



## Economic Growth and Consumption in Urban India

### KEYWORDS

urbanisation, consumption, economic growth, income distribution

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**ABSTRACT** *The process of economic growth is also marked by several socio-economic changes. Urbanisation is an important fall out of the process of economic growth. As centres of industry and commerce, cities have been centres of wealth and political power and contribute significantly to the country's GDP. The process of urbanization is radically changing the socio-economic structure of the world economy. The change is much more rapid in the less developed economies where the rate of urbanization is much faster compared to that in the developed countries. Urban areas are the nerve centres of economic activities and have significantly contributed to the economic growth of the country and improvement in the income.*

*The present study shows that both GDP and PC GDP have increased during the planning period in India but PC GDP has increased at a lower rate compared to GDP. Income inequalities have increased in India though marginally. Monthly Per Capita expenditure has increased at a much faster rate compared to PC GDP. However, at constant price the rate of growth of MPCE is very low. Thus, rise in MPCE at current price may be attributed to rising prices. During 2009-10 and 2010-11, the consumption has increased only marginally for the lower decile income groups. It is the upper most income group that has witnessed a high consumption growth. When the monthly per capita expenditure declines, it is the expenditure on non-food items that is affected. Hence, expenditure on non-food items is elastic with respect to total expenditure. Also, the expenditure on education and health is elastic with respect to expenditure on non-food items.*

### Introduction

The urban population of India has increased in recent years at rapid rates. In 1961 about 79 million persons lived in urban areas of the country; by 1991, their number had increased to over 217 million, registering an increase of over 250 per cent in the last three decades. Almost all population projections indicate that India will enter the 21<sup>st</sup> century with an urban population of about 300 million, which will further increase to over 400 million in the year 2011 and 553 million in the year 2021. The process of economic growth is also marked by several socio-economic changes. Urbanisation is an important fall out of the process of economic growth. Historically, cities have been the driving forces in economic and social development. As centres of industry and commerce, cities have been centres of wealth and political power and contribute significantly to the country's GDP [WRI, 1996]. The world is undergoing transition towards urbanization. It is estimated that in 1975 one third of the world population would live in the urban areas and by 2025, this proportion will rise to two-third.

The urban population grew from 286 million in 2001 to 377 million in 2011. As per the 2011 Census, nearly 30% of the population in India is living in the urban areas. And the estimates show that by 2030, more than 40% of the population would be living in the urban areas. A substantial increase in the urban population is due to a net rural-urban classification and rural-to-urban migration. A huge number of new towns emerged during the last decade, contributing significantly to the speeding up of urbanisation. On the other hand, although the contribution of the natural increase in urban growth has declined in terms of proportions, its share in absolute numbers (about 40 million) continues to be huge due to the large base of the urban population. (Bhagat, 2011). As more and more urbanisation is taking place, there are problems relating to infrastructure and a situation of growing stress and violence.

The process of urbanization is radically changing the socio-economic structure of the world economy. The change is much more rapid in the less developed economies where the rate of urbanization is much faster compared to that in the developed countries. According to a World Bank estimate nearly 80% of the economic growth will take place in the urban areas more particularly in the developing economies where the rate of urbanization is higher. During 1970-1995, the rate of growth of urban population in India has been 3.3%. During the next two decades, this process of urbanization is expected to slow down to 2.8% [HDR, 1998].

**Table 1 Trends of Urbanisation in India, 1951-2021**

Census Year	Total population (in million)	Urban Population (million)	Percentage of Urban Population to total population	Decadal Urban Growth Rate (%)	Annual Compound Growth Rate	
					Total	Urban
1951	361.08	62.44	17.29	-	-	-
1961	439.23	78.93	17.97	26.41	1.98	2.37
1971	548.15	109.11	19.91	38.24	2.24	3.29
1981	683.32	159.46	23.34	46.15	2.23	3.87
1991	846.30	217.61	25.71	36.47	2.16	3.16
2001	1048.15	296.97	28.33	36.47	2.16	3.16
2011	1298.15	405.26	31.22	36.47	2.16	3.16
2021*	1607.77	553.04	34.40	36.47	2.16	3.16

\* Projected figures.

