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Income, Poverty, and Inequality

As we discuss different dimensions of human development—such as access to education, health care, and the well-being of vulnerable populations like children and the elderly—in the following chapters, we will document considerable differences by household income. While financial resources themselves are insufficient to ensure health, educational attainment, or gender equality within households, a lack of financial resources is frequently an important constraint. Access to financial resources has been defined as an instrumental freedom in the broad discourse on human development. Hence, we begin this report with an analysis of household incomes, poverty, and inequality.

This chapter highlights several themes that foreshadow the discussion in the remaining chapters. It documents tremendous diversity in incomes and expenditures across different segments of the Indian society, with some households facing substantial vulnerability and others forming a part of the burgeoning middle class. Access to livelihoods that offer more or less year round work is the crucial determinant of household income. As Chapter 4 on employment documents, access to year-round work is far more likely for people in salaried jobs or for those who are self-employed in business than for farmers, farm workers, or other manual labourers. Consequently, areas where salaried work or work in business has greater availability—such as in urban areas or states like Gujarat, Maharashtra, Himachal Pradesh, and Haryana—are better off than the rest of the country. Farm size and irrigation also affect household incomes, increasing average incomes in areas like Haryana and Punjab (see Chapter 3). Education is strongly related to access to salaried work, and vast differences in education across different social

groups are at least partly responsible for the income differentials across socio-religious communities (see Chapter 6).

While income levels are associated with the availability of work, the productivity of land, and individual human capital, consumption levels are further affected by household composition. The income advantages of urban households are further amplified by lower dependency burdens. This chapter also documents that income based inequalities are far greater than consumption based inequalities.

The rest of the chapter is organized as follows. The next section discusses the way in which the IHDS collected data on income and consumption, as well as the limitations of these data. The following section discusses household income, both at the aggregate level and by different household characteristics. This is followed by a discussion of the IHDS data on consumption and incidence of poverty, and the last section focuses on inequality. The main findings are summarized in the final section.

MEASURING INCOME AND CONSUMPTION

Incomes are not usually measured in developing-country surveys, and rarely in India. Instead, surveys have measured consumption expenditures or counts of household assets because they are less volatile over time, and are said to be more reliably measured. Survey measures of consumption expenditures have their own problems (for example, respondent fatigue) and volatility (marriages, debts, and health crises can create unrepresentative spikes for some households). The IHDS also measured consumption and household assets, but went to some effort to measure income. By measuring income and its sources, we know not merely the level of a

household's standard of living but also how it achieved that level and, thus, we obtain a better understanding of why it is poor, average, or affluent.

Measuring income along with household expenditures and possessions also reveals aspects of income volatility and provides an additional measure of inequality. However, obtaining precise estimates of household incomes is complicated because few households have regular sources of income. Where incomes are irregular, such as in agriculture or business, considerable effort is required to obtain estimates of revenue and expenditure before net income can be calculated. Measurement errors may be particularly large in agricultural incomes, since seasonal variation in agricultural incomes is much greater than that in other incomes. These limitations are described in greater detail in Appendix II. Given these limitations, it is important to use the income data to form our understanding of the livelihoods of Indian households, rather than to use them to pinpoint the exact positions of different population groups, or states.

STRUCTURE OF INCOME AND INCOME DISPARITIES

The typical Indian household earned Rs 27,856 in 2004; half of all households earned less, and half earned more.¹ Some households, however, earned much more. Almost 11 per cent earned over Rs 1,00,000. The mean household income, therefore, is considerably higher than the median. Figure 2.1 shows the household income distribution.

Urban households dominate the higher income categories. Urban households compose only 9 per cent of the lowest income quintile, but represent the majority (56 per cent) of the top income quintile. As shown in Table 2.1 the typical (median) urban household earns more than twice the income of the typical rural household.

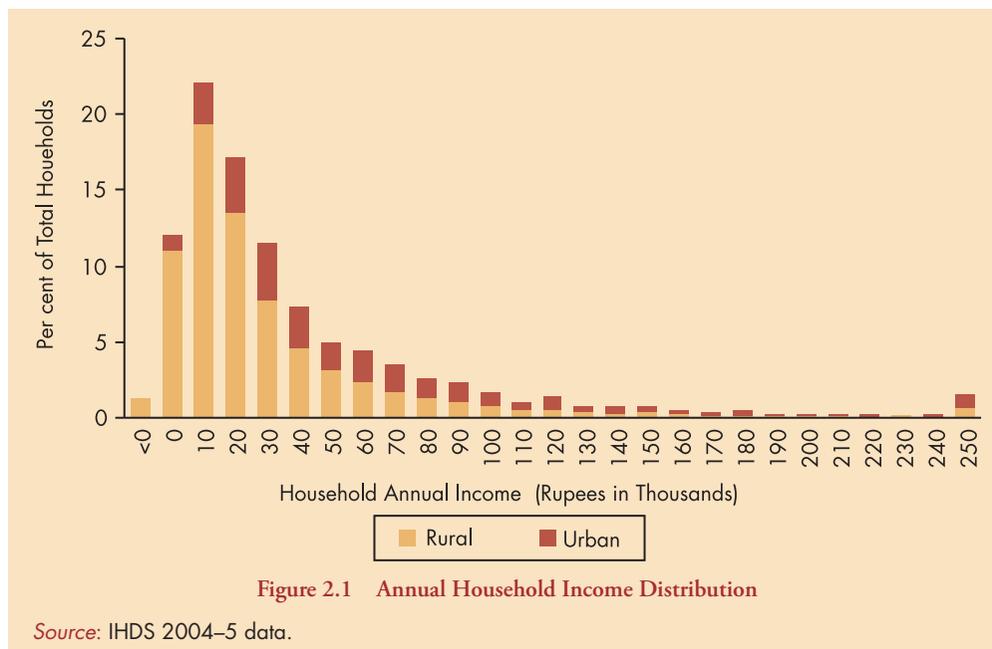
Table 2.1 Household Income (Rs) Distribution

(by Rural/Urban Residence)

	Rural	Urban	Total	U/R Ratio
1st percentile	-2,338	1,200	-1,229	—
5th percentile	3,300	11,500	4,400	3.48
10th percentile	6,580	17,000	8,000	2.58
25th percentile	12,845	28,873	15,034	2.25
Median	22,400	51,200	27,857	2.29
75th percentile	41,027	94,800	56,400	2.31
90th percentile	76,581	152,000	103,775	1.98
95th percentile	110,633	210,000	149,000	1.90
99th percentile	235,144	396,000	300,000	1.68
Mean	36,755	75,266	47,804	2.05
No. of Households	26,734	14,820	41,554	

Source: IHDS 2004–5 data.

It is not just the urban rich who benefit from living in cities. The poorest urban households are considerably richer than



¹ Some households reported negative incomes. These are usually farm households with partially failed production whose value did not fully cover the reported expenses. Other analyses show that these households do not appear especially poor: their consumption expenditures and household possessions resemble average households more than they do to other low-income households. Because of this anomaly, for income calculations in the remainder of the study, we exclude all households with income below Rs 1,000 (N = 837). The median income after this exclusion is Rs 28,721.

the poorest rural households. The 10th percentile of income in urban areas is 2.6 times that of rural areas, although this advantage declines slightly at higher levels; the 90th percentile of urban incomes is only twice that of rural areas.

