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Review Article

Income Inequalities in India: Pre and Post Reforms Period

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Abstract *- "The small gains of development seem to be monopolized by the upper-middle and richer section of the society, leaving the lower middle and poorer sections more or less untouched by the process of development. "Dandekar and Rath Inequality is a multidimensional approach, including access to health, a fair justice system, education, and a safe environment for the masses. This paper focuses only on income and wealth inequality to measure inequality in the country. In the earlier phase of economic planning,the elimination of disparities in income distribution was one of the proclaimed objectives of the government in India. Plan documents and policy declarations of the state from time to time indicated various measures for reducing income inequalities. However, in the era of economic reforms, liberalization, privatization, and globalization policies have led to a dilution of equity goals. Hence, since the beginning of the 1990's all the measures that could improve income distribution have been undermined. The various measures undertaken by the government have made little impact on poverty and thus income inequalities for perpetuating in their ugliest form. In the liberalization decade, the government has abandoned even the hypercritical commitment to reduce income inequalities, andits results are in the way of rapidly increasing income inequalities during 1990. This paper discusses the trend of growing inequality in India from 1950 to 2014. It also identifies the causes of income inequalities in the country. Lastly, the articles suggest some practical measures to reduce income inequalities.*

Keywords *- Economic reforms, Gini index, income, inequality.*

I. INTRODUCTION

Inequality of the distribution of wealth and income refers to that situation of an economy in which the income of a small section of the country is much larger than the average income of the nation, and the income of a large section is much smaller than the average national income. Inequality has been an important issue in development debates. Development cannot be discussed without talking about inequality. Theories of the income distribution have been in the literature of economics from before Adam smith to the present day. Ricardo's characteristic income distribution is the principal problem of economics. Several philosophers and economists have discussed about inequality.

The early literature on the evolution of income inequality over the process of development used to be dominated by Kuznets's hypothesis using both the cross country and time-series data, Simon Kuznets (1963) found an inverted u shaped relation between income inequality and GNP per head.

Income equality is the distribution of total income amongst the representative population. In a nation with perfect income equality,each and every individual has an equal share of the total income. This is contrasted with perfect income inequality,where one individual has all of the total income.

A. Objectives

- To analyze the income inequality status of India from 1940 to 2014.
- To identify the factors responsible for income inequality.
- To discuss some practical suggestions to reduce income inequality.

II. REVIEW OF THE LITERATURE

A report prepared by a company New World wealth, Johannesburg, India, is the second most unequal country globally. This report identifies that with a wealth of dollar 5600 billion, India's place is among the ten wealthiest countries in the world, and yet, average India is relatively weak. According to this study, Japan is the equal country in the world; the wealthiest one percent holds only 22 % of the national wealth in comparison to India, where the ratio is 53 %. Russia is an unequal country, with the top one percent holding 70.3 percent of national wealth. India ranks second with 53 % of national wealth, and Japan is the equal country with 22 %. (Credit Suisse).

A significant increase in the level of inequality in India from 1980 to 2015. In this period, that top 1% income share is at its highest level(22%) since the creation of the income tax during the British Raj, in 1922. Top income shares and top income levels were sharply reduced in the 1950s to the 1970s, at a time when strong market regulations and high fiscal progressivity were implemented. During this period, bottom, 50%, and middle 40% incomes grew faster than average. The trend reversed in the mid-1980s with the development of pro-business policies. The share of national income of the top 1% reached 21.3% of national income in 2014-15, up from 6.2% in 1982-83. The top 1% share of national income was at 13% of national income in 1922-23 and increased to20.7% in 1939-40, at the dawn of World War II. It then dramatically decreased to 10.3% in 1949-50 and further reduced from the late 1960s to the early 1980s. The top 0.1% and 0.01% earners also show a similar pattern of income-decreasing before the 1980s, and after that, it increases sharply(Indian income inequality, 1922-2015 From British Raj to Billionaire Raj, Lucas Chancel and Thomas Piketty)

The Oxfam report analyzes that wealth inequality has increased since 1991, and the value of assets follows the hierarchy of the cast structure and occupational groups. The estimates of disparity in wealth are higher than those in consumption expenditure or income and have increased sharply in the previous decades. Forbes data shows that 15 percent of the total wealth was held by super-wealthy Indians, almost 10 percent five years ago. (India Inequality Report 2018, Oxfam India).The World Inequality Report (2017) identifies that the period between 1950 and 1980 income gap is low, but after that income of the top 1 percent increased sharply and it is highest regarding GDP share in 2014 since 1922.

