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Income Inequality in India - Patterns, Causes and Consequences

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ABSTRACT: Income inequality in India refers to the unequal distribution of wealth and income among its citizens. According to the CIA World Factbook, the Gini coefficient of India, which is a measure of income distribution inequality, was 35.2 in 2011, ranking 95th out of 157.^[1] Wealth distribution is also uneven, with one report estimating that 54% of the country's wealth is controlled by millionaires, the second highest after Russia, as of November 2016.^[2] The richest 1% of Indians own 58% of wealth, while the richest 10% of Indians own 80% of the wealth. This trend has consistently increased, meaning the rich are getting richer much faster than the poor, widening the income gap.^[2] Inequality worsened since the establishment of income tax in 1922, overtaking the British Raj's record of the share of the top 1% in national income, which was 20.7% in 1939–40.^[3] According to Thomas Piketty, it is difficult to accurately measure wealth inequality in India because of large gaps in income tax data. Official data from 1997-2000 contained many inconsistencies, while no data was published between 2000-2012. Then, in 2013, official income tax figures showed that only 1% of Indians paid tax that year, while only 2% filed a tax return. This lack of reliable data makes it essentially impossible to make significant, numerical conclusions about income inequality in India.^{[4][5]}

Since much of the population is not represented in income-tax databases, most of the calculations (such as NSSO) are based on consumption-expenditure data instead of income data.^[6] According to the World Bank, the Gini coefficient in India was 0.339 in 2009,^[7] down from previous values of 0.43 (1995–96) and 0.45 (2004–05).^[8] However, in 2016, the International Monetary Fund, in its regional economic outlook for Asia and the Pacific, said that India's Gini coefficient rose from 0.45 (1990) to 0.51 (2013).^[9]

According to the 2015 World Wealth Report, India had 198,000 high-net-worth individuals with a combined wealth of \$785 billion.

KEYWORDS: income inequality, India, tax, numerical, expenditure, potential, per capita, education, poverty

I. INTRODUCTION

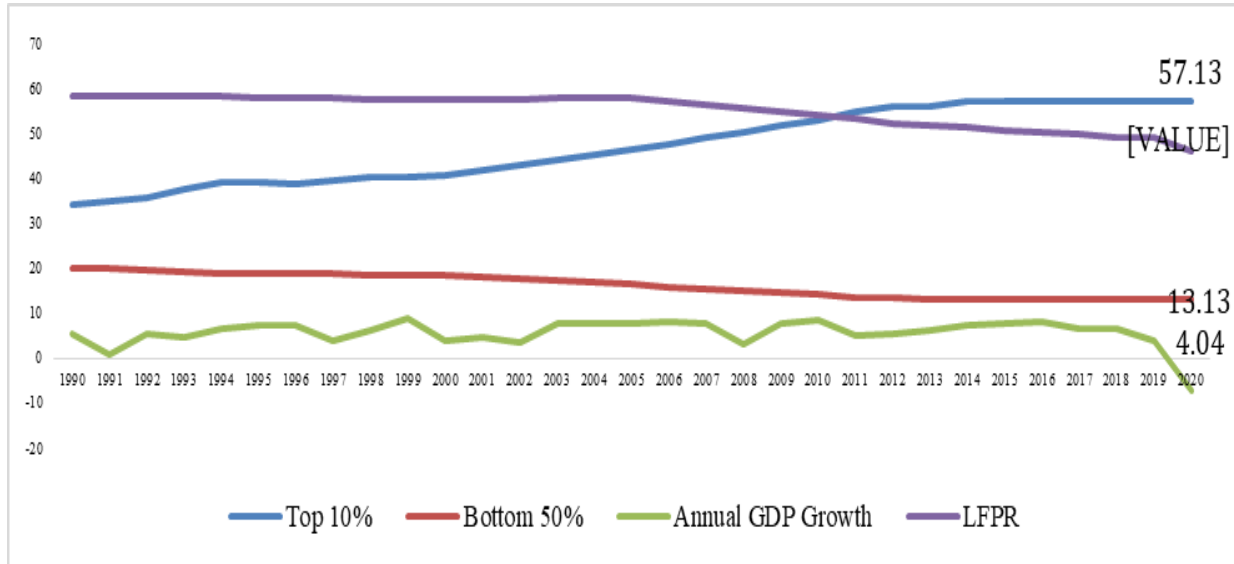
N. C. Saxena, a member of the National Advisory Council, suggested that the widening income disparity can be accounted for by India's badly shaped agricultural and rural safety nets. "Unfortunately, agriculture is in a state of collapse. Per capita food production is going down. Rural infrastructure such as power, road transport facilities are in a poor state," he said. "All the safety net programmes are not working at all, with rural job scheme and public distribution system performing far below their potential. This has added to the suffering of rural India while market forces are acting in favour of urban India, which is why it is progressing at a faster rate."^[12]