Table 2.2 reports large regional variations in both rural and urban incomes. While the IHDS samples are too small to fix the position of any one state precisely, the general pattern of results is clear.

States in the north have the highest household incomes. Punjab and Haryana in the plains are doing quite well as are Himachal Pradesh and Jammu and Kashmir in the hills. The lowest regional household incomes are in the central region, in Bihar, Uttar Pradesh, and Madhya Pradesh. The lowest incomes are in Orissa. Households in these central states and Orissa have only half the income of those in the northern

plains. These statewise differences are especially pronounced for rural areas and somewhat narrow for urban incomes.

The composition and education of households are the primary determinants of its income. Individuals with higher education are more likely to obtain salaried jobs than others, resulting in higher incomes in households with educated adults. Among the 24 per cent of households in our sample that do not have even a single literate adult, the median income is only Rs 17,017. In contrast, among the 13 per cent of households with at least one college graduate, the median income is Rs 85,215—five times the median income of illiterate households (see Table A.2.1a).

As shown in Figure 2.2, household income also rises regularly with the number of adults in the household, regardless of their education.

Table 2.2 Median Household and Per Capita Incomes by State (Annual)

States	Household Income (Rs)			Per Capita Income (Rs)		
	Rural	Urban	Total	Rural	Urban	Total
All India	22,400	51,200	27,857	4,712	11,444	5,999
Jammu and Kashmir	47,325	75,000	51,458	7,407	13,460	8,699
Himachal Pradesh	43,124	72,000	46,684	9,440	15,662	9,942
Uttarakhand	28,896	60,000	32,962	6,000	12,800	6,857
Punjab	42,021	60,000	48,150	7,622	12,120	9,125
Haryana	44,000	72,000	49,942	8,000	14,647	9,443
Delhi	88,350	66,400	68,250	NA	15,000	15,000
Uttar Pradesh	20,544	46,000	24,000	3,605	8,285	4,300
Bihar	19,235	39,600	20,185	3,339	6,857	3,530
Jharkhand	20,700	70,000	24,000	4,175	13,654	4,833
Rajasthan	29,084	45,600	32,131	5,732	9,000	6,260
Chhattisgarh	21,900	59,000	23,848	4,800	12,000	5,306
Madhya Pradesh	18,025	33,700	20,649	3,530	6,328	4,125
North-East	49,000	90,000	60,000	11,153	22,700	13,352
Assam	22,750	48,000	25,000	5,567	10,342	6,000
West Bengal	21,600	59,700	28,051	4,928	14,571	6,250
Orissa	15,000	42,000	16,500	3,096	9,000	3,450
Gujarat	21,000	56,500	30,000	4,494	12,240	6,300
Maharashtra, Goa	24,700	64,600	38,300	5,337	14,000	7,975
Andhra Pradesh	20,642	48,000	25,600	5,250	11,250	6,241
Karnataka	18,900	54,000	25,600	4,333	12,000	5,964
Kerala	40,500	48,000	43,494	9,563	10,413	9,987
Tamil Nadu	20,081	35,000	26,000	5,297	9,000	7,000

Note: Sample of all 41,554 households.

Source: IHDS 2004–5 data.

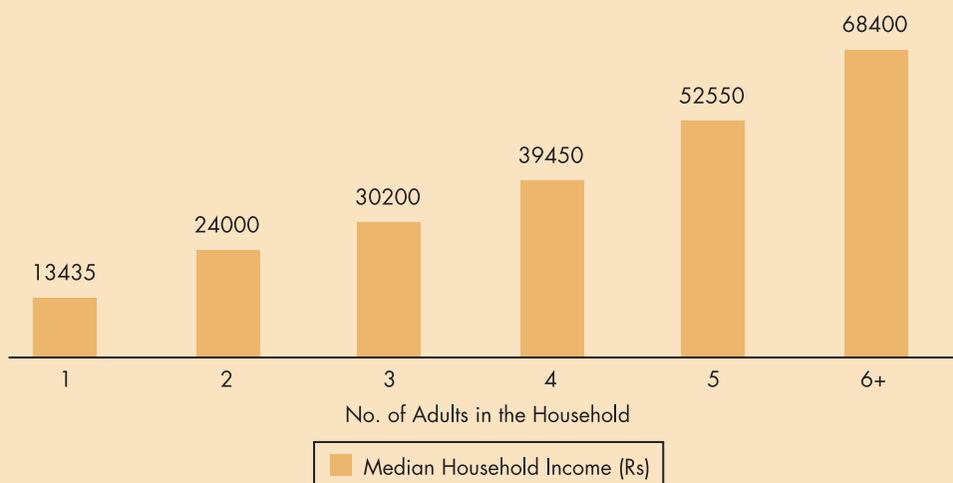


Figure 2.2 Median Household Income by Number of Adults in the Household

Source: IHDS 2004–5 data.

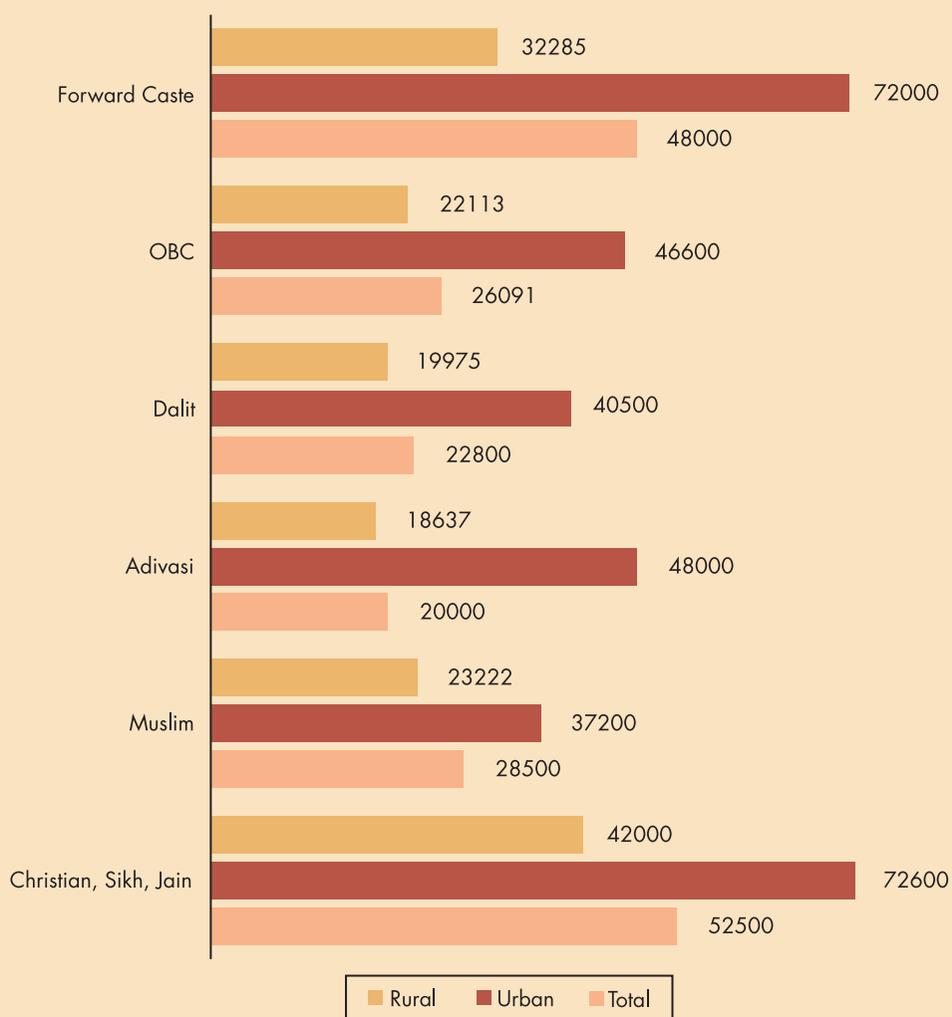


Figure 2.3 Median Household Income (Rs) for Different Social Groups

Source: IHDS 2004–5 data.

