

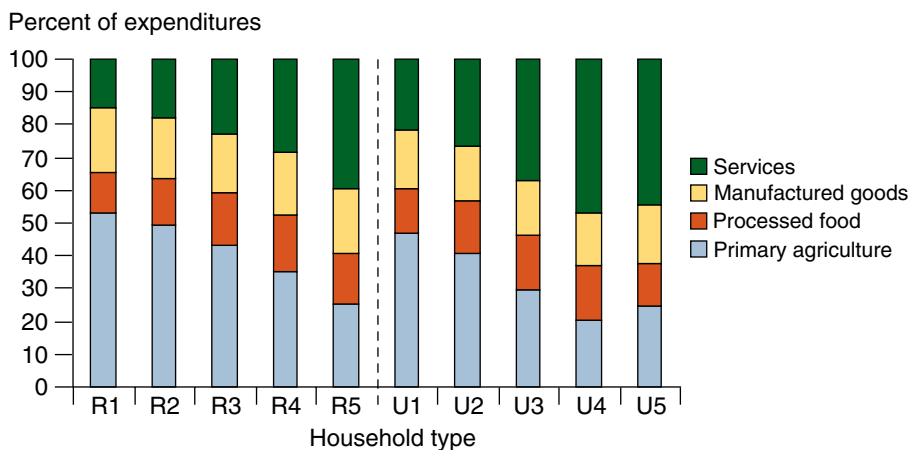
## Household Income and Expenditure Patterns

In the context of the recent poor performance of India’s rural sector and the implications for poverty reduction, policymakers are likely to be particularly concerned about how various types of households, particularly rural and low-income households, are likely to gain or lose from a policy change. The distribution of outcomes across households is determined by the diversity in their sources of income and by the composition of their spending. To explore the impacts of marketing efficiency gains across households, we use a database developed by Saluja and Yadav (2006) to disaggregate the GTAP data—which describe a single aggregate household—into multiple households defined by rural or urban location and by income class. The Saluja and Yadav database describes 10 household types in India, 5 urban (U) and 5 rural (R), each with 5 expenditure classes: abject poverty (R1, U1); poverty (R2, U2); middle income (R3, U3); upper income (R4, U4); and high income (R5, U5). We use the income classes defined by Saluja and Yadav to disaggregate the single aggregate household in the GTAP data to the same 10 household types.<sup>8</sup>

In the model database, expenditures on food, comprised of primary agricultural products and processed foods and their related marketing margins, account for 47 percent of India’s private consumption expenditures on goods and services (excluding expenditures on savings and taxes). In general—and as expected in a developing country like India—food accounts for a larger share of expenditure by rural households than by urban households, and poorer households spend proportionately more on food than do wealthier households, in both rural and urban areas (fig. 3). Also as expected, the composition of food expenditures varies across income. In general, poor households consume more whole grains and other unprocessed agricultural products than do high-income households. At higher incomes, households consume more dairy, poultry, and other processed foods, as opposed to primary agricultural products (fig. 4).

<sup>8</sup>See appendix 1 for a detailed discussion of how the household data were disaggregated.

Figure 3  
**Composition of Indian household consumption expenditures by household type**



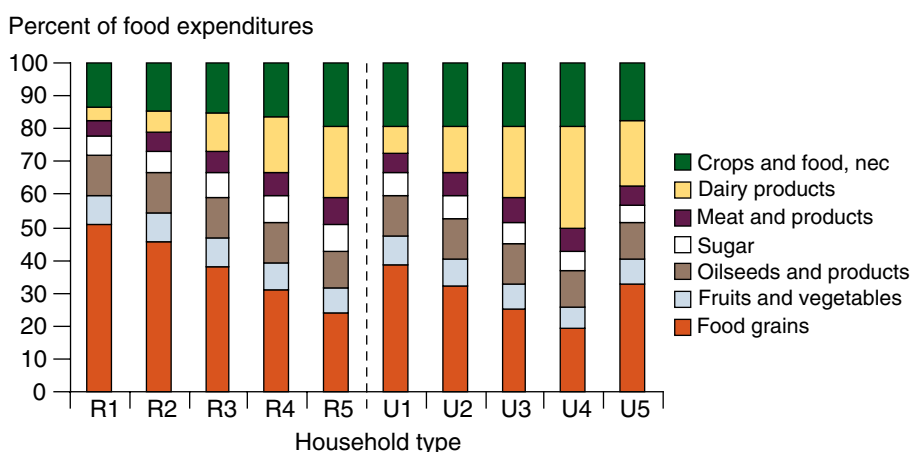
R = Rural; U = Urban; R1, U1 = Abject poverty; R2, U2 = Poverty; R3, U3 = Middle income; R4, U4 = Upper income; R5, U5 = High income.

