

NSSO Household Expenditure Survey 66th Round – A Critique

On 8th July 2011, the National Sample Survey Office (NSSO), Ministry of Statistics and Programme Implementation released the key indicators of household consumer expenditure in India based on data collected in its 66th round survey during July 2009 - June 2010. NSS surveys on consumer expenditure are conducted quinquennially (every 5th year) with the last quinquennial survey conducted in NSS 61st round (July 2004 - June 2005). The NSS 66th round was the eighth quinquennial round covering 59,097 samples in 7,428 villages and 41,697 samples in 5,263 urban blocks.

The survey assumes heightened significance as India relies on it to measure income growth across the country, in the absence of an official income survey. The survey brings to light, the prevalence of the deep urban-rural divide in terms of consumption spending (and hence, income). Per capita spending of urban India was almost double that of rural India. This disparity is further accentuated by the stark inequalities that exist amongst states, as evidenced by the survey. To cite an example, the rural average monthly per capita expenditure (MPCE) in Kerala was INR1835/USD41.28 while that in Bihar was only INR780/USD17.55. The key proximate factors contributing to widening of such disparities are the poor state of the agricultural sector in the country and the ineffectiveness of the government's social safety net programs.

The situation is however, not completely grim as the survey results do also indicate certain fundamental positives. The 65% rise in rural consumption spending over the past 5 years is one of the clearest indications of India's growth story having touched rural lives. The survey also tracks the composition of

the consumption expenditure basket and here also certain encouraging signs are noticeable in this regard. Share of food in both the rural and the urban consumption baskets has declined significantly over the past two decades while spend on non-food items like durables have risen, a phenomenon associated with rising levels of prosperity.

"The road is long" and much remains to be done to ensure faster and more fluid percolation of economic benefits to all states and to rural India as a whole. The government needs to adopt fresh strategies such as engaging with the private sector to create innovative and customised business models to make India's growth story more inclusive.

NSSO survey brings India's deep urban-rural divide into focus

Per capita expenditure of urban India was 88% higher than rural India

The survey estimated average MPCE in 2009-10 to be INR1054/USD23.71 and INR1984/USD44.63 in rural India and urban India respectively implying per capita expenditure level of the urban population was on an average 88% higher than the rural counterpart. The consumption inequality within the rural population was also considerable with the top 10% of India's rural population having an average MPCE (INR2517/USD56.63) 5.6 times that of the poorest 10% (INR453/USD10.19). A similar trend was noticeable within the urban population with the top 10% having a 9.8 times higher average MPCE (INR5863/USD127.85) compared that of the bottom 10% (INR599/USD13.48).

¹ Survey results are mainly based on MPCEMMRP (Modified Mixed Reference Period MPCE), an additional MPCE measure introduced in NSS 66th round. In prior NSS rounds, only MPCEURP (Uniform Reference Period MPCE) and MPCEMRP (Mixed Reference Period MPCE) were used.

² For detailed explanation of different measures of computing MPCE, refer to the NSSO press release and report on Key Indicators of Household Consumer Expenditure in India 2009-10

³ All USD conversions are based on the exchange rate of USD1=INR44.45 and are not adjusted for purchasing power parity (PPP)

Considering the average rural MPCE value of INR1054/USD23.71 in isolation would be partially misleading. The rural MPCE median of INR895/USD20.13 (about INR30/USD0.67 per day) implies that half the rural population had MPCE below this level. Furthermore, 40% of the rural population had MPCE below INR800/USD18.00 while 60% had MPCE below INR1000/USD22.50. Compared to the rural median MPCE (INR895/USD20.13), the urban median MPCE level was 1.68 times higher at INR1502/USD33.79 with 30% of the urban population having MPCE above INR2100/USD47.24 and 20% having MPCE above INR2600/USD58.49.

