Explained: The rich-poor gap in India

Why in news?

Recently World Inequality Report has been released by World Inequality Lab. The findings flags India as a poor and very unequal country

What are the key findings?

- The latest World Inequality Report flags India as a poor and very unequal country, with the top 10% holding 57% of national income in 2021, and the bottom 50% holding just 13%.
- The report also flags a drop in global income during 2020.
- Half the dip was in rich countries, and half in low-income and emerging countries. It attributes this primarily to the impact of "South and Southeast Asia, and more precisely" India.

What are the Key findings for India?

- **Income and Ownership -** It says India's middle class is relatively poor holding 29.5% of the total national income, compared with the top 10% and 1% who own 65% and 33% respectively.
- The top 10% earned over 20 times more than bottom 50%. The bottom 50% owns a mere 6%.
- **Pre-tax national income -** The share of the top 10% and bottom 50% in pre-tax national income has remained broadly constant since 2014.
- The quality of inequality data released by the government has seriously deteriorated, making it particularly difficult to assess recent inequality changes
- As per the recent Multi-dimensional Poverty Index prepared by Niti Aayog, one in every four people in India was multi-dimensionally poor.
- Bihar has the highest such proportion (51.91%), followed by Jharkhand (42.16%) and Uttar Pradesh (37.79%).

What is the trend regarding global income?

- **National income vs Private income:** Countries have become richer in last 40 years but their governments have become significantly poorer. This trend got magnified due to the pandemic.

- As per the report there is a drop in global income, which was impacted significantly due to India.
- When India is removed from the analysis the global bottom 50% income share actually increased slightly in 2020.
- The share of wealth held by public actors is close to zero or negative in rich countries, meaning that the totality of wealth is in private hands.
- This trend has been magnified by the Covid crisis because governments borrowed 10-20% of GDP from the private sector.

How is inequality distributed globally?

- **Ownership basis -** The poorest half of the global population "barely owns any wealth" (2% of the total), whereas the richest 10% owns 76%.
- The richest 10% currently takes 52% of global income, and the poorest earns just 8%.
- **Region specific -** The Middle East and North Africa (MENA) are the most unequal regions in the world.
- Europe has the lowest inequality levels.
- Top 10%'s income share in various regions
    - Europe - 36%
    - MENA – 58%
    - East Asia – 43%
    - Latin America – 55%

What Private Wealth to National Income Ratio tells on inequality?

- **Private Wealth to National Income Ratio –** It is defined as the ratio net financial assets of all households in a country to national income of a country.
- Increase in this ratio indicates that either private wealth increases or national income decreases.
- Global wealth was equal to 510 trillion euros in 2020. It is about 600% of national income.
- The ratio rose from around 450% in the early 1990s to about 600% today indicating increase in private wealth.
- **High-income countries -** In high-income countries, in 1970, private wealth–national income ratios ranged between 200-400%.
- During global financial crisis 2008 these ratios averaged to 550%.
- **Emerging economies -** Large emerging economies such as China and India experienced faster increases than wealthy countries.
- This is due to transition from communism (in China and Russia) or from a

highly regulated economic system (in India).

- In India, private wealth increased from 290% in 1980 to 560% in 2020.
- Global inequalities seem to be about as great today as they were at the peak of Western imperialism in the early 20th century, the report said.
- The rise in private wealth has also been unequal within countries and at world levels.
- Since the mid-1990s, the top 1% globally took 38% of all additional wealth accumulated, whereas the bottom 50 per cent captured just 2%.
- The wealth of the richest individuals on earth has grown at 6 to 9% per year since 1995, whereas average wealth has grown at 3.2% per year.

What are other findings regarding inequalities?

- **Women -** Women's share of total incomes from work was about 30% in 1990, and is less than 35% now, the report notes.
- Inequalities within countries are now greater than those between countries.
- Within countries, the gap between the average incomes of the top 10% and the bottom 50% almost doubled from 18 times in 1820 to 41 times in 1910.
- **Ecological inequalities -** global income and wealth inequalities are "tightly connected to ecological inequalities and to inequalities in contributions to climate change". The top 10% of emitters is responsible for close to 50% of all emissions, while the bottom 50% contributes 12%.

What the report recommends?

- **Taxing the rich -** The report has suggested levying a modest progressive wealth tax on multimillionaires.
- The report wants people to be grouped based on their wealth as people
  - owning more than $1 million
  - who own over $10 million
  - own over $100 million
  - own more than a billion dollars
- It recommends a global effective wealth tax rate of
  - 1.2% for wealth over $1 million
  - 0.6% for wealth between $1-10 million
  - 1.1% rate for wealth group $10-100 million
  - 5% rate for wealth between $1 billion and $10 billion.

Reference

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