A. Economic inequality in India

Economic analysis has for long regarded income inequality is as conducive to economic growth. The arguments behind this are the more affluent section of the population saves a large proportion of their income vis- a-vis the deprived sections. Therefore an economy characterized by great income inequalities will have a higher rate of saving as compared to an economy characterized by equal income distribution. Since the rate of growth of GNP depends on the rate of savings, economic growth will be higher in the former as compared to not initiatingthe right step for reducing income inequality as this would pull down the rate of saving and, as a consequence,, the rate of economic growth. Instead, they should concentrate on measures meant to increase economic growth. The famous theory of the "trickle-down" effects of economic growth on income distribution, emerges from this comment that countries in quest of growth should support growth; the once a higher rate of growth is achieved, the benefits will automatically spread to the lower strata of the society whose economic position would than improve considerably.

Development economists in recent decades have challenged this proposition and argue that income redistribution can stimulate economic growth instead of retarding it, equitable income distribution can raise the income of poor classes, and they can enjoy the better facilities of education, health, and nutrition, which can increase the productivity of human resources. This can increase their income and makes it affordable to purchase more goods and services.

Therefore increasing demand for necessary products provides the inducement in investment and creates more jobs in the country.

The important thing is that the more prosperous section of the society spends their higher saving on unproductive goods like imported luxury items, gold and jewelry, and acquisition of land, which resulted in the form of wastage of scared resources.

B. Status of income inequality in India

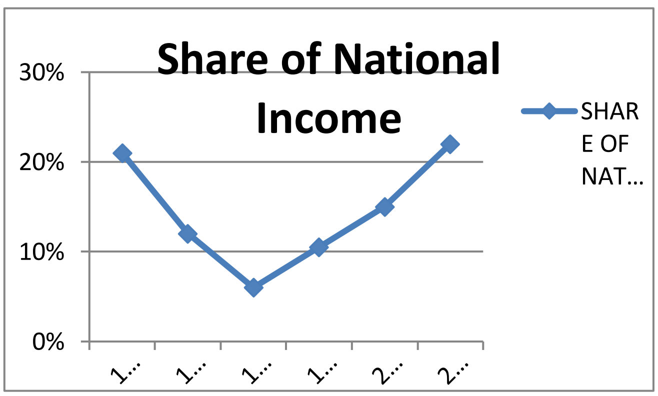
Many studies have been conducted from time to time to examine the trend of economic disparities in India. All reviews have concluded that the inequality gap has widened, and there has been a concentration of wealth and economic power in a few hands only to the detriment of the underprivileged and the ordinary people. Under the chairmanship of Professor P C Mahalanobis, the committee on the distribution of income and levels of living reported in 1964. The committee examines the distribution of land Holdings, the concentration of wealth and power in the private corporate sector, and it also explores the gap in the urban area. The committee concluded that there is a wide range of variations between the top and the bottom, one-tenth of the population. Committee further went on to observe that even after ten years of planning and despite reasonably large schemes of taxation on the upper income, there is a considerable measure of concentration in urban areas. However, the trend of rising inequality has received far less attention in the Indian context before 1991. Recent evidence on various dimensions of inequality has confirmed that in India inequality gap is widened in the last two decades.

India's top ten percent earned more than half of the National income in 2014. This ratio was only 6 % in 1980, which shows a sharp increase in income inequality after 1980 in India.

