The Middle Class and Economic Reforms

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The middle class is the basis of a strong and functional democracy. Indian economic policy has, in the past, focused almost entirely on the poor, but the end of poverty lies in the production of the middle class, one that would include many of those who are currently among the poor. This article offers a strategy that takes us away from an economy split between the poor and the rich, and from a charitable notion of economic redistribution to the possibility of rights-based claims for economic justice.

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After the "Great Recession" of 2008-09, there was immense interest about the role the Asian middle class could play in ameliorating the impact of the financial crisis. So much so, that the Asian Development Bank (ADB) had a special chapter entitled "The Rise of the Indian Middle Class" in *Key Indicators for the Asia and the Pacific, 2010*. The middle class in Asia has attracted attention for its potential role in the global economy.

In India, too, the middle class has made strides, but not as much as in some other Asian countries. After a discursive introduction to the definition of the middle class and its role in economic development, this article discusses whether the policy stance in India has given short shrift to the middle class by focusing on other income categories. I also suggest that the middle class, in turn, has failed to become a vocal interest group that can steer the course of economic policies in a democratic set-up.

1 In the Asian Perspective

By middle class, I mean people who are beyond the poverty line but not in the category of the rich. According to the ADB, over 1.3 billion people joined the middle class in developing Asia between 1990 and 2008 (Table 1). The transformation, in terms of percentage point change, has been remarkable in many countries, including some of the large countries such as People's Republic of China (henceforth China), Vietnam and Indonesia. These three countries together managed to lift over a billion people from poverty or relatively poor status to the "middle class" between 1990 and 2008. India made progress, but the progress was limited, and its overall rank in terms of growth in the share of the middle class in the total population of the country was 12th among 21 developing countries of Asia.[1]

India is a late starter compared to China. China initiated reforms under Deng Xiaoping in 1979, almost a dozen years or so before India started in good earnest. And in May 2007, the Indian middle class made its presence felt in the public media when *Newsweek* reported McKinsey Global Institute's prediction that within a generation, India would become a nation of upwardly mobile middle-class households, "consuming goods ranging from high-end cars to designer clothing", and in two decades, surpassing Germany as the world's fifth largest consumer market. In February 2009, *The Economist* also reported on the growth of the Indian middle class. McKinsey estimated the Indian middle class population at 250 million in 2007; the National Council of Applied Economic Research (NCAER) predicted that membership of the class would more

Table 1: Changes in the Relative and Absolute Size of the Middle Class and Change in Aggregate Monthly Expenditure of the Middle Class, by Country (1990-2008, Based on Household Survey Means), in Developing Asia

Country	Percentage Point Change in Population Share	Change in Population in Million	Change in Yearly Expenditure (Millions of USD)
Armenia	76.5	2.3	3.6
Azerbaijan	35.1	3.1	4.5
Bangladesh	8.3	18.5	24.3
Cambodia	24.0	4.0	5.8
PRC	61.4	844.6	1,825.0
Georgia	4.0	0.0	1.3
India	12.8	205.0	256.0
Indonesia	46.3	113.7	168.1
Kazakhstan	-6.7	-2.2	-19.8
Kyrgyz Republic	-14.9	-0.1	0.0
Lao PDR	28.9	1.9	2.4
Malaysia	5.6	6.5	22.3
Mongolia	24.4	1.0	1.9
Nepal	-5.8	-0.6	-0.5
Pakistan	36.5	65.9	80.5
Philippines	12.0	23.6	48.3
Sri Lanka	-10.1	-0.9	-0.4
Tajikistan	-3.9	0.3	-0.5
Thailand	17.6	17.2	55.3
Turkmenistan	15.2	0.9	9.0
Vietnam	57.4	49.3	77.2

PRC = People's Republic of China; Lao PDR = Lao People's Democratic Republic.
Source: Chun (2010).

than double, from 267 million people in 2015-16 to 547 million in 2025-26.

The middle class in India has been growing, and growing faster than the population of the country, hence increasing its share in the total population. However, this growth is not as fast as in some other countries in the Asian neighbourhood.

