Rise of the New Middle Class in India and Its Changing Structure

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After being largely stable between 1999–2000 and 2004–05, the new middle class in India (that is, those spending between $2 and $10 per capita per day) doubled in size between 2004–05 and 2011–12, amounting to nearly half of India's population. This growth, though largely in the lower middle class category, happened across a majority of states in both rural and urban areas. Structurally, the new middle class is quite different from the conventional understanding of it. Although dominated by upper castes, other caste groups too have entered the new middle class in large numbers. The occupational structure within the class is heterogeneous. The lower middle class is engaged in occupations similar to that of the poor, whereas the upper middle class is involved in traditional service activities as well as in new knowledge services.

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Many recent studies have engaged in discussions on the emergence of a "new" middle class in India (ADB 2010; Fernandes 2006; Krishna and Bajpai 2015; Lahiri 2014). In general, it is agreed that the characteristic feature of the new middle class is its high level of consumption expenditure relative to the earlier understanding of the middle class and its changing consumption habits. However, the studies differ from one another over other aspects central to the new middle class. While Asian Development Bank (ADB 2010) and Ravallion (2010) claim that the size of the class has multiplied massively post 1990 and that it will drive global consumption demand in the near future, Krishna and Bajpai (2015) find India's new middle class growth to be stagnating. Besides consumption, many scholars have also highlighted the structural changes that the class has undergone in terms of employment. Fernandes (2006), Fuller and Narasimhan (2007) and Upadhya (2007) claim that the newness in the new middle class lies in its employment in new service activities brought about by economic reforms by liberalisation and globalisation. They, however, find little change in the social structure of the new middle class in terms of entry of new members to the class from non-middle class backgrounds. In contrast to this, Das (2002) and Jaffrelot and van der Veer (2008) view newness in terms of a more socially inclusive middle class that has transcended traditional caste barriers.

This paper adds to the existing literature on the new middle class in India by providing estimates of the size of the class across different regions of India. It further assesses changes in the structure of the class in terms of its social composition and industry of employment. Our study not only adds to the existing body of literature on the nature of the new middle class in India, but also provides critical insights on the country's development path over recent years. A large middle class is correlated with higher growth, more education, better infrastructure, etc (Easterly 2001). A large middle class which is geographically and socially diverse implies inclusive growth. The structure of the new middle class in terms of its employment distribution reflects the potential of the class to drive growth for the rest of the society. For instance, a new middle class with many entrepreneurs will generate employment and productivity growth for the rest of the society (Banerjee and Duflo 2008), whereas a new middle class with regular-income earners will ensure enough savings and investment in human capital accumulation.

The study draws on data from the National Sample Survey Office (NSSO) on household consumption expenditure in India.

The NSSO data is widely recognised and employed by many scholars to study various socio-economic aspects of the Indian society. Surprisingly, with the exception of Meyer and Birdsall (2012), no study on the new middle class in India has used this data set yet. We use three quinquennial rounds of the NSSO on household consumption expenditure: the 55th round, conducted in 1999–2000,[1] the 61st round conducted in 2004–05 and the 68th round carried out in 2011–12. We discard data from the 66th round of the survey conducted in 2009–10, as 2009–10 was declared a national drought year. In fact, the 68th round of the survey was conducted (just two years after the earlier round) to replace data from the 66th round.

In spite of being widely discussed, the precise definition of the new middle class in India remains ambiguous. To begin with, a review of existing definitions of the new middle class is presented, before arriving at the definition used in this study.

What Is the New Middle Class?

While the new middle class is generally identified based on its income or consumption, existing studies differ in their income/consumption ranges used to define the class. Broadly, these definitions can be classified into relative and absolute types. Relative definitions, such as that offered by Easterly (2001), are essentially useful for cross-sectional analyses of the new middle class. For inter-temporal studies like the present one, absolute definitions need to be employed. We hence restrict this discussion to absolute definitions of the new middle class.

One such absolute definition is proposed by Kharas (2010), who defines the emerging new middle class in developing countries as those with daily per capita incomes between $10 and $100 in purchasing power parity (PPP) terms. The lower bound is chosen with reference to the average poverty line in Portugal and Italy, while the upper bound is chosen as twice the median income of Luxembourg, the richest advanced country. Meyer and Birdsall (2012) in their study on the new middle class in India use the same lower threshold of $10 per capita per day, measured in 2005 PPP, but their upper bound is defined at $50. They argue that the lower bound of $10 is the global minimum to be categorised as the new middle class. The upper bound is set at $50 because most Latin American households earning beyond this limit consider themselves rich, not middle class (Birdsall 2012). A popular definition of the new middle class in the Indian context is provided by the National Council of Applied Economic Research (NCAER). It defines new middle-class households as those earning an annual income between ₹2 lakh and ₹1 million in 2001–02 prices (Shukla 2010: 100). Assuming an average household size of five, this approximately equals $11 and $55, respectively, per capita per day, in 2005 PPP terms, close to the bounds defined by Meyer and Birdsall (2012). In essence, these definitions imply that the new middle class in developing countries are those who are well above poverty not only in their own countries, but also by the standards of developed countries.

In contrast to the above definitions, which compare the new middle class in developing countries with the global middle class, some scholars define the new middle class by developing country standards alone. They include within the new middle class all those individuals who are fairly above the poverty line, having a sufficient amount of discretionary income. Ravallion (2010), for instance, identifies the developing world's new middle class as those who are not poor by the standards of developing countries but are poor by the standards of rich countries. He defines the lower bound of new middle class as the median of poverty lines of 70 developing countries, which is $2 per capita, per day, measured in 2005 PPP. The upper bound is defined as the poverty line of the United States (US) in 2005, which is $13. ADB (2010) identifies the new middle class in developing Asia using the same lower bound of $2, but a higher upper bound of $20 per person per day, measured in 2005 PPP. Using household surveys of 13 developing countries including India, Banerjee and Duflo (2008) define the new middle class as those who spend between $2 and $10 per capita per day, valued at 1993 PPP. Within the new middle class, they further consider two groups of households: the lower middle class, whose daily per capita expenditures are between $2 and $4 and the upper middle class, whose expenditures lie between $6 and $10.