About half of all Indian households have two adults, and their median income (Rs 24,000) is near the national median. But almost a quarter of Indian households have four or more adults. With four adults, the median household income rises to Rs 39,450, and with six or more, it rises to Rs 68,400. Not surprisingly, the 8 per cent of households, with only one adult, are the poorest with a median annual income of only Rs 13,435. Since larger households also contain more children, per capita income is not as clearly associated with larger household size. However, given the economies of scale, as we will document in Chapter 5, larger households often have a better standard of living than smaller households.

Life cycle patterns also influence household income, especially in urban areas. Incomes rise steadily as the adults in the household age from the twenties onwards to a peak in the fifties. The median income of urban households with a man in his fifties is twice that of urban households in which the oldest man is only in his twenties. After adults reach their fifties, household incomes are fairly constant. These lifecycle differences matter, even though the young tend to be better educated (see Chapter 6). These educational disadvantages of older households are somewhat offset by the larger size of older households.

Despite changes in access to education and affirmative action by the Indian government, social groups that were traditionally at the lowest rung of the social hierarchy are still economically worse off.

Adivasi and Dalit households have the lowest annual incomes: Rs 20,000 and Rs 22,800, respectively. The Other Backward Classes (OBCs) and Muslim households are slightly better off, with incomes of Rs 26,091 and Rs 28,500, respectively. The forward castes and other minorities (Jains, Sikhs, and Christians) have the highest median annual incomes: Rs 48,000 and Rs 52,500, respectively. A variety of factors combine to contribute to these differences, and looking at urban and rural residents separately is useful. Adivasis are disadvantaged in rural areas, but not as much in urban areas. However, since nearly 90 per cent of the Adivasis in our sample live in rural areas, the higher income of urban Adivasis has little overall influence.

Other religious minorities are located at the top position of rural household incomes, largely because so many Sikhs live in fertile Punjab. These rankings are similar in the urban sector, but urban Adivasis are doing as well as OBCs and it is the Muslims who are at the bottom. In addition, the advantages of minority religions over forward caste Hindus in rural areas are reduced to a negligible difference in towns and cities. Our classification may also play some role. Dalit and Adivasi Christians, who are poorer than other Christians,

are classified with Dalits and Adivasis, as are the poor Sikhs. Consequently, the poorest among the minority religions are included elsewhere, thereby inflating the incomes for these religious groups.

SOURCES OF LIVELIHOOD

A great advantage of using income data is our ability to examine the sources of livelihoods, to identify the way in which these sources are related to income and poverty. In India, as in most developing economies, households derive income from a wider range of sources than is typically true in advanced industrial economies. Besides wages and salaries, farms and other businesses are important for more families in India than in developed countries. Transfers, from other family members working across the country or even abroad, are also important for many areas. The IHDS recorded incomes from more than fifty separate sources. These are grouped into a more manageable set of eight categories in Table 2.3.

Because some of these income sources are more reliable and more generous, they determine the level of income that these households can attain. Most Indian households (71 per cent) receive wage and salary income. This accounts for more than half (54 per cent) of all income.² By far the most remunerative incomes are salaries received by employees paid monthly, as opposed to casual work at daily wages. More than a quarter of households (28 per cent) receive some salary income, and these salaries account for 36 per cent of all income. Businesses owned by the household are also fairly widespread and rewarding. About 20 per cent of households engage in some form of business, and this income accounts for 19 per cent of all income. Income from property, dividends, and pensions is less common (only 10 per cent of households receive this kind of income), but the amounts received can be significant (the typical receipt is Rs 14,400 per year), composing 5 per cent of all household income.

In contrast, both agricultural and non-agricultural daily wage labour, while widespread, accounts for a relatively small portion of total household income because the wages are so low (see Chapter 4). More than a quarter (29 per cent) of households are engaged in agricultural labour, but this work tends to be seasonal and the income accounts for only 7 per cent of total income. Similarly, 27 per cent of households engage in non-agricultural wage labour, but it accounts for only 11 per cent of total income.

Farm incomes are even more common. More than half (53 per cent) of all Indian households have some agricultural income. The income returns from farms, however, are modest so agricultural income constitutes only 19 per cent of total income. Even in rural areas, where agricultural income plays a more important role, total income from cultivation is only

² Note that the proportion of rural, urban, and total income reported by income source in Table 2.3 is based on all sectoral income and, hence, higher-income households contribute disproportionately to these percentages. However, Table 2.5, which we discuss later, averages across households.

Table 2.3 Structure of Income: Urban, Rural, and All India

	Rural			Urban			Total			
	Mean (Rs)	Per cent hh with Income from Source	Per cent of Total Rural Income	Mean (Rs)	Per cent hh with Income from Source	Per cent of Total Urban Income	Mean (Rs)	Per cent hh with income from source	Per cent of total Rural income	Median if any income from source (Rs)
Total Income	36,755	100	100	75,266	100	100	47,804	100	100	28,000
Total Wage and Salary	16,944	70	46	48,332	74	64	25,949	71	54	21,000
Salaries	7,632	18	21	40,583	52	54	17,085	28	36	42,400
Agricultural Wages	4,507	39	12	900	5	1	3,472	29	7	9,000
Non-Agricultural Wages	4,805	29	13	6,849	24	9	5,391	27	11	15,000
Total Self-employment	16,672	73	45	20,508	35	27	17,772	62	37	11,759
Business	4,807	17	13	19,042	28	25	8,891	20	19	25,000
Farming/Animal Care/Agr. Prop.	12,285	69	33	1,816	12	2	9,282	53	19	5,825
Family Remittances	1,042	6	3	782	3	1	968	5	2	10,000
Properties and Pensions	1,473	8	4	5,091	16	7	2,511	10	5	14,400
Government Benefits	204	16	1	203	6	0	204	13	0	750

Notes: Per cent of sectoral income is disproportionately affected by high income households (hh); Agr. Prop. refers to agricultural property.

Source: IHDS 2004–5 data.

33 per cent of the total, with agricultural wage work adding an additional 12 per cent. However, given the difficulties of measuring agricultural income, these results should be treated with caution.

Finally, private and public transfers are important for many Indian households. Remittances from family members working away from home account for 2 per cent of all household incomes, but 5 per cent of Indian households receive at least some income from absent family members. Government support is even more common: 13 per cent of Indian households receive some form of direct income supplement from the government. The most common source of government support comes in the form of old-age and widows' pensions. This government assistance is usually quite small (the typical reported payment is only Rs 750 per year), so it accounts for less than half a per cent (0.4 per cent) of household income. For poor households, however, this help can be significant.

