Income Inequality: Problems in India

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Abstract

The Indian economy continues to grow on a global economic ground. India's development is continuously growing inspite of considerable obstacles in fostering economic growth. These obstacles are mainly with widespread poverty, limited natural resources and one of the largest population. While this growth is impressive, but India continues to have hundreds of millions of in abject poverty and much of economic prosperity has been localized to specific regions and sectors. The prosperity in software and technology sector receives daily world attention, however those languishing in poverty remains ignored. ESCAP(Economic Commission for Asia and the Pacific) in its annual report for 2006 has clearly stated "Increasing inequality in tandem with high growth has been appoint of growing concern in the Asia and Pacific region. Though perfect equality is probably unattainable, inequality becomes a problem when differences in income across sections of society are deemed to be excessive, with definition of excessive varying across countries and societies or become self - perpetuating".

Keyword: Indian Economy, Global Economic, Problems in India, Income in India, Per Capita Income.

Introduction

India has made significant economic progress over the last ten years and is rapidly emerging as a major economic force. Overall economic growth has continued at an impressive rate while specific sector. Economic growth is the increase in the market value of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Of more importance is the growth of the ratio of GDP to population (GDP per capita), which is also called per capita income. An increase in per capita income is referred to as intensive growth. GDP growth caused only by increases in population or territory is called extensive growth.

The Gross Domestic Product (GDP) in India expanded 4.80 percent in the third quarter of 2013 over the same quarter of the previous year. GDP Annual Growth Rate in India is reported by the Ministry of Statistics and Programme Implementation (MOSPI). From 1951 until 2013, India GDP Annual Growth Rate averaged 5.8 Percent reaching an all time high of10.2 Percent in December of 1988 and a record low of -5.2 Percent in December of 1979**.**

Even though economic growth has taken place and GDP increases continuously yet inequality is also widening its area as the same is being revealed by the many studies like Kuznets, Hashim's and many more also. The economic growth generally takes place in secondary and tertiary sectors of the economy ignoring the agriculture sector of the economy.

Agriculture sector is more important in country like India, where more than 50% of the population depends upon it for its income and livelihood yet the investments are more in tertiary and secondary sector of the economy resulting in less or no employment in the country. Thus, also contributing to the problem of unemployment in India.

Moreover the main focus of five year plans and industrial development is on the urban areas of the country leaving behind the rural areas of the country. But most of the population of India still lives in the rural areas or in the villages of the country. So it also lead to the increase in the inequality in the country.

Many efforts are being made at the institutional level, community level, government level etc yet there is no decrease in the rate of inequality. As the growth rate in India increases, the rate of inequality also increases in the country.

The ownership of factors of production i.e. land and capital or the ability to render services i.e. labour of different types and the ability to organize business activities enable the people to earn income.

Income earned by people however is not the same. For various reasons which we will discuss later, there is a vast difference in the amount of income earned. Equitable distribution of income takes place when people receive income according to their needs and abilities. In reality, everywhere, especially in market oriented economies, a majority gets a small share of the national income and a small minority appropriates a large share.

The Economists and social scientists have dedicated significant effort to the study of income equality. The topic has negative in importance over the years, with many scholars choosing to focus more on absolute poverty than overall income distribution. However, income equality is important because of the implications for social and political development. It is widely understood that income equality can provide stability for a nation, which can only help in fostering long-term economic growth.

Studies by Simon Kuznets, and Irma Adelman & Cynthia Morris reveal the income inequality in different country. According to Kuznets, the process of industrialization and urbanization lead to worsening of income distribution in developing countries because in the early stages, growth is concentrated in the modern sectors. However as development progresses inequality is reduced. Recent studies by professor Deepak Lal have not supported the Kuznets and Adelman-Morris conclusions. His study suggests a strong general relationship at all phases between growth and inequality reduction. Another study by G Fields in 1991 concludes that:

1. In most of the cases poverty decreases as growth increases and inequality tends to shrink rather than widen.
2. Faster the rate of growth, quicker is the reduction in inequalities.
3. There is no clear relationship between the degree of inequality in the initial phase and subsequent rate of growth.