Different from these income- and consumption-based approaches, Krishna and Bajpai (2015) define the new middle class in India on the basis of ownership of transportation assets. They define the lower middle class as those whose best available means of transportation is a motorcycle or a motor scooter. The upper middle class consists of those who possess a car, whereas the rich are those who possess both an air conditioner and a car. The authors are of the view that in contemporary India, assets are the key status symbols of new middle class identity.

Given these various definitions, the critical question is which of them best describes the new middle class in India. Though Krishna and Bajpai (2015) use a rather novel definition, which well relates to the contemporary middle class in India, it is not without its own problems. First, the authors themselves point out that assets are relatively more stationary than income or consumption, implying that ownership of assets does not accurately reflect the fast-paced change in income and consumption taking place in India lately. Second, ownership of type of transportation assets depends on local infrastructure, particularly, transport facilities, which are quite diverse in different regions of India. A uniform transportation-asset-based classification is hence unsuitable for defining the new middle class at the national level.

The income bounds of the new middle class put forth by Kharas (2010), Meyer and Birdsall (2012) and NCAER are quite high, making them unsuitable to be applied to a developing country like India. Further, income-based definitions are cumbersome to be applied on consumption expenditure data of the NSSO. The definitions proposed by ADB (2010), Banerjee and Duflo (2008) and Ravallion (2010) are consumption-based, set at a lower bound of $2. A minimum expenditure of $2 is reasonable to be identified as new middle class in a developing country as it ensures a base amount of consumption that can contribute economically to growth (Chun et al 2011). However, ADB (2010) and Ravallion (2010) measure expenditures in

2005 PPP. Compared to the World Bank poverty line of $1.9 a day (2011 PPP), it places the new middle class only marginally above the poor. As against this, Banerjee and Duflo (2008) measure expenditure at a higher real value of 1993 PPP which is sufficiently greater than both the global poverty line and the national poverty line for India.[2] The upper bound of $10 is ideal to ensure that no non-new middle class person is left out of the category just as no affluent member is included in the new middle class. We therefore find the definition offered by Banerjee and Duflo (2008) the most fitting among all existing definitions of the new middle class.

Estimating the Size of the New Middle Class

After having identified the most suitable definition for the new middle class, we estimate its size for the years 1999–2000, 2004–05 and 2011–12. To do this, we first convert the consumption expenditure ranges proposed by Banerjee and Duflo (2008) in 1993 PPP dollars (private consumption) to Indian rupees. Thereafter, we adjust them for inflation rates in India for the years under consideration. To calculate inflation rates, we use the gross domestic product (GDP) deflator instead of the Consumer Price Index (CPI). We do so because the new CPI series for India (CPI-rural and CPI-urban) is available only from 2011–12 onwards. Older CPI indices do not correctly reflect prices faced by the aggregate national population as they are restricted to CPI-Agricultural Labourers (CPI-AL) or Industrial Workers (CPI-IW) alone. Nevertheless, we compare the new middle-class expenditure ranges for rural and urban areas using both GDP deflator and CPI-AL (for rural areas) and CPI-IW (for urban areas) adjusted prices. Since we found no significant difference in the expenditure ranges, we settled for the GDP deflator. The rupee-denominated expenditure ranges for the different classes thus obtained are presented in Table 1.

Table 1: Daily Per Capita Consumption Expenditure Range for Different Classes in India Using the Banerjee–Duflo Definition (in ₹)

	1999–2000	2004–05	2011–12
Poor (<$2)	<20.3	<24.7	<39.5
New middle class ($2–$10)	20.3–101.7	24.7–123.4	39.5–197.3
Lower middle class ($2–$4)	20.3–40.7	24.7–49.4	39.5–78.9
Middle-middle class ($4–$6)	40.7–61.0	49.4–74.0	78.9–118.4
Upper middle class ($6–$10)	61.0–101.7	74.0–123.4	118.4–197.3
Affluent (>$10)	>101.7	>123.4	>197.3

Source: Authors' calculations using World Data Bank (PPP rates—private consumption) and *Handbook of Statistics on Indian Economy*, Reserve Bank of India (GDP deflator).

Table 2 shows the size of different classes in India. Between 1999–2000 and 2004–05 (henceforth t_1) there was no significant change in the size of the new middle class in India. In fact, the share of the new middle class in total population shrunk marginally, while that of the poor increased. Within the new middle class, the middle-middle, and upper-middle classes expanded, but this was offset by a larger decline in the share of the lower middle class. Rural India showed a similar trend, where the poor swelled in numbers, proportion of the lower middle class declined, while the rest of the classes expanded marginally. Urban India, in contrast, witnessed a marginal decline in the share of the poor, although in absolute numbers, it increased by about 5 million. The urban new middle class expanded slightly, but only due to growth in the middle-middle and upper-middle classes.

Table 2: Size of Different Classes in India (%)

	1999–2000	2004–05	2011–12
India			
Poor (< $2)	70.7 (707.5)	71.4 (777.3)	47.8 (574.8)
New middle ($2–$10)	28.9 (289.7)	27.9 (304.2)	50.3 (604.3)
Lower-middle ($2–$4)	23.6 (236.3)	21.8 (237.8)	37.1 (446.3)
Middle-middle ($4–$6)	3.9 (38.7)	4.2 (45.4)	9.0 (108.5)
Upper-middle ($6–$10)	1.5 (14.7)	1.9 (21.0)	4.1 (49.5)
Affluent (>$10)	0.4 (3.8)	0.7 (7.5)	1.9 (22.9)
Rural			
Poor (< $2)	79.6 (597.0)	81.4 (662.1)	58.2 (499.1)
New middle ($2–$10)	20.3 (152.2)	18.4 (149.6)	41.4 (355.7)
Lower-middle ($2–$4)	18.3 (137.1)	16.2 (131.4)	34.9 (299.1)
Middle-middle ($4–$6)	1.6 (12.0)	1.7 (13.8)	5.1 (43.4)
Upper-middle ($6–$10)	0.4 (3.1)	0.5 (4.4)	1.5 (13.2)
Affluent (>$10)	0.1 (0.6)	0.2 (1.8)	0.4 (3.4)
Urban			
Poor (< $2)	44.0 (110.6)	41.8 (115.3)	22.0 (75.6)
New middle ($2–$10)	54.7 (137.4)	56.1 (154.5)	72.4 (248.7)
Lower-middle ($2–$4)	39.5 (99.1)	38.6 (106.3)	42.8 (147.2)
Middle-middle ($4–$6)	10.6 (26.7)	11.5 (31.7)	18.9 (65.1)
Upper-middle ($6–$10)	4.6 (11.6)	6.0 (16.5)	10.6 (36.4)
Affluent (>$10)	1.3 (3.2)	2.1 (5.7)	5.7 (19.4)

