

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.