YEAR	Bottom 50%	Middle 40%	Top 10%
Before 1980	28	49	24
1980	24	46	30
1990	22	44	34
2000	20	40	40
2014	16	32	56

Table.1 The share of National Income Earned by top 10 percent of the population

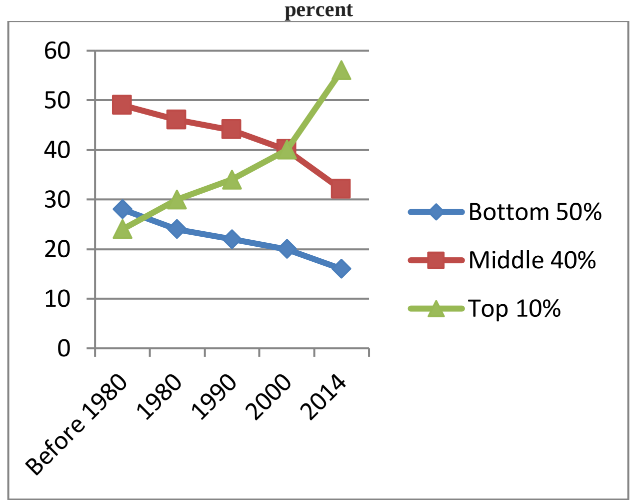
YEAR	SHARE OF NATIONAL INCOME
1940	21%
1950	10-12%
1980	6%
1992-93	above 10%
2000	15%
2014	22%



Year Source: Lucas and Chancel Income Inequality Report.

Data pertain that Income inequality increased sharply after the 1980s from 6 percent of national income to 22 % in 2014. An even higher increase in the top 0.1 percent and 0.01%, whose share grows fivefold and tenfold respectively from 2 percent and 0.5% to almost 10 percent, and 5 percent between 1983 to 2014., The wealthiest 10 percent of India owns 80 % of the country's wealth. On the other hand, the poorest half jostle for a mere 4.1 percent of the national wealth during the period of India's rapid economic growth (Credit Suisse).

Table 2. Share of National Income Earned by population(1940-2014) in percent

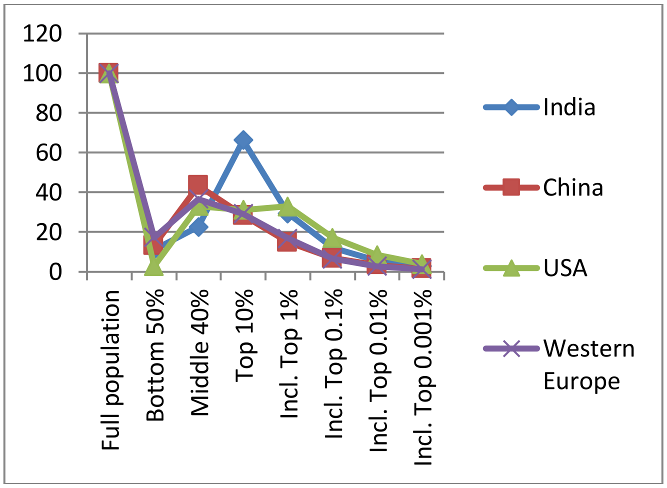


Source:Lucas Chancel Report on Income Inequality.

Economic inequality is widespread in India and has been growing substantially since the 1980s. In 1947 income inequality was widely reduced, and the income of the bottom 50 percent rose at a faster rate than the national average. During 1951 -1980 the bottom 50 percent of the population shares 28 percent of the national income. After that, it grew at a faster rate, and the share of base 50 percent in national income was reduced to 16 percent in 2014. On the other hand, the percentage of the top 10 percent population increased from 24 percent before the 1980s to 56 percent in 2014. It can be explained from the above table.

The share of total growth captured by income groups, 1980 – 2015: India, China, the USA

Income group	India	China	USA	Western Europe
Full population	100	100	100	100
Bottom 50%	11.1	13.3	2.9	17.4
Middle 40%	22.6	43.4	33.1	36.6
Top 10%	66.4	28.4	31.2	29.3
Incl. Top 1%	29.4	14.9	33.0	16.8
Incl. Top 0.1%	12.2	6.8	17.1	6.5
Incl. Top 0.01%	5.6	3.5	8.5	2.8
Incl. Top 0.001%	2.8	1.5	3.9	1.3



Between 1980 and 2014, India was the country with the highest gap between the growth of the top 1% of the population by income and growth of the full population.

