



INDIA INEQUALITY REPORT 2018

# WIDENING GAPS

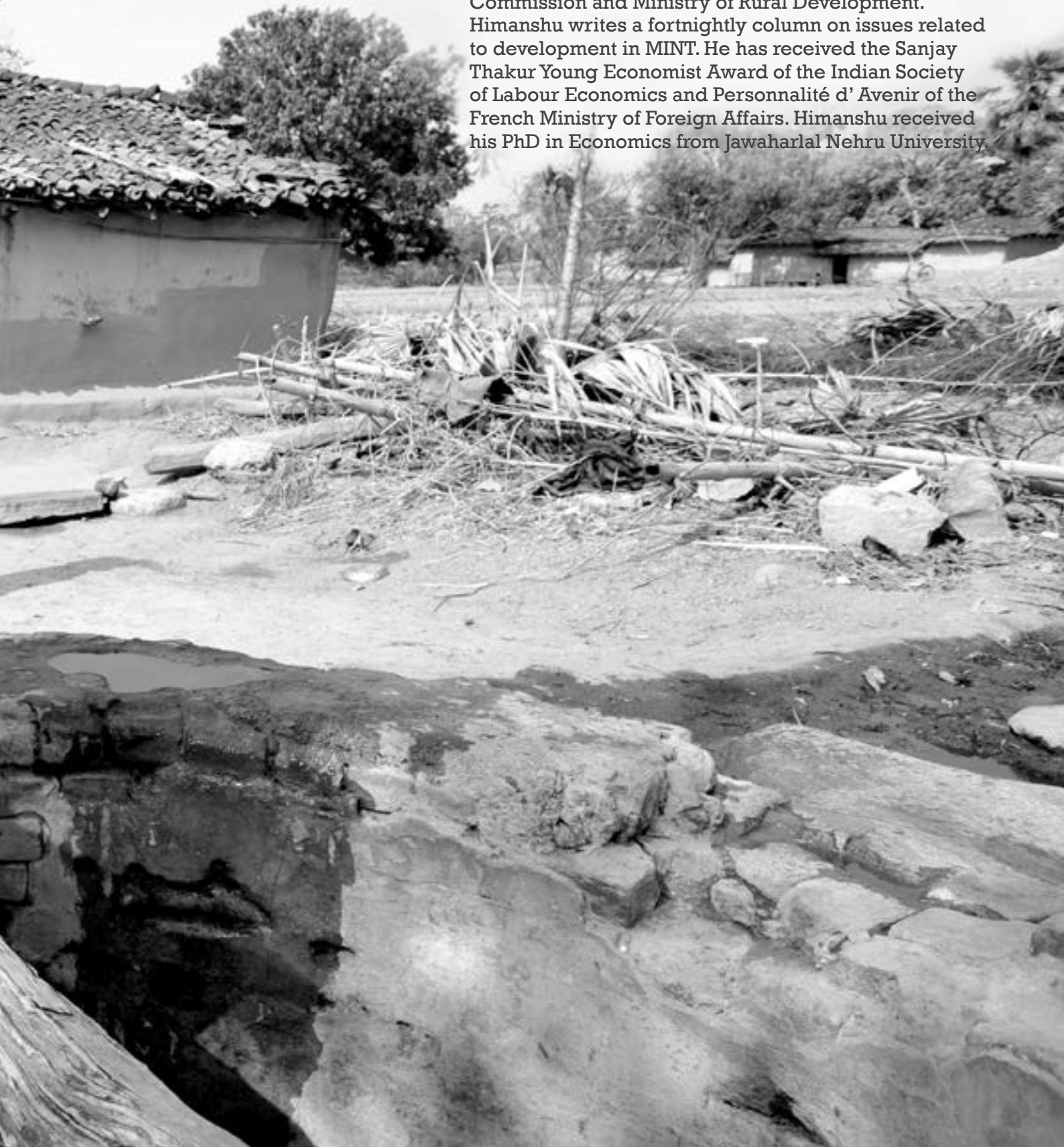


OXFAM INDIA



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HIMANSHU

# EXECUTIVE

# 1/

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**THE FIRST SECTION  
CONTESTS THE CLAIMS  
THAT INDIA IS A  
LOW-INEQUALITY  
COUNTRY BY  
INTERNATIONAL  
STANDARDS**

In spite of the rising global interest in inequality, emerging economies have not been studied enough, due to the lack of sufficient data and differences in economic and social structures. It is important to measure the extent of inequality to understand the growth trajectories of these economies and the income distribution between various population groups. The study of inequality has not been given adequate attention in India, partly because of the argument that inequality is a natural by-product of rapid growth and partly because the levels of consumption expenditure inequality in India appear to be lower than that in many other developing countries.

There is now a greater understanding of the negative effects of inequality and the nature of economic growth that leads to it. This is clear from the shift in the policy discourse to 'inclusive growth'. The study of inequality is all the more important in a situation of 'jobless growth' in the economy, where even the jobs that are generated are largely in the unorganised sector or informal jobs in the organised sector. There is also the question of how the gains from growth are distributed among the vulnerable sections of the population and across the states of the country. Answers to these questions are important to policymakers as inequality poses bottlenecks in the path of growth, especially in a largely agriculture-dependent economy. The primary objective of this report is to show and analyse the trends in inequality in India across various dimensions. A holistic analysis of these trends would then indicate India-specific strategies towards countering inequality.

The first section gives estimates of the extent of inequality in India based on secondary and primary surveys. This section contests the claims that India is a low-inequality country by international standards. Such claims are based on consumption expenditure inequality which is generally lower than income inequality; however, most other countries measure inequality on the basis of income. Contrary to these claims, the overall trends in inequality of consumption expenditure, income and wealth show that India is a high-inequality country, and among the most unequal in the world.

Further, the evidence from both primary and secondary sources of data strongly assert that the levels of inequality are not only high, but also rising over the last three decades.

These trends in inequality are analysed through the

# SUMMARY

# 10X

THE WEALTH HELD BY THE INDIAN BILLIONAIRES ON THE LIST INCREASED BY ALMOST 10 TIMES OVER A DECADE

processes and policies which can explain them. There are two distinct phases in the rising growth story in India, and each of these showed contrasting trends. The first period of accelerating growth in the 1980s was characterised by declining or stagnant levels of consumption expenditure inequality. Meanwhile, the second period of rising growth after 2004 was characterised by rising inequality; this rise began in the 1990s, which coincides with the introduction of economic reforms in 1991.