Figures in brackets are population size in million.
Consumption expenditure is based on Mixed Reference Period (MPCE-MRP) of the NSS surveys.
Source: Authors' calculations based on NSS Household Consumer Expenditure Survey, 55th, 61st and 68th rounds and Reserve Bank of India (annual population figures).

From 2004–05 to 2011–12 (henceforth t_2), however, we witnessed an astonishing change in class composition in India. The share of the poor declined from over 70% to less than 50% of the population. The new middle class, which accounted for less than 30% of the population earlier, rose to over 50%. In absolute size, the new middle class almost doubled, from 304 million in 2004–05 to 604 million in 2011–12. The middle-middle and upper-middle classes also expanded, from a mere 5% of the population in 2004–05 to 13% in 2011–12. But interestingly, the bulk of the expansion in the new middle class in this period was led by the lower middle class, which constituted three-fourths of the total new middle class population. Also, unlike the earlier period, both rural and urban areas witnessed an increase in the share of the new middle class and reduction of the poor. In fact, rural India surpassed its urban counterpart in terms of total new middle class population by 107 million more people.

Our analysis suggests that the eight years between 2004–05 and 2011–12 have been quite significant for India, in both rural and urban areas. The new middle class has swelled in an unprecedented fashion, albeit mainly in the $2 to $4 category. Several people have come out of poverty to join the lower middle class ranks. Our findings are in sharp contrast to those of Fernandes (2006), who claims that the new middle class does not entail entrance of any new members to the class, and Krishna and Bajpai (2015), who find the size of the Indian new middle class declining in the recent years. Moreover, these studies view the new middle class as essentially an urban phenomenon, which is also in contradiction to our results.

It could be argued that the deviation in our results from existing studies is merely a matter of differences in the definition of the

Figure 1a: New Middle Class Size by Different Definitions, India

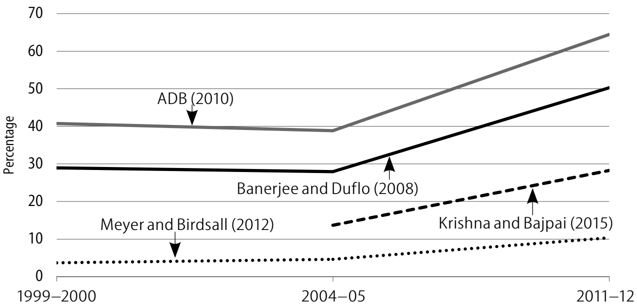


Figure 1b: New Middle Class Size by Different Definitions, Rural Inida

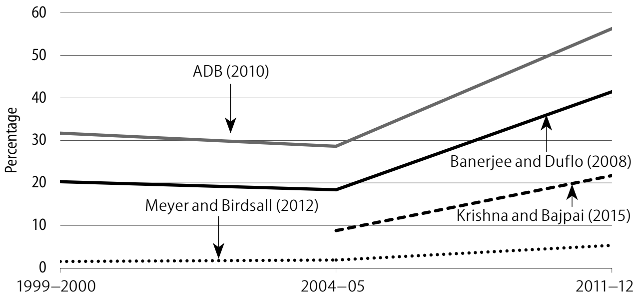
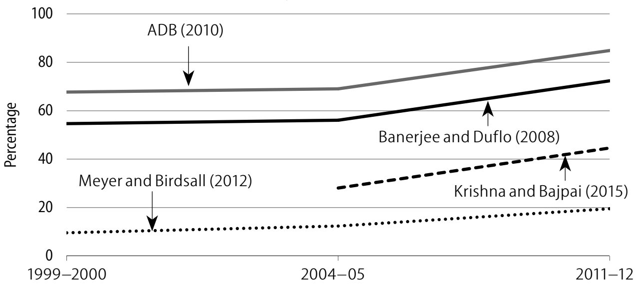
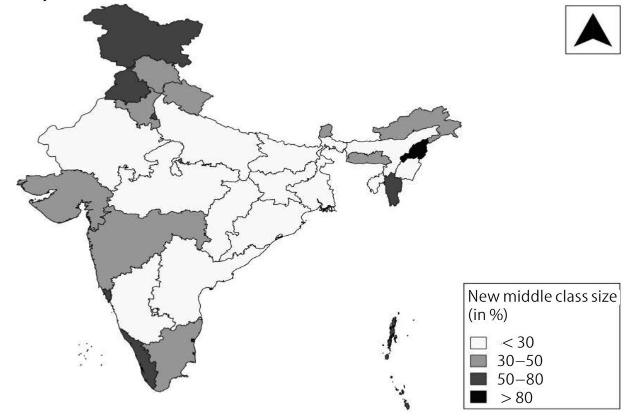


Figure 1c: New Middle Class Size by Different Definitions, Urban India



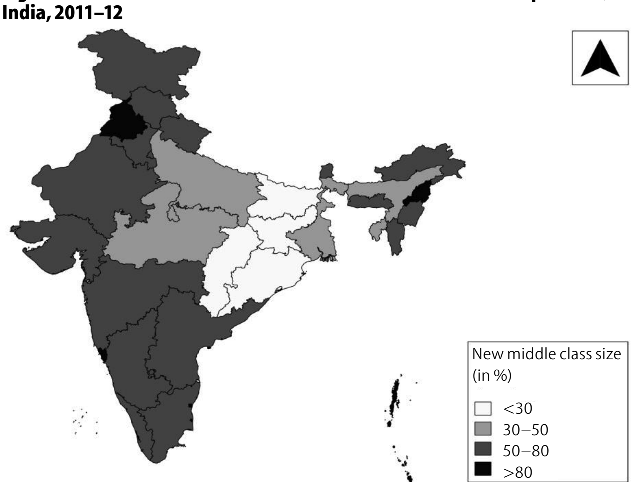
Source: Authors' calculations using NSS Household Consumer Expenditure Surveys, 55th, 61st and 68th rounds.