Multiple Income Sources

Although much of the discussion on income sources tends to assume that households rely predominantly on one source of income, the IHDS data suggest that more than 50 per cent of Indian households receive income from multiple sources.

Table 2.4 shows the proportion of households that draw income from various sources of income.

For example, more than four out of five farm households also have income from some other source, more often from agricultural and non-agricultural wage labour and salaried work (40 per cent) but also from private businesses (17 per cent). Similarly, 71 per cent of households with a private family business also receive other types of income, for instance, from family farms (37 per cent). This diversification implies significant interconnections between different sectors of the Indian economy and suggests that policies that affect one sector of the economy could have widespread impact on a large number of households.

Some of these sources of income are highly interconnected. It is quite common for farmers to work on other people's fields when their own fields do not require attention. However, as we show in Figure 2.4, a substantial proportion of farm households rely on non-agricultural income, particularly in higher income categories.

Income Disparities and Sources of Income

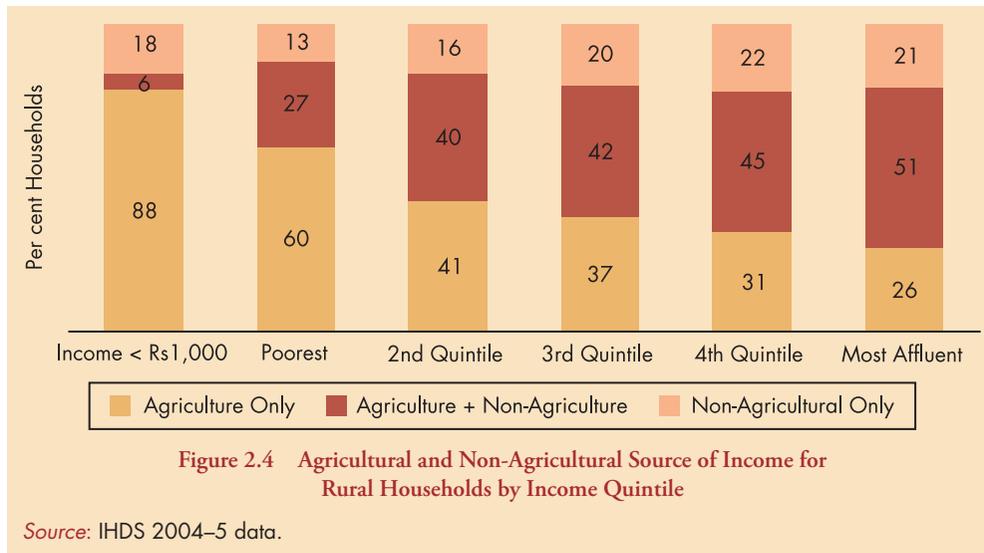
How much income a household earns is closely related to the source of income (see Table A.2.2a). Wealthy households receive much of their income from monthly salaries.

Table 2.4 Per cent of Households Drawing Income from Various Sources

Cultivation	Wage Work	Business	Other	Rural	Urban	Total	Median Income
☑	☑	☑	☑	1.14	0.26	0.89	35,755
☑	☑	☑	–	2.78	0.61	2.16	32,938
☑	☑	–	☑	8.69	1.12	6.52	25,507
☑	☑	–	–	23.55	3.83	17.89	23,536
☑	–	☑	☑	1.4	0.51	1.15	54,850
☑	–	☑	–	3.9	1.28	3.15	36,000
☑	–	–	☑	5.48	0.56	4.07	31,265
☑	–	–	–	11.27	1.03	8.33	20,964
–	☑	☑	☑	0.81	1.61	1.04	47,400
–	☑	☑	–	2.43	5.98	3.45	40,900
–	☑	–	☑	6.33	12.1	7.98	33,600
–	☑	–	–	24.23	48.46	31.18	27,000
☑	–	☑	☑	0.99	3.71	1.77	52,000
–	–	☑	–	3.39	14.1	6.47	40,000
–	–	–	☑	1.98	4.15	2.6	18,000
Negative or no income	–	–	–	1.61	0.69	1.35	–985
Grand Total				100	100	100	

Notes: Wage work includes agricultural and non-agricultural wage, and salaried work. Other sources include pensions, family transfers, and income from government programmes.

Source: IHDS 2004–5 data.



The poor depend on unskilled labour. Agricultural labour incomes are especially concentrated in the poorest quintile of households. Non-Agricultural labour is most important for the next-to-lowest quintile.

Interestingly, farm incomes are well represented in all five quintiles, although slightly more important for the lower and middle income quintiles (21 per cent of all income) than for the richest (17 per cent). Animal products, especially, make the difference for increased agricultural incomes among this middle income quintile. Private businesses are also important for all income levels but, like salaries, are more important for the wealthiest households. Government assistance is primarily useful for the poorest income quintile, as it should be, although some near-poor and middle-income households also benefit. Private transfers from other family members, however, benefit households at all income levels, even the wealthiest who receive 3 per cent of their income from these remittances.

Restricting our examination to rural households provides an interesting snapshot of the importance of agricultural and non-agricultural sources of income. Here, we combine cultivation and agricultural wage work and compare the households that rely solely on agricultural incomes with those that rely solely on non-agricultural incomes, and those that draw incomes from agricultural as well as non-agricultural sector. As Figure 2.4 shows, at the lower income quintiles, households rely solely on agricultural incomes; at higher income levels, however, both farm and non-farm sources of income become important. Table 2.3 indicates that non-agricultural incomes (salaries or businesses) are higher than agricultural incomes: median incomes from cultivation are about Rs 6,000 and median agricultural wage incomes are Rs 9,000, compared with a median of Rs 18,000 for business and more than Rs 24,000 for salaries. This suggests that access to these better paying sources of income increases

levels of household income far above those of households relying solely on agriculture. However, even rural households with higher incomes continue to engage in agricultural work. Some engage in dairy or poultry farming, others in cultivation, and still others in seasonal agricultural labour. Thus, external forces that influence agriculture also influence nearly 80 per cent of the households in any income quintile.

Vulnerabilities of Agricultural Households

Inequalities in household income are presented in Appendix Tables A.2.1a and A.2.1b. This table documents substantial inequalities by urban/rural residence, household education, and social group. Here, we explore the linkages between these differences and the reliance on various sources of income. Not surprisingly, privileged groups depend more on salaried incomes, while less privileged groups tend to depend on cultivation and agricultural, and non-agricultural wage work).

Rural residents, not surprisingly, depend more on agriculture for their incomes than do urban residents. This dependence is partly to blame for the lower incomes in rural areas, since agriculture usually provides lower incomes (see Table 2.3). However, villages which are more developed, with better infrastructure and transportation, appear to rely less on cultivation. As Table A.2.2a documents, only 22 per cent of the household incomes in more developed villages come from cultivation, compared with 31 per cent in less developed villages. A higher level of village development seems to offer more opportunities for salaried work as well as work in business. As a result, the median of household incomes in developed villages is Rs 24,722 compared with Rs 20,297 for less developed villages. Since some households in developed villages have fairly high incomes, mean differences are even larger: mean household income is

Rs 41,595 in developed villages and Rs 32,230 in less developed villages.