With respect to sectoral patterns, urban areas outpaced rural areas in terms of inequality in consumption expenditure, but it was common to both sectors that the topmost deciles witnessed faster rates of growth in their real consumption expenditure after 1991. This was unlike the 1980s, when the lowest deciles experienced faster increases in rural areas. Constructing an index of per capita consumption expenditure shows that while there was not much divergence in its increase between 1983 and 1994, there were sharp gaps between the population groups after 1994. The bottom 40% in urban areas had the slowest increase between 1994 and 2012, while the top 20% in urban areas had the fastest at 98%. There is also increasing divergence between the consumption expenditures of different occupational groups, with slower increases among the vulnerable sections such as

agricultural labour and other labour households, and casual labour households in urban areas.

Similarly, the data on the distribution of wealth shows that wealth inequality has increased since 1991, and the value of assets follow the hierarchy of the caste structure and occupational groups. The estimates of inequality in wealth are higher than those in consumption expenditure or income, and has increased sharply in the previous decade. Forbes data gives a clearer picture of the value of assets held by the super-wealthy; the wealth held by the Indian billionaires on the list increased by almost 10 times over a decade. The total wealth held by them is 15% of the GDP of the country; this increased from 10% five years ago.

Four out of ten Indian billionaires have inherited their wealth.

The accumulation of wealth can be understood better by dividing the source into 'rent-thick' sectors, knowledge-based sectors and others. In 2010, 27 out of 69 Indian billionaires accumulated their wealth from rent-thick sectors, which require natural resources or depend on the state for licenses. The real-estate billionaires joined the club between 2005 and 2010; they have also enjoyed the fastest rates of accumulation of their wealth. While rent-thick billionaires accounted for 43% of all billionaires, the wealth they owned accounted for 60% of total

# 4/10

INDIAN BILLIONAIRES  
HAVE INHERITED  
THEIR WEALTH

# 1 /

billionaire wealth. Clearly, the wealthiest in India have made their fortunes from crony capitalism, rather than through innovation or the rules of the market. The ways in which they benefitted were clear when various scams, such as the 2G spectrum scam and the coal scam, came to light.

With respect to income distribution, the available data is more limited, but still show a rising trend in its inequality since 2004-05. In addition, while the rich have been able to maintain their position with respect to the median income, the poorest sections have worsened their position when compared not only to the rich but also to the median income. The inequality in the wage incomes of regular and casual workers has not changed between 1983 and 2011-12, but this masks its decline in the 1980s followed by a rise in the 1990s. While the rural wage inequality has remained stable over the years, there is a clear rise in urban wage inequality. The recent World Inequality Report (2017) gives insights into the evolution of income inequality. This shows the period between 1950 and 1980 to be equalizing. However, the trend is reversed after the 1980s and the share of the top 1% in 2012 was at its highest recorded level since 1922. The rise in the shares of top incomes in India has also been faster than most countries and country groups.

The second section looks at inequality across states, social and religious groups. Spatial inequalities remained stagnant until the 1980s but rapidly increased after 1991. Considering the income/consumption/wealth shares of different social groups shows that members of the Scheduled Castes/Tribes had lower shares relative to their population shares in 1993-94; this continues to be the case even after two decades. Among religious groups, this is

the case for Muslims; the share ratios have declined for this group over the period.

One of the outcomes of high and persistent economic inequality is the deprivation that households face in accessing basic services such as health, nutrition and education. There is a clear imbalance in nutrition, where children of SC/ST communities have worse nutritional indicators than those of the forward castes communities; they also have a slower decline in their malnutrition prevalence. This continues to be the case in 2015-16. Although there have been improvements across groups over the last decade, the nutritional gap between social groups has hardly changed. The figures for educational attainment also show multiple dimensions of deprivation that various groups face. This was clear in the disparity in literacy rates and drop-out rates by social group, gender and sector. These are clear indications of inequalities even in the completion of basic and primary education. The declining female labour force participation rate, along with the gender wage gap and unequal access to decent employment opportunities, has exacerbated the economic and social disparities on gender lines.

All of the above trends naturally lead to the question of why inequality rose so sharply after 1991. The outcomes on distribution of income and wealth are strongly linked to the processes in the labour market. There has been a sharp increase in the

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**SOCIETIES WITH HIGHER  
INEQUALITY TEND TO HAVE  
POORLY-FUNCTIONING  
PUBLIC SERVICES**



employment of informal workers in the organised sector, particularly in the private organised sector. In addition to the decline in the quality of employment over the last two decades, the decline in the number of jobs created and the skewed distribution of workers across sectors have contributed to rising inequality. These labour market outcomes are primarily a result of the fact that the gains from growth have been unevenly distributed, due to the nature of the growth process. Massive capital inflows after 1991 set off a domestic retail credit boom and along with fiscal concessions, this created an environment for a hike in consumption of the better-off households, which has enabled the rapid growth of the Gross Domestic Product. However, the consumption demand of the masses has remained low. The nature of production in the organised manufacturing sector has also changed, with increasing share of profits and declining share of

workers' wages in the net value added. The governments have aided the existing capital accumulation process, by allowing heavy corporate tax exemptions, appropriation of land and natural resources and by lax implementation of regulations.

The rapid rise in inequality is neither inevitable nor harmless. Societies with higher inequality tend to have poorly-functioning public services. This is reflected in India's ridiculously low social sector expenditures on education and health. The experiences of many other countries show that inequality can be reduced through public action. India has much to learn from these experiences in ensuring financial inclusion and tax-compliance, removing corporate loan waivers and tax exemptions, introducing wealth and inheritance taxes, and enacting legislations to provide access to the basic entitlements of the citizens.

# 43%

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**RENT-THICK BILLIONAIRES ACCOUNTED  
FOR 60% OF TOTAL BILLIONAIRE  
WEALTH IN 2010**

# INTRODUCT

## 2/

Recent years have seen a rising interest in understanding the trends and dimensions of inequality across countries as well as within countries (Piketty 2014; Stiglitz 2012; Atkinson 2015; Milanovic 2016).<sup>1</sup> However, in most discussions on global inequality, emerging countries have found little mention, partly due to the lack of comparable long-term data but also due to differences in the economic and social structures between emerging economies and the developed countries. The absence of long-term time series data on personal tax, incomes and wealth have been obstacles in understanding the nature of inequality and its interaction with the process of growth in the emerging economies. However, analysis of inequality within emerging countries is now seen as important not just for concerns on growth and well-being in the developing countries but also for global growth and development. Concerns about rising inequality have been flagged by the World Bank, International Monetary Fund (IMF) and the Asian Development Bank. Reducing inequality has also been added as one of the Sustainable Development Goals (SDG) adopted by the United Nations.<sup>2</sup>

In most of the emerging economies, the role of inequality is not only important in understanding growth trajectories of these countries but is also important for understanding the distribution of income across various population groups and between labour and capital. These are driven by a combination of factors such as the level of informality in the economy, the nature of the labour market, fiscal policies and tax structures, redistributive transfers as well as capital and labour market regulations. This is much more important in the case of India where the inequality is not only visible and has seen a rising trend in recent decades on the conventional indicators of income and consumption, but there is also increasing

disparity between social and economic groups in access to education, health and public services.

