

Inequality Breeds Revolt of the Middle

A middle class losing out on fruits of reforms has now pinned hopes on a corruption-free society



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Inequality is a widely-debated and contested issue in developing economies, and India is no exception. Sharp differences of opinion exist not only on methodological and technical basis of its estimation, but also on its level and geo-structural directions. However, instead of dwelling on the methodological and ideological issues, it is more important to draw attention to the structure of inequality and, as a consequence, the role of Indian populace belonging to the middle-income pyramid.

Over the last decade, much has been written about this burgeoning middle-income category and how it has altered the socio-economic dynamics of the country. On the other hand, though, political commentators, drawing on the integral role played by the middle class in the functioning of democracy in the west, bemoaned not only their lack of participation but also their reluctance in playing a constructive role in India. However, their recent shrill outbursts, over the spate of scams that have en-

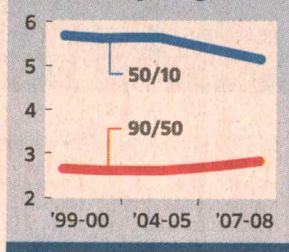
gulfed the nation, coupled with the outpouring of sympathy and support to the non-political, self-proclaimed upholders of democracy and justice has caught many off-guard. Their silence and self-serving attitude, which many were accustomed to, has now been replaced by a deep-seated desire to cleanse the system.

What explains this 'sudden' volte-face? While many explanations have been proffered to account for this reversal, mine is premised not on the level of inequality but on the changing structure of inequality.

Let me elucidate. Electoral success and, as a consequence, policy inclination of the government towards either reforms or redistribution will increasingly be determined by a coalition between two of the three income categories: poor, middle and rich.

This implies that the preferences of middle-income voters will increasingly play a pivotal role in determining the outcome of electoral contests (Lupu and Pontusson, 2011). The middle-income group will ally with either the poor or the rich, depending on its relative distance from the two groups and its affinity towards them. By distance, I mean the income differential between the groups. In other words, the probability of the middle-income group aligning with the poor and, thus, favouring redistri-

Ratio of Level of Earnings from Salary/Wages



butive policies rises with the compression of the lower end of the distribution.

To explore this hypothesis, we analyse wage data from three NSS employment and unemployment surveys dating back to 1999-2000. Lack of universally-acceptable definitions for each of the income categories leads us to equate earnings of the 90th percentile with those of the rich, while earnings of the 50th and the 10th percentile are equated to those of the middle and the poor, respectively.

We then estimate the 90/50 ratio (ratio of the earnings of the 90th percentile to that of the 50th percentile) and the 50/10 ratio (ratio of the earnings of the 50th percentile to that of the 10th percentile) in order to examine the changes in the distance between the groups over the past decade.

The declining 50/10 ratio over the decade implies a compression of earnings of the lower

half, while the rising 90/50 ratio implies widening of the gap. Given the well-known problems of underestimation, the 90/50 ratio may well be higher as underestimation is more likely to occur at the top end of the distribution.

Compression at the lower end of the distribution implies that relatively small-income gains or losses may result in much bigger movements across the distribution that may aggravate the middle's economic insecurity. With income gains being a relatively recent phenomenon, the economic insecurity of falling behind, coupled with rising inflation that is fast eroding their purchasing power, is contributing to the middle-income class' anguish over the lack of reforms.

Mobility between income groups is also a source of affinity between income groups that also influences the group's decision to align with a particular category (Shayo, 2009). A lower 90/50 ratio, as we observe, implies more affinity with the rich, which explains the demand for reforms. However, it is quite probable that if the 50/10 ratio declines further and the 90/50 ratio continues to rise, the probability of the middle-income voters aligning with the low-income category and favouring redistributive policies rises.

The middle class' demand for reforms is the result of a growing realisation of the widening

income differential between the middle and the rich. It is a realisation, reinforced by the unending revelations of corruption, which have augmented the perceived distance between the middle and the rich, of the unequal distribution of gains accruing from the spectacular growth achieved over the last decade.

The threat of getting stuck at the current income levels, coupled with the redistributive policies in favour of the poor — which reduces the income differential between the middle and the poor — is leading to the demand of a systematic cleaning of the system, which the middle class believes will enable a more equitable distribution of the gains from growth.

This young, vibrant group, raised and education in the liberalised era, fed on a dose of meritocracy and the promise of a level playing field, is increasingly realising that the reality is vastly different. Their growing helplessness in reforming the system is reminiscent of the helplessness of the poor. With the rich receiving a disproportionate share of the total gains accruing from high growth, this vocal middle class will now play a bigger, and probably deciding, role in the shaping of our society and, with it, the polity.

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