ECONOMIC INEQUALITY IN INDIA: A BRIEF ANALYSIS

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ABSTRACT

India, along with witnessing tremendous economic growth rates since the 1980s, has seen a surge in economic inequality as well. India was ranked 2nd in a recent UNDP report on growth in income inequality globally, and 147th out 157 countries in Oxfam’s Report on Commitment to Reducing Inequality. This brief seeks to analyse and compare the rise in income, wealth and wage inequality, and looks at policy recommendations that can help reduce the exacerbation of the class divide in India.

INTRODUCTION

As one of the fastest growing economies in the world, India has been able to uplift a significant percentage of its population from extreme poverty. However, alongside this tremendous economic growth, India has also witnessed a steady increase in inequality. It ranked 147th out of 157 countries by Oxfam’s “Commitment to Reducing Inequality” Index in 2018 and with a Gini index of 35.2 in 2011, it was also ranked 95th out of 157 countries in terms of inequality in income distribution (Oxfam 2018, CIA n.d.).

Over the last three decades, the striking aspects of India’s appallingly unequal growth is highlighted by the fact that India saw a 108% increase in the number of billionaires from 2010, bringing the country’s 2020 total to 102 billionaires; while in the same decade, it was reported that overall poverty shot up nearly a percentage point in 2017-18, implying that 30 million people fell below India’s official poverty line and joined the ranks of the poor (Stoller 2020, Bhattacharya and Devulapalli 2019).

Economic inequalities intersect and often lead to other forms of equally striking social, political and cultural inequalities, making social mobility more difficult and increasing intergenerational gaps (Sastry 2004). A higher concentration of wealth in the hands of a select few creates inequality that can affect economic stability and can also challenge ideals of social justice and undermine social cohesion. Furthermore, studies have observed that rising inequality may skew an economy by reducing overall middle-class demand for consumer goods or even fuel debt crises (Keeley 2015).

Glances of this immense inequality have been widely visible in India, particularly during the restrictions enforced to combat the COVID-19 pandemic. Social distancing, which is a necessary step to combat the pandemic, assumes that people have adequate availability of space, resources and social safety nets to comply with such a measure. Unfortunately, in India, as in many other developing countries, this is far from the reality. About 33-47% of the urban population (or about 26 to 37 million households) live in dense informal housing¹, lacking access to roads, sewage and drainage systems, and constantly face the threat of eviction or demolition due to limited property rights (Jain et al. 2016). Additionally, estimates based on the 2017-18 Labor Force Survey of India indicate that there are over 415 million informal workers in India, representing 90% of the country’s total workforce. For these workers living on daily/weekly wages and lacking job security, while the panic of contracting COVID-19 is widespread, so is the dread of losing their livelihoods.

¹ Residences on encroached land or in unplanned settlements.
A recent survey in Bangalore shows that most felt compelled to continue working for fear of losing their jobs, and thereby, their ability to feed their families, thus effectively leaving them to choose between either starvation or disease risk (AICCTU 2020).

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’ analysis 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 countries even as the last four decades recorded the highest Gross Domestic Product (GDP) per capita growth rate, causing a readaptation in the perceived relationship between growth and inequality.

After the liberalisation policies of 1991, India has emerged as one of the fastest growing economies in the world, with a robust growth rate averaging at over 7% per annum for over a decade. And yet, inequality continues to increase, and the rate at which national poverty is diminishing is not proportionate with the growth in GDP (Punia 2020). For example, inequality worsened the most between 2000 to 2007, a period during which the GDP doubled and is often touted as a time of immense economic prosperity. The approach of growth with equity has been followed since independence, however, the focus has been disproportionately tilted towards absolute poverty than inequality. Poverty numbers have been declining since reforms of 1991, but inequality has worsened in the same period (Dev 2018). This disparity arises out of the fact that the poorest sections of the population are not benefiting from the country’s GDP growth, by virtue of toiling in sectors plagued by low productivity and additionally, being excluded from the organised production process. Agriculture, for instance, provides over 50% of the jobs while contributing only 17% to the country’s GDP, and contributes to the highest level of informal employment (93.6%) around the world (ILO 2018a). Since both economic and labour productivity growth has largely been concentrated in the services sector which only employs 25% of the labour force, we have not been able to accommodate the population that is so overly reliant on agriculture.

In the past decade, the Gini coefficients for income, wealth and consumption have all increased (Figure 1). While the top 20% of both the urban and the rural population succeeded in increasing their consumption levels, there was stagnation for the vast majority (Gupta and Singh 2016).

² Simon Kuznets hypothesised that as an economy develops, market forces first increase then decrease the overall economic inequality of the society, as illustrated by the inverted U-shape of the Kuznets curve. ³ In the last three decades, 53% of the countries have seen an increase in inequality with some countries showing an increase in gini coefficient exceeding two points (IMF 2017).
India’s income inequality 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 (Conceição 2019).

