Income and Wealth Inequality

Why in news?

According to the World Inequality Lab, the top 1% in India earned 22.6% of the national income in 2022-23, the highest share in the last 100 years.

What are the key highlights of the study?

Income inequality	Wealth inequality
• In 2022-23, 22.6% of India's national income went to the top 1%, 50% higher than China marking the highest level in the last 100 years. • The top 0.1% of the population earned nearly 10% of the national income. • India's income inequality ranks among the highest globally, surpassing even countries like South Africa, Brazil, and the U.S. • The high income inequality of India contributes to widening wealth disparity.	• The top 1% in India held 40.1% of the national wealth in 2022-23, the highest level since 1961. • The share of wealth among the top 10% increased significantly, reaching 65% in 2022-23. • The share of bottom 50% and middle 40% in wealth declined, indicating a widening wealth gap. • India's wealth inequality, while not as extreme as Brazil and South Africa, increased significantly over the years.

- **Inequality trends**- Between 1960 and 1980, inequality in India was decreasing, which was attributed to the growth pattern and economic objectives of that era. However, the trend reversed with the economic liberalization that began in the 1980s and accelerated after the economic reforms of 1991.
- **Wealth concentration-** The period 2014-15 to 2022-23 seen a pronounced rise in wealth concentration, often referred to as the *'Billionaire Raj'*, indicating that the wealthiest individuals have amassed a large portion of the nation's wealth.
- **Historical comparison**- The report makes a comparison with the British Raj, indicating that the modern economic elite in India have created a more unequal society than what existed under colonial rule.
- **Impact on society**- The report suggests that rising inequality has negative implications for both economic growth and poverty reduction efforts.

China economic growth
• Until 1975, India's average income (adjusted for inflation and purchasing power) was comparable to that of China and Vietnam. • However, in the subsequent 25 years, China and Vietnam experienced income growth of 35-50% compared to India. • Post-2000, China's income surged significantly, becoming 2.5 times that of India. • China's growth has been broad based, benefiting a larger segment of its population. • China has maintained a higher growth rate while keeping economic inequality in check.

What are the challenges faced by India in achieving income and wealth equality?

- **Moderate economic growth-** China has maintained a higher growth rate with moderate inequality, while India's growth has been moderate with extreme inequality.
- **Dual challenge-** India faces the dual challenge of achieving high economic growth and reducing inequality, human development and poverty reduction are crucial for achieving the twin objective.
- **Poor human development-** Human Development Report (HDR) 2023-2024 has ranked India 134 out of 193 countries, this shows that economic growth has not translated into growth in human development.

Despite being the fifth largest economy, India lags behind Sri Lanka, Bhutan, and Bangladesh in terms of human development.

- **Economic inequality-** HDR 2023-2024 reveals that India's human development score decreases by 31.1% when economic inequality is taken into account, this underscores the detrimental effect of inequality on the overall well-being and capabilities of the population.
- **Regional disparity-**

Advanced human development	States with over 7% GSDP growth per year, like Kerala, Tamil Nadu, Andhra Pradesh, Karnataka, Maharashtra, Gujarat, Punjab, and Delhi.
Lag in human development	States like Jharkhand, Chhattisgarh, Bihar, Madhya Pradesh, Odisha, Uttar Pradesh, and Rajasthan, they have registered less than 5% growth post-liberalization

- **Policy limitations-** Existing policies, such as the Pradhan Mantri Garib Kalyan Anna Yojana are insufficient to address the scale of economic inequality.

Pradhan Mantri Garib Kalyan Anna Yojana launched in 2020 aims to provide free food grains to the poor and needy through the Public Distribution System

What lies ahead?

- There is a need for a balanced approach to economic policy, where human development is a precursor to and a component of economic growth, leading to more equitable outcomes.
- Human development is essential for high economic growth and reducing inequality, it is demonstrated by China and Vietnam and this suggests that the human development should come from economic growth for it to be long lasting.
- Sustainable and inclusive growth requires comprehensive policy interventions that focus on enhancing human capabilities, reducing poverty, and creating meaningful employment opportunities.
- Addressing inequality is not just a matter of economic policy but also crucial for maintaining social cohesion and political stability.

Reference

- The Hindu- Towards a less poor and more equal country