Access to salaried work is also an important determinant of differences across states. As Figure 2.5 indicates, states in which a greater proportion of incomes come from salaries have higher median incomes than those in which access to salaried incomes is low.

Thus, the surprisingly high incomes in the North-East are a result of over half of all incomes coming from regular salaried positions (see Table A.2.2b). These positions are mostly in the organized sector—either directly employed by the government or in state-owned economic activities. In contrast, only 12 per cent of income in Bihar comes from salaries, placing it near the bottom of the income rankings. This relationship is not totally uniform, however. States like Kerala draw a substantial proportion of their incomes from remittances sent by migrant workers and have high median incomes, whereas Punjab benefits from high agricultural productivity in addition to access to salaried incomes.

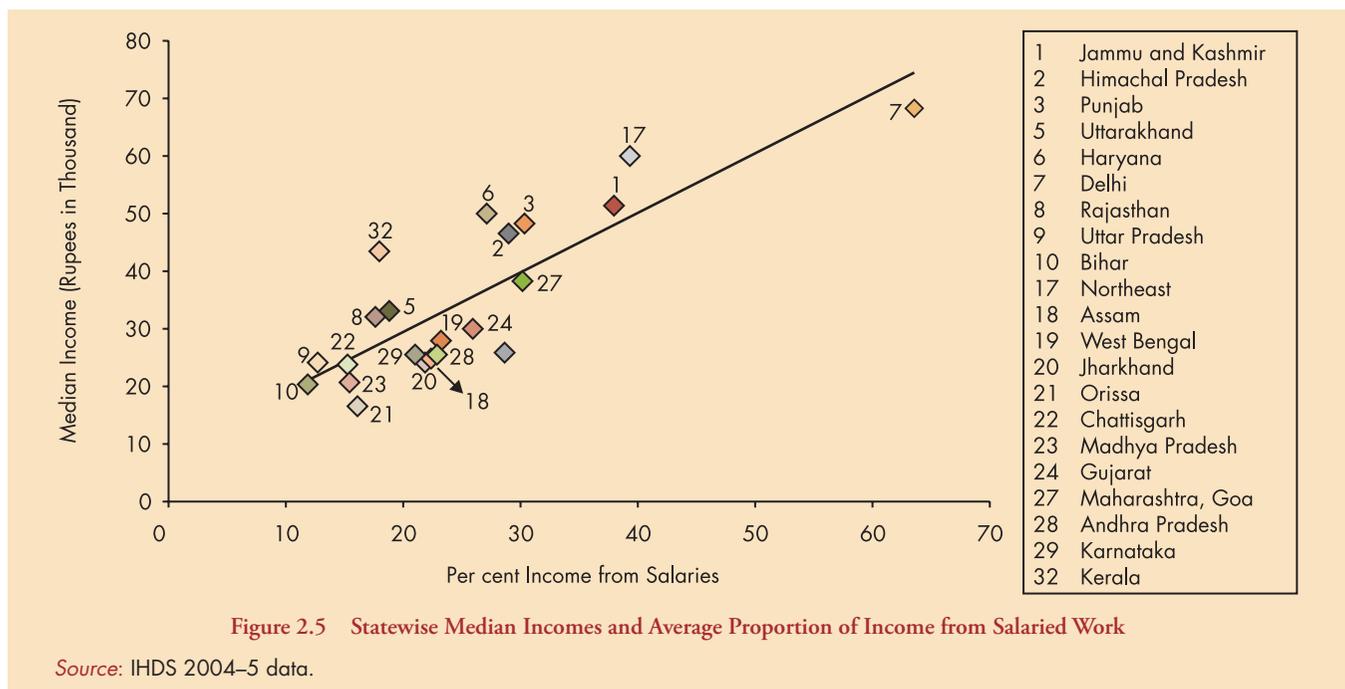
Advantaged groups earn more of their income from salaries, while disadvantaged groups earn more from wage labour, or remittances and public support. Households with a college graduate get 50 per cent of their income from salaries; illiterate households get only 8 per cent from salaries but 60 per cent from daily wages (see Table A.2.2a). This is also reflected in differences across social groups. Figure 2.3 documents substantial differences in median incomes across socio-religious communities, with Dalit and Adivasi households having the lowest median incomes. Although their low income is partly associated with rural residence, even within rural areas, they remain the lowest income

groups. As we look at the structure of incomes across different social groups, it is apparent that forward castes and minority religious groups like Christians, Sikhs, and Jains have greater access to salaried incomes. In contrast, Dalits and Adivasis are far more likely to draw income from agricultural and non-agricultural wage work (see Table A.2.2a). Muslims are the most likely to receive income from small family businesses, partly because of educational differences across communities (documented in detail in Chapter 6). Education, however, does not totally explain the concentration of socio-religious groups in certain types of work. Moreover, regardless of the reasons for concentration in business or farming, when faced with sectoral shifts in incomes or prices, groups that are concentrated in certain sectors, such as family businesses, may face greater vulnerability.

BEYOND INCOME: CONSUMPTION AND POVERTY

What Income Statistics Hide

Beginning with the pioneering work of the National Sample Survey (NSS) in 1950–1, Indian social scientists and policy makers have long relied on expenditures to measure household welfare. There are good reasons for this approach. First, income is difficult to measure. Second, incomes tend to be far more variable, because of seasonal fluctuations and external shocks, than are expenditures. Data collection that relies on a single calendar year or one agricultural year may not coincide with the income cycle. In contrast, consumption tends to be more stable. In low-income years, households can engage in consumption smoothing by selling some



assets, consuming savings, or borrowing. In high-income years, they tend to save. This reasoning has led to a focus on permanent income, reflected in consumption expenditures, as a more stable measure of well-being.

Since the IHDS is one of the few surveys to collect both income and consumption data, we can compare household incomes with expenditures. Table 2.5 shows mean and median household incomes and expenditures in urban and rural areas. In urban areas, income exceeds expenditure, as might be expected; in rural areas, both mean and median incomes seem to be below expenditures, suggesting greater measurement errors there or greater variability in incomes from year to year.³

	Income (Rs)		Consumption (Rs)	
	Mean	Median	Mean	Median
Household				
Rural	38,018	23,100	42,167	31,883
Urban	75,993	52,000	64,935	50,922
All India	49,073	28,721	48,795	36,476
U/R Ratio	2.00	2.25	1.54	1.60
Per Capita				
Rural	7,101	4,462	7,877	6,115
Urban	15,649	10,284	13,372	10,149
All India	9,421	5,500	9,368	6,934
U/R Ratio	2.20	2.30	1.70	1.66

Note: Households with Total Income \leq Rs 1,000 (N= 40,717)
Source: IHDS 2004–5 data.

Table 2.5 shows both household and per capita income, and consumption. The difference between urban and rural areas is much greater for per capita measures than for household measures, reflecting the benefits of smaller households in urban areas.

Who is Poor?

While the income and expenditure data discussed above focus on average levels of income and consumption, they fail to provide much information about the vulnerability of the individuals and households at the bottom of the income distribution. In this section, we examine the composition of these economically vulnerable groups by focusing on poverty.

