Misleading Picture of Household Wealth

What is the issue?

India lacks an official source of data that allows for meaningful assessments of trends in distribution of household wealth

What is the anomaly?

- In recent year's economy as a whole performed poorly.
- However businesspersons have accumulated huge volumes of wealth in short span of time and conspicuous consumption is also on the rise.
- Observers conclude that income and wealth inequality in India has increased but it is difficult to get firm evidence on the extent of increase.

Why consumption expenditure survey is not adequate?

- It inadequately captures the gains registered by high-saving upper income group.
- It underestimates consumption in the upper percentiles of the distribution.
- Therefore consumption expenditure surveys fails to accurately reflect trends in inequality.

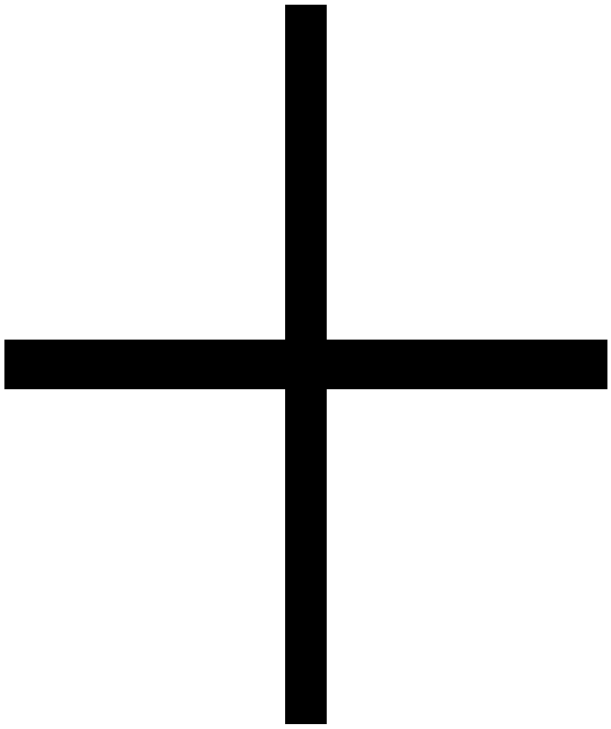
What are the shortcomings in "Surveys of Asset Holdings by Households"?

- **Canvassing Method -** Using canvassing method could lead to under-reporting as richer households may not report the incomes used to acquire assets.
- **Undervaluation of assets** - The methods of valuation of holdings and assets are unreliable.
- Bullion which is a major form of wealth holding among the middle- and upper-income groups has been left out.
- All this result in underestimation of wealth holding especially among highest asset holding classes.

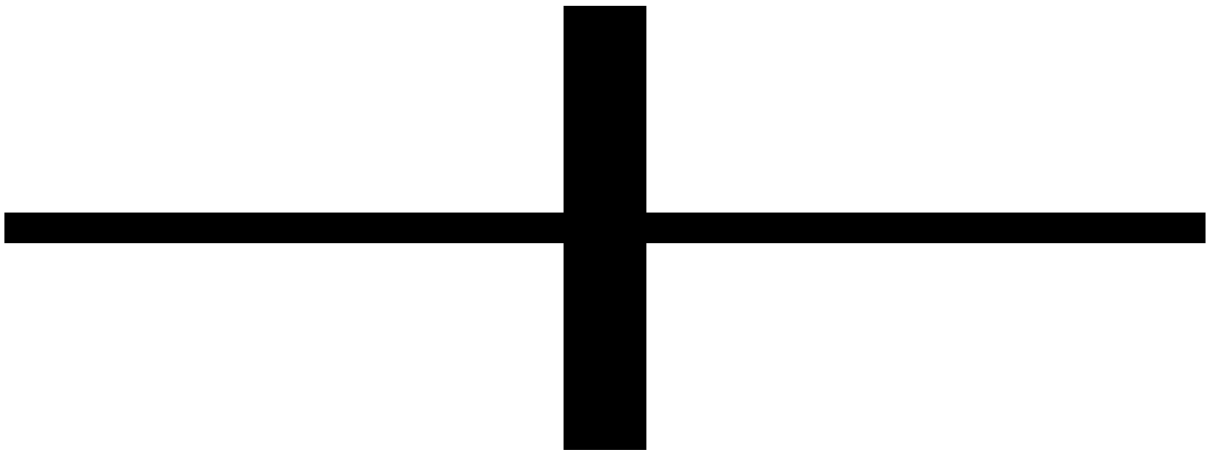
Do the results look misleading?

- **Findings 1 -** Asset inequality declined in mid-2018 compared to mid-2012, especially in urban areas.
- **Findings 2 -** The ratio of the **value of assets** held by the wealthiest decile (top 10% households) to that held by the bottom 40%, fell from
    - 11.5% to 8.6% in rural households (3%)
    - 48.2% to 27.7% in urban households (20%) (Chart 1).

- The evidence that asset inequality in rural areas is lower than in urban areas is in sync with other evidence
- However a decline in asset inequality (nearly 20%) in urban areas is definitely not.