However, the trend of rising inequality has received far less attention in the Indian context despite a clear rising trend since 1991. This is partly because a lot of focus on income distribution in India has remained limited to poverty rather than inequality. A much larger reason for this has been the belief that inequality is less of a problem in an economy which is growing so rapidly. In some ways, popular writing on inequality has justified rising inequality as a necessary by-product of growth in developing countries. The fact that measured inequality on consumption expenditure in India appears to be lower than most of the developing countries has meant that concerns on inequality have remained on the periphery.

However, there is now a renewed interest in understanding the drivers of inequality and understanding its impact on growth, mobility and welfare in India. Concerns on inequality in India have been raised on several dimensions.

Recent evidence on various dimensions of inequality has confirmed that India is not only among countries with high inequality but has also seen inequality increase in the last two decades (Sen and Himanshu 2004;

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**CONCERNS ABOUT RISING INEQUALITY HAVE BEEN FLAGGED BY THE WORLD BANK, INTERNATIONAL MONETARY FUND (IMF) AND THE ASIAN DEVELOPMENT BANK**

Himanshu 2007; Himanshu 2015; Sarkar and Mehta 2010; Subramaniam and Jayaraj 2015; Chancel and Piketty 2017; Mazumdar, Sarkar and Mehta 2017). What is even more worrying is that not only does inequality remain high and increasing in India, it has not been met with commensurate efforts to reduce inequality. A 2017 report by Oxfam International and Development Finance International (Commitment to Reducing Inequality Index) developed an index to measure the commitment of governments towards reducing inequality. India ranked 132 out of 152 countries that were ranked in this index, which is reflected in its poor commitment to the reduction of inequality. Inequality in India is not only about wealth and income, it has also been reflected in lower access to a large majority of the population to basic services such as education, health and nutrition.

The rising disparity across several dimensions is particularly worrisome given that this period is also accompanied by an acceleration in the growth rate of the economy. Acceleration of growth rate of national income and subsequent decline in poverty accompanied by an increase in inequality across many dimensions has also raised questions about the nature of economic growth and its impact on income distribution. This recognition of the inequalising effect of economic growth has also been acknowledged by policymakers, who have shifted their discourse from economic growth alone to 'inclusive growth'. However, the judiciary has been far more forthcoming and has passed strictures on these patterns.<sup>3</sup> However, the judiciary has been far more forthcoming and has passed strictures on these patterns. The Parliamentary Standing Committee on finance, in a report to the Parliament of India, expressed similar concerns on how rising inequality would impact sustained economic growth.<sup>4</sup>

An important concern for a developing country such as India is not just the economic inequality, but also the inequality

## HISTORICALLY MARGINALISED GROUPS SUCH AS DALITS, TRIBAL GROUPS AND MUSLIMS ARE DISADVANTAGED IN THE ACCESS TO WEALTH BUT ALSO IN ACCESS TO BASIC SERVICES, WHICH THEN LEADS TO LOWER LEVELS OF HEALTH, NUTRITION AND EDUCATION

which is structural and affects the access to basic services by its citizens. The story of rising inequality in India is as much about rising income inequality as it is about inequality in non-income dimensions such as education, health, nutrition, sanitation and opportunities. While these are difficult to quantify, the limited evidence available suggests a widening of gaps between the different groups of individuals. The burden of these disparities is not borne uniformly across groups. There are clear indications of differences in access and opportunities by groups in economic and other parameters. Historically marginalised groups such as Dalits, tribal groups and Muslims are disadvantaged in the access to wealth but also in access to basic services, which then leads to lower levels of health, nutrition and education (Thorat and Sabharwal, 2011). Even within these disadvantaged groups, discrimination based on gender have meant that women continue to remain excluded from access to basic services and access to employment opportunities.

An obvious outcome of inequality across gender is the access to education and employment opportunities. The decline in workforce participation rate of women during 2004-11, when the economy grew at its highest rate of growth provides ample evidence of the growing marginalisation of women from the growth process. Along with high gender wage gaps, unequal access to decent employment opportunities has further exacerbated the economic and social disparity on gender lines.

Explanations of divergence in incomes have invariably been linked to trends in employment and changes in employment

# 2/

structure. There is now a growing concern that the development trajectory in the post-liberalization era has been a period of 'jobless growth'. Despite a booming economy and increasing labour force, the process of job creation has been extremely sluggish. Moreover, a large majority of jobs that have been generated are either in the unorganised sector or informal jobs in the organised sector. With the rise of the unorganised sector and informal work, harsh working conditions without adequate pay or social security are being normalised. This has further widened the gap between a large majority of the workers in the unorganised sector and a handful of corporates and professionals at the other end.

This also turns the focus towards how the benefits of economic growth are shared among various population groups, and spatially between various Indian states. Above all, policymakers have started to question the nature of the redistributive impact of the growth on the domestic economy and its ability to grow despite the bottlenecks imposed by constraints of a large and growing population, most of which is still dependent on agriculture for livelihood. One of the effective ways of achieving growth without compromising on the redistributive aspect of it has been employment generation with a shift in the workforce structure towards formal and decent employment. This is particularly true in a context when the growth of national income is accompanied by growing inequalities between various sectors of production, largely driven by the differential returns to labour in a segmented labour market. Nonetheless, characteristics of labour market and growth in employment remain an important tool for analysing the recent developments in India.

This report analyses the nature of inequality in India and its relationship with growth and redistributive politics. The paper is divided into four sections. The first section

provides some estimates of the extent of inequality in India in the larger context based on secondary and primary surveys. This section essentially argues that the notion of India being a low-inequality country may be misplaced. The analysis also shows that the recent decades have seen high and rising inequality across multiple dimensions. The issue of inequality is analysed in terms of the processes and policies which have a bearing on explaining the final outcomes. This is done in the context of recent trends in growth, poverty and employment using various data sources.

It also looks at the nature of inequalities in wages and earnings and its relationship to changes in workforce structure. The second section looks at the rising trends in inequality in terms of its impact on various social and religious groups. The third section looks at the impact of inequality on social and human development outcomes. The final section looks at the intersection of state, markets and inequalities with concluding remarks and suggestions for policy.

The primary objective of this paper is to document and analyse the trends and patterns of inequality in various dimensions in India. Such an understanding of the situation is a pre-requisite to suggest India-specific strategies towards countering the rising trend of inequality. These could include policies for reducing economic inequality such as redistribution, more effective tax policies, and removing corporate tax exemptions. This could also include policies to reduce inequality in other parameters, such as increasing public spending so as to improve access across regions and groups.

