

Inequality may not mean Poverty

What is the issue?

\n\n

∖n

- Increasing inequality in recent years has become an issue of concern in several countries of the world. \n
- However, it need not necessarily mean that poverty is also increasing. $\space{1mm}\s$
- The trends in poverty reduction in India prove this point. \slashn

\n\n

What is Gini coefficient?

\n\n

\n

• Gini coefficient measures inequality of a distribution (income or wealth) within nations or States.

\n

- Its value varies anywhere from zero to 1. \nphin
- Zero indicates perfect equality, and 1 indicates perfect inequality. $\ensuremath{\sc n}$
- The poverty ratio is equally important as the Gini coefficient, in analysing issues relating to growth and distribution. \n

\n\n

How is the inequality trend?

\n\n

∖n

• Consumption expenditure is a measure of economic wellbeing and is thus reflective of equality or inequality patterns.

∖n

• The Gini coefficient of **consumption expenditure** for **rural areas** declined

marginally between 1983-84 to 1993-94.

∖n

- But it recorded a marginal rise during the high growth period of 2004-05 and 2011-12.

\n

- In the case of **urban areas**, it stayed the same from 1983-84 to 1993-94, and increased modestly from 2004-05 to 2011-12.
- In general, **inequality** in **rural** areas declined. n
- But **inequality** increased in **urban** areas in the post-reform period (2004-05 to 2011-12).
 - \n
- The trend is particularly more pronounced in the high growth period. $\space{\space{1.5}n}$

\n\n

What are the concerns with inequality measurements?

\n\n

∖n

- Consumption inequality Income and wealth inequalities are much higher than consumption inequality. \n
- The <u>consumption</u> Gini coefficient was <u>0.36</u> in 2011-12 in India.
- \n
- On the other hand, inequality in <u>income</u> was high with a Gini coefficient of 0.55.

\n

- Also, the <u>wealth</u> Gini coefficient was 0.74 in 2011-12.
- Thus, income Gini was about 20 points higher than consumption Gini. \n
- While the wealth Gini was nearly almost 40 points higher than consumption Gini.
- **Data base** The data base for computing <u>income inequality</u> is not as solid as the base for consumption expenditure.
- Using <u>income tax data</u> for computing income distribution has many problems.
- In India, only 3-5% of people come under the income tax net.

\n

- How real do the data reflect the true picture of inequality is highly uncertain. $\ensuremath{\sc vn}$
- The differences between consumption Gini coefficient and income Gini coefficient, etc prove this point. \n

\n\n

What are the trends in poverty decline?

\n\n

\n

- Measure of poverty based on Consumer Expenditure data for the period 1983 to 2011-12 highlights a declining trend. \n
- **Pre-reform** In the pre-reform period (before 1991), overall poverty declined only marginally during 1983 to 1993-94.
- In fact, the number of persons below the poverty line stayed almost the same at 320 million during this period. n
- **Post-reform** Poverty declined faster in the post-reform period. \n
- The decline was more evident in the 2004-2012 period as compared to 1993-2005.

\n

- + 2004-2012 was the period of highest economic growth since Independence. $\space{\space{1.5}n}$
- This timeframe witnessed the fastest decline of poverty compared to earlier periods.

\n

\n\n

What do the trends in poverty suggest?

\n\n

\n

- Clearly the post-reform period recorded a considerable decline in poverty when compared to the pre-1991 period. \n
- A World Bank study shows that among other things, urban growth was the most important contributor to this rapid decline.
- The contribution is true even for poverty reduction in rural areas in the post-1991 period.

\n

- There is a concern that the Tendulkar cut-off line for determining poverty ratio is low and needs to be raised. \n
- But even if the poverty cut-off is raised to 1.5 times the Tendulkar cut-off, the reduction in poverty ratio is evident. \n

\n\n

What does this imply?

\n\n

\n

• Generally, in the early period of economic growth, distribution of income tends to worsen.

\n

- Only after reaching a certain level of economic development, an improvement in the distribution of income occurs.
- Undoubtedly, inequality in itself has several undesirable economic and social consequences.

\n

• But, even if the indicators on inequality remain the same, the poverty ratio can be declining.

\n

- Thus, measuring inequality is not the same as measuring the changes in the level of poverty.
- This has been particularly true of India, where poverty has declined in spite of rise in inequality. $\$

\n\n

\n\n

Source: The Hindu

∖n