Extent of Income Inequality in India

Distribution of income is unequal in India as it is in all other countries. In the post independent period under the Five Year Plans the government has devised various means to reduce extreme inequalities in our economy. Various measures implemented made their impact felt by reducing the inequality to a certain extent both at the bottom and top levels. Inequality in the distribution of income is reflected in the percentage shares of income or consumption accruing to portions of the population ranked by income or consumption levels. The portions ranked lowest by personal income receive the smallest shares of total income. The Gini index provides a convenient summary measure of the degree of inequalities.

Income Distribution

The income inequality prevailing in the country is clear from the evidence of growing concentration of wealth among the elite. The consumption of the top 20% of households grew at almost 3% per year in the 2000s as compared to 2% in the 1990s, while the growth in consumption of the bottom 20% of households remained unchanged at 1% per year. In comparison, the income of the bottom 20% of households in China grew at double the rate in the 2000s as compared to the 1990s, while the increase for the top 20% of households was much slower. In Brazil, household incomes have been growing faster among the poorest households than among the richest for the last two decades.

The distribution of income in our country is inequitable as it is the case elsewhere. The bottom 20 percent receive about 8 percent of the national income and the top 10 percent about 31percent in 2004-05.

Table 1.

Percentage Share of Income	**Population (Percent) 2004-05**
0-20(bottom 20%)	8.1
81-100(top 20)	45.3
91-100(top 10)	31.1

Source: World Bank, World Development Indicators, 2010.

Income distribution studies conducted in India by RBI, NCAER, P.O. Ohja & V.V. Bhatt, etc. & also data from World Bank and other sources indicate that the income is inequitably distributed. The bottom 40 percent of the population receive about 47 percent of the total income whereas the top 40 percent have more than 60 percent of the income. The bottom and top 20 percent reveal extreme inequalities. The top 10 percent receive more income than the bottom 40 percent. Over a period of time, inequalities tend to reduce along with development. Comparative Analysis of income distribution shows that there is no much difference in inequalities between the developed and developing countries.

Table 2. Plan wise Average Gini-Lorenz Ratio

PLAN	RURAL	URBAN
First(1951-56)	0.34	0.38
Second(1956-60)	0.33	0.38
Third(1961-65)	0.33	0.35
Fourth(1969-73)	0.31	0.33
Fifth(1974-79)	0.31	0.33
Sixth(1980-84)	0.30	0.33

Their study reveals that:

1. The Gini Lorenz Ratios for both rural and urban sectors were higher in the 1950 than in the 1960s and thereafter.
2. The Gini Lorenz Ratio by and large remained constant since 1966 both in rural and urban sectors. The ratios stabilized around 0.30 and 0.33 in the respective sectors.
3. The inequalities in both the sectors have not increased since 1960s.
4. Between the two sectors inequalities have been more in the urban than in the rural sector.

The above conclusions have not been accepted by all. The results are based on consumption data than the income data. The consumption data, it is argued, do not reveal the true picture, as a substantial part of the consumption of the higher income group is 48 not disclosed. The disparities in consumption expenditure as revealed by Iyenger and Brahmananda have remained constant since the mid 1960s. It is unclear why the consumption inequality has remained constant. As the income has been distributed in favour of the poor, it is natural that their consumption should have gone up due to the higher marginal propensity to consume among them. It is unlikely that the rich would reduce their consumption as the rich usually stick to the consumption standard that they have been accustomed to. Such a situation should have succeeded in bringing down the consumption disparities.

Hashim's Study

According to S.R. Hashim, income distribution in India as reflected by household consumption expenditure shows remarkable stability over the period 1951-52 to 1993-94. Lorenz ratio of consumption expenditure distribution for urban area has remained stable over this period, varying between 0.33 and 0.37 but without showing a trend over time.

Table 3.: Lorenz Ratio of Consumption Expenditure Distribution

YEAR	RURAL	URBAN
1960-61	0.32	0.35
1970-71	0.28	0.33
1983-84	0.30	0.33
1990-91	0.27	0.33
1993-94	0.28	0.34

Source: S.R. Hashim, The Indian Experience of Development: Economic growth and Income Distribution.