The experience of east Asian countries and China demonstrate that a fundamental transformation of the growth process happens when people start leaving poverty and joining the middle class in millions. This drives economic activity by propelling rapid consumption growth. This is the growth "sweet spot": according to Surjit Bhalla, a country hits this sweet spot when it achieves a per capita income of about $6,000. The Economist Intelligence Unit projected India to hit this growth sweet spot in 2017. The excitement around 2007 about the burgeoning Indian middle class was at the same time as the country was clocking annual rates of growth well above 9% in the period between 2005 and 2008. The dip in the annual growth in 2008-09 to below 7%, and then after two years of growth around 9%, and the steady decline to 5% has reduced the excitement further.[2]

2 A Matter of Definition

As in Table 1, the ADB, in its special chapter "The Rise of the Indian Middle Class" (2010), defines the middle class as $2-$20 per person per day in 2005 PPP$. However, this is not the definition used by all in the discussion on the middle class.

Harris (2007) reported a curious fact: in response to a question in a survey conducted in the poorest parts of Bangalore, the great majority of respondents categorised themselves as "middle class". The penetration of middle-class values and aspirations is an important development in India, but self-categorisation of people is not very useful for defining the Indian middle class. Similarly, the sociologist's traditional definition of "sufficient education, membership in a white-collar occupation, or apparent embrace of bourgeois values" (http://www.cgdev.org/blog/oops-economists-confused-search-middle class-developing-world) has its own appeal, but may be a bit unwieldy and not very useful for a discussion of admittedly "narrow" economic development problems.

The point of these definitions is to clarify that alternative definitions exist, and that the numbers change with the definitions. A workable definition of the middle class that has considerable appeal, for example by *The Economist* (2009), is people who have roughly a third of their income left for discretionary spending after paying for basic food and shelter. In 2011, this would have left out the poorest with an income below Rs 27.2 per person per day and Rs 33.3 per person per day in rural and urban areas, respectively. So it would have "the aspirers" just above the poverty line, who typically are small shopkeepers, farmers with their own modest landholdings, or semi-skilled industrial and service workers. They have enough food to eat and might own items such as a small television, a propane stove, and an electric rod for heating water, but may not be counted as middle class.

The middle class consists of the seekers and strivers, whose annual household income according to McKinsey Global Institute, in purchasing power parity (PPP) terms, is equivalent to somewhere between $23,000 and $1,18,000.

> Seekers range from young college graduates to mid-level government officials, traders and business people. They enjoy a lifestyle that most of the world would recognise as middle class and typically own a television, a refrigerator, a mobile phone and perhaps even a scooter or a car. Although their budgets are stretched, they scrimp and save for their children's education and their own retirement. Strivers, the upper end of the middle class, tend to be senior government officials, managers of large businesses, professionals and rich farmers. Successful and upwardly mobile, they are highly brand-conscious, buying the latest foreign-made cars and electronic gadgets. They are likely to have air conditioning, and can indulge in an annual vacation, usually somewhere in India (Mckinsey Global Institute 2007).

The NCAER defines the middle class as comprising households with an annual income between Rs 2 lakh and Rs 10 lakh at 2001-02 prices.[3] Birdsall et al (2000) defined the middle class as those with incomes between 75% and 125% of the median income in each country. Banerjee and Duflo (2008), on the other hand, identified the "middle class" in developing countries as those living between $2 and $10 a day. Ravallion (2009) defines middle class "as those who live above the median poverty line of developing countries but are still poor by US standards" (p 4).

The size of the middle class changes with the definition of the class itself. For example, Meyer and Birdsall (2012), using 2005 PPP minimum and maximum thresholds of $10 and $50, and National Sample Survey 2009-10 data, estimate the Indian middle class in 2009-10 at less than 6% of the population or just under 70 million people, which is less than half of what NCAER estimates for 2004-05. However, what is important is that while the pace of change in the size of the middle class may change with the definitions, the direction of movement of the class size is not sensitive to alternative definitions.

Just by way of illustration, the NCAER estimated that the middle class grew, in terms of households, from 4.5 million in 1995-96 to 10.8 million in 2001-02; 16.4 million in 2005-06; and projected it to grow to 28.4 million in 2009-10. Beinhocker et al (2007) projected the middle class to grow to 128 million households by 2025. Ravallion (2009) estimated the middle-class population to have grown from 146.8 million to 263.7 million between 1990 and 2005, which again, assuming an unchanged household size of five, is a rise from 29.4 million to 52.7 million. While NCAER estimates indicate an annual rate of growth of almost 14% between 1995-96 and 2005-06 in the ranks of the Indian middle class, Ravallion's (2009) estimate for the period 1990-2005 indicate an annual growth rate of only about 4%.

