

MIDDLE CLASS 2.0 – ECONOMY

NEWS: *India's middle class has undergone significant transformation since independence, especially in the post-reform era. A key factor in this shift has been the transition from public sector employment to the private sector, which has seen a major surge since economic reforms began in the 1990s.*

WHAT'S IN THE NEWS?

The Middle Class in India

Definition of the Middle Class

- The **middle class** is generally defined as a **socioeconomic group** with an income range that places them **above the working class but below the wealthy elite**.
- It is characterized by **moderate disposable income**, allowing for spending on housing, education, healthcare, and leisure activities.
- Middle-class individuals typically hold **white-collar jobs, manage small businesses, or work in skilled professions**.

Definitions of Middle Class in India

- **Income-Based Definitions:**
 - **World Bank (2011):** Defines the middle class as individuals earning **\$10–\$50 per day per capita**.
 - **People Research on India's Consumer Economy (PRICE) (2021):** Defines the middle class as households earning **₹5,00,000 to ₹30,00,000 annually** (adjusted for **2021 Purchasing Power Parity - PPP**).
- **Self-Identification:** Many Indians perceive themselves as middle class, even if their income does not align with formal classifications.
- **Government Definition:** There is no official classification, though **income tax brackets** are sometimes used as a reference.

Emergence of the Middle Class in India

Pre-Independence Period (Before 1947): Limited & Elite Middle Class

- The **middle class before independence** was **small and elite**, primarily composed of professionals like **lawyers, doctors, teachers, traders, and colonial administrators**.
- The **British administration** favored **zamindars, bureaucrats, and Western-educated Indians**, further limiting middle-class expansion.
- India's population in **1941** was **318 million**, but the **middle class accounted for less than 5% of the population**.

Post-Independence Period (1947-1991): Public Sector-Driven Growth

- **State-led industrialization** and **government job expansion** contributed to middle-class growth.

- Employment in **Public Sector Undertakings (PSUs)**, banks, and **regulated industries** provided **stable jobs and economic security**.
- **Urbanization** increased from **17% in 1951** to **31% by the 2011 Census**.

Post-Liberalization Period (1991-Present): Private Sector Boom (Middle Class 2.0)

- Economic reforms in **1991** led to the growth of **IT, banking, telecom, and startups**, reducing the dominance of public sector jobs.
- The **service-driven economy** expanded, creating a **consumer-driven middle class**.
- The **size of the middle class** increased from **50 million in 2000** to **432 million in 2021**, making up approximately **30% of the population**.
- **Projected Middle Class Growth:**
 - Expected to reach **41% of India's population (~600 million people) by 2025** (McKinsey).
 - India's **urban population is projected to reach 675 million by 2035** (United Nations).

Challenges for Middle Class 2.0 in India

Job Insecurity & Private Sector Dependence

- Unlike the older middle class, which relied on stable government jobs, **Middle Class 2.0** faces **uncertain employment prospects** due to the rise of **startups, gig work, and contract-based jobs**.
- **Startup instability:** Many companies that once **hired aggressively** (e.g., Byju's, OYO, Paytm) have faced **funding issues and mass layoffs**.

Rising Cost of Living

- **Education:**
 - Private school fees are rising at **10-15% annually**, making quality education expensive.
 - **IITs and IIMs** have increased fees by **30-50% in the last five years**.
- **Healthcare:**
 - **70% of healthcare expenses** in India are out-of-pocket, making medical emergencies financially burdensome.

Future Outlook

- **Automation & AI** will reshape employment, necessitating **reskilling initiatives**.
- **Manufacturing growth** and **urban planning improvements** will be crucial for economic stability.
- **Digital economy expansion** and **startups** will fuel the next wave of middle-class growth.
- **India's middle-class consumption** is expected to reach **\$10 trillion by 2030**.

Public vs. Private Sector Employment

Public Sector Employment Trends

- In **1995**, public sector employment in India stood at **194.7 lakh**, encompassing jobs within central and state governments as well as public sector undertakings (PSUs).
- In stark contrast, the **private sector** accounted for only **6 lakh** jobs during the same period, indicating a dominance of public sector employment.
- However, by **2012**, the employment landscape had shifted dramatically. Public sector jobs had declined sharply to **1 lakh**, whereas private sector employment surged to **119.7 lakh**, highlighting the transition towards privatization and economic liberalization.
- The **post-2012 period** has continued this trend, with private sector employment expanding further, although official data from the **Ministry of Labour & Employment** has not been published since **2011-12** to provide precise figures.

Decline in Public Sector Jobs

- **Indian Railways**, which was once one of the largest employers in India, saw a significant reduction in its workforce, from **16.5 lakh employees in 1990-91** to just **11.9 lakh employees in 2022-23**.
- Similarly, employment in **Public Sector Enterprises (PSEs)** dropped from **22.2 lakh employees in 1990-91** to just **8.1 lakh employees in 2023-24**, further reinforcing the trend of declining government jobs.