Estimating poverty requires two essentials: a comparable welfare profile and a predetermined poverty norm. A household is classified as poor if its consumption level is below the poverty norm. In India, the welfare profile is usually measured using consumption expenditures of the households because income represents potential, but not actual, consumption. The IHDS uses the official rural and urban statewise poverty lines for 2004–5 that are available from the Planning Commission, Government of India. The average poverty line is Rs 356 per person per month in rural areas, and Rs 538 in urban areas. Statewise poverty lines range from Rs 292 to Rs 478 for rural areas and Rs 378 to Rs 668 in urban areas.⁴ The poverty line was established in 1973⁵ based on the consumption expenditure required to obtain the necessary caloric intake, and has been continuously adjusted for inflation.

The most commonly used measure of income poverty is the headcount ratio (HCR), which is simply the ratio of the number of persons who fall below the poverty line to the total population. Table 2.6 presents three national poverty estimates from NSS data using different data collection methods based on recall periods, and whether a long or an abridged expenditure schedule was canvassed. It also presents poverty calculations from the IHDS using the same norms.

The national estimate based on the IHDS, 25.7 per cent, is quite close to the estimates available from the NSS sources for the reference years 2004–5. Depending on the data collection method used, the NSS estimates range from 28.3 per cent to 21.8 per cent for rural India and 25.7 per cent to 21.7 per cent for urban India. The IHDS estimates fall in between, with rural poverty at 26.5 per cent and urban poverty at 23.7 per cent.

It is important to note that the similarities in urban and rural poverty rates are a function of the nearly Rs 150 per month higher poverty norm in urban areas. This does not imply that urban and rural residents have equally comfortable lives. As Chapter 5 documents, rural households have substantially less access to household amenities than urban households.

The IHDS sample is considerably smaller than the NSS sample and, consequently, cannot offer state-level point estimates of poverty that are as reliable as those generated by the NSS. However, for most states, the IHDS poverty estimates are similar to the NSS estimates. Punjab, Himachal Pradesh, and Jammu and Kashmir have low poverty while

³ Note that the reference periods for income and expenditure data differ. Expenditure data are collected using a mixed recall period with data for commonly used items restricted to the preceding 30 days. The income data are collected for the preceding year. As has been observed with NSS, shorter recall periods lead to higher consumption estimates (Deaton and Kozel 2005). Thus, income and consumption data in IHDS are not strictly comparable and income is likely to be underestimated compared to consumption.

⁴ We have converted these into yearly poverty line using the conversion factor, Yearly $PL_{iu} = (\text{Monthly } PL_{iu} * 365)/30$, where, PL_{iu} is the poverty line for u , urban/rural area, in the i th state.

⁵ Dandekar and Rath (1971).

Table 2.6 Headcount Ratio of Population below Poverty (NSS and IHDS)

	NSS 61 Round		IHDS***	
	CES*		EUS**	
	Mixed Recall	Uniform Recall	Abridged	
Andhra Pradesh	11.1	15.8	12.3	6.8
Assam	15.0	19.7	18.0	24.6
Bihar	32.5	41.4	35.0	17.0
Chhattisgarh	32.0	40.9	30.1	63.3
Delhi	10.2	14.7	12.3	13.9
Gujarat	12.5	16.8	12.6	13.1
Haryana	9.9	14.0	12.1	11.3
Himachal Pradesh	6.7	10.0	7.7	4.3
Jammu & Kashmir	4.2	5.4	3.6	3.4
Jharkhand	34.8	40.3	34.4	49.0
Karnataka	17.4	25.0	21.7	18.3
Kerala	11.4	15.0	13.2	26.8
Madhya Pradesh	32.4	38.3	34.0	45.5
Maharashtra	25.2	30.7	27.9	27.9
Orissa	39.9	46.4	42.9	41.3
Punjab	5.2	8.4	8.2	4.9
Rajasthan	17.5	22.1	19.6	26.7
Tamil Nadu	17.8	22.5	19.2	18.3
Uttar Pradesh	25.5	32.8	29.4	33.2
Uttarakhand	31.8	39.6	34.8	35.7
West Bengal	20.6	24.7	25.1	23.1
All India	21.8	27.5	24.2	25.7

Notes: *Government of India (2007), Poverty Estimates for 2004–5, Planning Commission, Press Information Bureau, March and **Author's calculations using NSS 61st round employment and unemployment surveys unit record data.

Source: ***IHDS 2004–5.

Orissa, Jharkhand, and Madhya Pradesh have high poverty. Exceptions include Bihar, which has a lower IHDS than the NSS poverty rate, and Chhattisgarh and Kerala, which have higher IHDS than NSS poverty rates.

Table A.2.1a shows differences in poverty across different strata of Indian society. Adivasis are the most vulnerable group, with nearly 50 per cent below the poverty line. Dalits and Muslims, with poverty rates of 32 per cent and 31 per cent, are also above the national average. The HCR is lowest at 12 per cent for other minority religions and, similarly low for forward caste Hindus at 12.3 per cent.

Poverty diminishes substantially with household education. Only 7 per cent of the households in which an adult has a college degree are in poverty range, compared to 38 per cent for those with education below primary school. Combined with the high incomes for the well educated households, reported earlier, this observation reinforces the importance of education in providing livelihoods and raising families out of poverty.

While poverty rates are associated with household income and consumption, unlike them they take into account household size. Hence, although poverty is concentrated in households in the lowest income and expenditure quintiles, 9 per cent of individuals living in households in the highest income quintile and 2 per cent in households in the highest consumption quintile are poor. Adjustment for household size also changes the social group position. For example, Muslims appear to be closer to OBCs in terms of median income and consumption, but poverty rates, which are adjusted for household size, bring them closer to Dalits.

CONTOURS OF INCOME INEQUALITY

Throughout this report, we will discuss inequality in income, health, education, and other dimensions of human development, with a particular focus on inequality between different states, urban and rural areas, and different social groups. However, one of the reasons these inequalities become so striking is the overall inequality in income distribution in India. We discuss the broad outlines of these income inequalities below. When discussing human development in India, a focus on inequality is particularly important because the gap between the top and bottom is vast. The top 10 per cent of households (that is the 90th percentile) earn more than Rs 1,03,775, whereas the bottom 10 per cent (that is, the 10th percentile) earn Rs 8,000 or less (Table 2.1), an elevenfold difference. This gap is not simply the result of a few billionaires who have appropriated a vast amount of Indian wealth. It reflects inequalities at various levels in the Indian society. The income gap between the top and bottom 10 per cent is almost equally a result of the gap between the middle and the poor (3.5 times) and that between the rich and the middle (3.7 times).

Table 2.7 reports Gini statistics, the most common overall indicator of income inequality. Gini coefficients can range from 0.0 (perfect equality) to 1.0 (total inequality).

Much of the discussion regarding inequality in India has focused on consumption-based inequality. With Gini coefficients of about 0.37, India is considered to be a moderately unequal country by world standards. For example, the Gini coefficient for Scandinavia and Western Europe is generally below 0.30, while that for middle-income developing countries tends to range from 0.40 to 0.50, and that in some of the poorest nations exceeds 0.55.

