A STUDY ON INCOME INEQUALITY IN INDIA"

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ABSTRACT

The focus of the research will be on the temporal macro-level determinants of how inequality has changed during different policy periods in India over the past 60 years. The chapter is divided into the following sections, one of which concludes with an analysis of the possible causes of pay inequality in India. Indian Income Inequality It goes without saying that identifying the root causes of inequality is critical to developing public policy strategies that will address the problem and promote social justice. As analyzed through empirical research, little recent work has been done to identify the causes of rising income inequality and how these causes have contributed to that inequality. According to theoretical and empirical studies, there is disagreement about the various possible causal contributions of inequality within a country.

INTRODUCTION

India's economy is one of the fastest growing in the world and has allowed many people to escape extreme poverty. However, apart from this remarkable economic growth, there has also been a steady rise in inequality in India. According to Oxfam's 2018 Date to Reduce Inequality Index, it ranks 147th overall and 95th out of 157 countries in terms of inequality of income distribution. (Oxfam 2018, CIA n.d.) On the other hand, overall poverty increased by about one percent in the same decade, indicating that another 30 million people fell below India's official poverty line and fell into poverty. Between 2010 and 2020, the total number of billionaires in India increased by 108% to 102. These two figures highlight the surprising features of India's unparalleled growth over the past three decades. (Stoller 2020, Bhattacharya and Devulpalli 2019). National gaps and social mobility are hindered by economic inequality, which often leads to additional, equally important social, political, and cultural inequality. (Shastri 2004). Inequality stems from the concentration of wealth in the hands of a small group, which threatens the principles of social justice, economic stability, and group cohesion. Studies show that it can lead to economic growth by reducing demand from middle class consumers or creating debt problems. (Keeley 2015). India has been aware of this significant disparity, especially given the constraints of the COVID-19 pandemic. If people have enough space, resources and social safety net, they should take necessary precautions to fight the pandemic. Unfortunately, neither India nor other developing countries face this problem. 26 to 37 million households, or 33–47% of urban areas, are at risk of frequent falls due to lack of access to roads, sewers and drainage systems, and lack of adequate property rights. population is located. (Jain et al. 2016). Estimates based on the 2017-18 Indian Labor Force Survey suggest that over 415 million workers, or 90% of the country's population, fall under the category of "informal workers". Getting infected with COVID-19 is also difficult for those who depend on daily or weekly wages and have precarious employment, despite general concern.

REVIEW OF LITERATURE

Banerjee and Piketty (2004) studied the evolution of top incomes and wages from 1922-2000 in India using individual tax returns data. The share of the top 0.01%, the top 0.1% and the top 1% in total income shrank substantially till 1950s and continued to decline until the early to mid- 1980s but then went started rising and today these shares are only slightly below what they were in the 1920s-1930s. The authors argued that this U-shaped pattern is broadly consistent with the evolution of economic policy in India. The period from the 1950s to the early-to-mid 1980s was also the period of ‘socialist’ policies in India, while the subsequent period saw a gradual shift towards more liberalised policies which were probusiness and industry. The top 1% rich substantially increased their share in the total income. However, while in the 1980s the gains were shared by everyone in the top percentile, but in the 1990s it was only those in the top 0.1% who gained the most. India experienced the phenomenon of concentration of Income and wealth in just a few hands. **Galbraith et.al.(2004)** using the data from the ASI and the NSSO on income and employment studied pay Inequality in manufacturing in India for the period 1979 to 1998. They found increasing trend of inequality in manufacturing sector wages both at the all-India level as well as for the individual states. They argued that the Indian manufacturing retains many of the characteristics of a planned and a dual economy, with a strong influence of the state on relative wages. For the most part, industries in the public sector serve as islands of high wages amidst much lower wages in the private and competitive sectors of the economy. The differential location of these industries in the different states contributes strongly to the patterns of inequality between different states. Although certain parts of India are very much richer than others, India does not show a pattern of rising regional inequality in the last two decades in this data. Instead, the rise in inequality appears, at least within the manufacturing sector, to be a phenomenon of rising relative incomes in sectors with monopoly power. Overall, inequality has been increasing in manufacturing pay since the early 1980s, but this process of rising inequalities sharpened since the formal beginning of the reforms. **Bardhan (2007)** studied poverty and inequality in China and India. Based on the poverty estimates of World Bank, found that in case of India, official poverty estimates show that the poverty percentage declined from 44.5 per cent in 1983 to 27.5 per cent in 2004-05. The global financial press often attributes this significant decline to contemporary globalisation. NSSO data actually suggest that the rate of decline in poverty has somewhat slowed down during 1993-2005, the period of intensive opening up of the economy compared to the period of 1970s and 1980s. There has also been a decline in the rate of growth of real wages in the period 1993-2005 compared to the previous decade 1983-93.**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 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. India is in dubious company. **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.