Figure 2a: Statewise Share of New Middle Class in Total State Population, India, 2004–05



Source: Authors' calculations using 61st and 68th rounds of NSS Household Consumer Expenditure Survey.

Figure 2b: Statewise Share of New Middle Class in Total State Population, India, 2011–12



Source: Authors' calculations using 61st and 68th rounds of NSS Household Consumer Expenditure Survey.

new middle class. Hence, to verify the robustness of our results, we carry out an exercise to check how the estimates vary with changes in definition of the new middle class. We compare the definition that we use with three other definitions, namely, ADB (2010), Meyer and Birdsall (2012) and Krishna and Bajpai (2015). The first definition defines new middle class as those who are just above the poverty line; the second compares them to the global middle class; while the third uses transportation assets as the defining characteristic of the new middle class.[3, 4] We find that depending on the definition used, the size of the new middle class varies drastically (Figures 1a–1c). In rural India, by the definition of Meyer and Birdsall (2012), the new middle class was as small as 5% in 2011–12, compared to 41% by the definition of Banerjee and Duflo (2008). Similarly, the size of the urban new middle class varied between 20% and 80%, depending on the definition used. However, irrespective of the definition, we see that growth in the share of the new middle class was almost flat in t_1, but rose remarkably in t_2. Moreover, even by the ownership of assets-based definition of Krishna and Bajpai (2015), we find the new middle class to have expanded in both rural and urban areas, much in contrast to the findings of the authors themselves. This shows that our estimates of the size of the new middle class are in general robust to changes in definition of the class.

Regional Distribution

Our findings so far reveal that expansion in new middle class is not confined only to urban India. But how have different states of India performed in terms of new middle class growth? Are new middle class members located in few of the states or do all states have a fairly equal share of new middle class members? This section conducts a statewise study of new middle class distribution to answer these questions. Our analysis is, however, limited to the period t_2 as the reconstitution of a few states in 2000 makes comparison between t_1 and t_2 unfeasible for the reconstituted states. Nevertheless, Appendix 1 (p 47)gives statewise new middle class size for all three years.

Statewise analysis shows that in 2004–05, the proportion of new middle class population in many of the states in India was below the national average, that is, less than 30% of the respective state populations (Figure 2a). Only two southern states, Tamil Nadu and Kerala, two western states, Maharashtra and Gujarat, and some of the states in the north, such as Jammu and Kashmir, Haryana, and Punjab were among the large states with a new middle-class population share above the national average.

In 2011–12, the fraction of new middle class population increased in a majority of the states (Figure 2b). But more importantly, distribution of new middle class population share also became more balanced across states. That is, many more states in 2011–12 had a new middle class population share greater than the national average (50%), as compared to 2004–05. Some states, such as Andhra Pradesh, Karnataka and Rajasthan in particular fared exceptionally well. Proportion of new middle class in Andhra Pradesh increased from 29.6% to 71.3% in t_2, while that of Rajasthan grew from 26.3% to 65.5% in the same period. Similarly, new middle class population share in Karnataka improved from 25.8% to 55.7%. While these states performed exceptionally well, states in the east of India, especially, showed hardly any growth in the share of new middle class population. In Bihar, Chhattisgarh, Jharkhand, and Odisha, though the proportion of new middle class population showed an improvement, it continued to stay at less than 30% throughout t_2.

Our statewise analysis thus reveals that not only has the new middle class in India expanded across both rural and urban areas, but also across different states. While some states have performed better than the others, overall, all states have witnessed an increase in the share of new middle class population. Further analysis on why some states have performed better than the others is called for, which however is beyond the scope of this paper.

Qualitative Changes in Structure

It is clear that between 2004–05 and 2011–12 India has witnessed a massive expansion in the size of its new middle class across different states. This section investigates whether this quantitative expansion is accompanied by qualitative changes in the structure of the new middle class. The middle class in India has been historically dominated by upper-caste Hindus, engaged in professional, white-collar occupations (Haynes et al 2010; Joshi 2010). Existing studies on the new middle class point out that liberalisation and globalisation have changed the nature of jobs that the Indian middle class is engaged in. Fernandes (2006), for instance, extensively illustrates how those employed in new service activities in multinational firms are identified as the new middle class. The information technology (IT) and business process outsourcing (BPO) industries especially have often been linked to new middle class formation (Fuller and Narasimhan 2007; Murphy 2011; Upadhya 2007). In terms of social composition, however, extant studies find the new middle class to have changed little, where it continues to be dominated by upper-caste Hindus (Krishna and Bajpai 2015; Upadhya 2007). These studies are however relatively dated, that is, they do not capture the remarkable expansion in the size of the new middle class in t_2. This calls for an investigation into whether the unprecedented expansion of the new middle class after 2004–05 entails a socially diverse and inclusive new middle class, which is engaged in occupations different from those of the earlier middle class.