India's economy continues to grow with its GDP rising faster than most nations. But a rise in national GDP is not indicative of income equality in the country. The growing income inequality in India has negatively impacted poor citizens' access to education and healthcare. Rising income inequality makes it difficult for the poor to climb up the economic ladder and increases their risk of being victims to poverty trap.^[13] People living at the bottom 10% are characterized by low wages; long working hours; lack of basic services such as first aid, drinking water and sanitation.^[8]

Over the years, India has experienced severe income/wealth inequality. The finding on inequality remained consistent regardless of the approach used to measure it. In other words, wealth/income disparity has shrunk slightly. Different sources, however, provide a different picture of the country. According to the State of Inequality in India Report, extreme poverty in India has decreased by 12.3 percentage points between 2011 and 2019 and remains low. However, the report observes that rich 0.1% has been found to account for 5 to 7 percent of the national income in the country. In 2019-20, the top 1% earns almost thrice as much as the bottom 10%. It finds that the share of the top 1% in the total income is 6.82% whereas the top 10% earns 32.52% of total income. While the bottom 50% only held approximately



22% of total income. As per the Periodic Labour Force Survey (PLFS) 2019-20, a monthly salary of a minimum of Rs 25,000 (Rs 300,000 yearly) is amongst the top 10% of the total wages earned. This is an alarming finding presented by the report. It demonstrates that with a 3-lac annual income, one may be among the top 10% wage earner.



NFHS-V (National Family Health Survey), report finds that 54% rural population (bottom 40% of the total population) belonged to the two bottom quintiles (poorest and poor) groups while in the urban area only 10.4% of the population is poor. Additionally, 74% of the urban population in India belonged to the top two wealth quintiles (richest and rich). It shows that there is a skewed higher poor population in rural India.

It also highlights high regional inequality among the states in the country. Northern and northeastern states fair worse when it comes to their population percentage in the bottom two wealth quintiles. Twelve states and union territories have more than half of their population in the bottom two wealth quintiles. Assam, Bihar, and Jharkhand are the top three states with the highest population in the bottom two wealth quintiles. Delhi, Goa, and Kerala are three states (in that order) that have the lowest population in the same category. According to the report, the country has a pronounced north-south divide, with southern states performing better than northern ones while dealing with income inequality. In contrast, southern states have a lower proportion of the poor who fall into the bottom two quintiles of income.

Another study, World Inequality Database (WID) Report, puts India in the category of ‘extreme inequalities’ countries. The report states that ‘the average national income of the Indian adult population is INR 204,200. While the bottom 50% earns INR 53,610, the top 10% earns more than 20 times more INR 1,166,520. While the top 10% and top 1% hold respectively 57% and 22% of total national income, the bottom 50% share has gone down to 13%. India stands out as a poor and very unequal country, with an affluent elite’. This inequality widens when we compare the wealth possession of the top 10% and the bottom 50% population. Reports find that the top 10% population in India owns 65% and the bottom 10% is just 6% of the nation’s household wealth. i.e., to say that wealth inequality in India between two top 10% and bottom 50% is more than income inequality.

For a micro-level study, the World Inequality Report, must be compared to the just-released State of Inequality in India Report. Both analyses find significant income disparities between the bottom 50% and top 10% of the population. WID, however, places a higher value on the inequality between these groups than PLFS. According to WID and PLFS, the top 10%’s income is different from the bottom 50%’s by 24.5 percentage points. i.e., the top 1 or 10 percent of the population, on average, have higher incomes than what the PLFS reports, according to WID.

II. DISCUSSION

It is challenging to directly compare the NFHS-V dataset to the WID and PLFS datasets since it does not include information on income disparity between the poorest 50% of the population and the top 1% or 10% of the population and only provides information on wealth quintiles. According to the study, the wealthiest households are concentrated in urban areas that solely estimate the population proportion in each quintile. There can be several reasons for rising income inequality in India. Inequality of both income and wealth is exacerbated by one of the lowest female participations in the world which is just above 18% . According to the World Bank, overall labour force participation rate for India is as low as 46.3 which is lower than that of Pakistan (50.2%). The total labour force participation has been on the decline since 2010 and it was lowest in 2020 in the decade which contributed to keeping a large number of Indians under poverty.

India has had strong economic growth throughout the years, but this prosperity has not led to a reduction in poverty in the nation. The graph demonstrates that since 1990, there has been an increase in income disparity between the bottom 50% of the population and the top 10%. It is clear that the services and industrial sectors were unable to produce jobs, despite the strong economic development.