By the historical standards of India itself, the middle class in the country has made great strides in the past couple of decades. The pace of this stride is dependent on how the middle class is defined, but it is generally agreed that no matter how it is defined, there has been a swelling of middle-class ranks both in absolute and relative terms.

3 Is the Middle Class Important?

Before examining the dynamics of the Indian middle class and economic reforms, it is relevant to examine whether and why the middle class is important for economic growth and development. The middle class can be expected to grow with economic growth. The tide of growth lifts many boats, and with increases in per capita income, many households may be expected to escape the shackles of poverty or their "aspirer" status and migrate to the middle class, which consists of seekers and strivers. But will it reinforce the growth process itself through higher savings and investment, including in human capital; support the reform process; and result in better governance with more transparency and greater accountability and less corruption?

Hard empirical estimates of this effect of a growing middle class on the growth and reform process are itself complicated by differences in the definition of the middle class in different developing countries. Yet, there is considerable evidence that the middle class is critical for unleashing self-sustained growth.

As the ADB (2010) reports:

> Economic historians such as Adelman and Morris (1967) and Landes (1998), among others, have argued that the middle class was a driving force in the faster pace of economic development in the United Kingdom and continental Europe in the 19th century (p 3).

It also reports how Easterly (2001) concludes that a "middle-class" consensus "...facilitates economic growth by allowing society to agree on provision of public goods critical to economic development. These include goods such as public education, public health services, and physical infrastructure (e g, roads and electricity)" (p 3).

A priori, it may be argued that the growth of the middle class in India, and hence policies to accelerate its development, are important for the following three reasons.

The first is a fundamental point about putting development on a sustainable path. Development is mostly about productivity growth. The productivity improvement brought about by the replacement of walking by bicycles, of packed oxen by tractors or even bullock carts, or hand irrigation by mechanised pumps can be enormous. In a developing country, given the enormous scale of the task, the government cannot finance these substitutions on its own. A growing middle class, by investing themselves, can bring about these changes without government support. Brazilian economist Eduardo Giannetti da Fonseca describes members of the middle class as

> people who are not resigned to a life of poverty, who are prepared to make sacrifices to create a better life for themselves but who have not started with life's material problems solved because they have material assets to make their lives easy (*The Economist* 2009).

While there is a sense of hopelessness and resignation among the extremely poor, the middle class is a more determined lot, ready to better themselves on their own through struggle as well as by educating their children, albeit because they are better endowed and equipped than the super-needy.

Second, and related to the first point, is the fact that a larger middle class can increase savings, so essential for financing domestic investment without balance of payments problems. The middle class, unlike the poor, have some means to save, and unlike the rich, do not indulge in conspicuous consumption.

Third, the middle class promotes human capital accumulation, and generates the entrepreneurs who create jobs and foster productivity. They are acutely aware of the fact that income or the value of property can fluctuate from year to year, or even month to month. Human capital is fairly robust to such changes. Thus, the middle class traditionally places a lot of emphasis on educating their children. The government can provide schools. But the gap between the quality of education such schools should provide and what they actually do is well known through various reports. As ASER (2013) reports:

> At the All India level private school enrolment has been rising steadily since 2006. The percentage of 6 to 14 year olds enrolled in private schools rose from 18.7% in 2006 to 25.6% in 2011. This year (2012) this number has further increased to 28.3% (p 47).

ASER (ibid) predicts that by 2018, half the children will be in private schools. While even some of the poor are sending their children to private schools in search of better education, it is almost the entire middle class who are patronising the private schools. Furthermore, the importance of the socio-economic and educational backgrounds of children's families, the aspirations of parents, and additional support for learning in determining children's educational performance is well known. Thus, while there is no alternative to making all-out efforts to improve the education of children from poor households, the importance of promoting educational facilities for the middle class, as well as for rapid improvements in human capital in the country, cannot be overemphasised.

4 Differing Speeds of Middle-Class Formation

The middle class in India has made progress in swelling its ranks, but at different speeds in different periods. Data for household consumption, used for identifying the middle class in most studies, is available basically from the nine quinquennial (five-yearly) surveys organised by the National Sample Survey Organisation (NSSO), starting from the 27th round (October 1972-September 1973) and ending with the 68th round (July 2011-June 2012).[4] Apart from these NSSO surveys, NCAER's Market Information Survey of Households (MISH) conducted in 1985-86, and the National Household Survey of Income and Expenditure conducted in 2004-05 also provide valuable data for classifying the Indian middle class and estimating its size.