Social composition: Table 3 shows that the new middle class is dominated by upper castes (included in "other castes" category), while the lower castes are mostly found among the poor. In 1999–2000 and 2004–05, when about 28% of India belonged to the new middle class, upper castes were over-represented, with over 40% of them in the new middle class. Similarly, in 2011–12, when 50.3% of India was in the new middle class, a far larger share of 63.7% of upper castes were in the same category. In contrast to this, the lower castes are under-represented in the new middle class. The Scheduled Tribes (STs), in particular, are the most poorly represented section. Over 70% of STs were poor in 2011–12, with only 29.2% of them in the new middle class. Caste identity thus appears to continue to influence new middle-class membership, with STs being the most underprivileged group, followed by the Scheduled Castes (SCs) and the Other Backward Classes (OBCs). It is nevertheless worth noting that the massive expansion in the size of the new middle class in t_2 has benefited all caste groups evenly. While 63.7% of upper castes were in the new middle class in 2011–12, from just 44.3% in 2004–05, the proportion of new middle class members within all lower castes also more than doubled.

While caste identity significantly influences class membership, there is little class-wise difference across religions. Table 3 shows the class distribution across the two largest groups of religion in India, the Hindus and the Muslims. While the Hindus are better represented than the Muslims in the new middle class, particularly in the middle-middle and upper-middle classes, the differences among the two groups are not as stark as they are among castes. Also, members of both religions have benefited fairly in the same proportion from the massive increase in consumption expenditure in India in t_2.

Employment: As discussed earlier, many existing studies such as that of Fernandes (2006) and Upadhya (2007) associate the new middle class in India with a change in the status of jobs, from employment largely in public sector to occupations in

Table 3: Class Distribution across Castes and Religions, India

	Poor (<$2)	New Middle ($2–$10)	Lower-Middle ($2–$4)	Middle-Middle ($4–$6)	Upper-Middle ($6–$10)	Affluent (>$10)
1999–2000						
Scheduled Castes	83.8	16.1	14.6	1.2	0.3	0.1
Scheduled Tribes	86.8	13.1	11.6	1.2	0.3	0.0
Other Backward Classes	75.5	24.3	21.2	2.4	0.7	0.2
Other castes	55.3	43.9	33.5	7.3	3.1	0.8
Hindus	71.3	28.3	23.1	3.8	1.4	0.4
Muslims	75.7	24.2	21.0	2.4	0.8	0.1
2004–05						
Scheduled Castes	83.4	16.5	14.4	1.5	0.6	0.1
Scheduled Tribes	88.0	12.0	10.2	1.4	0.4	0.1
Other Backward Classes	75.2	24.5	20.5	2.9	1.1	0.3
Other castes	53.9	44.3	31.7	8.3	4.3	1.7
Hindus	71.9	27.4	21.5	4.0	1.9	0.7
Muslims	77.6	22.0	18.5	2.5	1.0	0.4
2011–12						
Scheduled Castes	59.1	40.4	33.1	5.4	1.9	0.5
Scheduled Tribes	70.5	29.2	24.9	3.1	1.2	0.4
Other Backward Classes	48.7	50.3	39.0	8.2	3.1	1.1
Other castes	31.6	63.7	40.8	14.7	8.2	4.7
Hindus	48.1	49.9	36.9	9.0	4.0	1.9
Muslims	54.0	45.1	36.5	6.1	2.5	0.9

Source: Authors' calculations based on NSS Household Consumer Expenditure Survey, 55th, 61st and 68th rounds.

Figure 3a: Employment Distribution of New Middle Class Households, Rural India

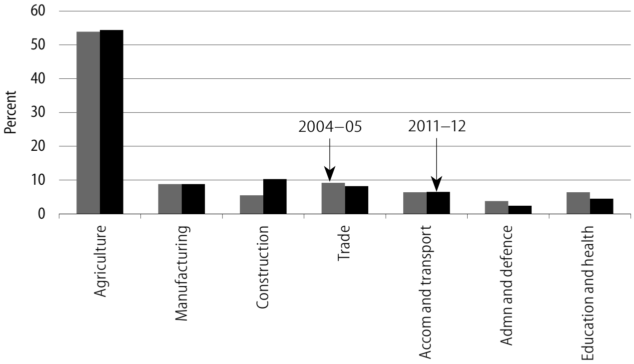
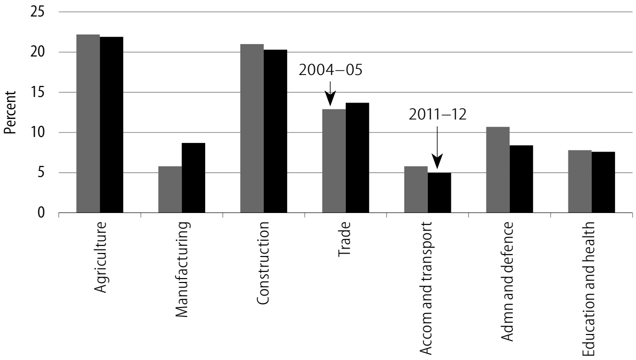


Figure 3b: Employment Distribution of New Middle Class Households, Urban India



Source: Authors' calculations using NSS Household Consumer Expenditure Survey, 61st and 68th rounds.

new service activities in private domestic or multinational firms. However, these studies implicitly assume that only those working in new economy jobs are part of the new middle class. This calls for a meticulous investigation into the type of occupations that the 600 million strong new middle class is engaged in. Because the new middle class has primarily expanded in t_2, the analysis here is restricted to this period, focusing on a few important categories of industries. Complete data on classwise distribution of each industry of occupation for all three years under study is provided in Appendices 2a and 2b (pp 47–48). It may be noted that the data presented in this section pertains to the household and not the individual level. The primary occupation of the household is that from which the household incurs the maximum amount of income.

Figures 3a and 3b show that in 2004–05 the rural new middle class was mostly engaged in agriculture, manufacturing and trade, while three-fourths of the urban new middle class was employed in service activities such as transportation, administrative activities, education and health, besides manufacturing and trade. In 2011–12, even as agriculture continued to employ the largest share of rural new middle class households, a substantial proportion of households worked in construction activities, making it the second largest employer of rural new middle class, after agriculture. Consequently, the share of rural new middle class households involved in trade, health and education witnessed a fall. Similarly, in urban areas, the fraction of new middle class households engaged in traditional middle-class occupations of manufacturing, trade and services recorded a marginal fall in 2011–12, while that in construction activities increased noticeably. However, in contrast to claims made by Fernandes (2006) and others, new service activities represented by finance, insurance and information and communication technology (ICT) industries have a rather limited role in new middle class formation at the national level. In rural areas, a negligible fraction of the new middle class was employed in new service activities in 2004–05, which further declined in 2011–12. In urban areas, though 5.8% of the new middle class was employed in these services in 2004–05, it declined to 5% in 2011–12.