Table 2.7 Income and Consumption Inequality

	NSS 61 Round*			IHDS**	
	CES		EUS	Consumption	
	Mixed Recall	Uniform Recall	Abridged	Income***	
Rural	0.28	0.31	0.27	0.36	0.49
Urban	0.36	0.38	0.36	0.37	0.48
All India	0.35	0.36	0.34	0.38	0.52

Notes: *Author's calculation using consumer expenditure and employment and unemployment survey unit record data.

***Income inequality calculations exclude households with negative incomes and income < Rs 1000.

Source: **IHDS 2004–5

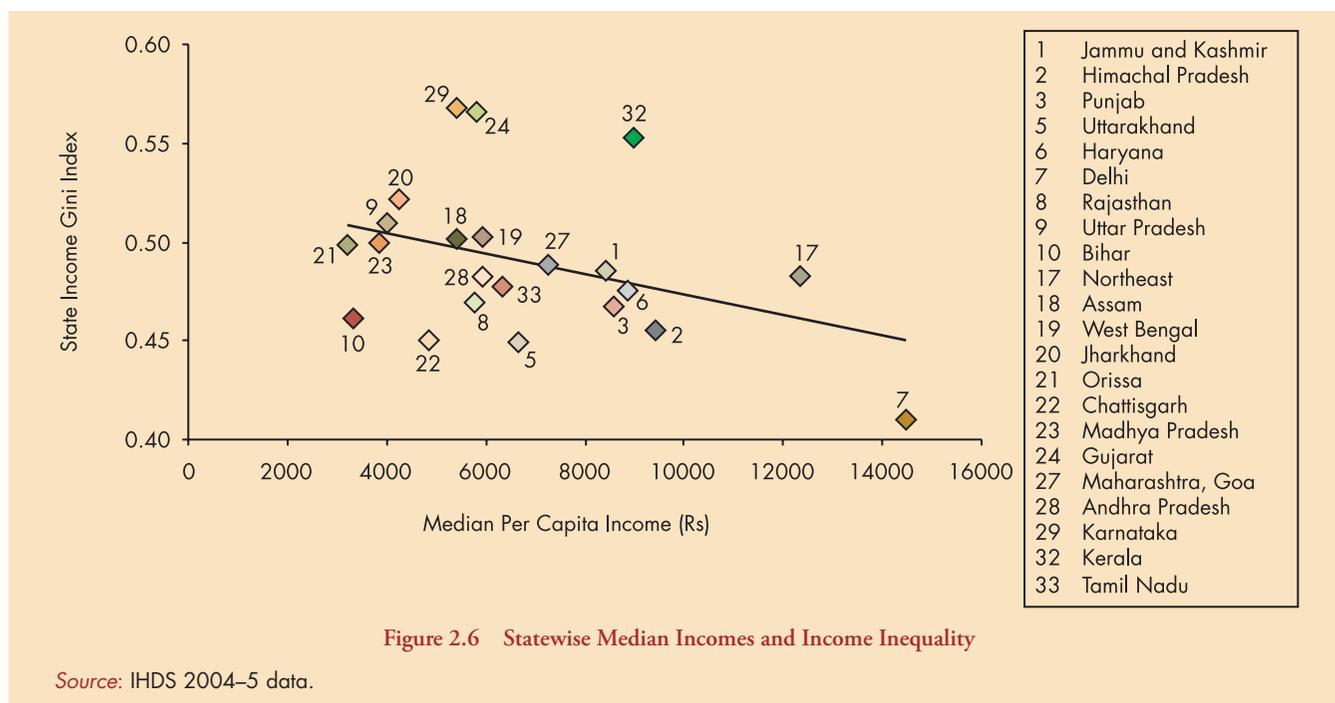
However, this ranking is substantially affected by whether the inequality is measured by income or consumption. When inequality in income is measured, the United States looks moderately unequal, with a Gini of about 0.42. But when inequality in consumption is measured, it looks much better, with a Gini of about 0.31. The difference occurs mainly because households at upper income levels do not spend all that they earn, and those at lower income levels often consume more than they earn. Hence, consumption looks more equal than income.

The IHDS data show similar differences between income and consumption inequality. The Gini index for

consumption inequality, based on the IHDS in Table 2.7, is about 0.38 for India, comparable to results from the NSS. However, the Gini index based on income is considerably higher, at 0.52.⁶ This difference suggests that income inequality in India may be greater than hitherto believed. While consumption inequalities reflect inequalities in well-being for societies in transition, income inequalities provide a useful additional way of tracking emerging inequalities. For example, some studies in the United States have found that when inequality is rising, income inequalities tend to rise at a faster pace than consumption inequalities.⁷

Although urban incomes are higher than rural incomes, they are not more unequal. In fact, rural incomes tend to be more unequal (Gini = 0.49) than urban incomes (Gini = 0.48). Rural incomes are especially unequal near the bottom of the income distribution, where the poorest 10 per cent in villages are further from average incomes than are the poorest 10 per cent in towns and cities. And despite the recent growth of high incomes in some urban areas, inequality at the top is no worse in towns and cities than in villages.

The Kuznets curve suggests that for poor countries, inequality will rise with development.⁸ In India, however, states with higher median incomes tend to have somewhat lower inequality than poorer states (see Figure 2.6), but this relationship is not very strong.



⁶ The Gini index of 0.52 excludes households with negative incomes and those with incomes less than Rs 1,000. If they are included, the Gini index rises to 0.53.

⁷ Johnson et al. (2005).

⁸ Kuznets (1955).

DISCUSSION

This chapter has focused on the livelihoods of Indian families and identified some sources of vulnerability. Some of the findings presented echo well articulated themes. Poverty and low incomes are concentrated among Dalits and Adivasis, followed by Muslims and OBCs. Poverty also tends to be geographically concentrated in the central states.

However, our examination of income and income sources emphasizes some dimensions of economic well-being that have received less attention. Access to salaried income is one of the primary axes that divides Indian households. Households in which at least one adult has a job with a monthly salary are considerably better off than households that rely solely on farming, petty business, or casual daily labour. Unfortunately, only 28 per cent of households can claim access to salaried jobs. This suggests that access to salaried jobs and education (a prerequisite for salaried work) is a major source of inequality in household income—a topic addressed in detail in Chapter 4 and 6.

One of the most striking findings presented in this chapter is the great diversity of income sources within Indian households. Nearly 50 per cent of the households receive income from more than one source. Implications

of this diversification require careful consideration. On the one hand, income diversification provides a cushion from such risks as crop failure or unemployment. On the other hand, the role of income diversification may depend on the nature of diversification. Where households are able to obtain better paying salaried jobs, diversification may be associated with higher incomes. Where poor agricultural productivity pushes household members into manual wage work, such as construction, the income benefits may be limited. This is a topic to which we return when we discuss different employment patterns of individuals in Chapter 4. However, these data also indicate that regardless of the share of agricultural incomes, a vast majority of the rural households are engaged in agriculture, resulting in a high degree of sectoral interdependence.

This chapter also shows that inequality in income is far greater than inequality in consumption. The higher inequality for incomes than expenditures is a common finding in other countries, but has been insufficiently appreciated in India. It will be important to track income inequality over time because with rising incomes, inequality in incomes may grow faster than inequality in consumption.