According to the NCAER (2005) study already alluded to, the size of the middle class grew at an annual rate of 15.5% between 1995-96 and 2001-02, and 11.1% between 2001-02 and 2005-06. According to calculations made by Surjit Bhalla, the author of *Second among Equals: The Middle Class Kingdoms of China and India*, the proportion of the population in India belonging to the middle class, after remaining around 1.5% until the mid-1970s, increased to about 2.5% by 1985, and then to 4.5% by 1990, 12.5% by 2000, and 25% by 2007. Growth rates for the middle class, according to Bhalla's annual numbers, are indeed different from the NCAER's numbers, but the important point is that the growth of the middle class varies from period to period.

The early 1950s and 1960s saw the pursuit of socialist policies with emphasis on state-led growth, on the public sector achieving "commanding heights of the economy", and the production of producer's goods such as heavy machinery, rather than consumer goods. The state followed an interventionist policy through the "licensing" of industrial capacity as well as quantitative restrictions on imports, to ensure that there was no excessive consumption by the upper or middle classes. Enough resources were left for the production of capital goods essential for economic development. The employment of engineers and technical professionals in public-sector undertakings did foster an army of middle-class professionals in the initial period. However, while the model of severe protectionist policies with heavy import restrictions and strict limitations on private-sector operations continued for over three decades, the public sector failed to display the dynamism for self-sustained growth, and productivity, and hence competitiveness, suffered.

No manufactured consumer goods industry came up, and the choice of such goods was also very limited. In the 1960s and early 1970s, it was difficult to find a variety of quality refrigerators, toasters and electric irons in the market. The "aspirers" – just above the poverty line – such as small shopkeepers, marginal farmers, and semi-skilled workers, did not have much to aspire for. In such a milieu, the Indian middle class could not compete with the growth of its counterparts in east Asian countries such as Korea or Taiwan. One can only speculate as to what may have happened in India had the private sector been allowed to play an unfettered role to expand, and had the production of consumer goods not been discouraged so strongly. Perhaps it would have encouraged a faster development of the Indian middle class.

The 1970s was a period of turmoil – a massive refugee problem, and a war, multiple oil price shocks, and tense domestic politics with democratic rights suspended under a 17-month "internal Emergency" declared on 26 June 1975. As a result, the size of the middle class in India, according to Bhalla, increased only from 1% of the total population to 2.5% of the population in 1985. It was only in the early to mid-1980s that India started to look at liberalisation and a move away from intensive state regulation. Again, according to Bhalla, the middle class grew from 2.5% of the population in 1985 to 7% in 1995. The size of the Indian middle class increased after the mid-1980s, and continued to grow in the subsequent two decades. According to the NCAER data, while the Indian middle class grew at an annual rate of 14.0% between 1995-96 and 2010, the annual rate of growth varied from 15.5% between 1995-96 and 2001-02, to 11.1% between 2001-02 and 2005-06, and 14.8% between 2005-06 and 2009-10.

5 Underlying Reasons

The speed of middle-class formation may vary for many reasons, including exogenous shocks such as high price of oil or a global financial crisis. The conjecture of this article is that apart from these exogenous shocks, a part of the reason for the differing speeds of middle-class formation lies in the policies the government pursued in the different periods. Policies of the government have been guided by three different, but interrelated considerations.

5.1 Urge to Remove Poverty Here and Now

The first is the issue of support for the poor, and among the poor, for the poorest of the poor. Poverty alleviation has been, and rightly so, one of the guiding principles of the Indian planning process right from the beginning. However, there are two alternative ways of attacking poverty – by laying the foundations for sustainable poverty eradication by providing better education and health facilities to the poor, and better physical infrastructure such as rural roads to improve the poor's income-earning capacity; or by providing handouts such as free or heavily subsidised food, or old-age pension for immediate succour.

Until the Fourth Five-Year Plan in the 1970s, poverty programmes were mainly of the first variety, with initiatives such as the Community Development Programme initiated in 1952, the Green Revolution to increase the production and availability of foodgrains at affordable prices, and land reforms to get rid of the intermediaries. Then came the more targeted programmes to provide immediate income to the poor, by "employing" them to construct village-level infrastructure such as roads or irrigation channels. There were also programmes to provide support to the poor through free or subsidised housing (such as under the Indira Awaas Yojana from 1985-86), or help to poor households in case of old age, death of the primary breadwinner, or maternity (through the National Social Assistance Programme from 1995).

