

Half a century ago, Western economist and Nobel Prize-winner Gunnar Myrdal, in his three-volume book series,

China has already tripled their share of the world GDP since 1990, while India has doubled it during the same timespan.

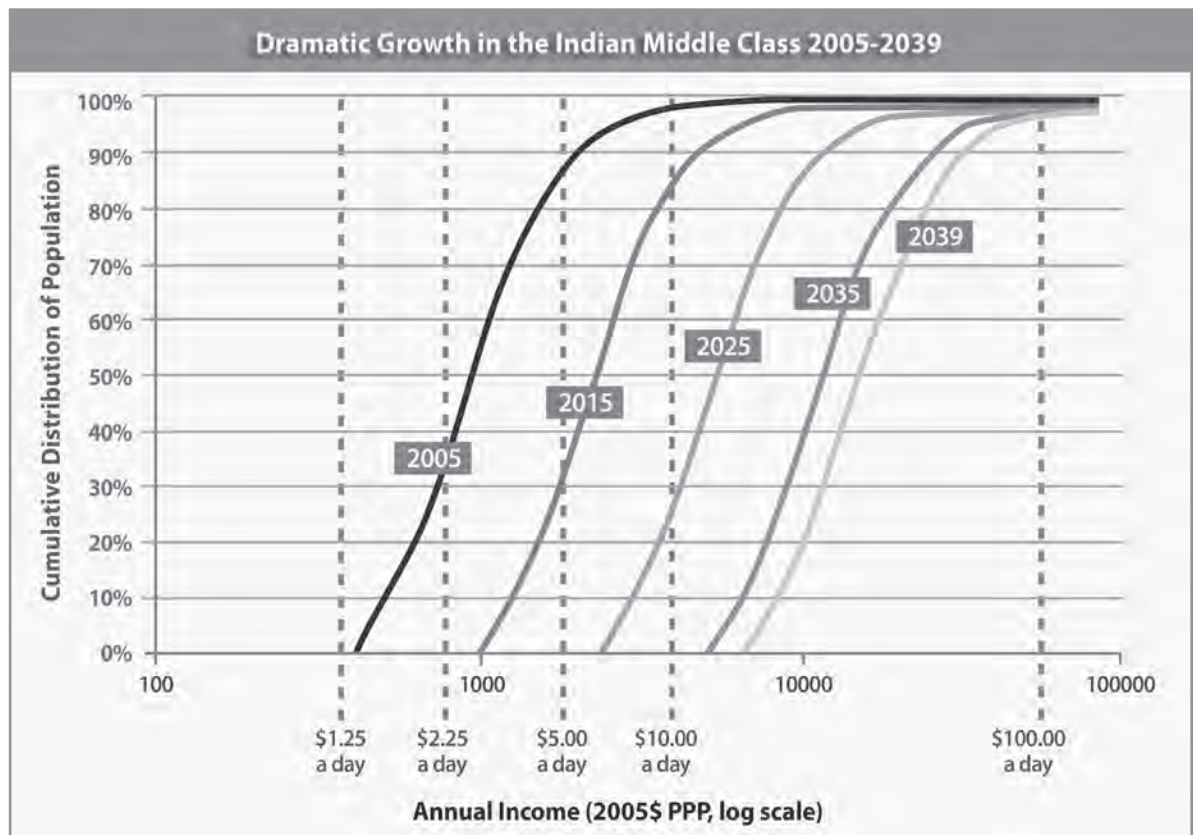


Figure 5: Dramatic growth in the Indian middle class (2005–2039). Source: *ResearchGate.net* at <https://tinyurl.com/yaz2zo69>.

laid out his thesis of how irrational attitudes and outmoded institutions were the critical reasons for poverty throughout Asia.¹⁷ Ironically, the most significant development of the twenty-first century is expected to be the rise of Asia—with both China and India expected to play significant roles. China has already tripled their share of world GDP since 1990, while India has doubled it during the same timespan. Both countries have rebounded dramatically from the loss of their share of global GDP during the two centuries of European colonialism, primarily in Southeast Asia and Africa, between the mid-eighteenth and the mid-twentieth centuries, which also gave Europe a competitive advantage in the first two Industrial Revolutions.

The Indian middle class continues to play a significant role, not only in their home country, but also in other parts of the world.¹⁸ The rapid growth of the global software industry, where Indians excel and continue to be in demand, is creating a new, modern, mobile middle class.¹⁹ Furthermore, there is a fluid exchange of personnel between Silicon Valley and the Indian counterpart, Bangalore, hence creating a new global consumer.²⁰ There is also a significant Indian diaspora in England,²¹ as well as Middle Eastern cities like Dubai.²²

Despite promising prospects for the growth of India and its middle class, several problems must be overcome. The country is slated to become the most populous in the world by 2022, according to the UN, and is projected to have a population of 1.8 billion in 2060. Half of India's current 1.3 billion people are below the age of twenty-six, and by 2020, it is expected to be one of the youngest countries in the world, with a projected median age of twenty-nine.²³ If this population growth occurs, it potentially strengthens

a further middle-class expansion, providing the country is properly able to leverage the “demographic dividend” and find adequate employment for the 250 million people who will be looking for work in the country by 2030.

Also, India currently has a poor rank of 100th in the World Bank's “Ease of Doing Business” list.²⁴ Further improvements in business practices have to be made to attract strong foreign direct investment. Infrastructure, bureaucracy, intractable regulatory requirements, and funding problems continue to be major roadblocks to growth, and these factors have to be significantly improved for the country to reach its potential. Recently, *The Economist* cautioned against over-optimism in entering the Indian market, even though major multinationals continue to do so.²⁵ Finally, its share of GDP, attributable to manufacturing (which is currently at 2 percent), also has to grow at a faster pace. The current government's “Make in India” initiative is expected to increase this share to about 3.5 percent by 2022.

The global recovery in the first half of the twenty-first century will depend not only on consumer demand of the developed economies, but also on a sharp increase in demand from the new Asian middle class, particularly from India, which is growing at one of the fastest rates in the world and is expected to be the largest in the next two decades. With increased discretionary incomes, India's middle class will play a more critical role in the global economy by buying more consumer goods, affording better health care, and providing more for their children's education.²⁶ However, whether or not this middle class will be a future force for sustainable development remains to be seen. ■

Table 2
Expected Middle Class Consumption in the Top 10 Countries

Rank	Country	Billions of 2005 PPP\$ & 2005 Global Share %		Rank	Country	Billions of 2005 PPP\$ & 2020 Global Share %	
1	China	4,468	13	1	India	12,777	23
2	United States	4,270	12	2	China	9,985	18
3	India	3,733	11	3	United States	3,969	7
4	Japan	2,203	6	4	Indonesia	2,474	4
5	Germany	1,361	4	5	Japan	2,286	4
6	Russia	1,189	3	6	Russia	1,448	3
7	France	1,077	3	7	Germany	1,335	2
8	Indonesia	1,020	3	8	Mexico	1,239	2
9	Mexico	992	3	9	Brazil	1,225	2
10	United Kingdom	976	3	10	France	1,119	2

Source: Adapted from Homi Kharas 2010, OECD Working Paper No. 285.

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