Growth of the IT Sector

- The **Information Technology (IT) sector** has been a major driver of employment growth in the private sector, particularly in the post-liberalization era.
- Large IT firms such as **Tata Consultancy Services (TCS) and Infosys** have witnessed exponential workforce expansion:
 - **TCS** grew from **45,714 employees in 2004-05** to **4,48,464 employees in 2020**.
 - **Infosys** increased its workforce from **36,750 employees in 2004-05** to **2,42,371 employees in 2020**.
- The **COVID-19 pandemic** further accelerated the digital economy, leading to a **rapid increase in IT employment**, with the top **five IT firms employing 16 lakh people by 2022**.

Changing face of employment

Table 1: Closing Headcount at Big-5 IT Companies

	Mar 2020	Sep 2022	Dec 2024
TCS	4,48,464	6,16,171	6,07,354
Infosys	2,42,371	3,45,218	3,23,379
Wipro	1,82,886	2,59,179	2,32,732
HCL	1,50,423	2,19,325	2,20,755
Tech Mahindra	1,25,236	1,63,912	1,50,488
Total	11,49,380	16,03,805	15,34,708

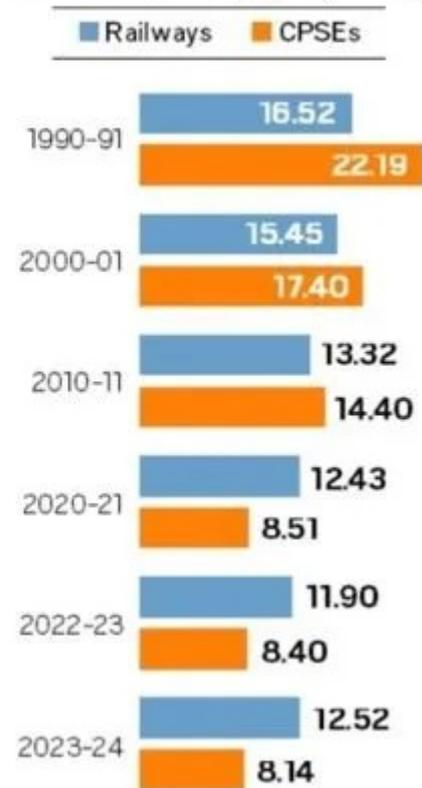
Source: Company quarterly results.

Table 2: Employees in Scheduled Commercial Banks

	Public	Private*	Total**
1991-92	8,47,412	63,398	9,76,931
2000-01	7,85,826	75,670	9,26,518
2010-11	7,75,688	1,95,311	10,50,885
2015-16	8,27,283	3,87,926	13,00,934
2020-21	7,70,800	6,00,096	15,66,913
2022-23	7,56,644	7,72,473	17,65,017
2023-24	7,46,679	8,74,049	18,72,217

*Includes Foreign Banks; **Includes Region of Rural, Small Finance and Payments Banks. Source: Reserve Bank of India.

Number of regular employees (in lakhs)



Source: Indian Railways and Public Enterprises Survey annual reports.

Banking Sector Transformation

- The **banking sector** has experienced a major employment shift, with public sector banks witnessing a decline and private sector banks expanding their workforce.
- In 1991, **public sector banks employed approximately 8.5 lakh people**, but this number decreased to **7.7 lakh by 2020**.
- Meanwhile, **private sector banks** have expanded aggressively, employing **8.74 lakh people in 2023-24**, surpassing **public sector banks**, which now employ only **7.5 lakh employees**.

Challenges and Shifts in Employment

Private Sector-Led Middle Class 2.0

- The decline in public sector jobs and the rise of industries such as **IT, finance, and banking** have given rise to a **new middle class**, often referred to as **Middle Class 2.0**, which is predominantly driven by private sector employment.
- In contrast, the traditional **public sector-led middle class**, which benefited from stable government jobs and employment security, has been shrinking.

Structural Employment Challenges

- Unlike **China**, which successfully transitioned a significant portion of its workforce from **agriculture to manufacturing**, India has **struggled to move workers into high-productivity sectors**.
- As of **2023-24**:
 - **Agriculture** still employs **42% of the workforce**, indicating slow structural transformation.
 - **Manufacturing** has stagnated at **11.4%**, failing to absorb surplus agricultural labor.
 - **The services sector** has grown significantly but consists of a large number of **informal, low-paying, and temporary jobs**.

Gig Economy and Informal Jobs

- The **gig economy** has rapidly expanded, with companies like **Uber, Swiggy, and Zomato** employing millions of delivery partners and drivers.
- However, these jobs **lack stability, social security benefits, and career growth opportunities**, making them unsuitable for long-term middle-class aspirations.

Source: <https://indianexpress.com/article/explained/explained-economics/middle-class-changing-employment-sector-in-india-and-its-one-big-challenge-9839657/>