There are also considerable differences in employment distribution within the new middle class. As Appendix 2a shows, in rural areas, agriculture and construction activities are more common among the lower-middle than the middle-middle and upper-middle classes, whereas the latter are more often engaged in typical middle-class occupations of trade, manufacturing, education and health than in construction activities. In fact, the occupational structure of the lower middle class is not very different from that of the poor. Similarly, a larger proportion of the urban lower middle class is engaged in manufacturing, trade and construction activities, than the upper middle class (Appendix 2b). In comparison, a larger fraction of the urban upper middle class is employed in administrative services, education and health and finance, insurance and ICT than the lower middle class.

Our findings thus show that a large proportion of the new middle class in India continues to be employed in traditional middle-class occupations, but several of those who have emerged out of poverty and entered the lower middle class are in industries such as construction, which are generally not considered typically middle class. The new middle class is thus not only quantitatively larger, but also qualitatively quite different from the traditional middle class. Moreover, in contrast to claims made in existing studies by Fernandes (2006) and others, we find that new economy services have played a rather limited role in new middle class formation in India. Most of the households employed in these services belong to the urban upper-middle and affluent classes, which have hardly expanded during t_2. Considerable differences in employment distribution of households within the new middle class suggest that it is necessary to differentiate between groups within the new middle class, which is missing in a majority of the extant studies.

Conclusions

This paper traces the expansion of the new middle class in India and its structural changes in the period between 1999–2000 and 2011–12. We find that in the initial period between 1999–2000 and 2004–05, growth of the new middle class was modest. In the latter period from 2004–05 to 2011–12, the size of the new middle class almost doubled, totalling over 600 million individuals, or half of India's population. Moreover, this expansion was witnessed across both rural and urban areas, as well as in a majority of the states of India. We also find that this growth was primarily led by the lower middle class, while the middle-middle and upper-middle categories were relatively subdued. Qualitatively, the new middle class is quite different from the earlier middle class in India. While the upper castes dominate the new middle class, we find that a considerable proportion of lower caste households too have entered the new middle class. There is diversity within the new middle class also in terms of occupation. A large section of the lower middle class is employed in occupations similar to that of the poor, that is, in agriculture and construction activities, whereas several upper middle class households are engaged in new service jobs in finance, insurance and IT sectors.

Our results reveal that it is important to recognise that the new middle class in India is not a homogeneous entity, but consists of quantitatively and qualitatively distinct subgroups. The lower middle class merits attention for its large size and rapid growth. The upper middle class is important, for it symbolises the global middle class, which other classes below it perhaps aspire to emulate. It is their spending capacity and ability to drive consumption demand that binds these subgroups together into a single class. Our results also show that studies by Fernandes (2006), Fuller and Narasimhan (2007) and Upadhya (2007), which describe new middle class as the primary beneficiary of liberalisation engaged in high paying new service activities, essentially refer only to the upper middle class. The huge lower middle class, which has led new middle class expansion in quantitative terms, has generally been ignored by them.

The heterogeneity in the new middle class and its structural composition has important developmental implications. The period from 2004–05 to 2011–12 in India has not only been remarkable in terms of expansion in new middle class size, but this growth has also been geographically and socially inclusive. However, the potential of this vast new middle class to play a larger role in further spiralling economic growth will depend on the capacity of the lower middle class in particular to invest in human capital accumulation, actively participate in democratic processes, etc. The majority in the lower middle class are perhaps not regular wage earners or well-educated (as they are in agriculture or construction activities), which may restrict their role in the development process usually associated with the middle class. It is hence necessary to further investigate the characteristics of the new middle class such as its spending patterns and voting behaviour to understand the larger implications of its massive growth. It is also vital to unearth the factors that have contributed to the unprecedented expansion of the new middle class between 2004–05 and 2011–12. Is the increase in consumption expenditure a result of increased incomes that will continue to grow further, thus strengthening expansion of the new middle class? Or, is most of this growth credit-driven, which is vulnerable to fizzle out in the event of an economic downturn?

NOTES

1 It is argued that the 55th round of the NSSO survey on household consumer expenditure should be altogether discarded as it has produced biased results because of a faulty survey design. We are of the opinion that it does provide some idea of the level of consumption expenditure of that time. We hence continue to use the data, being aware that it may be slightly biased.

2 The national poverty line suggested by the Tendulkar Committee (Planning Commission 2013) is daily per capita expenditure of ₹27.2 (2011–12 prices) or $1.8 (2011 PPP) for rural India and ₹33.3 (2011–12 prices) or $2.2 (2011 PPP) for urban India.

3 Meyer and Birdsall's (2012) definition is income-based, while NSSO surveys provide data on consumption. Hence, to arrive at an income distribution from the consumption distribution we make use of the quintile-wise income-expenditure ratio of households for 2004–05 given in Shukla (2010). We calculate corresponding income levels for each consumption quintile, separately for rural and urban areas and then combine them to arrive at the aggregate income distribution. Since the income-expenditure ratios are available only for 2004–05, we assume the ratio to be constant over all three years under analysis.

4 To estimate new middle class size by the Krishna and Bajpai (2015) definition, we draw on NSS data on ownership of transportation assets. Because NSSO survey for 1999–2000 does not supply this data, we arrive at new middle class estimates based on Krishna and Bajpai's definition only for 2004–05 and 2011–12.