HIGHLIGHTS

- Median household income in urban areas is twice that in rural areas.
- Dalit and Adivasi households have the lowest incomes, followed by OBC and Muslim households.
- Salaried work provides the highest level of income.
- Although 35 per cent of households engage in farming or animal care, cultivation accounts for only 19 per cent of the total income.
- About 25.7 per cent of the population lives below the poverty line.
- Inequality in income is considerably higher than that in consumption.

Table A.2.1a Mean and Median Household Incomes, Consumption, and Poverty

	Income (Rs)		Consumption (Rs)		% Poor
	Mean	Median	Mean	Median	
All India	47,804	27,857	48,706	36,457	25.7
Education					
None	21,734	17,017	29,595	24,502	38.1
1–4 Std	25,984	18,800	33,365	27,876	37.2
5–9 Std	35,718	25,920	41,803	34,338	29.7
10–11 Std	53,982	39,961	55,341	45,040	18.7
12 Std/Some College	69,230	48,006	65,717	52,494	14.8
Graduate/Diploma	1,14,004	85,215	89,186	70,897	6.8
Place of Residence					
Metro city	93,472	72,000	71,260	56,864	13.4
Other urban	68,747	45,800	62,629	48,448	27.0
Developed village	41,595	24,722	45,513	34,338	20.9
Less developed village	32,230	20,297	39,081	29,722	31.5
Household Income					
Income < 1,000 Rs	–4,476	–333	45,039	34,803	17.3
Lowest Quintile	8,833	9,305	29,117	23,356	36.1
2nd Quintile	18,241	18,040	32,430	27,200	36.8
3rd Quintile	28,959	28,721	40,063	33,686	31.1
4th Quintile	50,158	48,929	51,643	44,660	21.5
Highest Quintile	1,40,098	1,05,845	91,122	72,958	9.0
Household Consumption					
Lowest Quintile	18,338	14,947	14,965	15,860	70.5
2nd Quintile	26,799	20,800	26,075	26,040	42.2
3rd Quintile	36,217	28,504	36,645	36,458	24.3
4th Quintile	52,639	41,426	52,927	52,140	10.4
Highest Quintile	1,05,032	79,400	1,12,926	92,980	2.2
Social Groups					
Forward Caste Hindu	72,717	48,000	65,722	50,170	12.3
OBC	42,331	26,091	46,750	36,105	23.3
Dalit	34,128	22,800	39,090	30,288	32.3
Adivasi	32,345	20,000	29,523	22,738	49.6
Muslim	44,158	28,500	50,135	37,026	30.9
Other religion	1,01,536	52,500	72,787	54,588	12.0

Notes: Sample of all 41,554 households. The quintiles were generated taking into account all the households in the sample, and with weights. Therefore, higher income quintiles would be having higher proportion from the urban sector not only because the urban incomes, on an average, are higher but also because of rural–urban price differential, which is about 15 per cent or more. Std refers to Standard. Henceforth, Std.

Source: IHDS 2004–5 data.

Table A.2.1b Statewise Household Incomes, Consumption, and Poverty

	Income (Rs)		Consumption (Rs)		% Poor
	Mean	Median	Mean	Median	
All India	47,804	27,857	48,706	36,457	25.7
Jammu and Kashmir	78,586	51,458	1,02,397	81,232	3.4
Himachal Pradesh	68,587	46,684	78,387	56,672	4.3
Uttarakhand	49,892	32,962	50,422	40,544	35.7
Punjab	73,330	48,150	71,876	60,004	4.9
Haryana	74,121	49,942	78,641	59,280	11.3
Delhi	87,652	68,250	77,791	62,096	13.9
Uttar Pradesh	40,130	24,000	50,313	35,896	33.2
Bihar	30,819	20,185	47,731	39,017	NA
Jharkhand	42,022	24,000	36,579	24,610	49.0
Rajasthan	50,479	32,131	51,149	39,396	26.7
Chhattisgarh	39,198	23,848	27,972	16,941	63.4
Madhya Pradesh	36,152	20,649	39,206	27,604	45.5
North-East	82,614	60,000	60,612	43,752	9.8
Assam	42,258	25,000	39,268	31,020	24.6
West Bengal	46,171	28,051	41,958	31,714	23.1
Orissa	28,514	16,500	32,834	22,990	41.3
Gujarat	54,707	30,000	53,616	43,832	13.1
Maharashtra, Goa	59,930	38,300	50,372	39,502	27.9
Andhra Pradesh	39,111	25,600	46,996	37,520	6.8
Karnataka	51,809	25,600	53,490	38,074	18.3
Kerala	72,669	43,494	52,470	39,952	26.8
Tamil Nadu	40,777	26,000	43,966	34,146	18.3

Note: NA—not available due to potential measurement errors and/or small sample sizes.

Source: IHDS 2004–5 data.

Table A.2.2a Proportion of Household Incomes by Source

(in percentage)

	Proportion of Household Income From					
	Salary	Agricultural Wages	Non-Farm Wages	Family Business	Cultivation	Other
All India	22	18	19	14	20	8
Education						
None	8	34	26	7	18	8
1–4 Std	10	30	23	11	21	6
5–9 Std	17	17	24	15	22	6
10–11 Std	30	10	15	18	20	8
12 Std/Some college	33	7	10	21	20	9
Graduate/Diploma	50	3	4	18	14	12
Place of Residence						
Metro city	57	2	13	20	1	7
Other urban	40	4	21	23	3	9
Developed village	15	25	18	13	22	8
Less developed village	11	22	20	9	31	7
Household Income						
Lowest Quintile	7	36	19	8	21	10
2nd Quintile	9	28	28	11	20	5
3rd Quintile	17	17	25	15	20	6
4th Quintile	28	8	17	18	20	8
Highest Quintile	49	1	5	19	17	9
Social Groups						
Forward Caste Hindu	32	8	9	18	24	10
OBC	21	17	17	14	23	7
Dalit	19	29	27	8	11	7
Adivasi	15	30	22	7	23	4
Muslim	19	11	27	21	16	7
Other religion	30	10	12	16	21	12

Source: IHDS 2004–5 data.

Table A.2.2b Statewise Proportion of Household Income by Source

(in percentage)

	Proportion of Household Income From					
	Salary	Agricultural Wages	Non-Farm Wages	Family Business	Cultivation	Other
All India	22	18	19	14	20	8
Jammu and Kashmir	38	3	17	12	22	8
Himachal Pradesh	29	8	17	9	21	17
Uttarakhand	19	6	27	10	22	16
Punjab	30	12	16	16	18	8
Haryana	27	13	15	13	22	9
Delhi	64	1	14	16	1	4
Uttar Pradesh	13	9	23	16	31	9
Bihar	12	23	16	16	24	10
Jharkhand	22	6	34	18	17	4
Rajasthan	18	4	29	13	27	9
Chhattisgarh	15	21	18	8	33	4
Madhya Pradesh	15	23	20	11	27	4
North-East	39	8	11	16	21	5
Assam	22	2	28	13	30	4
West Bengal	23	18	17	17	18	7
Orissa	16	17	19	13	25	9
Gujarat	26	26	11	17	16	5
Maharashtra, Goa	30	18	10	16	19	7
Andhra Pradesh	23	35	16	11	9	7
Karnataka	21	30	15	14	14	6
Kerala	18	16	29	10	14	14
Tamil Nadu	29	24	23	12	3	8

Source: IHDS 2004–5 data.