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INCOME AND WEALTH INEQUALITIES IN INDIA

S K Singh

Associate Professor, P.G.G.C.G, Sector-11, Chandigarh

INTRODUCTION

Equal distribution of income and wealth is backbone for social harmony and stability in any country. Globalization created fresh opportunities for hundreds of millions of people, but the gap between rich and poor in many countries is increasing. Increase in the role of private sector coupled with increase in demand and earnings of skilled workers when compared to unskilled and semiskilled is a matter of discourse.

Persistence of economic inequalities often lead to social inequalities. The present article focuses on the various kind of economic inequalities based such as income, consumption, distribution of wealth, spatial as well as temporal inequalities

THE MAGNITUDE OF INCOME AND WEALTH INEQUALITIES

World Inequality Report, reveals that India to be among the most unequal countries in the world. While the bottom half of the population in India earns Rs 53,610, the top 10% earns twenty times more at Rs 11,66,520. While the top 10% and top 1% hold respectively 57% and 22% of total national income, the share of the bottom 50% has gone down to 13%. India stands out as a poor and very unequal country, with affluent elite.

The IMF Chief recently remarked that "The net worth of the billionaire community increased 12 fold in 15 years, enough to eliminate absolute poverty in India"(Lagarde, 2014). In fact the inequality touches everybody irrespective of one's position on the income ladder as remarked by Frank's latest World Wealth Report ,"It doesn't matter if you're in the top 1% or 0.001% if the society around you is crumbling; you're in a bad place."(Hay, 2016).

REVIEW OF LITERATURE

(1) CONSUMPTION INEQUALITIES

Sen and Himanshu (2004), critically examined previous 'adjustments' to the 55th (1999-2000) round of the NSS, and offered corrections. Part II puts this round in the context of other NSS rounds to examine the 1990s trends in their entirety.However, a detailed re-examination shows that these 'adjustments' were not correct and justified. The poverty ratio fell at most by three percentage points between 1993-94 and 1999-2000, and it is likely that the number of poor increased over this period.It is now certain that economic inequality increased sharply during the 1990s in all its aspects and, consequently, poverty reduction deteriorated markedly despite higher growth in the country.They emphasized that poverty estimates are very sensitive to both survey design and post-survey analysis.

Dev and Ravi (2007), analysed NSS data for the period 1983-2005 and found that inequality has increased significantly in the post-reform period and seems to have slowed down the rate of poverty reduction. However, changes in poverty in the two sub-periods of the post-reform era, based on mixed reference period data from the NSS, suggest that the extent of decline in 1999-05 seems to have been higher than in 1993-2000 despite the fact that latter years witnessed slower growth in agriculture.

Johannes (2011),Both China and India experienced higher economic growth that was accompanied by rising inequality, measured by the Gini index and by the gap between rural and urban in consumption expenditures. India had a modest increase in Gini, while the urban-rural gap and regional inequality is also much lower in India compared to China.

Subramanian and Jayaraj (2015), reviewed the trend of inequality in the distribution of consumption expenditure in India over the last quarter-century. The study suggests that if data deficiencies are corrected and we adopt a somewhat plural approach to the measurement of inequality, going beyond a wholly relativistic conceptualization of the phenomenon, then the outcome of statistical analysis coincides with the common perception that India experienced widening economic inequalities in recent years.

(II) INCOME INEQUALITIES

Wilkinson and Pickett (2014), find that over the last few decades large international corporations have been powerful generators of inequality. From the 1970s to the early 1980s, the CEOs of the largest companies in US, UK and in many other countries were paid 20 or 30 times as much as the average production worker. Presently, they are getting around 300 times than the average production worker. Although the widening is more extreme in the United States than in many other countries, differentials have increased in most countries. We can see similar trends in case of Indian corporate sector since 1991.

Mustafi and Mitra (2014), according to the Forbes rich list of 2011, there were 55 dollar billionaires in India that controlled over 17 per cent of its GDP while 115 billionaires of China controlled a mere 4 per cent. Among medium sized economies, only in Russia and Malaysia did dollar billionaires control more wealth than in India. Both Russia and Malaysia are known for large oligopolies, with cronies of political rulers controlling vast reserves of natural resources.

Bardhan (2014), while reviewing Piketty's book 'Capital in the Twenty –First Century' commented that as per his study, the income gap in recent years between even the top 0.1% and the remainder of the top 10% has been far wider than that between the top 10% and average income earners. India is experiencing progressive rise in inequalities since the introduction of new economic policies after mid-eighties.