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Appendices

Appendix 1: Statewise Size of New Middle Class Population

(Figures in %)

	1999–2000			2004–05			2011–12		
	State	Rural	Urban	State	Rural	Urban	State	Rural	Urban
Andaman and Nicobar Islands	70.1	63.4	87.1	70.2	61.0	88.1	84.2	85.1	82.7
Andhra Pradesh	24.6	14.4	49.9	29.6	21.3	53.8	71.3	64.9	84.4
Arunachal Pradesh	40.5	39.2	54.7	40.7	37.8	62.9	50.8	45.5	72.5
Assam	15.5	11.0	55.6	21.5	16.9	66.5	30.7	26.5	67.1
Bihar	10.6	7.3	32.8	8.0	5.2	35.5	23.7	20.6	52.7
Chandigarh	78.4	71.5	79.5	70.2	53.7	72.0	69.5	93.6	67.6
Chhattisgarh	NA	NA	NA	13.8	7.6	48.5	25.2	18.7	49.0
Dadra and Nagar Haveli	28.5	22.6	80.1	28.4	22.2	75.3	44.5	22.8	74.8
Daman and Diu	79.2	76.7	82.7	85.9	88.4	81.4	93.1	98.5	84.5
Delhi	78.1	84.8	75.9	72.8	55.1	74.1	79.5	81.8	79.3
Goa	76.0	64.9	88.2	61.6	58.7	66.2	89.3	86.5	92.0
Gujarat	40.5	29.1	64.9	41.2	26.3	69.7	65.8	51.9	86.3
Haryana	56.5	52.9	66.0	50.0	45.4	62.5	78.8	79.9	76.1
Himachal Pradesh	50.9	47.8	83.0	46.6	42.8	83.4	73.5	72.4	83.4
Jammu and Kashmir	59.5	53.6	82.4	54.1	46.8	75.8	71.2	68.1	81.7
Jharkhand	NA	NA	NA	14.1	6.0	56.4	25.8	16.0	63.2
Karnataka	31.9	20.5	61.1	25.8	11.6	57.6	55.7	47.4	70.4
Kerala	56.3	53.7	63.5	56.5	54.0	64.9	78.2	78.3	78.0
Lakshadweep	81.7	71.6	87.9	76.3	69.9	82.8	90.3	95.6	85.1
Madhya Pradesh	17.6	10.3	43.2	16.9	9.6	40.7	33.5	25.5	56.8
Maharashtra	37.8	22.1	62.9	37.4	20.5	62.3	67.2	55.4	81.2
Manipur	33.5	27.3	52.5	26.1	20.2	44.4	56.1	52.6	65.7
Meghalaya	39.5	29.6	88.9	35.3	29.1	75.3	63.1	56.3	88.8
Mizoram	71.6	60.9	87.7	69.8	58.1	87.7	69.8	50.8	91.9
Nagaland	92.1	91.0	94.7	83.8	79.4	94.5	86.2	83.1	91.9
Odisha	13.7	9.2	36.4	12.8	8.0	43.1	22.9	17.0	55.8
Puducherry	48.8	37.3	56.3	52.4	39.6	59.4	89.7	84.9	92.2
Punjab	58.5	55.1	65.8	57.1	50.3	71.2	85.8	86.1	85.3
Rajasthan	35.3	29.5	56.0	26.3	19.7	49.5	65.5	61.2	79.3
Sikkim	30.1	25.0	75.6	38.6	34.2	73.1	66.3	60.1	95.8
Tamil Nadu	35.7	22.9	59.7	34.5	19.9	57.8	67.7	58.6	79.0
Tripura	29.2	24.2	60.7	16.3	10.2	53.6	42.8	37.6	71.3
Uttarakhand	NA	NA	NA	33.1	25.6	57.6	63.5	58.5	78.2
Uttar Pradesh	22.0	17.5	39.8	20.1	14.9	41.2	31.5	26.8	48.7
West Bengal	23.3	14.7	54.9	26.6	17.0	56.0	45.0	35.8	70.5

Data for 1999–2000 are not comparable with that of 2004–05 and 2011–12 for the states of Bihar, Madhya Pradesh and Uttar Pradesh as they were reconstituted in 2000 to form three new states of Jharkhand, Chhattisgarh and Uttarakhand, respectively. Data for the new states are hence unavailable for 1999–2000.
Source: Author's calculations using NSS survey on household consumption expenditure, 55th, 61st and 68th rounds.

Appendix 2a: Class-wise Distribution of Primary Industry of Occupation of Households—Rural India

(Figures in %)