The programmes proliferated in number, and while allocations were limited because of an insufficiency of fiscal resources, practically every programme continued under the original name or some mutation thereof. For example, the Integrated Rural Development Programme (IRDP) was introduced in 1976 on a pilot basis for generating self-employment for the poor, and rapidly extended to large parts of the country.[5] From 1960, starting with the Rural Manpower Programme (RMP), there have also been various schemes for rural wage employment, such as the Crash Scheme for Rural Employment and Drought Prone Area Programme around 1971, which culminated in the Food for Work Programme in April 1977. These programmes were further refined and implemented as the National Rural Employment Programme from October 1980, and the National Rural Landless Employment Guarantee Programme from August 1983. These two were in turn consolidated and transformed into the Jawahar Rozgar Yojana from April 1989, and supplemented by the Employment Assurance Scheme from October 1993. Once again, the latter two were transformed into the Jawahar Gram Samriddhi Yojana in 1999.

The fundamental question is of the timing and scope of intervention. From the theory of social justice and the so-called Rawlsian max-min principle, there is undeniable force in the argument that the focus should be on the poorest of the poor. But the issue is one of sustainability. Lifting a poor person above the poverty line requires an income transfer that is equal to the "poverty gap", which is the difference between the poor person's income and the poverty line. The total "poverty gap" in a developing country such as India may be too high to allow the government to maintain fiscal sustainability and macroeconomic balance, and transfer the required amount to all the poor to remove poverty.[6] Furthermore, the question needs to be asked: Will this transfer have to be made every year, or with the transfer, will some of the poor become economically viable and remain above poverty without any government support in future years? Thus comes the choice between how much to allocate for the poor for immediate succour, and how much to allocate for building the foundations for removing poverty on a sustained basis in the medium term.

5.2 Provision of Basic Public Goods vs Subsidies

How does one make helping the somewhat poor an ethically viable policy strategy vis-à-vis helping the poorest of the poor? How does one justify helping the needy versus helping the superneedy? There is a stark choice between: (i) helping the "somewhat poor", making them escape the shackles of poverty and contribute to helping those left behind in poverty in the medium term, and (ii) helping only the "poorest of the poor" year after year. Pragmatic policies pursued by east Asian countries demonstrate that what works, and works fairly quickly in removing poverty in a few decades, is helping the "somewhat poor" through improved physical infrastructure such as "*bijli*, *sadak*, *pani*" (power, roads and water supply), and social infrastructure such as education and health, and some targeted interventions for "*roti*, *kapda*, *makan*" (food, clothing and shelter) for the poorest of the poor.

It is possible to argue that, while providing some support to the poorest of the poor, it is better to focus on instruments such as education, health and physical infrastructure, which will allow the poor just below the poverty line to help themselves, escape poverty, and join the middle class. It appears that too much emphasis may have been placed on "roti, kapda, makan" for the poor than on "bijli, sadak, pani". "Bijli, sadak, pani" are public goods that everyone needs, and while "sadak" cannot be bought by the rich as a private good, it is possible to have private arrangements for the supply of the other two. After six decades of planning, "bijli and pani" are available in sufficient quantity only to the rich, who can buy them at considerably higher private and social cost as private goods. Investing in the production of these public goods will strengthen the stability of the existing middle-class households and help the poor at the margin of the poverty line to join the middle class. The middle class can save, invest and provide entrepreneurship, but it cannot build power plants or transmission lines, or roads or water supply systems on its own. It needs the government for that. The lack of emphasis on the development of infrastructure in government policies has seriously hampered the growth of the Indian middle class. The emphasis on trying to set up a wide-ranging welfare state before meeting the basic provision of essential public goods has been a bit premature in India. This has impeded an even more robust growth of the India middle class.

Middle-class formation is facilitated by a virtuous cycle – as the class starts consuming new and modern goods (such as refrigerators and other consumer durables), the production of such goods leads to the employment of more people in quality jobs, and a swelling in the ranks of the middle class itself. The lack of emphasis on physical infrastructure in public-sector policies has prevented the virtuous cycle of middle-class formation from taking effect. With inadequate roads and an insufficient power supply and other industrial infrastructure, when the Indian middle class consumed modern goods, production capacity expanded not in India, but in countries that could supply these goods at competitive prices.