Chandrasekhar and Ghosh(2016),examined the extent of inequality in the distribution of income among tax payers on the basis of income tax returns for the assessment year 2012-13. Tax returns represent only a small sample on the basis of which to assess inequality. The total number of returns reporting positive incomes for 2011-12 was about 3 crore or around 2.5 per cent of the total population and 6.4 per cent of the workforce. What is being captured, therefore, is the extent of inequality within this section of the population, excluding 97.5 of the population as has no capacity to pay income tax except a very small percentage who are not reporting to tax authorities despite taxable income.

The top 10 per cent of income earners among those paying taxes get 67 per cent of the total income earned by taxpayers and the bottom 50 per cent account for just 11.9 per cent. In the

Indian case, Piketty's figures suggest that in the most in egalitarian phases during of1910-1950, the top 1 per cent earned between 15 and 18 per cent of aggregate income in India. This figure has reached 32 per cent in 2011-12. Business incomes are concentrated largely among the top earners. The top decile accounts for 51 per cent of total business income. In the absence of time series data, it is difficult to arrive at any conclusions on trends in inequality. However, because of adjustments to the structure of income tax rates, range of tax concessions and the processes of deregulation in the financial and real sectors since 1991, and the rather unusual growth trajectory during 2003 to 2011, it is likely that inequality worsened significantly during those years.

(III) WEALTH INEQUALITIES

Gandhi and Walton (2012), found that there were two billionaires in India in the mid -1990s, worth a combined total of $3.2 billion, by 2012, there were 46, with a total net worth of $ 176.3 billion.

Sharma (2012), India has always been top-heavy with billionaires, which is partly a function of the way in-groups work to monopolize the economic pie for them. Also, the country has no wealth or inheritance taxes. But wealth at the top is exploding, perhaps faster than in any other country. In 2000 there were no Indian tycoons among the world's top-one-hundred billionaires, and now there are seven, more than in all but three countries: the United States, Russia and Germany. In this category India outranks China and Japan.

Mustafi and Mitra (2014), observe that in the 2014 Forbes list, three Indians were richer than China's richest man, though China's economy is over four times larger. In 2013, India's richest man was worth almost double of China's richest man.

Bardhan (2014), highlights that in 2002-03 the top 1% in India held about 16% of wealth despite the fact that by and large most of the household surveys everywhere under-represent the very rich, but India may have special problems of under- reporting of land, real estate and gold holdings. In view of the under-representation of the rich in household survey data, some people turn to a highly imperfect, rough and ready, journalistic source of data on billionaire (in dollar terms) wealth, the Forbes magazine. From this data source Gandhi and Walton (2012) estimate that in 2012 the total billionaire wealth to GDP ratio for

India was higher not just than in China, but higher than even in Brazil and Saudi Arabia. This is not surprising for India where most private corporate business is family controlled. This is even more likely to be the case for the numerous rich who have not yet made it to the dollar billionaire list.

He further notes that India abolished the inheritance tax (estate duty) in 1985. The usual excuse given is that it yields only a small amount of revenue. But it is not merely that inherited wealth may have boomed in the last 30 years and this excuse does not hold, revenue is not the only rationale of the inheritance tax; reducing asset inequality is a major goal; besides, keeping of regular public records of wealth ownership. India has a wealth tax, but its domain is very limited as it exempts many usual forms of wealth including productive and financial assets.

(IV) SPATIAL INEQUALITIES

Suryanarayana (2009), analysed NSSO data for the period 1993-94 to 2004-05 to examine intra-state economic disparities in consumption and income of all districts of Karnataka and Maharashtra. In Karnataka, city of Bengaluru alone accounted for 29% of the state income, with per capita income four times greater than the poorest district of Bidar. Maharashtra is one of the most industrialised and urbanised states in India marked by large disparities. Growth, though significant, is confined largely to the non-agricultural sectors located in urban districts like Mumbai and Thane. The four urban districts of Mumbai, Thane, Pune and Nashik account for half of the state income; the other half is shared by the remaining 31 districts.

Dubey (2009), tried to capture intra-state disparities in Gujarat, Haryana, Kerala, Orissa and Punjab by using NSS Consumption Expenditure for the period 1993-94 to 2004-05. In sum, the analysis suggests that intra-state disparities, which were modest in 1993-94, have increased. The highest increase in disparity is found in case of the head count ratio (HCR). Inter-district disparity in real mean per capita total expenditure (PCTE) in 2004-05 has also increased in each of the states considered but the quantum of increase is modest, in the range of 6 to 12 percentage points.

Azam and Shari (2009), examined income inequality in rural India in 1993 and 2005 from NCAER rural household survey data. The income inequality has increased during this period.