Source: Saluja and Yadav, 2006; Global Trade Analysis Project Version 6 database.

Marketing costs for agricultural and food products in India account for a substantial proportion of household expenditures—about 5 percent of total Indian household spending on all goods and services. For all households, expenditures on marketing services are about 11 percent of the food budget. Across households, the share of total household expenditures on food marketing services tends to fall as household incomes rise, a pattern that reflects the declining share of food expenditures in the household budget as incomes rise (fig. 5). Within the food expenditure basket, however, the share of spending on marketing services rises as household incomes rise (fig. 6).<sup>9</sup> This pattern reflects the shift toward consuming goods with higher marketing costs as household incomes rise. Lower income households, in contrast, tend

<sup>9</sup>The exception to this pattern is the highest income urban households (U5), where the share of household food expenditures spent on food marketing services is relatively low. The likely explanation is that these, generally larger, households purchase relatively large amounts of food that require little processing or other marketing services, perhaps to meet the requirements of large extended families and/or household servants.

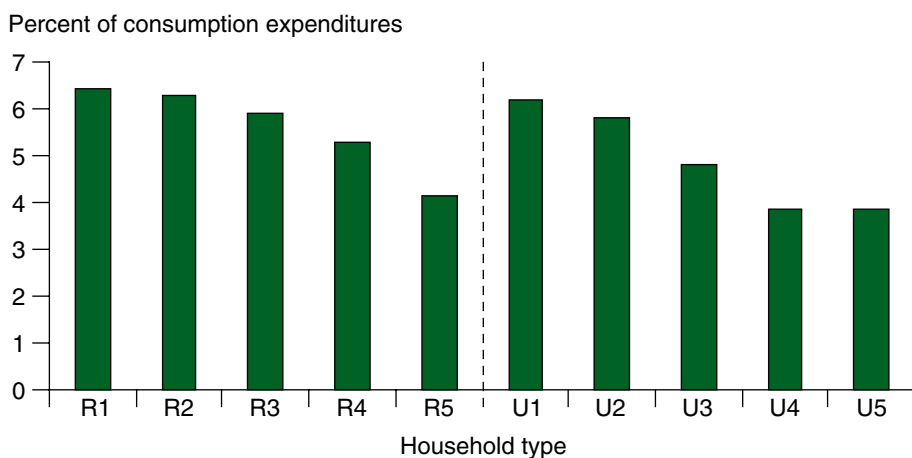
Figure 4  
**Composition of Indian household expenditures on food by household type**



nec = Not elsewhere classified; R = Rural; U = Urban; R1, U1 = Abject poverty; R2, U2 = Poverty; R3, U3 = Middle income; R4, U4 = Upper income; R5, U5 = High income.

Source: Saluja and Yadav, 2006; Global Trade Analysis Project Version 6 database.

Figure 5  
**Food marketing costs in India as share of total household consumption expenditures by household type**



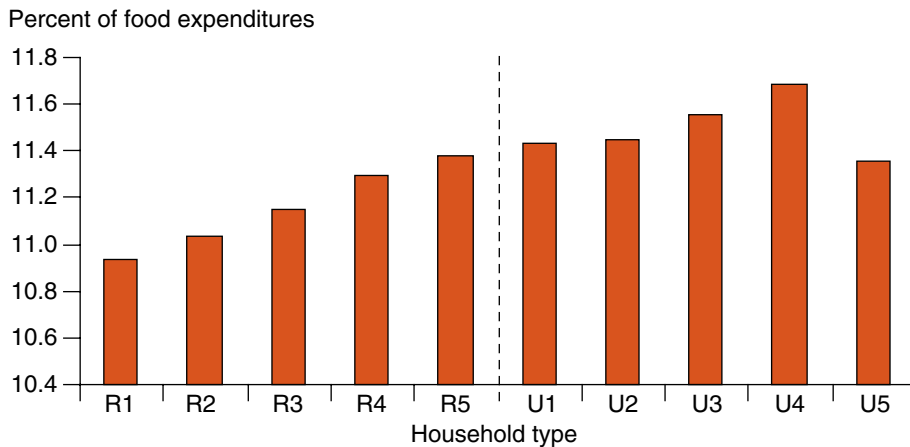
R = Rural; U = Urban; R1, U1 = Abject poverty; R2, U2 = Poverty; R3, U3 = Middle income; R4, U4 = Upper income; R5, U5 = High income.