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4 Income is money (or some equivalent value) that an individual or business receives, usually in exchange for providing a good or service or through investing capital.
FIGURE 2: INCOME INEQUALITY IN INDIA

SOURCE: WORLD INEQUALITY DATABASE

FIGURE 3: INCREASE IN INCOME OF ADULT POPULATION IN INDIA BETWEEN 1980-2014

SOURCE: WORLD INEQUALITY DATABASE
WEALTH INEQUALITY

The distribution of wealth provides a complementary perspective on consumption and income inequality. The Gini coefficient for wealth has witnessed the highest increase among all other indicators, from 0.67 in 2001-02 to 0.75 for 2012 (Figure 1). Similar to the trend seen for income inequality, wealth inequality has worsened between 1980 to 2014. Figure 4 indicates that the wealth share of the bottom 50% was higher than that of the top 1% in the 1960s and 70s. Presently, the wealth share of the top 1% is six times more than that of the bottom 50% (Figure 5) (Chancel and Piketty 2019).

The extent of the polarity is visible in Oxfam’s report titled ‘Time to Care’, which states that the richest 1% hold more than four times the wealth held by 953 million people who make up the bottom 70% of the country’s population. Also, it is estimated that the total wealth of all Indian billionaires is more than the full-year Union budget of 2018-19 (Lawson et al. 2020).

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5 Wealth measures the value of all the assets of worth owned by a person, community, company, or country. Wealth is determined by taking the total market value of all physical and intangible assets owned, then subtracting all debts.

6 Billionaires’ fortunes increased by almost 10 times over a decade and their total wealth was estimated to be around INR 24422 billion.
The Indian labour market has in recent years witnessed enormous changes in employment patterns, with a growing proportion of jobs in services and industry, accompanied by a declining share of employment in agriculture. However, it continues to be marked by high levels of segmentation and informality. It is characterised by a dualism, i.e., the existence of a comparatively well organised sector (“formal sector”) along with the decentralised sector with a large population which is self-employed (“informal sector”). This has led to low pay and wage inequality, which pose a serious challenge to India’s path to achieving decent working conditions and inclusive growth. According to the ILO, productive employment and decent work are key elements to achieving a fair globalization and poverty reduction (ILO 2018b).

Decent work involves opportunities for work that are productive and deliver a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their concerns, organise and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men (ILO 2015).
FIGURE 6: AVERAGE WEEKLY WAGE AMONG REGULAR AND CASUAL WORKERS ACROSS SECTORS (INR)

![Bar chart showing average weekly wage among regular and casual workers across sectors (INR). Source: DAS 2012.]

FIGURE 7: EMPLOYMENT SHARE FOR REGULAR AND CASUAL WORKERS ACROSS SECTORS

![Pie chart showing employment share among regular and casual workers across sectors. Source: DAS 2012.]

Source: DAS 2012
Of the total people employed in 2011–12, 51.4% people (206 million) were self-employed, and of the 195 million wage earners, 62% were employed as casual workers\(^8\) (Ibid.). The casual labour market consists mainly of people from economically poorer households with low levels of skills and education, who are engaged in irregular work and usually paid on a daily basis. They are more likely to be engaged in the informal sector (Figure 7), their work cycles tend to be irregular, and they are usually only compensated for days worked, unlike regular/salaried workers, thereby making them more vulnerable to economic shocks such as the one currently being experienced due to COVID-19.

Focusing on the three major sectors, public, private formal and private informal\(^9\), the differences in wages can be clearly observed in Figure 7, where a regular worker is paid almost twice in the private informal sector than a casual worker, and at least five times more in the public and private formal sector (NSS 2004, Das 2012).

One also finds that although wages have grown at faster rates in almost all unorganised industries compared to organised industries, the mean yearly wage rates in the unorganised industries continues to be less than half the Central Pay Commission (CPC) minimum (Centre for Sustainable Employment 2018). Moreover, based on data from the Annual Survey of Industries between 1985 and 2015, the observed increase in the growth rate of wages in the organised manufacturing sector has largely been driven by the increase in managerial incomes, rather than that of workers (Figure 8)\(^10\) (MoSPI n.d.).

![Figure 8: Workers’ Wage Rate vs Managers’ Compensation](image)

Finally, GDP per worker in India (including the self-employed) in 2011–12 was estimated at INR 1,75,539 per year, while the average income per year of wage workers was calculated at INR 81,819 (ILO 2018b). This indicates that profits, rent and other income from capital are increasing at a faster pace than...
compensation towards labour, and therefore resources continue to be concentrated within richer households. More evidence of this disparity can be seen when one compares average labour productivity and average real wages. While the average wage in India at INR 247 a day in 2011-12 has almost doubled from the 1993-94 figure of INR 128, the average labour productivity increased more rapidly than real average wages. Thus, the proportion of national income which goes into labour compensation, as opposed to capital, has declined (Abraham and Sasikumar 2017).