THE PRIMARY  
OBJECTIVE OF  
THIS PAPER IS TO  
DOCUMENT AND  
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INEQUALITY  
IN VARIOUS  
DIMENSIONS  
IN INDIA





# INEQUALITY

## 3/

A GENERAL MISCONCEPTION AROUND INEQUALITY IN INDIA IS THAT THE LEVEL OF INEQUALITY IS LOW BY INTERNATIONAL STANDARDS

India is home to around 17 percent of the world population. It is also home to the largest number of people living below the international poverty line of \$ 1.90 per day measure of the World Bank.<sup>5</sup> Given the sheer size of the population and also that of an absolute number of poor, India is an important player in world development and inequality trends. The Indian economy, despite recent blips, is one of the fastest growing economies in the world.<sup>6</sup>

While the growth rate of Indian economy has been slow for most years since Independence, it took off in the early 2000s. The spectacular growth post 2003-04 was also accompanied by a drastic fall in poverty headcount ratio.<sup>7</sup> The rise in per capita GDP is shown in figure 1. A spectacular rise is noticeable since the early 2000s. The welfare of the population is however dependent not only on the growth of the economy but also on its distributional outcomes. In the context of a fast growing economy, inequality in India is a major concern. It is of immense importance to know whether the gains of growth are being distributed evenly among all socio-economic groups or being concentrated among a few.

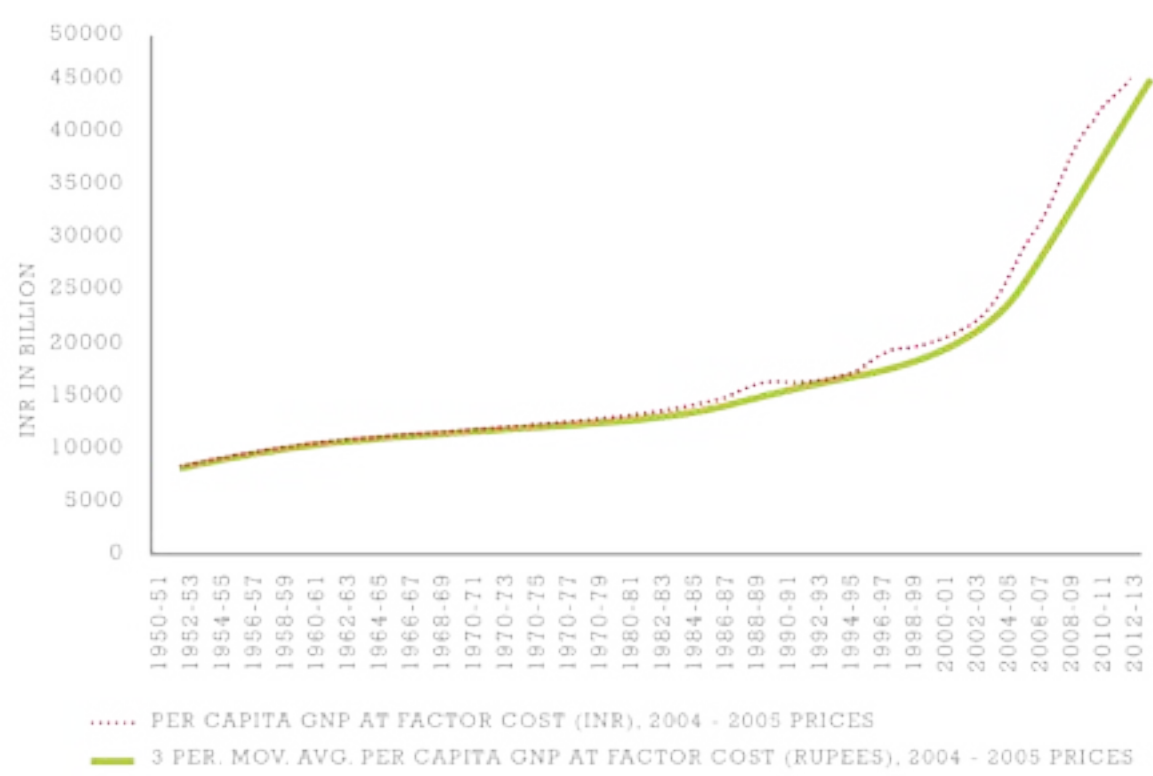


Figure 1: Trends in per capita GNP (2004-05 prices)  
Source: Database on Indian Economy, Reserve Bank of India



# IN INDIA

## 3.1 IS INDIA A LOW INEQUALITY COUNTRY?

A general misconception around inequality in India is that the level of inequality is low by international standards.<sup>8</sup> However, such a comparison is largely misplaced as inequality in India is usually measured by the consumption expenditure data, which is not comparable to inequality in most countries which is measured by income dimension. While there is no one-to-one correspondence between income and consumption inequality, evidence across countries suggests that consumption inequality is generally lower than income inequality. This happens largely due to the fact that consumption, as measured by the National Sample Survey Office (NSSO) in India, tends to underestimate the consumption of rich. It is also because consumption is a smoothed measure, unlike income. Therefore consumption inequality, in general, is found to be lower than income inequality.<sup>9</sup> But even on a comparable measure of consumption inequality, India is not a low-inequality country. There are few income estimates available for the country as a whole but the limited information available from private surveys suggests that income inequality is not only high compared to countries with similar per capita income, but is also increasing. The fact that inequality in the country is not only at a high level but is increasing in the last three decades is now confirmed from various sources of data and on various independent measures of inequality.

The most credible measure of inequality in the country is based on the consumption surveys of the NSSO. Based on these, the Gini of consumption expenditure as measured by the National Sample Survey (NSS) consumption expenditures surveys report a rise in consumption inequality from 0.32 in 1993-94 to 0.38 in 2011-12 for urban areas. Corresponding estimates of Gini of consumption expenditure in rural areas is 0.26 in 1993-94 to 0.29 in 2011-12.<sup>10</sup> On income inequality, the latest data on income inequality is available from the India Human Development Survey (IHDS) reports which

show income inequality in India in 2011-12 at 0.55, up from 0.53 in 2004-05 which puts India among the high inequality countries (Desai et al 2010).<sup>11</sup> But even on wealth inequality, India is among the most unequal countries in the world. According to the Credit Suisse Global Wealth Report (2017), top 10% of the households held 52.9% of the total wealth of the country in 2002 which increased to 62.1% by 2012. The corresponding share of wealth held by the top 1% also increased from 15.7% in 2002 to 25.7% in 2012. The share of wealth held by the top 1% in India is only second to the United States among the major countries for which the data is available. The Gini of wealth in India in 2017 is at 0.83, which puts India among the countries with highest inequality countries. The increase in wealth inequality is consistent with the trend of rising inequality in the country in other dimensions.