Source: NIUA Urban Statistics – Handbook 2000, National Institute of Urban Affairs, New Delhi, January 2000.

**Table 1 Urban Population in India(%)**

year	Urban population %
1951	17.30
1961	18.00
1971	19.90
1981	23.30
1991	25.70
2001	27.80
2011	31.16

Source: Government of India (2012), Town and country Planning Organisation, Ministry of urban Development, Provisional Population Tables, data highlights (urban), January.

The urban population in India has been rising at a rapid rate although rates of urbanisation vary across the states. There are significant differences in the rates of urbanisation. Maharashtra, Gujarat and Tamil Nadu have witnessed the highest rates of urbanisation in the country being almost 39% and 35% respectively during 1991. However, during 2001, Tamil Nadu had overtaken even Gujarat. On the other hand, it has been extremely low in the states like Assam, Bihar and Orissa. According to 2011 census, Goa is the most urbanised state with nearly 62% of the total population in the urban areas. This is followed by Mizoram and Tamil Nadu. As per 2011 Census, the three least urbanised states are Assam, Bihar and Himachal Pradesh having 14, 11 and 10% urban population respectively.

Not only are the rates of urbanisation different in different states but there are also differences in the concentration of urbanisation and much of the mobility is from the small and intermediate size cities to large metropolis. During 1951, the proportion of population in class I cities with a population of one lakh or more was nearly 45%. This has continuously been rising and as per 1991 figures, there were 300 urban centres with the population of 1 lakh and more that accounted for 65% of the total urban population. In 2011, the total number of towns having population of more than one lakh has increased to 468 and the number of million plus cities has increased to 53. Also, there have been variations in the growth of urban areas. This does not directly have an impact on the rate of urbanisation. But the process of urbanisation moves in favour of larger cities. This is giving rise to a new class of "international cities" that are the nerve centres of an increasingly globalising economies (Sassen, 1994). As transnational spaces for economic activity these international cities have more in common with each other rather than the cities in their own regions.

Urban areas are the nerve centres of economic activities and have significantly contributed to the economic growth of the country and improvement in the income. The performance of any economy is measured in terms of the trends and pattern of macroeconomic variable which include not just income but also consumption. Per capita income and food consumption both are the indicators of human development but food consumption is a better indicator of human welfare. India's faster economic growth over 1990s has raised per capita income (expenditure) and has significantly impacted its food consumption patterns by causing a change in the structure of food consumption patterns observed earlier during pre-reforms period (Sethia, 2010). Inclusive growth is an important objective adopted in Indian planning for some time now. However, not many efforts have been made to know how the benefits have been distributed across the population. Is growth in income distributed equitably across the population groups? Have income disparities declined over the years? Has consumption pattern changed over the years? These are some of the questions that need probing. The present paper is an attempt in this direction. The paper examines the growth of GDP and PC GDP over a long period of time and attempts to understand if the growth of income is also followed by a similar pattern in consumption. The paper also examines the trends in distribution of income across various income groups. Since the data relating to the same is not available, monthly per capita consumption expenditure data from NSS has been used.

Data source is reports published by NSSO.

Chart 1

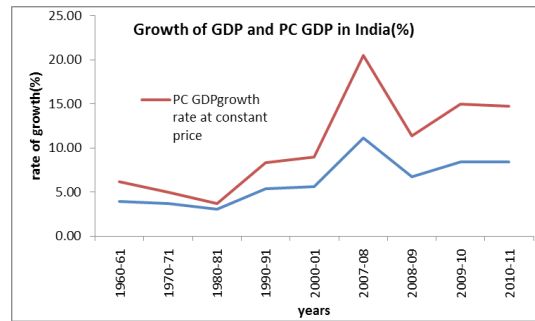


Table 1 CAGR of GDP and PC GDP (%)

	5051/1011	9091/1011
GDP	5.27	7.82
PCGDP	3.12	5.85

During the entire period between 1950-51 to 2010-11, GDP has increased at a rate of 5.27% per annum whereas PC GDP increased at a compounded rate of 3.12% per annum. If one looks at the post reform period then the annual rate of growth of GDP has increased at a compounded annual rate of growth of 7.82% per annum but PC GDP increased at the rate of 5.85% per annum. This is also shown in the table and chart.