Second, the Inability of the industry and services sector to generate sufficient jobs for people migrating from agriculture is another reason for high unemployment and higher unequal population belonging to the bottom 50% population in India. In this period, there is a 10 percent decline in the workforce in the agriculture sector and subsequently 4 percent and 6 percent increase in industry and services sector respectively. From 2012-2019, there is not even a 1 percentage point increase in the workforce employed in the industry sector. i.e., it is a stagnant sector now which includes iron and steel, textiles, automobiles, IT, etc. are not sufficiently producing the jobs. Third, social service spending in India has grown over time, going from 6.2 percent in 2014–15 to 26.6 percent . (As per Budget Estimates). Health spending has steadily increased from 4.5 percent to 6.6 percent, whereas social service spending in education has somewhat decreased (from 10.8 percent to 9.7 percent). Even Nevertheless, hefty out-of-pocket medical expenses are pushing individuals into poverty. A family's ability to afford schooling can also push them below the poverty threshold. Even more concerning is the fact that education's percentage of overall spending has decreased over the past ten years, falling to 10.4.

Fourth, as per the State of Inequality in India Report, 20.71% were casual workers, 33.50% were regular workers, and 45.78% were self-employed workers. The report claims that the labour force participation rate for the year 2019-20 is 50.2% (FLFP was 30%, and MLFP was 76.8%). The rural LFPR in 2019-20 was 50.7% and urban was 49.3%. With a high percentage of casual workers and low LFPR it is expected that there would be a higher poverty percentage in India as NFHS-V, corroborates. According to it, 45% of households in the country have BPL cards (Below Poverty Line) which is a marker to recognize the poor. However, access to BPL cards cannot be a robust marker to measure poverty as according to NFHS-IV, 2015-16, 38.6 % of households had BPL cards which are lower than the latest findings (45%). This does not align with the declining poverty in India and ideally, the percentage of households having BPL cards should go down over the years.

III. RESULTS

With low LFPR (50.8 in 2019-20) and a high unemployment rate (4.8% in 2019-20) curbing inequality is going to be a daunting task for the Government of India. More so when 71 percent of the population in scheduled tribe and 49 percent of the population in scheduled caste belong to the two bottom-most lowest wealth quintiles (NFHS-V, 2019-20). Thus, it can be contended that there is a higher percentage of marginalized communities which overwhelmingly belong to the bottom wealth quintile in the country and this, in turn, contributes to the overall higher poverty percentage. The Indian government and several other states need to do more in terms of generating employment opportunities and higher spending on social services such as health, and education while trying to combat inequality.

Reasons for Income Inequality

- There are many reasons for the rise in income inequality in India some of them are as follows:
- The rise of a rentier class that seeks to maximise its leverage in fixed assets such as lands and property to extract as much as income as possible
- With a 2019 study by the Reserve Bank confirming that housing affordability has significantly deteriorated over the last four years, it is unsurprising how millennials now choose to rent rather than bear the increasingly unaffordable burden of high EMIs.
- Unemployment is also a major reason for the low productivity of labour which can push many into poverty. It is a fact that inequality, poverty and unemployment are related to each other. The lack of sufficient employment not being created in time is the reason why there is an income gap today between classes.
- During inflation, less profit is made and wage earners are the ones who bear the losses. While profits are on the rise, the wages have remained more or less the same. Also, while money income rises, real income falls, leading to a decrease in the overall standard of living.
- High tax rates are responsible for inequality in the distribution of income and wealth. This is due to undue concentration of incomes in a few hands caused by large-scale tax evasion.

Consequences of Income Inequality

- This goes against constitutional ideas of equality of status and opportunity and the equitable distribution of wealth.
- Regional imbalances will pose a serious threat to cooperative federalism.
- The government must promote inclusive growth by promoting measures like land reform, social security pensions, scholarships and skill training for vulnerable communities.
- It must also explore introducing inheritance tax for the super-rich.
- Private sector investment is also a necessity and that has to be encouraged by improving the business environment, discouraging tax-terrorism, and promoting pro-enterprise policies.
- According to Oxfam erosion of workers' rights; excessive influence of big business over government policymaking and the relentless corporate drive to minimise costs to maximise returns to shareholders are major causes of income inequality.

IV. CONCLUSIONS

Way Forward

- Government has to ensure that its policies address these causes and ensure the creation of a free and fair market.
- Quality of public services like health and education is also a great leveller and the government must also focus in this regard.
- The Central government and NITI Aayog should evolve policies to correct inequalities between states and bring out cooperative federalism in its true form.
- A comprehensive plan to promote inclusive growth is the only solution to address the income inequality problem in India.



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