Similarly, data on income inequality reported by the World Inequality Report 2017 puts India among the countries with the highest levels of inequality, lower only to the Middle-Eastern countries. The income share of the top 10% of the Indian population at 55% in 2016 is only second to the group of countries along with Brazil, second only to middle-eastern countries.<sup>12</sup>

However, unlike middle-eastern countries and Brazil which have had historically high levels of inequality but have seen a decline in the share of the top 10% in total income, India has seen a secular rise in the share of income accruing to the top 10% and top 1% of the population. The top 1% of Indian population accounted for 22% of income in 2016, lower only to middle-eastern countries and Brazil.

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**THE GINI OF WEALTH IN INDIA IN 2017 IS AT 0.83, WHICH PUTS INDIA AMONG COUNTRIES WITH HIGH INEQUALITY**

# 3/

## INDIA HAS SEEN A SECULAR RISE IN THE SHARE OF INCOME ACCRUING TO THE TOP 10% AND TOP 1% OF THE POPULATION

Here again, the trend in Brazil and the middle-eastern countries has been a secular decline as against a secular rise in the case of India in the last three decades.

Some measure of income inequality, although not representative at the national level, is available from village surveys. Village surveys constitute an important source of data, particularly for the rural economy. While a few of them have longitudinal data spanning over decades, the estimates available from village surveys for recent years does confirm that the level of inequality at the village level is also very high. Most village surveys report estimates of inequality based on a detailed calculation of income and despite the methodological differences, suggest a high level of inequality consistent with other sources of information. Estimates of inequality in more recent village studies by the Foundation of Agrarian Studies in several villages between 2005-2008 show Gini coefficients ranging between

0.5 and 0.7 (Rawal and Swaminathan, 2011). These estimates are based on data collected by Foundation for Agrarian Studies (FAS), as part of the Project on Agrarian Relations in India (PARI) and report Gini coefficients for eight villages, three from Andhra Pradesh, two each from Uttar Pradesh and Maharashtra, and one from Rajasthan. These villages together provide a general snapshot of the villages based in different agro-climatic zones of the country. Their results also show the extreme concentration of wealth in the top decile. The share of the top income decile for per capita income from pooled data of all villages is reported at 48.06 percent of total income. The evidence from these studies clearly shows that income inequality estimates from village surveys are closer to the income inequality estimates reported by the IHDS income inequality measures. Table 1 reports different measures of inequality for the eight villages.

VILLAGE	STATE	MEAN HOUSEHOLD INCOME RS/ANNUM	D10/11	D9/D2	GINI (HOUSEHOLD INCOME)	GINI (PER CAPITA INCOME)
Ananthavaram	Andhra Pradesh	59,173	5366	14.5	0.656	0.602
Bukkacerla	Andhra Pradesh	36,572	-62.3	17.8	0.607	0.542
Kothapalle	Andhra Pradesh	33,987	-188.7	9	0.577	0.565
Harevli	Uttar Pradesh	71,084	183.1	13.3	0.671	0.602
Mahatwar	Uttar Pradesh	31,281	48.5	5.5	0.555	0.509
Warwat Khanderao	Maharashtra	62,183	54.7	7.3	0.586	0.531
Nimshirgaon	Maharashtra	73,851	41.6	6.2	0.549	0.491
25 F Gulabewala	Rajasthan	163,853	145.6	19.7	0.74	0.686
All Villages		64,293	200.9	9.8	0.645	0.596

Table 1: Per capita income and Gini coefficients from village surveys

Source: Swaminathan and Rawal (2011)

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## IN AN ANALYSIS OF INCOME BY CASTE, THE AUTHORS' POINT TO THE ABSENCE OF DALIT HOUSEHOLDS FROM THE TOP INCOME QUINTILE IN ALL VILLAGES BUT ONE, AND AN OVER- REPRESENTATION IN THE BOTTOM QUINTILES

Swaminathan and Rawal (2011) also report a tendency for inequality to be higher among villages with higher per capita income (with the exception of 2 villages from Maharashtra). They also report the presence of negative income, primarily owing to losses in crop production. In an analysis of income by caste, the authors point to the absence of Dalit households from the top income quintile in all villages but one, and an over-representation in the bottom quintiles.

The estimates of inequality reported by village surveys are similar to those reported by large-scale surveys, although higher than the national surveys. However, similar to large-scale national surveys, most longitudinal village surveys have reported an increase in inequality in recent decades. Swaminathan (1988) reports a rise in inequality in Gokilapuram (Tamil Nadu) with the Gini coefficient rising from 0.77 in 1977 to 0.81 in 1985. Among the major longitudinal village surveys, Palanpur, a village in the North Indian

state of Uttar Pradesh has been surveyed once in each decade starting 1957-58. Figure 2 shows the reported Gini coefficient for incomes over the survey years for Palanpur. While inequality declined until 1974-75, similar to the national trend, the village has seen a steady rise in inequality since then, and has reached the highest level since the start of the surveys. However, between 1983-84 and 2008-09, inequality has increased despite a fall in poverty. Despite the large variation in income inequality reported by most of the village surveys, there does appear to be some consensus that inequality may have risen over time rather than coming down.<sup>13</sup> The broad picture emerging from secondary, as well as primary surveys, confirms that not only is India among the high-income inequality countries but also that inequality during the last three decades has risen. In subsequent sections, we examine inequality in income and consumption in details from the available sources.



Figure 2: Gini Coefficient of Income, Palanpur

Source: Himanshu, Joshi and Lanjouw (2016)

# 3/

## ON MOST INDICATORS, INDIA IS NOW AMONG THE COUNTRIES WITH THE HIGHEST LEVEL OF INEQUALITY

### 3.2 INCREASING INEQUALITY

The aggregate statistics presented in the previous section confirms the high level of inequality in India across various dimensions, be it consumption, income or assets. On most indicators, India is now among the countries with the highest level of inequality. But the analysis also shows that unlike most countries which started with high inequality, inequality in India has continued to rise. In the context of the acceleration of growth rate of Indian economy, the rise in inequality raises issues of the distribution of gains from the growth. In this section, we examine the nature of inequality in India on different dimensions.

### 3.2.1 CONSUMPTION INEQUALITY

The primary source of tracking inequality, despite its non-comparability with other countries, is the consumption expenditure surveys of the National Sample Survey Office (NSSO). The data on consumption expenditure in India is collected by the NSSO and is considered to be a reliable source to study the changes in the level and trends in poverty, inequality and well-being. We have used the NSSO consumption expenditure data for 'thick rounds' for the years 1983, 1993-94, 2004-05, 2009-10 and 2011-12.<sup>14</sup>

These are available for a long period of time starting 1950s and provide an estimate of consumption expenditures disaggregated by various categories. Table 2 provides broad estimates of some measures of inequality from

the NSSO consumption surveys. Inequality, as measured by the Gini of consumption expenditure, declined between 1983 and 1993-94 but has seen a rising trend since 1993-94. The trend of increasing inequality is also obvious from other measures of inequality. For example, the ratio of average consumption expenditure of urban top 10% to the rural bottom 10% was stable between 1983 and 1993-94 but has since then increased.<sup>15</sup> The same is the case with consumption share of various groups with an increase in the shares of top 10% and top 20%, along with corresponding fall in the shares of bottom 20% and bottom 40%.