Table 2 Gini Coefficient of Distribution of Consumption (based on MPCE)

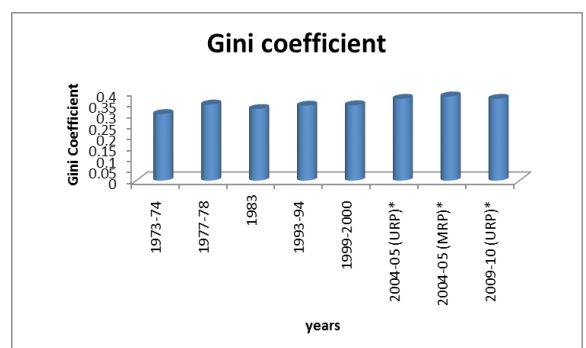
years	Gini coefficient
1973-74	0.302
1977-78	0.345
1983	0.325
1993-94	0.340
1999-2000	0.342
2004-05 (URP)*	0.371
2004-05 (MRP)*	0.348
2009-10 (URP)*	0.382
2009-10 (MRP)*	0.371

Note : URP: Uniform reference period

MRP : Mixed reference period

Source : Government of India, Planning Commission, Data book for use of Deputy Chairman, Planning Commission, <http://planningcommission.gov.in>

Chart 2



Initially, the value of Gini coefficient increased from 0.28 to 0.34 during the period from 1973-74 to 1977-78. This means that the income inequalities increased during this period. But then after 1983, over a period of time the value of Gini coefficient has been declining though marginally. This is a positive sign as income inequalities in the society are declining.

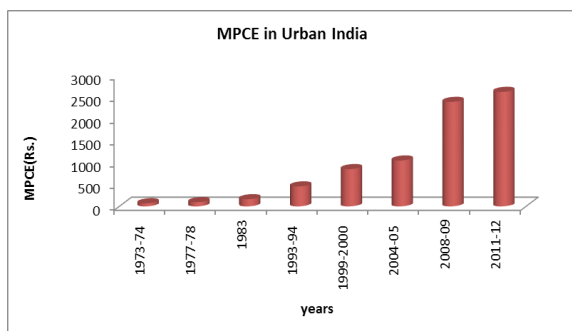
**Table 3 Monthly Per capita Expenditure (current price) in Urban India (rupees)**

year	urban MPCE	CAGR
1973-74	70.77	....
1977-78	96.15	6.32
1983	164.03	11.27
1993-94	458.04	22.80
1999-2000	854.92	13.29
2004-05	1052.40	4.24
2008-09	2399.24	17.92
2011-12	2629.65	1.85

**Table 4 CAGR of MPCE in Urban India**

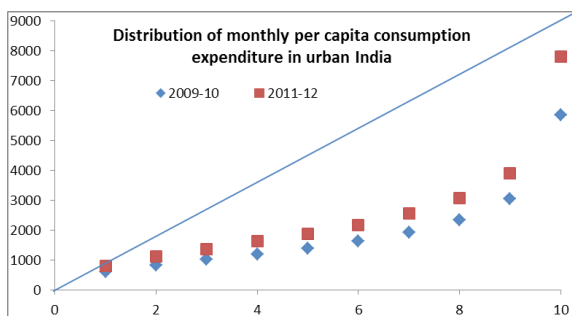
73-74/1112	9.98
9394/1112	10.20

**Chart 3**



During the period from 1973-74 to 1911-12 the rate of growth of MPCE has been 9.98% per annum. During the period 93-94 to 2011-12, this growth rate has been 10.20% per annum. Looking at the growth of PC GDP and MPCE, the rate of growth of MPCE has been much higher compared to growth of PC GDP. Thus, the consumption has been increasing at a much higher rate compared to rise in income.