	Poor (<$2)	New Middle ($2–$10)	Lower-Middle ($2–$4)	Middle-Middle ($4–$6)	Upper-Middle ($6–$10)	Affluent (>$10)
1999–2000						
Agriculture, forestry and fishing	76.0	60.5	61.9	52.2	42.7	46.2
Mining and quarrying	0.6	0.6	0.6	0.6	0.2	0.1
Manufacturing	6.6	8.7	8.5	9.7	10.4	6.4
Electricity, gas, water supply, waste management	0.2	0.9	0.7	1.4	3.8	0.4
Construction	4.1	3.8	3.9	2.6	4.4	6.4
Trade	4.3	6.9	7.0	6.3	5.9	4.3
Transportation, food and accommodation	3.1	4.4	4.2	5.0	6.9	4.0
Finance, insurance and ICT	0.1	1.0	0.8	2.3	1.4	7.0
Real estate	0.0	0.1	0.1	0.3	0.0	0.0
Professional, scientific and technical activities	0.1	0.3	0.2	0.4	0.9	0.0
Public administration, support services, defence and social security	1.0	5.3	4.9	7.3	8.9	10.5
Education, health and social work	1.0	5.2	4.4	9.8	13.4	10.1
Other service activities (includes recreation, extraterritorial organisations and households as employers)	2.3	2.2	2.3	1.4	0.9	4.6
2004–05						
Agriculture, forestry and fishing	70.6	53.9	55.9	41.6	41.7	30.6
Mining and quarrying	0.7	0.8	0.8	0.7	1.2	0.2
Manufacturing	7.4	8.8	8.3	11.8	12.2	17.0
Electricity, gas, water supply, waste management	0.1	0.8	0.7	1.5	2.7	0.3
Construction	7.2	5.5	5.7	4.4	2.5	1.9
Trade	5.2	9.2	9.1	9.7	8.9	6.2
Transportation, food and accommodation	3.8	6.4	6.4	6.9	4.3	2.6
Finance, insurance and ICT	0.2	1.4	1.2	2.6	3.9	15.6
Real estate	0.0	0.1	0.1	0.1	0.1	0.0
Professional, scientific and technical activities	0.1	0.6	0.6	1.1	1.1	2.8
Public administration, support services, defence and social security	0.9	3.8	3.5	5.7	5.2	6.0
Education, health and social work	1.2	6.4	5.5	11.5	14.1	13.9
Other service activities (includes recreation, extraterritorial organisations and households as employers)	2.3	2.0	1.9	2.1	2.0	3.0
2011–12						
Agriculture, forestry and fishing	64.6	54.4	56.6	46.9	38.0	39.1
Mining and quarrying	0.5	0.5	0.5	0.7	0.6	0.8
Manufacturing	6.9	8.8	8.1	10.8	15.1	11.8
Electricity, gas, water supply, waste management	0.2	0.4	0.3	0.9	1.4	1.5
Construction	14.5	10.3	11.0	7.5	5.6	3.1
Trade	5.3	8.2	8.0	9.7	9.2	10.3
Transportation, food and accommodation	3.8	6.5	6.5	6.7	8.8	5.2
Finance, insurance and ICT	0.1	1.1	0.8	2.0	2.0	5.8
Real estate	0.0	0.1	0.1	0.2	0.3	1.2
Professional, scientific and technical activities	0.1	0.4	0.3	0.8	0.9	1.7
Public administration, support services, defence and social security	0.6	2.4	1.9	4.4	6.3	5.9
Education, health and social work	1.2	4.5	3.7	7.3	10.8	11.1
Other service activities (includes recreation, extraterritorial organisations and households as employers)	2.1	2.4	2.4	1.9	1.2	2.6

Industrial classification based on National Industrial Classification (NIC), 2008.
Source: Authors' computations using NSS Household Consumer Expenditure Survey, 55th, 61st and 68th rounds.

Appendix 2b: Class-wise Distribution of Primary Industry of Occupation of Households—Urban India (Figures in %)

	Poor (<$2)	New Middle ($2–$10)	Lower-Middle ($2–$4)	Middle-Middle ($4–$6)	Upper-Middle ($6–$10)	Affluent (>$10)
1999–2000						
Agriculture, forestry and fishing	12.0	4.3	5.3	2.6	1.3	2.5
Mining and quarrying	1.1	1.1	1.2	0.8	0.6	0.3
Manufacturing	21.8	22.6	22.6	24.2	19.3	22.4
Electricity, gas, water supply, waste management	1.0	1.4	1.1	2.1	1.8	1.1
Construction	13.3	5.6	6.6	3.9	2.9	4.2
Trade	19.1	18.6	19.9	16.5	14.9	8.7
Transportation, food and accommodation	14.2	12.8	14.2	10.8	8.1	7.7
Finance, insurance and ICT	1.0	4.9	3.6	6.8	9.3	10.6
Real estate	0.1	0.3	0.2	0.4	0.4	1.0
Professional, scientific and technical activities	0.6	2.0	1.5	2.6	3.8	7.9
Public administration, support services, defence and social security	5.0	14.6	12.9	16.7	20.9	19.7
Education, health and social work	3.0	7.3	5.8	9.4	13.4	12.3
Other service activities (includes recreation, extraterritorial organisations and households as employers)	7.2	4.0	4.6	2.9	3.1	1.4
2004–05						
Agriculture, forestry and fishing	10.2	3.8	4.7	2.3	2.4	3.0
Mining and quarrying	1.0	1.4	1.4	1.1	1.5	1.3
Manufacturing	21.8	22.2	23.4	21.8	16.7	20.9
Electricity, gas, water supply, waste management	0.7	1.4	1.3	1.5	1.6	1.2
Construction	15.1	5.8	6.7	4.1	4.0	3.0
Trade	19.8	21.0	21.5	21.2	17.8	10.0
Transportation, food and accommodation	15.9	12.9	14.3	11.4	8.5	8.0
Finance, insurance and ICT	1.1	5.8	4.0	6.8	14.1	18.0
Real estate	0.0	0.3	0.3	0.3	0.5	0.5
Professional, scientific and technical activities	1.0	2.7	2.2	2.8	5.2	8.1
Public administration, support services, defence and social security	3.7	10.7	9.2	13.6	13.7	9.6
Education, health and social work	2.3	7.8	6.4	9.4	11.9	15.1
Other service activities (includes recreation, extraterritorial organisations and households as employers)	5.5	3.2	3.5	3.0	1.5	1.1
2011–12						
Agriculture, forestry and fishing	11.0	4.0	5.5	2.5	1.8	1.7
Mining and quarrying	0.7	0.9	0.9	0.9	0.6	2.8
Manufacturing	19.4	21.9	21.3	25.2	18.1	13.3
Electricity, gas, water supply, waste management	0.9	1.9	1.6	2.4	2.0	2.0
Construction	18.8	8.7	11.4	6.2	4.6	4.2
Trade	19.5	20.3	21.4	19.2	18.7	11.8
Transportation, food and accommodation	15.2	13.7	14.8	13.2	11.5	7.6
Finance, insurance and ICT	1.1	5.0	2.8	5.2	11.2	25.1
Real estate	0.1	0.9	0.5	1.2	1.4	1.6
Professional, scientific and technical activities	0.3	1.7	1.1	2.5	2.2	5.0
Public administration, support services, defence and social security	2.8	8.4	6.4	9.3	13.2	10.4
Education, health and social work	2.7	7.6	5.6	8.6	11.7	12.7
Other service activities (includes recreation, extraterritorial organisations and households as employers)	7.2	5.0	6.7	3.3	2.0	1.6

Industrial classification based on National Industrial Classification NIC (2008).
Source: Authors' computations using NSS Household Consumer Expenditure Survey, 55th, 61st and 68th rounds.