Plight of agriculture and inefficacy of safety net programs widening the divide

A section of the experts have blamed the plight of the agricultural sector and inefficacy of the rural social safety net programs as the chief factors responsible for widening of the urban-rural divide. Decline in per capita food production, poor state of rural infrastructure such as power, roads etc. and underperformance of social safety net programs like rural job schemes and public distribution systems have restricted rural income growth. The positive impact of India’s thrust on economic growth has so far been largely limited to the urban population and is yet to widely percolate to the rural population. Such a premise implies the need for the government to adopt effective strategies tailor-made for the rural population. Encouraging private sector participation, unilaterally and via public-private partnerships (PPP), to create inclusive and innovative business models to cater to the needs of the rural population is one such strategy being experimented and implemented successfully in other developing countries.

Rising rural MPCE in absolute terms is a reflection of India’s economic growth

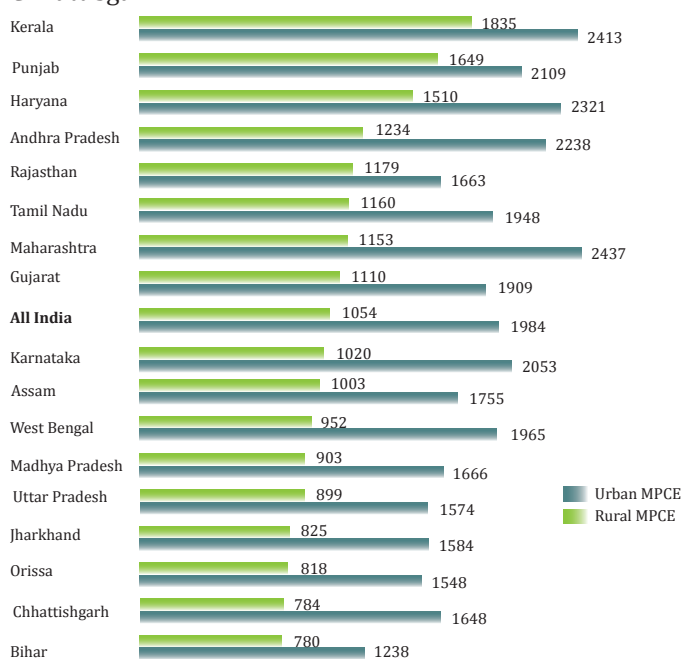
It would however, not be correct to state that rural India has not benefited at all from the nation’s economic progress. During the latest survey (between 2004-05 and 2009-10) the Indian economy grew at an average annual rate of above 8%. Coinciding with such economic growth, rural MPCE rose 64.5% in absolute terms during the same period, only marginally trailing the 68% rise in urban MPCE. A section of the experts

opine that in case of developing countries like India, a growing urban-rural divide is, to a great extent, inevitable and should not be a major cause for concern as long as rural income levels also improve in absolute terms.

Stark state level disparities make economic inequality multi-dimensional

Glaring inter-state inequalities with Kerala and Bihar at two ends of the spectrum

The survey’s examination of MPCE across different states adds another dimension to the consumption disparity in India and sheds further light on the urban-rural divide at the state level. Among the major states, Kerala (INR1835/USD41.28) had the highest rural MPCE followed by Punjab (INR1649/USD37.10) and Haryana (INR1510/USD33.97) while Bihar and Chhattisgarh (around INR780/USD17.55) had the lowest average rural MPCE followed by Orissa and Jharkhand (around INR820/USD18.45) and Uttar Pradesh and Madhya Pradesh (around INR900/USD20.25). In the urban sector, MPCE in 6 states was higher than the national average, led by Maharashtra (INR2437/USD54.83) and Kerala (INR2413/USD54.29) followed by Haryana, Andhra Pradesh, Punjab and Karnataka. Like in the rural sector, Bihar (INR1238/USD27.85) also had the lowest urban MPCE followed by Orissa, Uttar Pradesh and Jharkhand and Chhattisgarh.