OBJECTIVES

The main objectives of the study are:

1. To understand the structure of income inequality in India, including new temporal and spatial patterns;

2. Identify the root causes of this inequality;

3. State the effects of changing income inequality on a country's income;

4. Present more equitable and inequality-reducing policy options for the nation.

According to this research, the following variables are most important in determining wage inequality:

1. **Economic expansion** : It is now widely believed to be linked to economic growth and income inequality, thanks to the influential work of Kuznets in 1955. According to Kuznets' inverted U-curve theory, inequality rises to a certain point along with economic growth during the early stages of economic development. However, if economic growth continues, inequality eventually begins to decline. He attributed this mainly to labor market adjustments brought about by economic growth. In the early period of agricultural dominance, the growing urban industrial sector created a demand for labor. Inexperienced workers are encouraged to move to areas with more lucrative industrial jobs.

2. Financial openness : since 1991, a more profound change in the country than in the 1980s, leading to a significant increase in foreign direct investment. (GDIMG). It appears difficult to predict how the GDDIMG will affect the distribution of welfare. According to some scholars, as a result of the GDI inflow, the medium and small-scale labour-intensive industries of the country have adversely affected the income distribution of the country. Other scholars have agreed that FDI inflows have a positive effect on employment and, consequently, on income distribution. Instead, an opposing set of variables determines the GDDIMG's net effect on income distribution. For the purposes of this discussion, GDIMG has raised wages, increased employment opportunities, introduced the latest technologies, increased the competitiveness of the domestic market, and opened up more export opportunities, all of which increased income. contributed to a more equitable distribution of nationwide. For my empirical test of the effect of GDP on income distribution, I propose to transform the ratio of GDP to GDP.

3. Trade openness : The importance of international trade in economic growth and development has attracted theoretical and empirical attention. Mercantilists and scholars since Ricardo have used a variety of methods and techniques to demonstrate the importance of world trade, including absolute and comparative advantage, abundance or scarcity of resources, geographic location, etc. The Indian economy is both unregulated and unregulated. foreign trade in existence. At the beginning of economic development, policy makers prioritize import substitution strategy. The restrictive trade strategy was somewhat reversed in the 1980s. Imports increased significantly after the country's accession to the World Trade Organization in 1995 and post-reforms in the 1990s, due to trade liberalization policies that significantly increased imports and exports.

. **4. Public expenditure:**

A country like India needs to increase public spending to address the issue of access to facilities and necessities such as food, healthcare, education and other socio-economic needs and facilities. Public spending on health, education, and other basic amenities has a significant positive impact on individuals and society. (Joe et al. 2008). Government spending on these items is expected to equalize income distribution across the country. Public expenditure in these sectors is supported by the federal and state governments in a federal economy like India. The amount invested in each sector, as well as the efficiency and effectiveness of services provided to the target population in the country, affect the amount of money spent on income distribution. My believe is that social spending, especially on health and education, will equalize the distribution of income across the country to achieve this current goals.

5. Financialization: People believe that all economic activities are based on money. Financing is important to economic growth, affecting the distribution of income within an industry. Two examples of financing in practice are the availability of bank credit and the development of capital markets, particularly the stock market sector. After the nationalization of 14 major private banks in 1969, these two financial channels brought about significant changes in various policy regimes in the country, especially in the banking system. It has created a highly regulated banking system in terms of successful lending, interest rate control, cash credit ratio (CRR), statutory liquidity ratio (SLR) and placement of bank branches. On the other hand, the freedom of operation of the financial sector has increased due to the liberalization of the regulatory system, reversing the rules of the pre-reform period. Similarly, after the period of reforms, especially after 2002-2003, the liberalization and globalization of the stock market led to the expansion of the stock market. These financial developments are expected to have a significant impact on the expansion and distribution of income of the Indian economy. According to Galbraith (2012), finance is primarily responsible for the current economic instability and rising inequality.