Source: Saluja and Yadav, 2006; Global Trade Analysis Project Version 6 database;

to consume unprocessed agricultural products with relatively low marketing costs.

Indian households also differ in their sources of income—returns from land, labor, and capital. Wages are the more important income source for poorer households in India, with the role of capital and land-based earnings rising with income (fig. 7). Any changes in wage incomes are therefore likely to have the most impact on lower income rural and urban households, whereas changes in returns to capital—and to land—will be felt mostly by higher income households.

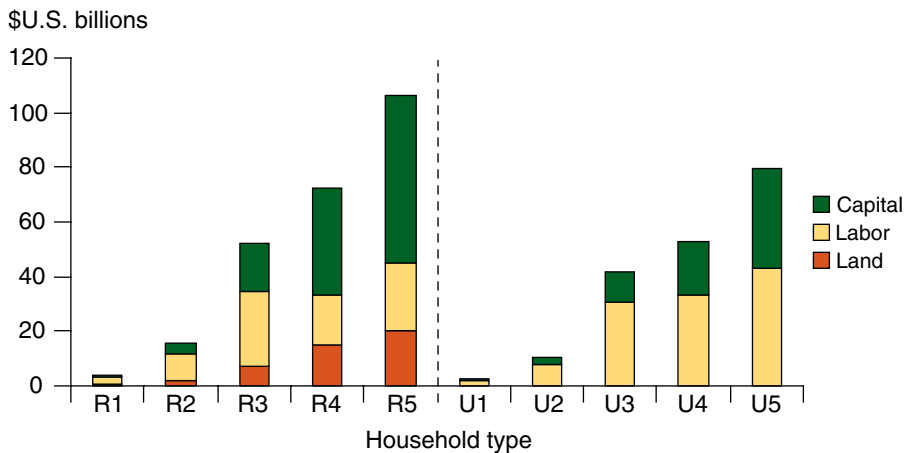
Figure 6  
**Food marketing costs in India as share of household food consumption expenditures by household type**



R = Rural; U = Urban; R1, U1 = Abject poverty; R2, U2 = Poverty; R3, U3 = Middle income; R4, U4 = Upper income; R5, U5 = High income.

Source: Saluja and Yadav, 2006; Global Trade Analysis Project Version 6 database; author calculations.

Figure 7  
**Sources of income for Indian households by household type**

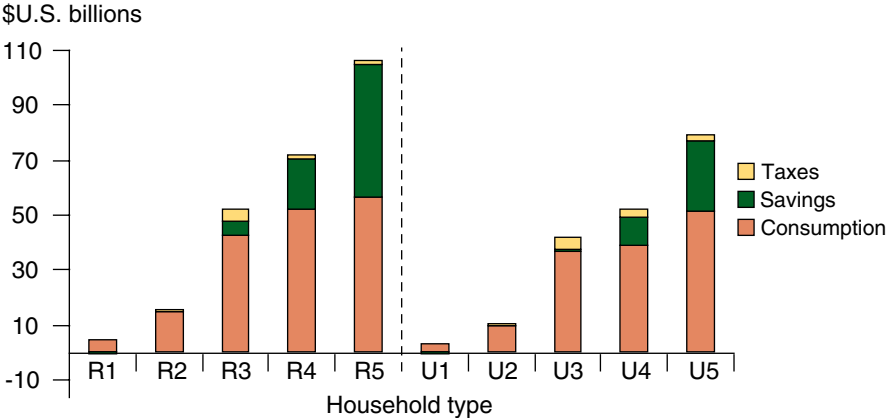


R = Rural; U = Urban; R1, U1 = Abject poverty; R2, U2 = Poverty; R3, U3 = Middle income; R4, U4 = Upper income; R5, U5 = High income.

Source: Saluja and Yadav, 2006; Global Trade Analysis Project Version 6 database.

Household savings and tax rates differ substantially across Indian households. Savings rates are either negative or negligible in lower income rural and urban households but rise with income: The highest income rural (R5) and urban households (U5) save 33 percent and 23 percent of their respective after-tax incomes (fig. 8). Tax expenditures are relatively low for all Indians but tend to be highest in middle-income rural and urban households.

Figure 8  
**Indian household consumption, savings, and taxes by household type**



R = Rural; U = Urban; R1, U1 = Abject poverty; R2, U2 = Poverty; R3, U3 = Middle income; R4, U4 = Upper income; R5, U5 = High income.

Source: Saluja and Yadav, 2006; Global Trade Analysis Project Version 6 database.