SHARE OF VARIOUS GROUPS IN TOTAL NATIONAL CONSUMPTION EXPENDITURE	1983	1993-94	2004-05	2009-10	2011-12
BOTTOM 20%	9.0	9.2	8.5	8.2	8.1
BOTTOM 40%	22.2	22.3	20.3	19.9	19.6
TOP 20%	39.1	39.7	43.9	44.8	44.7
TOP 10%	24.7	25.4	29.2	30.1	29.9
RATIO OF AVERAGE CONSUMPTION OF VARIOUS GROUPS					
URBAN TOP 10%/RURAL BOTTOM 10%	9.0	9.2	8.5	8.2	8.1
URBAN TOP 10%/URBAN BOTTOM 10%	22.2	22.3	20.3	19.9	19.6
URBAN TOP 10%/RURAL BOTTOM 40%	39.1	39.7	43.9	44.8	44.7
GINI OF CONSUMPTION EXPENDITURE					
RURAL GINI	27.1	25.8	28.1	28.4	28.7
URBAN GINI	31.4	31.9	36.4	38.1	37.7
ALL INDIA GINI	29.8	30.0	34.7	35.8	35.9

Table 2: Estimates of Income Inequality from NSSO Consumption Surveys

Source: Computed by the author from NSSO unit level data

Note: All estimates are based on Mixed Recall Period (MRP) estimates of consumption expenditure

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**THE ACCELERATION IN GROWTH RATE IN THE 1980S WAS ACCOMPANIED BY DECLINING OR STAGNANT INEQUALITY, THE PERIOD AFTER 2004-2005 HAS SEEN A RAPID RISE IN INEQUALITY**

Consumption inequality as measured by Gini coefficient is shown in figure 3. The all-India consumption Gini coefficient has increased from 0.30 in 1983 to 0.36 in 2011-12. While the rural Gini has seen a modest increase from 0.27 in 1983 to 0.29 in 2011-12, it is the urban Gini that is driving the overall inequality. The urban Gini has seen a rapid rise from 0.31 in 1983 to 0.38 in 2011-12. However, the two periods of growth acceleration, first in the 1980s and then after 2004-05 show contrasting trends. The acceleration in growth rate in the 1980s was accompanied by declining or stagnant inequality, the period after 2004-05 has seen a rapid rise in inequality. In fact, the period of rising inequality coincides with the beginning of economic reforms in 1991. Inequality since 1993-94 has seen a rise throughout the period.

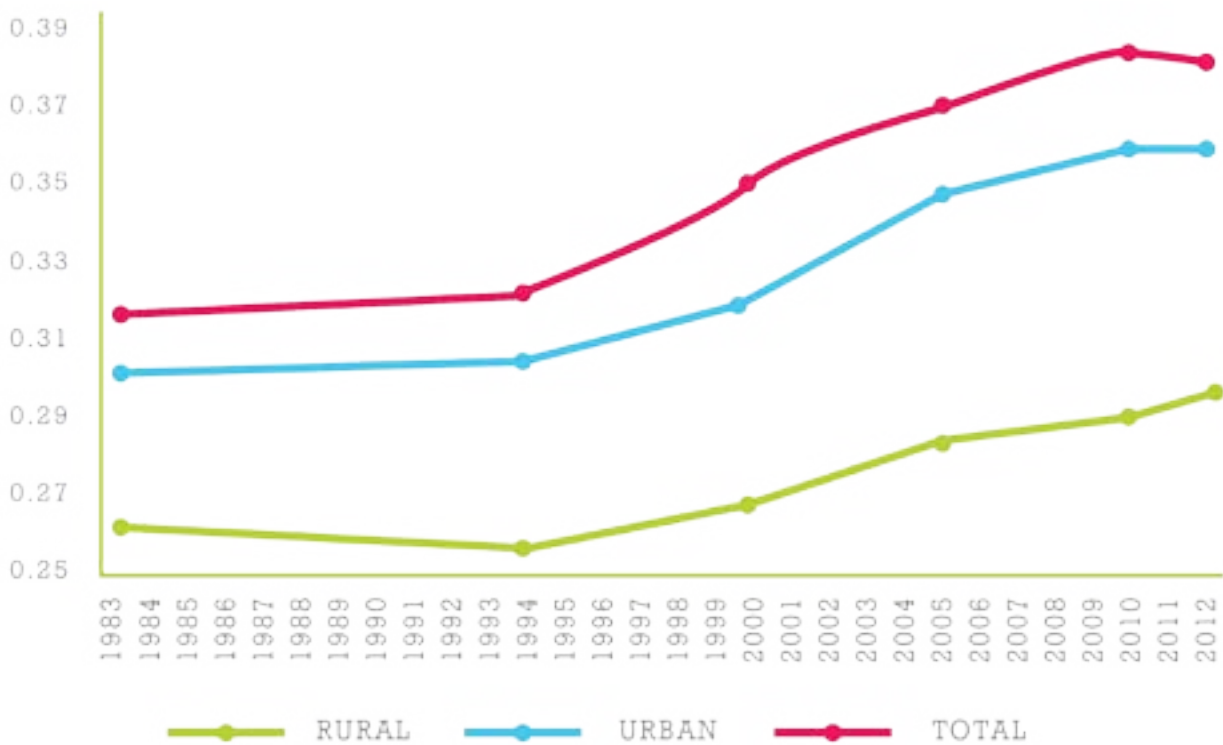


Figure 3: Gini Coefficient of consumption expenditure (NSSO)

Source: Computed using NSS CES datasets

The analysis of growth incidence curves using the monthly per capita expenditure (MPCE) confirms the steep rise in inequality after 1993-94. Figures 4 and 5 present the growth incidence curves using real MPCE by deciles adjusted for inflation using CPI(AL) for rural areas and CPI (IW) for urban. The overall real MPCE grew at the rate of 1.72% per annum in rural areas between 1983 to 1993-94 and almost similar rate of growth at 1.74% per annum in the urban areas. However, the growth rate of urban MPCE was higher in both of the periods 1993-94 to 2004-05 and 2004-05 to 2011-12. The growth rate of rural MPCE was 1.28% between 1993-94 and 2004-05 and increased to 4.08% per year between 2004-05 and 2011-12. The corresponding growth rates for urban areas were 1.51% and 4.62% per year. While urban MPCE growth outpaced rural MPCE growth, within rural and urban areas, it was the upper deciles of MPCE which saw faster growth after 1991 as against the 1980s when lower deciles saw faster growth.