These "unequal growth dynamics" between 1980 and 2014 are also seen in china, the us, and France, the writer wrote. "India's dynamics are, however, striking it is the country with the highest gap between the growth of the top 10% and growth of the full population.

C. Causes of income inequality in India

Professor Dandekar and Rath studied the disparities in economic power for the period 1960 -61 to 1967-68 from the per capita consumer expenditure side. The committee concludes that in the period, the condition of the bottom 20 % rural poor remained more or less stagnant, of the bottom 20 % urban poor deteriorated. For another 20 percent of the urban population, the per capita consumption remained more or less stagnant. In other words, rural poverty remains the same as before the urban poverty deepened further. In India, there are two fundamental causes of income inequalities, the existing economic system based on the Institution of private property and the law of inheritance. At a very high level of national income per capita, these factors may not result in mass poverty, but in a country like India, where national income per capita is meager, they inevitably lead to denial of necessities to a vast section of the population.

D. Private ownership of property

India has a mixed capitalist economy. In this economic system, people enjoy a right to property. Therefore not only land, building, automobiles are owned by individuals, but the means of production like factories, businesses, farmland mines, are also possessed by private companies and persons. People in the country are divided into two main classes. In the first category, those who own means of production and other property, and in the second category, those persons are included who have no wealth. They rely on the labor power for the subsistence, except for some professionals belonging to this class. All other people falling in this class are poor. There are some facts, which show how inequalities increased their private ownership of property.

E. Inequality in land distribution

There was a concentration of land property in India during the British period on account of the Zamindari system. Zamindari system was abolished immediately after independence, yet the level of land ownership could not be broken. According to many studies and experts' views, the primary cause of income inequalities in the rural sector is the centralized ownership of land and other assets. The Gini ratio for the distribution of operational holdings was 0.6207 in 1970 -71 and 0.5974 in 1985- 86 and 0.5784 in 1990-91. According to the data, most of these holdings are not only extremely small, but they are also fragmented into some tiny plots so that cultivation on them can be carried out only by labor-intensive techniques. This results in low productivity.

F. Private ownership of industries, trade, and buildings

India's social system permits private property of industries, businesses, and buildings. Hence, a little minority has acquired control over substantial assets.

The new industrial policy in 1991 ushered in a new era of liberalization in favor of the private sector. A large number of incentives and initiatives as industrial licensing was abolished, the role of the public sector diluted, doors to foreign investment considerably opened to expand its business activities. The 1991 policy had opened the doors to multinationals, and increased competition from abroad as tariffs were reduced substantially. Consequently, many domestic producers suddenly discovered their market share shrinking drastically as their goods failed to meet foreign competition both on the grounds of quality and price. As a result, the private sector registers a fast growth in the post-liberalization phrase" opening up" the economy to foreign competition has also forced a significant restructuring of the private corporate sector via consolidation, mergers, and acquisition as many business houses are concentrating on their core competencies and existing from unrelated and diversified fields.

It is a general pattern of capitalist development that as the economic progress the monopoly organizations are strengthened and concentration of wealth and economic power in a few hands increases. Since the structural reforms have adversely affected the poor in many countries, it was expected to happen in this country also after the reform process was initiated in the mid- 1991. The benefits of growth automatically do not trickle down poverty. Estimates of S.P. Gupta and Sundaram, and Tendulkar clearly shows that poverty increased during the 1990s in rural India while in respect of urban population, there was a small decline. This implies that taking the country as a whole. There was some increase in the incidence of poverty. The estimates of the distribution of consumption expenditure provided in the World Bank report 2003 confirm with the Gini index of distribution of consumption has been reported to be 37.8 in 1997 as against 29.7 in 1994. There is no evidence that inequality in consumption diminished later in 1990.

G. Inequalities in professional training

In a class society like India, training required for professional competence is not available to all. Only children belonging to elite families have access to higher and professional education. Children of agricultural laborers, industrial workers, and socially underprivileged sections cannot get this education. Therefore, even an average intelligent person earns a very high income. In contrast, many intelligent and enterprising persons never get an opportunity in their lifetime and live on average earnings. Hence, education and training, which perpetuate inequalities in income distribution in the country, have their roots in the unequal distribution of wealth and private property. Incomes of businesses executive, engineers, physicians, lawyers, and other professionals are often high and from this fact emanates the false notion that income inequalities arise from professional competence or lack of it. On superficial consideration, this may look convincing, but the truth is otherwise.

