

Reframing the middle class

This column has advocated, and will continue to advocate, that it is time for us in India to shift our gaze and our goals from where we stand in world rankings to a more inward preoccupation with how to make ourselves stronger and fully realise our enormous latent potential. Therefore, it is time we moved forward and reframed the discussion on the middle class, a pet topic for many.

The reframing must shift from “how many Indians are there with income between X and Y” — usually broadly defined and yielding different numbers by different people — to “what is the purpose and role of a middle class for a country/economy?” Is what we today think of as our middle class strong enough to fulfil that role? (Answer: Only a small segment of them is.) And what should we focus on to build a robust (real/genuine) middle class that does the job it is supposed to do?

Celebrating India's country rankings is a sweet victory to savour, especially for my generation. But it's time to shift the goal post. Today, even a small percentage of India is a large enough number to get us to rank one, two or three in the world. For example, the small percentage of India's population that is 70 years old or more is around the size of Kenya, making the country an enticing prospect for any silver marketer. The US has 94 per cent of its population using the internet, India has about 50 per cent, yet we have more than double its number.

An enormous body of work around the world shows why a robust middle class is important. This particularly applies to us given the modest income, modest education, and mostly informal employment of our people. The middle class provides stability, predictability and resilience to the economy (consumption, savings, etc). It exhibits higher productivity and capacity for upward mobility because of what occupations it

has access to; has enough surplus income for reinvestment; the quality of its consumption is less price-sensitive and more benefit-sensitive; it reflects sophistication in its saving and investment avenues; it has determination and the ability to constantly improve its station in life and living conditions; and, to borrow a favourite buzz word of equity analysts, it fosters “premiumisation” of a society, lending it the momentum for continuous upward mobility.

A key element, therefore, in creating a genuine middle class is the nature of its work, the way in which it earns. This is, in turn, decided by the education and skills they have and the sources of demand for such capabilities. It is here that the big issue that we grapple with — informality — intersects with the middle class numbers that we celebrate. As is well-known, formal or even better-quality informal jobs provide job holders with better tools and inputs to upgrade their skills, enabling wider access to networks of other skills, which makes them more productive and helps them earn more. Better infrastructure — the way people live in terms of access to amenities, the way they commute — also contributes to this. Living in a

slum where water needs to be collected at 5 am may prevent a solo caregiver domestic helper from taking on night duties, despite the high demand and better pay. Further, if she were employed more formally by an agency, her chances of skill upgrades would be higher, especially if she has finished school, and she could do more and earn more. So, it is the quality of inputs that the so-called middle class has that enables the output that drives the economy better. Being able to buy a low-priced smartphone or a colour TV is only a tiny part of the story.

Despite income between X and Y, a family of low-end domestic helpers is unlikely to deliver the same

value to the economy as a genuinely middle-class person. A crane operator or shop owner (not a hawker), however, may. A Zepto boy may not but an own-account worker on an Urban Company platform may. Some small farmers may fall in and out of the middle class but the amenities they can access and the sophistication of their farming business, enabling more stability and higher income, may make them more genuinely middle class.

We need a set of new metrics for our internal use to measure the size of our “quality” middle class. Brookings Institute in 2018 discussed three possible ways of thinking about the middle class: Cash, credentials, and culture (attitudes, mindset, behaviour, etc). It also said that the choice of approach would depend on the particular purpose for which it is intended.

In India, our focus should be on “credentials” more than cash in thinking about our middle class. Business today doesn't really care about this too much — it follows the Deng Xiaoping maxim: “It doesn't matter whether a cat is white or black, as long as it catches mice”. They should, though, because bigger cats can catch bigger mice.

Culture is India's forte. All classes are in permanent aspiring mode and hardly anyone is complacent or trudging along, defeated. That said, the late economist Subir Gokarn perceptively wrote in a 2013 piece for this paper that the sources from which the middle class is emerging are increasingly diverse. To ensure the “virtuous circle of relationship between the middle class and sustaining economic performance, we need to recognise and respond to the changing nature of the class itself”. That, however, is a topic for another column.

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