

Addressing Rapidly Growing Inequality in India

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[Abstract: The World Inequality Report 2018 (WIR), published by World Wealth and Income Database (WID) which tracks information on income distribution, brought out that income inequality in India is subdued and has been worsening, which reflects the policies pursued over the past decades. Growth in China has been more robust than in India and yet the extent of inequality is high in China but much lower than in India. The Chinese have done better because of the strengthening of human capital of education and health. Going beyond populist moves, India will have to broaden its human capital base and reorient its public policies accordingly.]

The Report pointed out that income inequality in India has worsened over the past three-and-a-half decades and the top 10 per cent earners had cornered more than half of the country's national income in 2016. Among the major economic blocks, with the exception of West Asia, India's record on inequality is the worst. The funding poses a challenge to public policy that seeks redistribution of wealth. Income inequality in India in 2016 matched that in Sub-Saharan Africa (54 per cent) and Brazil (55 per cent) where the top earners accounted for a very high share of income.¹

Rise in income inequality has been more gradual in India since 1980 as compared to Russia, where it has been abrupt, and to China, where it was moderate. This is indicative of the role played by public polices and institutions in addressing inequality.²

An Oxfam report, drawing on the data in WIR and published in January 2018 on the eve of The World Economic Forum at Davos, underlines the dramatic increase in wealth inequality in India in recent years. In 2017 alone the top 1 per cent of the

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¹ Prasad, G.C. (2017), "Income Inequality in India Worsens, But Slower than Russia and China: Report," *Livemint*, December 15.

² *Ibid.*

population owned 73 per cent of the wealth. A year ago, the top 1 per cent owned 58 per cent of the stock of wealth. Thus its share, already phenomenal, is still increasing.³

Estimates of wealth and hence its distribution are highly problematic. The dramatic growth of economic inequality in India is confirmed by the WIR using another source, namely the income tax data since 1922 when income tax was introduced in India. The income tax data does not take into account the black money and is based on white economy data alone. Thus, true income disparity is not captured in the WIR. Tax data cannot be used as proxy for income distribution because the tax base is not only very narrow, but also it does not capture the income distribution of the well-off section since they generate large black incomes. So, income distribution is skewed, far more than what WIR suggests.⁴ Even if one may contest about the exact extent of inequality, the direction and rapacity of movement are unmistakable.

It is argued that the rich have disproportionately captured the benefits of liberalisation. In fact, liberalisation itself is responsible for the growing inequality.⁵

Higher inequality comes in the way of demand creation. Economic growth is sustainable provided the poor are also able to rise in the hierarchy and spend on goods and services. If their incomes do not rise, then the demand cycle is interrupted. Therefore, it is essential to keep their incomes increasing at a reasonable rate. However, there is limitation to demand because of inequality. The rich run into a cliff of demand saturation. The lower income people do not have disposable income to spend on consumer goods and thus impact growth.⁶

Income inequality is not just the share of national income going to the top 1 per cent. There are deeper distributional issues. The WIR provides a comparative perspective across countries. It is instructive to compare India and China. The WIR highlights that the share of national income captured by the bottom half both in India and China after

³ Patnaik, P. (2018), "Why is India's Wealth Inequality Growing So Rapidly?" *Aljazeera*, January 26

⁴ Kumar, A. (2017), "India's Income Inequality Woes are Compounded by Its Black Economy," *The Wire*, December 28.

⁵ *Op. cit.* 3

⁶ Sabnavis, M. (2018), "India's High Inequality is Hurting Growth," *The Hindu Business Line*, January 9.

1980 has been broadly similar. The big difference between the two countries is in the fact that the middle 40 per cent in India get 23 per cent which was largely appropriated by the top 1 per cent in India. Thus, India's upper class benefited far more than the middle class and the bottom half. Both countries have had broadly similar experiences. The differential distribution can be explained by way of failure of labour intensive manufacturing in India compared to its sound success in China. In China, nearly a million people left farming because of the rapidly growing large enterprises. In India, people migrating from agriculture did not get jobs in the industrial sector. Governments in India have thus been forced to move towards populist interventions and bring about economic populism.⁷

The relatively better performance of China over India on the scale of inequality has been because along with the desire for growth, China was able to spread human capital which is devised from education and robust health. China had by the early 1970 achieved the level of schooling that India did only after more than 30 years, i.e. by the early 21st century. Similar was the status of the spread of healthcare in the two countries. The better spread of health and education in China enabled the Chinese economy to grow larger than that of India. The resulting growth could be shared by a large segment of the Chinese population on the strength of evenly spread capital in the form of education and healthcare. This explains the relative equality outcomes in China when compared to India. Because of the spread of human capital among women, too, the female labour participation rate is high in China – an outcome that eludes India. These observations provide direction that public policy in India needs to be geared for wider spread of education and healthcare among the population.⁸

⁷ Livemint (2017), "Addressing India's Inequality," September 12.

⁸ Balakrishnan, P. (2017), "Countering Growing Inequality," *The Hindu*, December 27.