In my view, the problem of income distribution in India is getting worse with the increase in bank credit and the growth of the equity segment of the capital market.

Methodology

The comparability and reliability of primary databases are used to assess the quality and effectiveness of any empirical study, such as the one conducted here. Ahluwalia knows the difference between the output of each state and the national accounts figures. (2000). Apart from Indian academics, other researchers focusing on development issues have pointed out issues related to adequacy and consistency of data while conducting empirical studies. (Baro, 2000). However, research can still be done using easy data. I will rely on official data published by the Central Statistics Organisation, Government of India and other relevant official departments/organisations as I am aware of the limitations of the data. In the absence of data generated by CSOs or other central organizations, I will rely on data collected and available by renowned scientists, and data produced by reputed national and international organizations such as the World Bank and the International Monetary Fund. (Banerjee et al.) Each of the following sections includes information on data indicators and relevant data sources. However, the summary is :

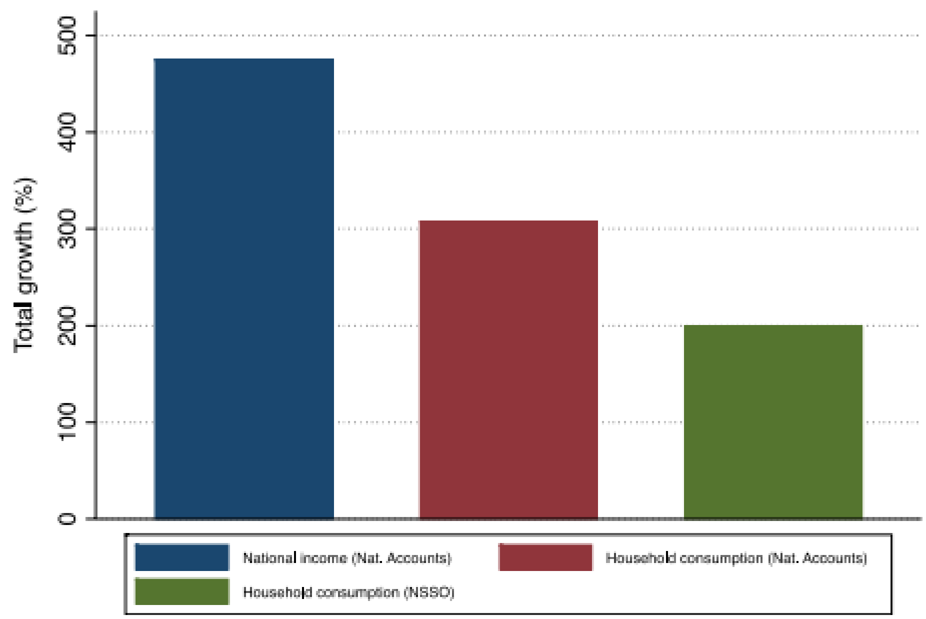
(i) unfairness

Measuring inequality requires access to validated, accurately representative data on the distribution of income among people and households in a given region of the country. State sources do not provide such data at the household level except for the mid-1970s. The National Council of Applied Economic Research collects data on the distribution of income among farms. (NCAER). Households in urban areas do not have comparable statistics. Additionally, the years covered by this data are limited to 1971, 1982, 1999, and 2006. Academics consider it the second best because of the National Sample Survey Organization's collection of rural and urban consumption expenditure data. , (NSSO). However, some foreign organizations have collected current material on India's income inequality. I will also use this information to further my current goals. The distribution of income among households is the third set of data used to assess inequality. Only a few of the latest numbers are easily accessible. Independent organizations have recently compiled statistics on the distribution of wealth around the world. (for example, a wealth report). The quantity and distribution of money in India will be examined in the same manner. In addition to these data sources, the researchers collected data on wage inequality and the income shares of the top percent of the world's population. (Galbraith, 2012). (Alvaredo et al., 2014). I will also back up my analysis of inequality with this data set based on official figures.