H. Capitalist agriculture

Abolition of intermediaries, technological development in agriculture, cheap Cooperative credit. The expansion of marketing facilities and the pricing policy of the government all created a favorable condition for the development of capitalist agriculture. Capitalist agriculture has entrenched itself deeply in Punjab, Haryana, and western Uttar Pradesh. Because of a multiplicity of factors operating in the country, capitalist agriculture has received a big boost. The farmers turned entrepreneurs of their areas have =adopted capitalist agriculture on a large scale and have started attracting agricultural workers from far-off places. The concentration of economic power and productive assets means that a majority of the workforce is unskilled and has nothing but the labor to offer. Most of the workers are unemployed, seasonally employed, or disguisedly unemployed. These workers are a burden on the earning members of their families because they earn less and consume more. Thus the per capita consumption of the rich few is bordering on the vulgar display of wealth while poor majorities are living on the brink of starvation.

I. Inheritance law

The existing inheritance law in India perpetuates income inequalities. This fact must be given a severe thought why the son of a capitalist becomes a capitalist, while the son of agricultural laborers becomes agricultural labor or, the best, an industrial worker. According to India's inheritance law property of the father is inherited by the children, and hence, sons and daughters of wealthy persons automatically get resources to manage a substantial income. In contrast, children of workers rarely inherit any property. Therefore, the law of inheritance is one such institution in the country which, besides accentuating income –[inequalities also provide legitimacy of them. According to the Oxfam Report, four out of ten billionaires have inherited their wealth.

Table India's corporate giants

Rank	Name	Wealth in USD	Industry
1	Mukesh Ambani	$47.3 B	petrochemicals, oil & gas
2	Azim Premji	$21 B	software services
3	Lakshmi Mittal	$18.3 B	Steel
4	Hinduja Brothers	$18 B	Diversified
5	Pallonji Mistry	$15.7 B	Construction
6	Shiv Nadar	$14.6 B	software services
7	Godrej Family	$14 B	Godrej Group
8	Dilip Shangvi	$12.6 B	Pharmaceuticals
9	Kumar Birla	$12.5 B	Commodities
10	Gautam Adani	$11.9 B	commodities, infrastructure

III. CONCLUSION

India, along with all the other countries in the world, has committed to ending extreme poverty to achieve the sustainable development goals by 2030. However, this goal can't be achieved without reducing the rising level of extreme inequalities. According to an Oxfam report, if India stops inequality from rising further, it could end extreme poverty for 90 million people by 2019. If it goes further and reduces inequality by 36%, it would virtually eliminate extreme poverty and can achieve the sustainable development goal of ending extreme poverty by 2030. Income distribution has a vital role in determining the long-term development trends and socio-economic well-being of the citizens. Though India is among the wealthiest countries in the world, and yet the average Indian is relatively poor as a result of the highly skewed income distribution. The sharp rise in inequality is damaging the growth of the nation. Income inequality adversely exacerbates a range of social problems, including intergroup relationships and conflict social cohesion with increased crime and increased workplace accidents. Inequality is also affecting India's urban landscape; recent studies show that class, ethnicity, and caste inequalities represent the growing axis of residential segregation in contemporary urban India. Rising inequality will lead to global poverty reduction, undermine the sustainability of economic growth, compound the inequality between men and women, and drive inequalities in health, education, and life chances. Increased as well as evenly distributed national income is necessary to ensure the economic growth of a nation. Inequalities of income lead to some very serious economic and social consequences like class conflict, increasing burden of subsidies on the government, the rise in intergenerational inequality and poverty, distress migration from poor to wealthy district leading to collapse of city governance, social unrest like agitation for reservation, moral degradation moreover, it promotes capital formation. For the removal of inequalities of income, two major steps are necessary. First, the private ownership of property must be abolished, and secondly, the cruel and arbitrary law of inheritance should be diluted, but no government in a capitalist country will agree to adopt these measures.

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