**RECOMMENDATIONS**

Most recent studies find that higher social and economic inclusion is strongly associated with longer periods of sustained economic growth and that higher inequality reduces the pace and durability of growth (OECD 2014, Ostry et al 2014, Banerjee et Duflo 2003). With India's growth estimate for the financial year 2020-21 being slashed from 2.5% to 0.2% in view of the current pandemic, the economic damage is set to be worse than that caused by the global financial crisis a decade back (PTI 2020a). Similar to how the Great Recession helped to reduce inequality globally, COVID-19 was also expected to move along the same path (Shekhar 2020). Unfortunately, most surveys show that the poorest have been hit the hardest, with 8 out of 10 workers in urban areas and 6 out of 10 in rural areas having lost their jobs, and half of the households surveyed in rural areas are eating fewer meals during the lockdown (Pramanik 2020, PTI 2020b).

To reduce the increasing gap between the elite few and the average population, several international organisations and prominent academicians have recommended imposing higher taxes on the super-rich (Pimentel et al. 2018; Chancel and Piketty 2016; Bach et al. 2012). The top 1% are estimated to be evading approximately $200 billion in taxes and developing countries are reported to be losing at least $170 billion each year in foregone tax revenues from corporations and the super-rich. Getting the richest 1% to pay just 0.5% extra tax on their wealth over the next 10 years would create an equivalent of the investment needed to generate 117 million jobs in sectors such as childcare, education and health (Pimentel et al. 2018).

On average, the top executive of a company in India took home a salary that was 260.5 times the median salary of other employees and thus, promoting a pay ratio for top executives and management staff in firms equal to no more than 20 times their median employees’ pay, will help to reduce the wage inequalities we observe (Saraswathy and Thomas 2019). Oxfam also recommends refraining from rewarding shareholders through dividends or bonuses to executives until all employees have received a living wage.

Furthermore, movement of workers from lower productivity sectors, like agriculture, to higher productivity sectors is crucial. Recent trends indicate that while a bulk of workers have moved out of agriculture, they are now instead employed in informal activities with low productivity (Abraham 2017). And for the 50% of the workforce employed in agriculture, it is important to strategically promote the right kind of secondary

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11 Survey done for the top 50 Nifty companies in the financial year 2018-19.
12 A living wage is defined as the minimum income necessary for a worker to meet their basic needs and varies from a subsistence wage, which refers to a biological minimum (ILO 2018b).
agricultural activities\textsuperscript{13}, that will generate rural growth. At present, income from farm activities is on an average 60\% of the total farmers’ income, and is subject to variability, owing to the seasonal nature of agricultural output. Therefore, the provision of a secondary agriculture system will act as an alternative means of livelihood in rural areas, not only boosting the existing income levels of farming households, but also abetting the value captured from agriculture, increasing the productivity of the sector as a whole (MAFW 2018).

Other robust labour protections laws such as institutional and policy support for collective bargaining and social safety nets will help protect workers from unprecedented shocks. Ensuring decent work and inclusive growth through sustainable wage policies is a widely shared objective across many countries and needs to be enacted in India as well. Though India was one of the first developing countries to introduce a Minimum Wage Act in 1948, the minimum wage system is complex, giving both the Central government and State government jurisdiction in fixing wage rates\textsuperscript{14}. The Act is legally non-binding, but statutory, and payment of wages below the minimum wage rate amounts to forced labour. In 2009-10, a third of all wage workers (62 million workers) were paid less than the indicative national minimum wage\textsuperscript{15}, with a lower rate of pay observed for the socially marginalised sections and more recent data from the Periodic Labour Force Survey 2017-18 shows that 45\% of regular workers were paid less than the minimum wage as well (MoSPI 2019). The Act is one of the few safeguarding measures awarded to both regular and casual workers, both in the formal and informal sector, making it one of India’s most important legislations on labour. It is estimated that by establishing a mandatory minimum wage floor, wage inequality would fall by 9 percentage points\textsuperscript{16} and alleviate poverty for 7-10\% of wage-earners (Rani and Belser 2010).

\textsuperscript{13} Secondary agriculture is defined by the MAFW (2018) as a productive activity at enterprise level that utilises as raw material the primary product and by-products of agriculture and other biological resources available locally in its rural agrarian neighbourhood; and/or deploys locally available skills or a high level of rural manpower, to operate/manage/maintain the production of goods and services.

\textsuperscript{14} There are an estimated 1709 different rates across the country, with these rates being set arbitrarily and revised only once every 5 years (ILO 2018b).

\textsuperscript{15} A national minimum wage floor was introduced in 1991 and has been progressively increased up to INR 176 per day in 2017.

\textsuperscript{16} The authors show that at the existing wages which workers earn, the Gini coefficient for wage inequality is 0.499. After imputing the prevailing national minimum wage floor for all workers who earn below minimum wage, they find that inequality would decline by a significant 9 percentage points to 0.410.
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