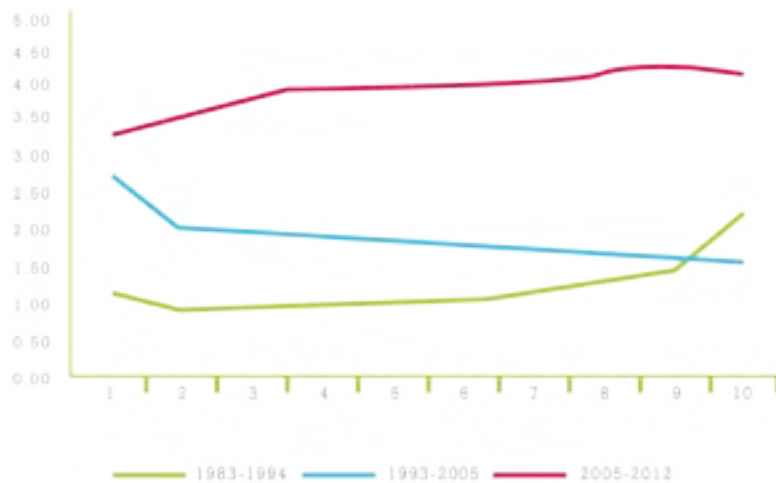


Figure 4: Growth rate of Real MPCE by MPCE deciles

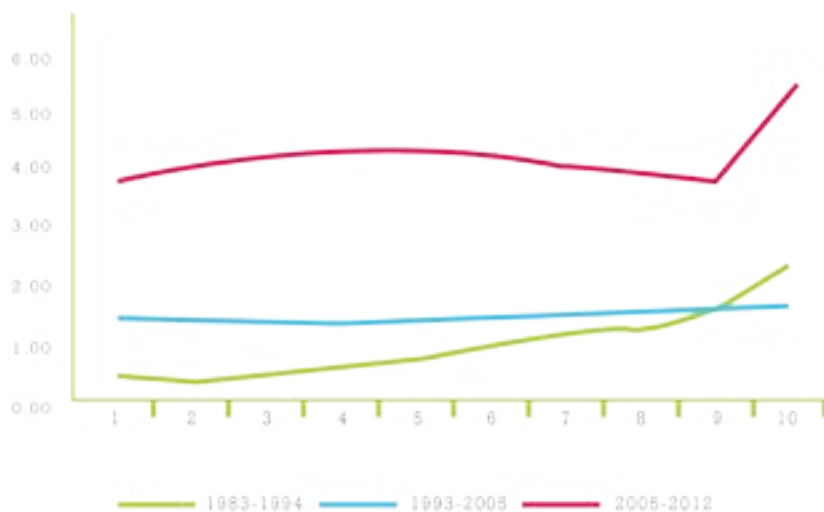


Figure 5: Growth rate of Real MPCE by MPCE deciles (Urban)

Source: Computed using NSS CES datasets

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The growth incidence curves confirm that the period of growth acceleration in the 1980s was accompanied by higher growth among the bottom deciles leading to a decline in overall inequality. In both rural and urban areas, the 1980s saw higher growth of consumption expenditure among the lower deciles compared to the richer deciles. This pattern was reversed after 1993-94 with lower consumption deciles growing slower than the richer deciles. After 2004-05, this trend has actually accentuated with a growth rate of lower two deciles in rural areas remaining below 0.5%. In the case of urban areas, while there has been an increase of growth rates across the board, the gap between growth rates of lowest deciles compared to highest deciles has continued to rise. Growth since 1993-94 has been faster on average but has largely been a result of the faster growth for the upper deciles. In urban areas, it is the top decile which has grown the fastest after 1993-94. Figure 6 presents the index of MPCE by rural and urban population groups. While there is not much divergence in the MPCE of various population groups between 1983 and 1994, these start diverging after that. Between 1983 and 2012, while the urban bottom 40% witnessed an increase of real MPCE by 51%, the urban top 20% witnessed an increase of 98%.

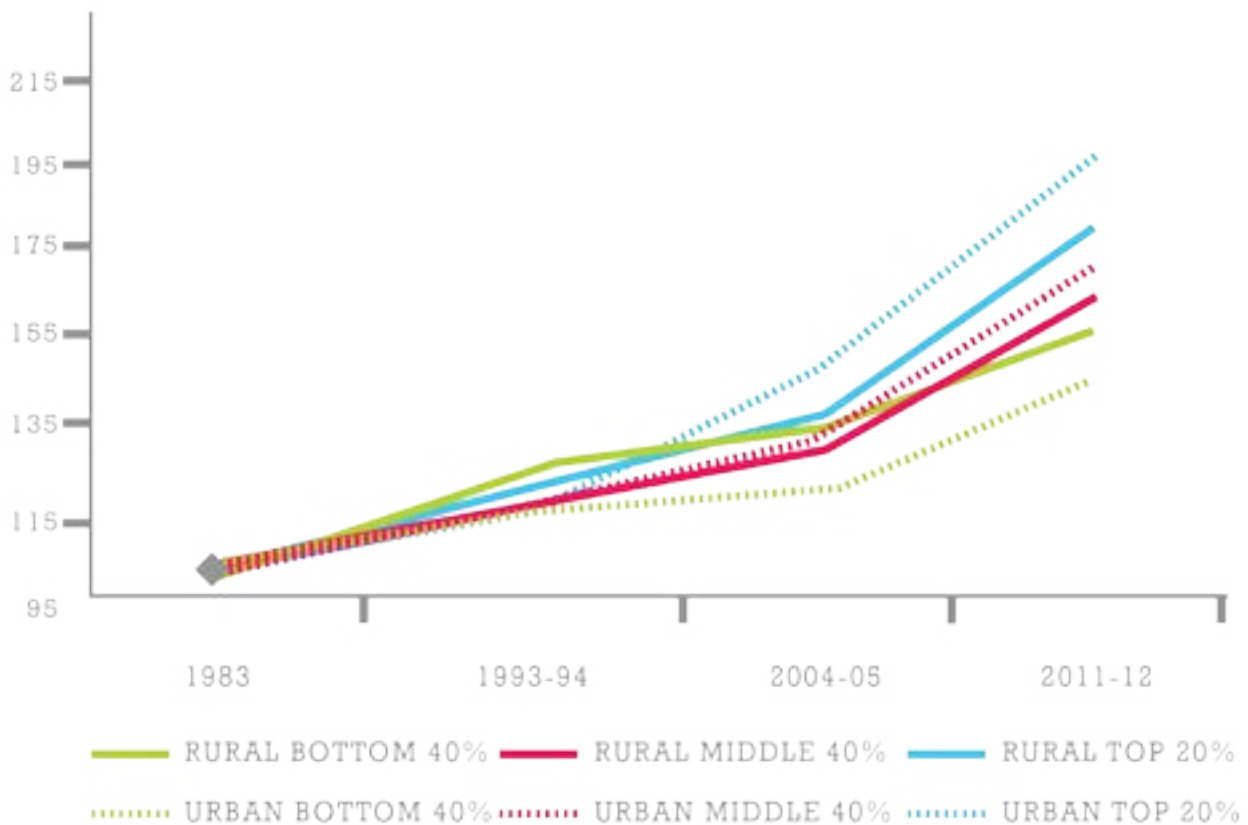


Figure 6: Index of MPCE by groups (1983=100)