Vanneman and Dubey (2010), found Indian income inequality reflects the high values typical of most developing economies, well above those observed for OECD countries. Crosscutting this large vertical inequality are regional and social group inequalities. Average per capita incomes vary widely across Indian states from the poorest, Orissa (median= Rs. 3.2K) to Delhi (Rs. 14.5K). Nevertheless, this seemingly large state-wise variation accounts for little of the total national inequality, hardly about 8% of the Theil inequality index. The wide differences in incomes across states account for less than 10 percent of the total income inequality in India. Most inequality is found within states. Inequality levels also vary across the states, within states and between rural and urban of the states in India. With the exception of the city state of Delhi, ginis for Indian states vary from 0.45 to 0.59.

Luiten (2011), Both China and India have had a high economic growth that was accompanied by rising inequality, measured by the Gini index and by the gap between rural and urban in consumption expenditures. Compared with China, however, India had a modest increase in Gini, while the urban-rural gap and state inequality is also much less."

Ghosal (2012), found that the nature of the growth experienced by the states is divergent for the period between 1973-74 and 2009-10 and also between 1991 and 2009-10.The study finds no uniform relation between temporal behaviour of the growth rates and the Gini inequality across the states. However, the values of Gini inequality coefficients in most of the states are found to remain high over the entire period. In fact the relation between temporal behaviour of growth rates and the Gini inequality across states are found to be paradoxical.The time profiles of growth rates, Gini inequalities and the rates of fall in the incidence of poverty do not reveal any definite desired relations.

Chowdhury (2014),by examining mean real per capita income(1980-81 to 2009-10) finds that differences across states have increased over time with a corresponding increase in the mean real per capita income(PCTE) by almost three fold. The most important aspect of the fast growth trajectory of Indian economy is that the lagging regions of the country have started growing at a faster rate during the decade of 2000 compared to the first decade of economic reform. However, regional inequality has increased over the period despite some of the poorer states registering higher growth rates post 2003-04.

THE FORMS OF INEQUALITIES

1. Consumption inequalities
2. Income inequalities
3. Wealth inequalities
4. Spatial Inequalities
5. Temporal inequalities

CAUSES OF RISING INCOME INEQUALITIES

There are number of domestic and international factors responsible for generation of inequalities in India. Viz..Weakening of labour market institutions, rent seeking behaviour, greater return to capital, free market forces, declining role of state in productive activities and information technology revolution. It could be argued that it is technological progress – which has raised demand for skilled workers relative to unskilled workers – rather than trade and globalisation which has had most impact on these workers. Often the people who lose jobs as a result of technology are not the ones who get the new ones and the result can be hysteresis in the labour market with deep pockets of long-term unemployment and hit relative poverty. Automation threatens many jobs - ranging from fork-lift drivers to workers in farming and production lines. The onus is on government to implement and fund the right supply-side policies designed to improve the human capital of people affected including lifting investment in human capital and entrepreneurship.

(1) KUZNET'S INVERTED 'U' CURVE HYPOTHESIS

The issue of income inequality assumed an eminent place in the growth literature on publication of the seminal article "Economic Growth and Income Inequality", by Kuznet (1955). Popularly known as the Kuznet's inverted 'U' curve hypothesis, it describes the inter-temporal evolution of income inequality with economic growth. The hypothesis suggests that at low level of development, income inequality first increases with growth, peaks at certain level of development and begins to decline, thereafter.

(II) RENT SEEKING HYPOTHESIS-JOSEPH STIGLITZ

Noble Laureate *Joseph Stiglitz* in his recent book, "The Price of Inequality: How Today's Divided Society Endanger our Future" argued that the process of rent seeking better explains the growing income inequality in the United States. The use of wealth generated political power by the certain groups influence the government policies, financially benefiting them and hence enabling them to "grabbing a large share of the wealth that would otherwise have not been produced without their effort"(Stiglitz,2012). Such rent seeking institutions leading to inequality

(III) WEALTH CONCENTRATION HYPOTHESIS-PIKETTY

Piketty (2014) in his much acclaimed recent book, "Capital in the Twenty-First Century" argues that rising economic disparities is an inevitable feature of free market capitalism and can only be reversed through state intervention. He argues that the fundamental reason of growing inequalities lies in the greater return to capital i.e., profit, dividends, interest, rent etc. (r) vis-a-vis economic growth (g) or income from labour. Consequently, the income and wealth tends to accumulate more quickly, specifically among the rich top centile and decile of income distribution. Overtime, wealth condensation at the top significantly contributes to growing inequalities within capitalistic societies.

(IV) FINANCIAL MARKETS HYPOTHESIS –GALBRAITH

Galbraith (2012) in his latest book, "Inequality and Instability" refutes the argument of trade openness and outsourcing as well as the mysterious forces of technology behind the rising inequalities. He argues that the forces of globalization affected all countries on both sides of Atlantic equally but inequality increased on one side only. On the contrary he put forth the new argument that "finance is the driveshaft that links inequality to economic instability". Empirical evidence documented shows how the rise of inequality mirrors the stock market in the U.S. and the rise of global finance and of free-market policies elsewhere. With globalization of financial markets, interest rates, debt, and debt crises became the dominant forces driving the rise of economic inequality almost everywhere.