ANALYSIS

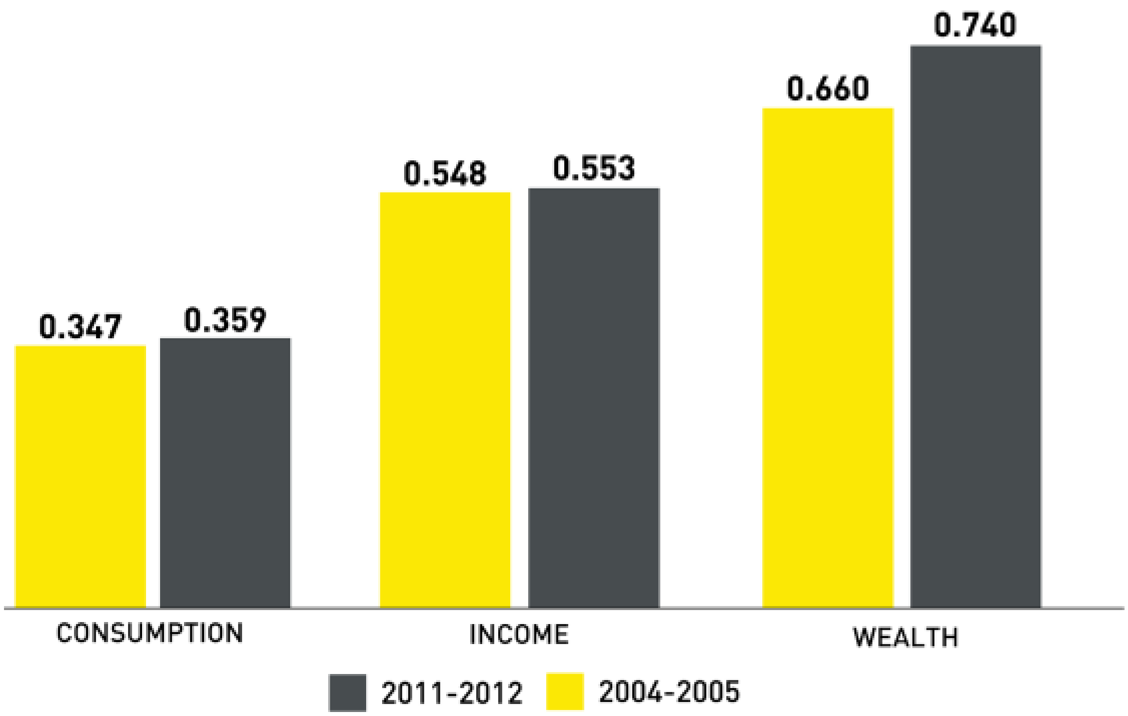
National Accounts Data

From 1950 to the present day, I use GDP data from WID. world, based on National Accounts Statistics (NAS) from 1971 to 2013, on World Bank (after 2013) and on Maddison (2012) from 1950 to 1970.11 WID. world then performs its own computations to infer Net Foreign Income and Consumption of Fixed Capital (Blanchet and Chancel, 2016). Before 1950, historical National Income growth rates from Sivasubramonian (2001) is used . A well know puzzle in Indian statistics (Deaton and Kozel, 2005; CSO, 2008) pertains to the difference in survey consumption growth rates and national accounts growth rates, particularly during the recent period. Figure 5 shows the total growth rate of Net National Income and Household Final Consumption Expenditure