Average MPCE (INR) in urban and rural sectors of major states

Urban-rural disparity is accentuated at the state level

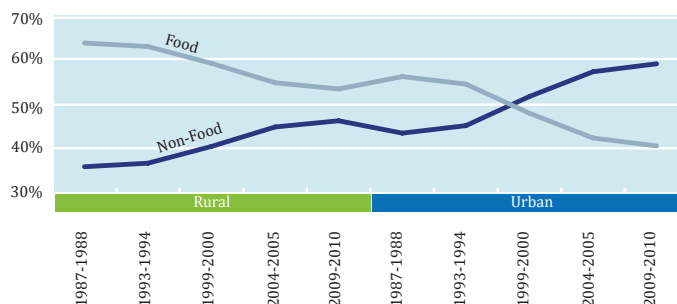
Other examples of states where urban MPCE was double that of rural MPCE, are Chhattisgarh, Karnataka and West Bengal. West Bengal is an example of a state where on the one hand both rural (INR952/USD21.42) and urban MPCE (INR1965/USD44.21) were below the corresponding national averages and on the other, the urban-rural disparity (106%) was one of the greatest.

Another stark observation drawn from the survey in this regard is that while more than 70% of the rural population in Jharkhand, Chhattisgarh and Bihar had MPCE below INR900/USD20.25 and less than 50% had MPCE above INR710/USD15.97, in contrast, over 70% of rural population in Haryana and Punjab had MPCE above INR1000/USD22.50 and 80% in Kerala had MPCE above INR977/USD21.98. Only about 10% of the rural population in these states had MPCE below INR850/USD19.12.

Composition of the consumer expenditure basket

Decline in share of food in consumption portfolio indicates economic progress

The survey also investigates the composition of the household consumer expenditure basket in terms of food and non-food items. Share of food was 57% in rural India and 44.4% in urban India. The progressive decline in the share of food (based on MPCEURP) by about 10 percentage points and 16 percentage points in the rural and urban sectors respectively, during the 22-year period since 1987-88, is widely considered as a measure of economic progress. However, this decline was marginal at below 2 percentage points for both rural and urban populations during the latest 5-year survey. This is attributable to the high food inflation in the recent years. The share of cereals which still form the largest component of household consumption budget, has significantly declined since 1987-88 from 26.3% to 15.6% in rural India and from 15% to 9% in urban India.



Trends in consumption composition (MPCEURP) since 1987-88

Share of non-food items like durables have steadily risen

The survey also concludes that consumers spent more on non-food items such as durables and services. Share of durables for example, rose from 3% to 5% for the rural population and from 3% to 7% in urban areas since 1987-88. The 10 percentage point rise in expenditure of non-food items by the rural population since 1987-88 can be viewed as another indication of economic growth benefiting rural India.

States with low MPCE exhibit higher share of food in consumption expenditure

At the state level, the food share ranges from about 46% and 40.2% in Kerala to about 65% and 53% in Bihar and Assam for the rural and urban populations respectively. An inverse relationship is noticeable between average MPCE of a state and share of food in total consumer expenditure. States with low average MPCE tend to have higher food share and vice versa.

“The road is long” and much needs to be done to mitigate disparities

Robust increase in rural average MPCE in absolute terms over the past five years and rise in the share of non-food items vis-à-vis decline share of food in the consumption expenditure are encouraging signs emanating from the results of the NSSO survey. However, the survey also proved beyond doubt that unfavorable disparities in the form of a wide urban-rural divide and extreme inter-state inequalities continue to have high

⁴ MPCEURP (Uniform Reference Period MPCE) computes MPCE using an uniform reference period of last 30 days for all items of consumption

prevalence across India. To mitigate such disparities exposed by the survey and to ensure that the fruits of economic advancement reach every corner of the country, it is essential that the government designs and implements pragmatic and innovative strategies and solutions in partnership with all social stakeholders, particularly the private sector.

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