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Prosperity and urbanisation

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A recent morning, the breakfasts of many erudite Indians was ruined by newspaper headlines, which announced that eight Indian states, including Uttar Pradesh, Bihar and West Bengal, have more poor people than 26 of the poorest African nations.

They now await the publication of the 20th anniversary edition of the UNDP Human Development Report, which, for the first time, saw the use of the Multidimensional Poverty Index (MPI), developed by the Oxford Poverty and Human Development Initiative with UNDP support, replacing the Human Development Index (HDI) for the first time as the assessor of a range of critical factors, or 'deprivations' at the household level: from education to health to assets to services. Why should this fact surprise anybody?

Since its inception, National Council of Applied Economic Research (NCAER) has been providing authoritative data and analyses on household demand, which everybody recognises as a key pillar of any economy. The incongruities in consumption and savings patterns between states were coming up in successive reports, notable among the latest is How India earns, spends and saves: Unmasking the real India.

It is clear that many states are caught in a vicious circle. On the other hand, we see the richer states in a virtuous circle: success, as they say, breeds success. The disproportionate rate of urbanisation has a lot to do with some states' relative development. This is particularly true of the richer states that have spawned more larger towns that offer their citizens better income-earning opportunities.

While the low-income states do not have even a single town with a population of over 50 lakh, the middle-income states have 51% of their households living in the largest towns and the high-income states have about 49% of their residents living in such large cities.

Low-income states, on the other hand, have more towns in the smallest-town category (below 0.5 lakh population) and nearly 42% of the population of these states lives in these towns.

The households of high-income states have the highest income, both across state-of-residence groups and the town size-classes, the income being 47% more than a small-town household's income. It is interesting to note that the households in middle-income states have also registered the same rate of growth in largest cities and the disparity in income between rich and less-rich states persists even in largest cities.

Similar trends are observed in expenditure patterns as well, with the households in the smallest towns of the high-income states spending somewhat more than their counterparts in the low-income states. Surplus income or savings pattern reveals that households in the smallest towns of high-income states save three times more than households in the same category in low-income states.

At the other end of the scale too, a similar trend is observed: households in towns of population size 10-50 lakh in the high-income states save almost twice the amount that their counterparts do in the low-income states. In terms of expenditure, the households in towns belonging to low-income states spend slightly more than their counterparts living in high-income states.

What seems to be happening is that share of expenditure to income is much higher across all town classes for low-income states as compared to those living in similar town sizes in high-income states. Conversely, the share of savings to income is higher for the households across all town sizes in the high-income states when compared to households in similar town classes in the low-income states.

We have seen that the disparities in income and savings due to education, and sector of employment narrow down in largest cities. This is not happening in respect of state differences because the largest cities in richer states will have more opportunities than in comparatively less-advanced states.

The consequence is obvious: the households in higher-income states have been able to save a much higher share of their income (41.2%) than in middle-income states (29.5%) — the disparity has only widened rather than narrowing down. In middle-income states, the surplus income of a largest-city household is 1.85 times that of a small-town household, while in high-income states, the increase is 1.76 times.

This shows a largest-city household in middle-income states has not received much additional advantage over its counterpart in high-income states. In middle-income states, a largest-city household spends a higher percentage of its household income (70.5%) than in high-income states (58.8%), both the fractions being the least in their respective groups.

Poverty, according to Louis-Marie Asselin in Analysis of multidimensional poverty: Theory and case studies, is a 'paradoxical state', and the analysis of poverty is multidisciplinary. It goes from ethics to economics, from political science to human biology, whose measurement rests on mathematics.

So, it would be consistent with our research discipline to unbundle the rich information coming from the Indian field through NCAER surveys into government programmes over the past two decades.

For instance, the NCAER's India Protection Index is developed by integrating all the important dimensions of well-being and it clearly brought out the West-East divide starkly. It was found that Maharashtra had the highest percentage (16%) of well-protected households followed by Karnataka and Kerala, with 10% each. Uttar Pradesh and Bihar made up the rear.

Urbanisation should be the be-all and end-all of development. Preparing for changes in urban demand would be a key challenge for

both policymakers and corporate strategists. Given where it's headed with respect to urbanisation, India simply cannot afford urban development to languish. On the policy front, we need to place urban development — particularly infrastructure — squarely alongside rural priorities, recognising in part that the two are interdependent.

(The author is director of NCAER-CMCR)

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