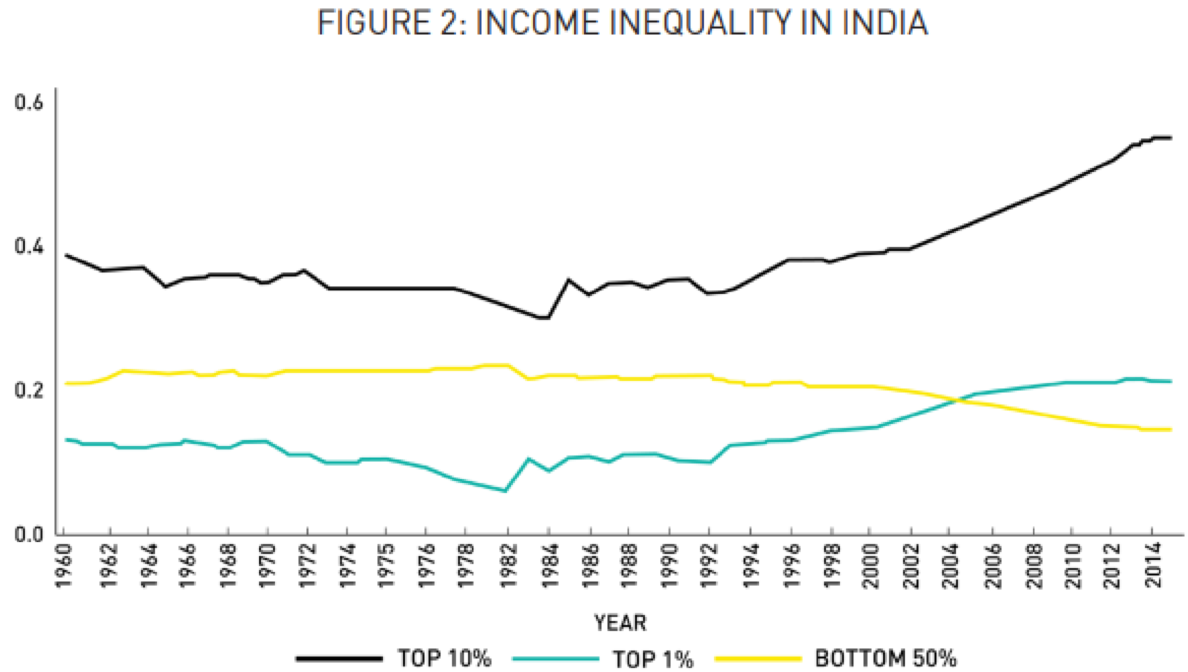
DOES HIGHER GROWTH MEAN MORE EQUALITY

After the culmination of the Great Depression and World War II, developed countries began witnessing a steady decline in inequality, leading many to reason that declining inequality was a natural outgrowth of the development process. Economist and Nobel Laureate Simon Kuznets' analysis2 suggested that the inequality in poorer countries was a transitional phase that would reverse itself once these nations became more economically developed. Thus, similar to how the level of inequality was decreasing in wealthy nations, inequality would eventually decline in poorer countries as they became richer (Kuznets 1955). However since then, inequality has been on the rise globally, both in developed and emerging countries3 even as the last four decades recorded the highest Gross Domestic Product (GDP) per capita growth rate, causing a read aptation in the perceived relationship between growth and inequality.



INCOME INEQUALITY

India's income inequality4 is at its highest since the inception of the Income Tax Act (1922), which allowed the Income Tax Department to systematically record data on income tax tabulations. The period between 1951 to 1980 saw a narrowing of the income back between bottom and top earners, but the trend has reversed over the period between 1980-2014. Since the 1980s, the income share of the top 1% has been increasing, reaching 22%, even as the income share of the bottom 50% fell to 14.7% (Figure 2) (Chancel and Piketty 2019). Additionally, during this period, the income growth for the top 0.1% of earners grew by 1138%, while the average growth was 187% and income growth for the bottom 50% was a negligible 89% (Figure 3). These stark differences among the rich and the poor have made India one of the most unequal countries in the world



Conclusion

Following comprehensive economic reforms over the past three decades, the Indian economy has experienced rapid economic growth and significant structural changes, but the gap between rich and poor has also widened. Since 1951, the main goals of development planning have been to achieve social justice, economic modernization, and significant economic growth and development. Priority was given to marginalized communities, certain minority groups and geographical regions of the country that were neglected during development. First, it was believed and assumed that once growth and development reached the required level, the problem of income distribution would resolve itself. As a result, researchers and policy makers have continued to ignore the inequality of wealth and income distribution in India. However, this problem has recently come to light as a result of the sharp increase in wealth disparity across the world, including India. But the various aspects of India's growing wealth inequality have received little attention. A large body of empirical research has only allowed us to look at the spatial and temporal patterns of pay inequality in India. In recent years, the causes of rising wage inequality and its socio-economic impact have rarely been addressed. The present study is an attempt to bridge this gap. In more detail, the main objectives of this study are as follows: To identify the main factors responsible for increasing income inequality in India, its structure, current spatial and temporal trends and the consequences of these changes.

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