NSSO Study

NSSO has estimated the Lorenz ratio based on household consumption expenditure for the year 2004-05. A lower ratio implies a more equal distribution, while higher ratio implies unequal distribution.

Table 4. : Lorenz Ratio Based on Household Consumption

Expenditure in 2004-05	Lorenz Ratio
Rural India	0.30
Urban India	0.37

Source: Economic Survey, 2010-11

Thus, the NSSO study clearly shows that the inequality is higher in urban India than in rural India.

Wide Rural - Urban Disparities in Inequality Among the States

According to Economic Survey 2010-11, lower inequality was seen in rural areas of Assam (0.197), Meghalaya (0.155) and Manipur (0.158) than in Kerala (0.341), Haryana (0.323), Tamil Nadu (0.315) and Maharashtra (0.310). Similarly, lower inequality was seen in urban areas of Arunachal Pradesh (0.243), Jammu and Kashmir (0.244), Meghalaya (0.258) and Manipur (0.175) than in Chattisgarh (0.439), Goa (0.405), Kerala (0.400) and Madhya Pradesh (0.397)

Causes for Income Inequality

Cause of economic inequality in India or the inequalities of income exist in our society because of the following reasons:

Lack of Educational Opportunities

Illiteracy is one of the single factor that has kept our people idle and ignorant for centuries. So, such people have not been able to earn just sufficient livelihood for themselves.

Gap between Rich and Poor

There exists an increasing gap between rich and poor. Rich people are able to increase their resources by earning huge profits while income of poor people has not increased. This has widened gap between them.

Law of Inheritance

Some people inherit their parental property, business, etc. They remain economically strong though out while poor people inherit family debt and increased family burden. This increases the inequality.

Unequal and Unjust Land Holdings in Agriculture

The unequal and unjust holdings in agriculture is an important reason for rural inequality of income. Rich farmers have big land holdings while some farmers have uneconomic land holdings.

Increasing Unemployment

Increasing unemployment, underemployment and disguised unemployment are responsible for inequalities of income.

Growth Factor

As development proceeds, the earnings of different groups rise differently. The incomes of the upper-income and middle-income groups rise more rapidly than those of the poor. This happens in the early stages of growth through which India is passing at present.

The explanation lies in the shift of population from agriculture which is a slow growing sector to the modern large industrial sector which grows more rapidly. Again, there is the capital-intensive nature of the development of the modern sector. Since this absorbs less labour, wages form a smaller proportion of total income. Hence, the income spread is not wide enough. On the other hand, the capital-intensive type of growth leads to concentration of income in those few hands who supply capital.

Highly Unequal Asset Distribution

Incomes are derived from two main sources, namely, assets like land, cattle, shares, etc., and labour. In India a few own a large chunk of income – earning assets. Some others, who do not own, or own a part of the assets they operate, organize finances through banks, cooperatives, etc, and acquire/hire productive assets. These inequalities enable the few to get incomes in the form of rent, interest and profit.

As these assets accumulate and pass on from generation to generation, the earning capacity of these increases continuously. As for rural areas, the ownership pattern of the most important asset, namely, land, is highly unequal. The marginal households (with holdings less than 1 hectare), which account for as many as 72 per cent of the rural households own very little about 17 per cent of the land.

At the other end, there are those with large holdings (of more than 10 hectares) who are about 1 per cent of the rural households. But they have under their ownership as much as 14 per cent of the area.

Private ownership of property and inheritance laws is mainly responsible for highly unequal distribution of assets.

Inadequate Employment Generation

People at the bottom could raise their economic status and to an extent reduce the distance separating them from those at the top, if they could get work. In other words, if they did not possess adequate earning assets, they could at least earn from their labour.

But there too the situation was not favourable. For long the increase in employment opportunities remained less than the rise in the labour force.

Differential Regional Growth

Of the large many at the bottom rung of incomes, a very great proportion lives in the poor backward states regions, and most of the few at the top live in the high- income states regions.

This is the geographical facet of income inequalities for the country as a whole. Within the states also there are inequalities, perhaps larger in the poorer states. Both these aspects are the outcome of the different growth rates of the states, with a few having grown at a fast rate, and many having lagged behind.