CONSEQUENCES OF ECONOMIC INEQUALITIES FOR SOCIETY

In fact both low as well as high level of inequality is counter-productive. Many policymakers argue that very low level of inequality reduces the incentive for efficient and hard work, slackens the desire to move upward and the will to innovate; ultimately leading to lower productivity, income and standard of living. Very high inequalities have been criticised on account of excessive concentration of wealth, leading to serious multidimensional consequences.

Since 1990s, the World Bank began to see increasing inequality as a hindrance to sustainable growth and poverty reduction, but alarm bells became louder in 2005, when the UNDP Report warned that inequality trends not only threaten economic growth by depressing demand, reducing labour productivity, and degrading human and natural environments, but also fosters social and political conflicts that undermine governance and encourage nations to seek stability by drawing back from globalisation(Ludden, 2012).

High level of inequality damages economic growth; makes growth more volatile and sow the seeds for crisis (Shiller, 2013; Stiglitz, 2012;Patnaik 2012b;Ostry et.al.2014). More equitable distribution drives higher and sustainable growth (Todaro, 2000; Ostry et.al.2014). Inequalities lead to (a) disruption of social cohesion(trust, goodwill, fellowship, mutual sympathy and social connectedness), (b) high rate of social and health problems (life expectancy, obesity, mental illness, homicide, child conflict, drug abuse), (c) lower rates of social goods (social capital, educational performance, women status, social mobility), (d) more violence and crime, (iii) high inequality leads to political consequences in the form of low voting participation, political demand for separate/autonomous states/regions (demand of new states by people of many backward regions in India), political demands for incentives, leverages and special status by the downtrodden/left over socio-economic groups ,Neckerman and Torche(2007).

POLICY MEASURES AND CONCLUSION

Rising income inequality in India in the recent past is posing serious concern for the planners, policy makers and other stakeholders. Conscious of the serious repercussions of rising inequality, planners and policy makers once again focused on inclusive growth strategy during the 11^{th} and 12^{th} Five Year Plans and also evolved many far reaching policy initiatives. These policy initiatives notwithstanding, the income and wealth in India rapidly concentrated at the top level and attained serious dimensions in the recent past. Economic reforms contributed significantly to recent rising trend of income inequalities in the country, hence need supplementary reforms for more equitable distribution. Effective reinforcement of progressive tax policies on income and wealth along with efforts to check evasion and avoidance of taxes and removal of tax exemptions to higher income earners can play a crucial role in mitigating income inequalities. Besides increasing access and affordability to education, the quality of education is equally important. Along with bank credit, equally important is the role of market capitalisation in redistribution of income and wealth in the country .Formalisation of informal sector is important to safeguard the interests of informal labour and stop further deregulation of labour laws. The whole macro-economic management should attempt to reduce the inequality, urban-rural divides, expansion of human development, investment in human capital and all these need to be addressed through proper policy mix. Therefore it is important to enhance the capacity building of the people unlike the pro poor growth which ensured only the transfer of benefits to the poor through subsidies and other ways.

Conscious of the serious repercussions of rising inequality, planners and policy makers once again focused on inclusive growth strategy during the 11th and 12th Five Year Plans and also evolved many far reaching policy initiatives. These policy initiatives notwithstanding, the income and wealth in India rapidly concentrated at the top level and attained serious dimensions in the recent past. It is important to enhance the capacity building of the people unlike the pro poor growth which ensured only the transfer of benefits to the poor through subsidies and other ways. Imposing progressive wealth and income tax on multimillionaires will generate significant revenues for governments' wages of low end workers in developed countries stagnated or even declined, leading to widening of wage and income differentials. On the other hand, rapid explosion in electronic technology led to ICT revolution that generated phenomenal demand for the highly skill intensive more rewarding jobs. The wide gap between wages of these highly skilled workers and the traditional industry and services sector workers widened the income gaps. Growing outsourcing of low end jobs to developing countries further contributed to widening wage differentials in the developed countries (OECD, 2011).

Income inequality from a country perspective may depend on a number of internal and external factors. Globalization is creating fresh opportunities for hundreds of millions of people, but the gap between richest and poorest countries is widening and inequality within many countries is increasing. Global income inequality has declined with the increase in per capita incomes in developing countries that globalization has fostered. An increase in globalisation in developing countries leads to an increase in the level of income inequality in the long run causes frustration among the low income groups, which will negatively affect efficiency to work and co-operation between and among different segments of the population in the country, so that unequal distribution of income and wealth is a matter of serious concern.

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