**General Studies-3; Topic: Economic growth; Inclusive development**

**Income Inequality in India**

1) **Introduction**
   - The World Inequality Report 2018 released by the World Inequality Lab says that income inequality in India has increased since economic liberalisation.
   - It is in contrast to the earlier decades when inequality dropped under socialist policies.

2) **Key Findings**
   - We can see the trend in inequality across the world
   - The report compares economic progress made in India and China.
   - Since 1980, while the Chinese economy has grown 800% and India’s a far lower 200%
   - Inequality in China today is considerably lower than in India.
   - The share of the top 1% of the Chinese population is 14% of the total income as opposed to the 22% for India.
   - China has grown faster, has lower poverty and higher average income, and its income distribution is less unequal at the top.
   - In all countries, one of the reasons for governments’ diminished ability to tackle income inequality is the transfer of public wealth into private hands
   - Net public wealth has declined in nearly all countries since the 1980s.
   - This limits government ability to regulate the economy, redistribute income, and mitigate rising inequality.

3) **Present Status**
   - The rich and the middle class control a major share of the world’s resources, which consequently is not available to the poor.
   - They enjoy higher incomes from better jobs and investments
   - Income inequality will always exist in a market economy
   - Here people are allowed to engage in free exchange and earn incomes according to their personal capabilities.
   - Income inequality might even widen during times when there is a lot of economic mobility.
   - India has lower per capita income, persistent poverty which accounts rising inequality.
   - Economic progress here has been neither efficient nor equitable.
   - There is no inheritance tax in India, whereas the poor face high taxes on certain basic consumption goods
   - Income inequality and jobless growth are two of the most significant challenges facing the world today
   - Changes in tax regulation and tax evasion appear to have had significant impact on income inequality in India since 1980s.

4) **China’s lower Inequality**
   - China's drive for growth with the spreading of human capital.
   - China had by the early 1970s achieved the level of schooling India did by the early 21st century.
   - China invested more in education, health and infrastructure for its bottom 50 per cent population
The spread of health and education enabled the Chinese economy to grow faster than India by exporting manufactures to the rest of the world.
Chinese goods were globally competitive, which made their domestic production viable.
As the human capital endowment was relatively equal, most people could share in its growth
Greater participation of women in the workforce of China.

5) **Problems when taxes are kept high**
- When taxes are high, people who help produce the goods will have less incentive to do their jobs as before.
- Workers may no longer be attracted towards high-skill jobs when their income from such jobs is taxed at high rates.
- Investors will not be attracted for crucial projects when their profits are taxed at high rates.
- India before economic liberalisation faced this problem when it tried to tax its way to prosperity.

6) **Way Forward**
- If rising inequality is not properly monitored and addressed it can lead to various sorts of political, economic and social catastrophes
- The government needs to look beyond taxes and ensure social goods — education and healthcare — for all in order to level the playing field as China has done..
- There requires imaginative public policy and a steady governance.
- Progressive taxation is essential to finance public investments in education or health for everybody.
- Setting up an international registry of financial asset ownership for curbing tax evasion.
- Effective development of human capital, which not only supports higher incomes today, but also ensures intergenerational mobility tomorrow.
- Labour market should be made more efficient and flexible, so that it can match people with the right jobs and reward them adequately.