**Chart 4**



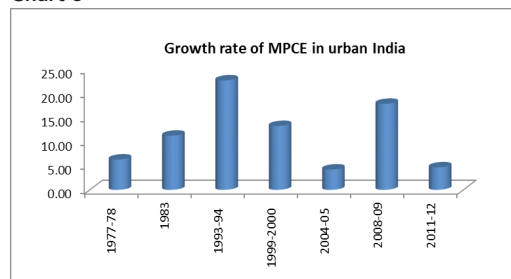
The distribution of MPCE by decile group has been shown in the above chart. Lorenz curve for the years 2009-10 and 2011-12. As is clear from the graph that it is the upper most income group that has witnessed a high consumption growth.

For most of the groups, the consumption has remained almost the same during the years from 2009-10 to 2011-12.

**Table 5 Monthly Per capita Expenditure at Current and Constant Price (1987-88=100)**

years	MPCE curr p	MPCE at conP
1987-88	249.92	249.92
1993-94	464.30	268.38
2004-05	1104.60	326.80
2009-10	1856.01	368.99

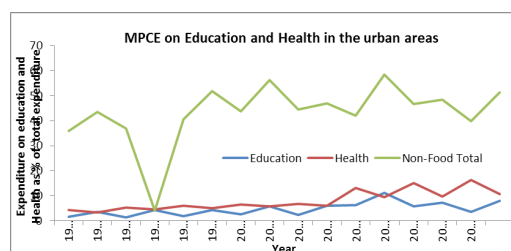
**Chart 5**



**Table 6 Regression results of Growth of PCGDP and MPCE in urban areas**

Multiple R	0.136996924
R Square	0.018768157
Adjusted R Square	0.177478211
t- stat	0.30925
Significance F	0.769603

**Chart 6**



**Table 7 MPCE on education and Health in Urban India**

Year	Education	Health	Non-Food Total	Total Expenditure
1987-88	3.5	3.3	43.6	249.9
1993-94	4.2	4.6	46.3	458
1999-2000	4.3	5.1	51.9	855
2000-2001	5.7	5.8	56.2	914.6
2001-02	6.1	5.9	46.9	932.8
2004-05	11.17	9.39	58.36	1060.16
2005-06	7.19	9.8	48.37	662.81

**Table 8 Annual Growth rates of MPCE on various items**

years	Educa-tion	Health	Non-Food Total	Total Ex-penditure
1993-94	2.31	4.24	-25.81	7.87
1999-2000	0.39	1.73	53.29	10.96
2000-2001	32.56	13.73	8.29	6.97

2001-02	7.02	1.72	-16.55	1.99
2004-05	22.34	16.75	7.56	4.36
2005-06	-35.63	4.37	-17.12	-37.48

When the monthly per capita expenditure declines, it is the expenditure on non-food items that is affected. Hence, expenditure on non-food items is elastic with respect to total expenditure. Also, the expenditure on education and health is elastic with respect to expenditure on non-food items. This is shown in tables 9 and 10.

**Table 9 Elasticity of expenditure on education and health with respect to expenditure on Non-food items**

years	Elasticity of expenditure on education	Elasticity of expenditure on health
1993-94	-0.09	0.54
1999-2000	0.01	0.16
2000-2001	3.93	1.97
2001-02	-0.42	0.87
2004-05	2.96	3.84
2005-06	2.08	-0.12

**Table 10 Elasticity of expenditure on education and health with respect to total expenditure**

years	Elasticity of expenditure on education	Elasticity of expenditure on health
1993-94	0.29	0.54
1999-2000	0.04	0.16
2000-2001	4.67	1.97
2001-02	3.53	0.87
2004-05	5.13	3.84
2005-06	0.95	-0.12

### Conclusions:

Both GDP and PC GDP have increased during the planning period in India but PC GDP has increased at a lower rate compared to GDP.

Income inequalities have increased though marginally as reflected in rising value of Gini Coefficient.

Monthly Per Capita expenditure has increased at a much faster rate compared to PC GDP. However, at constant price the rate of growth of MPCE is very low. Thus, rise in MPCE at current price may be attributed to rising prices.

During 2009-10 and 2010-11, the consumption has increased only marginally for the lower decile income groups. It is the upper most income group that has witnessed a high consumption growth.

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