Policy Measures to Reduce Inequality

It is necessary for the government to formulate and implement certain policy measures to mitigate inequality in income distribution. The measures may be in the form of :

Fiscal Measures

Fiscal policy through its budgetary instruments can attempt to redistribute income. The important instruments are:

Progressive Direct Taxes

Income tax, wealth tax, capital gains tax, gift tax and estate duty, when levied in a progressive manner, help withdraw more money from the rich. The poor will be exempted from these taxes by exempting minimum income or wealth from tax. The success of all these tax instruments depends on its effective implementation. Loopholes in tax laws enable the taxpayers to legally avoid tax payments. If tax evasion cannot be checked effectively, income inequalities may aggravate.

Subsidies

Cost of agricultural inputs like fertilizers, water supply, electricity, pumps and other equipment can be subsidized so that small and marginal farmers may produce more. Measures should be taken to safeguard the misuse of subsidies. Education and medical services can be provided to those below poverty line at a highly subsided rate or almost free.

Indirect Taxes

Taxes on commodities and services may turn out regressive if they are levied indiscriminately. They may help reduce inequality if such taxes are selective. Consumer durables, specially the luxurious ones like air conditioners, cars etc. and services in five star hotels, when taxed heavily help to mop up excess income of the top rich.

Monetary Measures

One of the reasons why the bottom\ section of the income group has remained so poor is their inability to acquire money capital for improving their income. Monetary policy through discriminatory rate of interest can provide the minimum required money capital at a very low rate of interest. Treating them under the priority sector will help those secure loans at the right time with minimum and simple procedure.

Public Distribution System

The real income of the bottom income group could increase if they are supplied with essential consumer items through ration and fair price shops. Such public distribution should be confined only to the lowest income group.

Social Security Measures

The low income group comprise agricultural and industrial labourers, old people without any regular source of income and the unemployed. Social security measures go a long way in providing either minimum or some additional income to supplement their meagre income. The social security may comprise:

Old Age Pension

Old people with no source of income can be provided a regular monthly income by the government to enable them to subsist.

Unemployment Benefits

With the increasing number of unemployed vis-a-vis limited employment opportunities the government is expected to support the jobless.

Social Security Insurance

Under this scheme, workers and their dependants are covered. The scheme can also be accepted by households voluntarily for a price, even by those who belong to higher income group. Medical, disablement and maternity benefits are provided under this schemes.

Employment Schemes

Employment in rural and urban areas are provided through various schemes like National Food for Works Programme, (SGSY), (SGRY), (PMGY), and many other schemes. In order to wipe out absolute poverty and extreme inequality it is necessary that the government provide permanent employment to at least one member of an absolutely poor family.

Institutional Changes

Land reforms are the example of institutional changes whereby land is distributed among the landless and ownership is given to the tiller. Such institutional reforms bring a change in the distribution of income earning assets in favour of the poor.51

Self Employment

Unemployed specially the educated can be trained and assisted to set up tiny, cottage and small industries, service oriented jobs like electricians, machine repairers etc. Promoting self employment schemes besides providing employment reduces inequality too.

Rural Development

Rural India has a larger share of unemployment and poverty. The situation leads to the migration of people to the urban area aggravating the urban problems. Promoting rural development through providing infrastructure and rural industrialization would help preventing migration, providing employment and reduction in economic inequality.

Conclusion

All these measures cannot bring a lasting solution to the inequality of income distribution. In our country these measures must be combined with rapid economic growth and effective control of population growth in order to have the desired result. The fact is that the most significant link between growth and poverty reduction is employment generation. Unfortunately, for India, the last decade is widely recognised as a decade of jobless growth, thereby further exacerbating the problem. Stagnation of agriculture, a sharp decline in employment elasticity of manufacturing sector and generally poor quality of education has resulted in much lower absorption into gainful employment of those looking for a job. So a great effort is required on part of both society as well as government. Otherwise we may end up distributing poverty instead of promoting equality.

"The disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition is the great and most universal cause of the corruption of our moral sentiments." Adam Smith

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