5.3 Obsession with Inequality

Growth helps in poverty reduction, unless the distribution of income deteriorates dramatically and all the benefits of growth accrue to the rich. Growth with less inequality, or what is called "inclusive growth", is more effective in reducing poverty and is superior to growth with increasing inequality. However, higher growth with mildly increasing inequality may be more conducive to reducing poverty than lower, but more equitable growth. It is a fact that inequality of income has increased in India, but there is nothing to suggest that it has deteriorated so much as to result in growth without poverty reduction. Yet, much of public discourse in India has turned on "deteriorating income distribution", rather than "how to promote growth" or "how to reduce poverty". Public discourse is increasingly focused on the income share of the top 10% versus the income share of the bottom 10%.[7]

While I commiserate with the growing gap between the top and bottom deciles, I want to suggest that our attention is better focused on the intervening 80%. The fortunes of this bulk of the population, which include those of the middle class, are, I want to argue, a better barometer of whether the growth trends will provide benefits for all. The earlier tolerance for income inequality á la Chakravarty, "provided it was not excessive and could be seen to result in a higher rate of growth than would be possible otherwise" (1987: 10), has disappeared.

Among the 79 countries for which data on the Gini index of inequality for any year after 2008 is available on the World Bank website (World Bank 2013), only 21 had less income inequality than India.[8] Of these 21, as many as five and seven were former socialist countries of eastern Europe and the former Soviet Union, respectively. Furthermore, in Asia, except for the Republic of Korea, all countries in a comparable group – Hong

Kong, Indonesia, Malaysia, and People's Republic of China, Singapore, Thailand, and Vietnam – had higher income inequality than India in the recent period. While it is true that inequality, as measured by the Gini index, has risen in India from 30.8 in 1994 to 33.9 in 2010, it is interesting to note that the corresponding increase in People's Republic of China has been from 35.5 in 1993 to 42.1 in 2009.

As Arthur Lewis (1983) has cogently argued:

> Development must be inegalitarian because it does not start in every part of an economy at the same time. Somebody develops a mine, and employs a thousand people. Or farmers in one province start planting cocoa, which grows in only 10% of the country. Or the Green Revolution arrives to benefit those farmers who have plenty of rain or access to irrigation, while offering nothing to the other 50% in the drier regions (cited in Bhagwati 1982: 21).

Indeed, Korea and Taiwan have managed to grow fast without rising inequality even during their phase of fast growth, but they are exceptions rather than the rule. There may be merit in focusing on inequality in the medium to long term, rather than fixating on short-term discrepancies.

Inequality has increased in India, and the blame for the increase has been squarely put on the shoulders of the neo-liberal policies pursued from 1991 (see for example, Tedhunter 2013). No economic policy, however, could have assuaged the disastrous effects of our educational inequalities: inequalities which render it impossible for most citizens to participate in the economy, regardless of how that economy is structured. The slow spread of education and the slow growth of the manufacturing sector may be the two most important reasons for growth being less inclusive than what it could have been.

5.4 Growth and the Importance of Education

As the experience of Korea demonstrates, rapid improvements in education and fast growth reinforce each other, and lead to inclusive growth. In Korea, the successful expansion of education, with the number of elementary school students expanding "...from two-three million in 1950 to five-six million in the 1970s...with their enrolment rate exceeding 90% in 1970" was a key ingredient of inclusive growth (Koh et al 2010: 234). Government policies along with cultural traditions contributed to this outcome. The Basic Education Act was promulgated in 1949, and after the Korean War, a six-year programme of compulsory primary education was successfully implemented, with the advancement rate to primary education rising to 96% by 1959. Illiteracy fell dramatically from 78.2% in 1948 to 4.1% in 1958. The Korean government was active in promoting middle school, high school, and tertiary and vocational education through the 1960s, 1970s, and beyond. For example, the Private School Act was passed in 1963, the high school equalisation policy introduced in 1973, and private tutoring outlawed in 1980. Compared to Korea, the progress of education has been slow in India, with the adult literacy rate at 62.8% in 2006, compared to 95.9% in Korea in 1958. Perhaps it reflects the two governments' priorities – in India, public spending on education as a proportion of government expenditure was 10.5% in 2010, compared to 15.8% in Korea in 2009. The pre-emption of fiscal resources by subsidies on food, fuel and fertiliser, and interest payments in India leaves little for other purposes. The inadequate education of many in India results in only a limited few being able to take advantage of the opportunities unleashed by the reform process.

