**General Studies-3; Topic: Indian economy – growth and development**

**Income Inequality in India**

1) **Introduction**
- Income inequality refers to income distributed in an uneven manner among a population.
- The causes of income inequality can vary significantly by region, gender, education and social status.
- Income inequality (as measured by the Gini coefficient, which is 0 when everybody has the same income and 1 when one person has all the income) negatively affects growth and its sustainability.

2) **Nature of Income Inequality**
- According to a research, income inequality in India is at its highest level since 1922
- According to a research, at present in India, top 1% earners constitute 22% of income.
- Women form 60 per cent of the lowest paid wage labour
- According to Global Wage Report 2016-17 of the International Labour Organisation, India has huge gender pay gap and gender wage disparity.

3) **Reasons**
- The LPG reforms were very favourable to top income earners and capital owners.
- Tax progressivity was progressively reduced. Top tax rates, which were very high in the 1970s (up to 98%), decreased to 30% in the 1980s and after.
- Privatisations removed government-set pay scales
- Growth at the bottom of the distribution was notably lower than average growth rates since the 1980s.
- Agriculture remains a key sector and land reform has been only very partial.
- In the absence of wealth redistribution by the government, societies will tend to aggravate inequality.
- As women are not recognised as farmers and do not own land, they have limited access to government schemes and credit
- India has a high number of multi-generational billionaires and many transfer wealth to their heirs
- Income inequality is "likely to exacerbate" due to the "governments inability to create jobs"
- Emphasis on reduction of the fiscal deficit leads to low spending on social welfare schemes.

4) **Global Scenario**
- In advanced economies like USA and France, the gap between the rich and poor is at its highest level.
- After 1978 China experienced a sharp income growth as well as a sharp rise in inequality. However it halted in 2000s.
- Today, inequality in China is currently lower than in India (top 1% income share at 14% versus 22% in India).
- Russia moved from extreme equality to extreme inequality after moving to market economy.
- Today Russia has similar level of inequality as in India.

5) **Implications**
- Inequality is a reflection on the kind of society we live in.
Income inequality in India has negatively impacted poor citizens' access to education and healthcare.

- Subjected to disrespect in and through the practices of everyday life.
- They are denied the opportunity to participate in social, economic, and cultural transactions.
- It violates a basic democratic norm: the equal standing of citizens.
- Joblessness and income inequality leads to socio-political instability, which will in turn reduce investment and hence growth.
- Significantly undermine individuals’ educational and occupational choices.
- People working in unorganized sectors are the worst sufferers of economic inequality.
- They are characterized by low wages; long working hours; lack of basic services such as first aid, drinking water and sanitation.

6) **Way Forward**

- Solution is more inclusive growth
- Incorporate the right to equality into political thinking, into our values, and into political vocabularies.
- More tax progressivity is a very handy tool to limit rising income inequality at the top.
- The government must increase its expenditure on health from 1 per cent to 3 per cent of GDP and on education from 3 per cent to 6 per cent of GDP.
- Oxfam said it is time to build a human economy that benefits everyone, not just the privileged few.
- Need to establish a system of inheritance tax and increase the wealth tax.
- Oxfam said, Governments must support companies that benefit their workers and society rather than just their shareholders.
- Job creation in the modern sectors of the economy
- There is need to tackle bias against caste and gender by recognising the value and dignity of all work (including unpaid work) and all workers.
- Making public and corporate private activity more transparent and accountable to the people.
- Policymakers should focus on making technology cheaper and deepening its penetration.