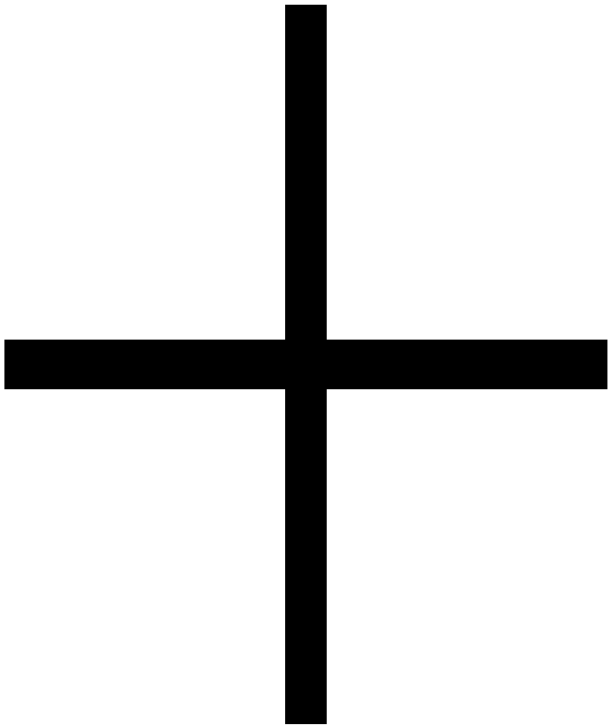


- **Findings 3 – Comparing 2013 and 2019 surveys rural-urban asset inequality have declined significantly.**
- Examining the average annual increase in the value of assets (deflated using the wholesale price index) held in different decile groups and overall over 2012-2018 (Chart 2), we find the following.

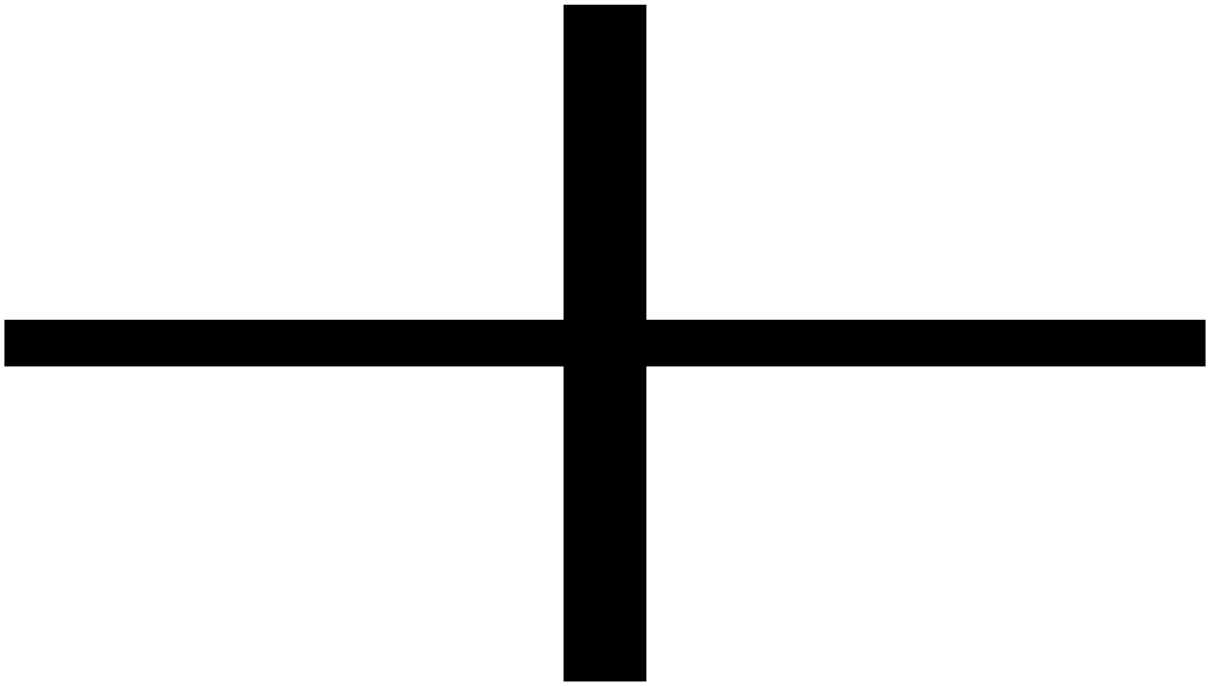


- **Asset value growth** was higher in the lower deciles groups(in both rural and urban areas)
- The real value of asset holding rose by

    - 6.6% per year on average in rural households.
    - 0.9% in urban areas.
- **Asset holding** rose to a greater extent in rural than in urban areas (in most groups).
- As a result, the ratio of the average asset holding in urban areas to those in rural areas have declined from 2.3 in 2012 to 1.7 in 2018.
- Also the extent of rural-urban inequality in asset holding among the richest 10% was not very different from that among all households surveyed
- The urban-rural asset holding ratio amongst the richer households also declined from 2.6 to 1.9 (Chart 3).



- However given the sharp rise in real estate prices in urban areas and in the prices of financial assets which are known to be disproportionately acquired by the urban rich, this does not seem plausible.
- For example, the value of the Bombay Stock Exchange index (Sensex) got more than doubled between 2012 and 2018.
- **Findings 4 -** There are variations in the average asset holding in household groups classified according to household expenditure.
- In 2018, the level of average household asset holding rises with household expenditure as expected, but only up to the fourth quintile.
- For the 20% of households reporting the highest household expenditure in both rural and urban areas, asset holding was supposedly lower than in next lower quintile, and even lower than in the third quintile of households (Chart 4). This too is clearly implausible.



Reference

1. https://www.thehindubusinessline.com/opinion/columns/c-p-chandrasekhar/misleading-picture-of-household-wealth/article38223188.ece

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