In India, along with the widening gap between the top and bottom deciles of wage earners, as already mentioned, inequality of income distribution as measured by the Gini index has also gone up from 30.8 in 1994 to 33.5 in 2005, and further to 33.9 in 2010. Evidence suggests that after remaining fairly stable during 1983-93, inequality increased in the subsequent period. The underlying reasons behind increasing inequality are interesting. As pointed out by Cain et al (2010: 283):

> ...increases in 'returns to education' account for a fairly large part of the increases in urban inequality ...The increases in returns to education have been particularly pronounced in education intensive services (such as communications, finance, insurance, real estate, and other business services) and education intensive occupations (professional/technical, managerial/administrative, and clerical occupations).

Furthermore, with the progress of science and technology, while higher returns to education may continue to exacerbate the wage gap between skill-intensive and unskilled or semi-skilled occupations, the persistent failure to industrialise aggressively will result in the low employment of unskilled and semi-skilled workers and higher income inequality. The slow progress in manufacturing so far continues to reflect the failure to provide adequate infrastructure such as "bijli, sadak and pani".

The preoccupation with rising inequality, an overriding concern about whether growth is "inclusive" enough or not, and a misdiagnosis of why growth is not inclusive enough may have distracted the focus of policymakers from growth itself, and stultified the growth of the Indian middle class.

5.5 Inadequate Voice

Has the Indian middle class tried enough to influence the course of economic policies in India? If voter turnout in elections is taken as a proxy for political activism, and assuming that there are more middle-class members in urban than in rural areas, then the lower voter turnout in urban areas can be taken as an indication of middle-class apathy to exerting their influence on the course of economic policies.[9]

As Hirschman (1970) describes, in response to unsatisfactory situations, there are two options for participants in a firm, organisation, or country – "exit", that is, leaving without trying to fix things; or "voice", that is, trying to remedy the defects. The "exit" of a part of the middle class in India was manifested in two primary ways – brain drain and a quiet reluctant acceptance of the status quo.[10] An estimated 1.4 million Indians emigrated to selected European countries, the US, Canada, Australia and New Zealand between 1995 and 2005 (Naujoks 2009). The story of Indian software professionals in Silicon Valley is too well known to repeat. In recent times, there has also been a tendency for Indian enterprises to invest abroad. The reluctant acceptance of the status quo was manifested in a near-total absence – with the sole exception of trade-union movements by blue- and white-collar workers – of any articulation of demands about appropriate policies to help the middle class. A silent acceptance of heredity as a major plus in the political profession may also be a sign of this acquiescence.[11]

With this binary choice between "flight" and "fight", after acquiescing for decades with "flight", there may be indications that the Indian middle class is ready to fight the system and influence policies. The acceptance of state-centric economic policies from the 1950s to the 1980s may have had a lot to do with the prevailing dominant political philosophy of the day. The former Soviet Union and People's Republic of China were very much in pursuit of the alternative model of economic development. But with the fall of the Berlin Wall and the disappearance of communism from all over Europe, and the ushering in of reforms under Deng Xiaoping in China, the ideological underpinnings as well as popular appeal for socialist policies have been severely eroded. The reforms of the 1990s, which ended the licence-permit raj and severe import protectionism, may have contributed to a slow build-up of activism among the middle class in India.

The anti-corruption protests by Anna Hazare, the outrage surrounding the December 2012 Delhi gang-rape, and some support for new political formations such as the Aam Aadmi Party have been taken as signs of middle-class activism. It is too early to say how such activism will evolve, and what impact it will have on the electoral fortunes of established political parties. But it is unlikely that the interests of the middle class will continue to be so severely unrepresented in Indian policymaking as in the past.

6 In Conclusion

Sustainable growth and improvement for all requires focusing on the somewhat poor as well, and not just the most poor only. In the Indian policy debate, the middle class who represent the "somewhat poor" has attracted too little attention. Policy discussion has focused a lot on inequality and less on growth. Sustainable solutions to inequality of outcomes are best addressed through public goods: education, health and physical infrastructure. Meaningful understandings of the existing inequality need to look at the middle 80% of the income distribution, and not just the top and bottom 10%. There needs to be a focus on the longer-term picture as well. It is important to remember that the middle class is the basis of a strong and functional democracy. This thesis is not only central to liberal theory, but is also anecdotally obvious: the rich will manipulate the system, while the poor will be exploited by it. For India to develop at a fast pace and in an inclusive way, what is needed is a big bulge in the middle of the income distribution.

Indian economic policies have an unquestionable moral obligation to help the poor. But what life do we imagine for our fellow citizens when they are no longer poor? Have we established the frameworks that would enable them to move from precarity and poverty to sustainable, reasonably comfortable, personal and professional lives – the kinds of lives we would describe as "middle class"? The meaningful transformation of India's economic woes must focus more attention on the problems of the middle class. By middle class, I do not mean an aspirational globally consuming set, but a group of citizens with enough financial security to engage meaningfully in public life: to create and develop productive economic enterprises; to intervene and shape democratic discourse; to expand and invest in areas of culture, education, and the arts. Indian economic policy has, in the past, focused almost entirely on the problems of the poor, but the end of poverty lies in the production of the middle class – a middle class that would include many of those who are currently among the poor. This focus on policy impacts on the middle class offers a strategy that takes us away from an economy split between the poor and the rich, and from a charitable notion of economic redistribution to the possibility of rights-based claims for economic justice.

NOTES

1 There are 22 developing countries in Asia, according to the ADB. Table 1 includes all except Uzbekistan.

2 A discussion of the reasons for this growth deceleration is beyond the scope of this article.

3 At 2012-13 prices, these figures would translate to an annual income between Rs 4.34 lakh and Rs 4.54 lakh, or between Rs 21.75 lakh and Rs 23.03 lakh, depending on whether the consumer price index for agricultural labourers or industrial workers is chosen. In 2001-02 prices, the "deprived" at the bottom rung had an annual income less than Rs 90,000, the aspirers between "deprived" and "middle class" between Rs 90,000 and Rs 2 lakh, and the rich at the top with an annual income above Rs 10 lakh (see NCAER 2005). Beinhocker et al (2007) also have the same definition.

4 These surveys were conducted in 1972-73 (27th round), 1977-78 (32nd round), 1983 (38th round), 1987-88 (43rd round), 1993-94 (50th round), 1999-2000 (55th round), 2004-05 (61st round), 2009-10 (66th round), and 2011-12 (68th round).

5 The IRDP was supported by allied sub-programmes such as Training for Rural Youth for Self-employment (TRYSEM), Development of Women and Children in Rural Areas (DWCRA), and Supply of Improved Tool-kits to Rural Artisans (SITRA). The IRDP was revamped as the Swarnajayanti Gram Swarozgar Yojana (SGSY) from 1 April 1999 (see Planning Commission 2001).

6 According to the World Bank, the poverty gap index was at 7.49% in India in 2010, implying the need for PPP $34.2 on average per poor per year to bring all the poor above the PPP $1.25 poverty line. With 32.7% of the people below the poverty line, the total transfer required would have been PPP $13.8 billion.

7 For example, OECD (2011: 57) commented that the earnings of the top decile in the late 2000s was 12 times more than the bottom 10%, compared to six times 20 years ago (http://www.oecd.org/ els/ soc/49170475.pdf).

8 Available at http://databank.worldbank.org/data/views/ reports/ tableview.aspx?isshared=true&ispopular=series&pid=8. These 21 countries are: Afghanistan, Armenia, Bangladesh, Belarus, Egypt, Ethiopia, Croatia, Jordan, Kazakhstan, Kyrgyzstan, Mali, Moldova, Montenegro, Nepal, Pakistan, Poland, Romania, Serbia, Slovak Republic, Tajikistan and Ukraine.

9 "The biggest differential is found between urban and rural respondents, where the turnout for town and city dwellers is 4.7 percentage points lower than the average, and 7.2 percentage points lower than in the case of rural voters. The same conclusion emerges from an analysis of turnout by the urban or rural nature of constituencies. Since the mid-1980s, the rural constituencies have overtaken the urban ones in the matter of turnout. The gap increased this year from about 6 percentage points to 9 percentage points, as the urban centres recorded a turnout of 51.6% compared to 60.6% for the entirely rural constituencies" (Heath 1999; http://www.frontline.in/static/html/fl1622/16221250.htm).

10 Deb (2013) described this exit as "Mental Exile".

11 In the current Parliament, all MPs below the age of 30 are hereditary, more than two-thirds of MPs aged under 40 are hereditary, and 27 MPs are "hyperhereditary", with several family members who have made a career out of politics (see http://www.theindiasite.com/family-politics/).

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