Source: Computed using NSS CES datasets



While these do suggest increasing inequality across households, particularly at the two extremes of the distribution, the consumption expenditure estimates also suggest increasing divergence between various occupational groups. In particular, there is evidence of slower improvements among the vulnerable categories of households, such as agricultural labour households and other labour households. This is also true of casual labour households in urban areas, whose consumption expenditures have increased slower than the overall increase in consumption expenditure. One way to analyse these trends is to look at the ratio of consumption expenditure of these households compared to overall consumption expenditure. Table 3 presents these ratios for 1993-94, 2004-05, 2009-10 and 2011-12.

Although there is some improvement after 2004-05 in the ratio of MPCE of agricultural labour households compared to all households, it has worsened for other labour households. While average MPCE of other labour households was 95% of overall MPCE in 1993-94, this ratio was down to 85% in 2011-12. Similarly, in urban areas, MPCE of casual labour households was 61% of overall MPCE but declined to only 54% by 2009-10, although it improved marginally to 57% in 2011-12. Also, the MPCE of regular worker households has increased faster than the MPCE of casual labour households in urban areas, as reflected by the ratio of MPCE of casual to regular worker households.

YEAR	RURAL		URBAN	
	AL/ALL	OL/ALL	CAS/ALL	CAS/REG
1993-94	0.78	0.95	0.61	0.54
2004-05	0.75	0.93	0.54	0.47
2009-10	0.77	0.91	0.54	0.46
2011-12	0.78	0.85	0.57	0.48

Table 3: Ratio of average MPCE of some occupation groups to average MPCE of all population

*Note: AL—Agricultural Labour, OL—Other Labour, CAS—Casual Labour, REG—Regular Workers*

*Source: Computed using NSS CES datasets*

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## 3.2.2 ASSET INEQUALITY

The NSSO surveys are an important source of information for asset inequality through their debt and investment surveys. However, these are available less frequently since NSSO only conducts All India Debt and Investment Survey (AIDIS) once in a decade. This large sample survey is based on a detailed questionnaire seeking information on possession of household assets like land, buildings, agricultural machinery, vehicles and financial assets like shares, debentures and amount outstanding. AIDIS also collects information on household debt, the credit agency and the terms of debt. The survey provides information on physical quantities of assets and their present value in monetary terms. Summing up the value of all assets owned by the household, we can analyse the total wealth of households. This analysis of assets or wealth is limited to the household sector and it severely undermines corporate wealth, hence any estimate of inequality based on this data will be an underestimate.<sup>16</sup> Despite this obvious limitation, the AIDIS data provides stark evidence of extremely high levels of wealth inequality and further worsening trends. The AIDIS surveys were conducted in 1991 (48th round), 2002 (59th round) and 2012 (70th round). While the basic AIDIS questionnaire has remained the same, some changes have been made over the years. The 1991 surveys did not carry information on the religion of the household. The same survey also did not have the OBC category for social group. In the 70th round, the AIDIS survey did not collect information on household durables. To compare total wealth, we have thus excluded the value of durables for 1991 and 2002. Given the unavailability of wealth deflators, we have focused on relative inequality measures rather than on the average value of wealth.

Earlier studies on wealth inequality by Vaidyanathan (1993), Subramanian and Jayraj

(2006) and Jayadev et al. (2007) have highlighted the high wealth inequality compared to consumption or income inequality. Subramanian and Jayaraj (2006) and Jayadev et al. (2007) analysed the inequality in assets disaggregated by caste and occupation as well as across Indian States. The analysis based on data from the 1991 and 2002 AIDIS surveys highlighted the large discrepancy in wealth holdings across caste groups as well as occupational groups. The level of wealth per capita was found to be similar to the hierarchy of the caste structure and occupational groups. Recent evidence based on the 2012 round of AIDIS by Anand and Thampi (2016) and Sarma, Saha and Jayakumar (2017) have confirmed the trend observed in case of consumption and income inequality. The inequality based on assets has not only increased since 1991, but it has also been accompanied by increasing divergence in assets held by disadvantaged groups such as Dalits, tribals and Muslims. Analysis by Credit Suisse as part of their Global Wealth Report (2017) also confirms the finding of a rapid rise in wealth inequality in the last two decades.

Table 4 presents the shares of wealth held by each decile. The bottom 50% of the population held 9% of the total assets in the country in 1991 but has seen the share decline by one-third to only 5.3% by 2012. As against this, the share of wealth held by the top 1% has increased from

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**AIDIS DATA PROVIDES STARK EVIDENCE OF EXTREMELY HIGH LEVELS OF WEALTH INEQUALITY AND FURTHER WORSENING TRENDS**

17% in 1991 to 28% by 2012. The top 10% held more than 50% of the wealth, through all the surveys, with the share rising from 51% in 1991 to 63% in 2012. It must be noted that the estimates from the AIDIS are gross underestimates given the lack of information on bullion and durables. Including these, the shares of wealth held by the top 1% and top 10% are likely to be higher. Also, since the AIDIS survey does not include corporate wealth, in all likelihood the share of the top 1% is a severe underestimate. Figure 7 displays the Lorenz curves for household wealth inequality for the three AIDIS survey rounds. The Lorenz curve for 2012 is clearly far to the right of the Lorenz curve of the previous two rounds, highlighting a marked increase in inequality levels.

WEALTH DECILE	PERCENTAGE SHARE OF TOTAL WEALTH		
	1991	2002	2012
1	0.16	0.26	0.03
2	0.85	0.60	0.41
3	1.66	1.32	0.92
4	2.59	2.15	1.56
5	3.75	3.22	2.41
6	5.24	4.67	3.58
7	7.25	6.75	5.31
8	10.41	10.21	8.29
9	16.48	17.15	14.97
10	51.61	53.87	62.52
TOP 10%	16.94	17.06	27.60

Table 4: Decile wise wealth share  
 Source: Computed using AIDIS data

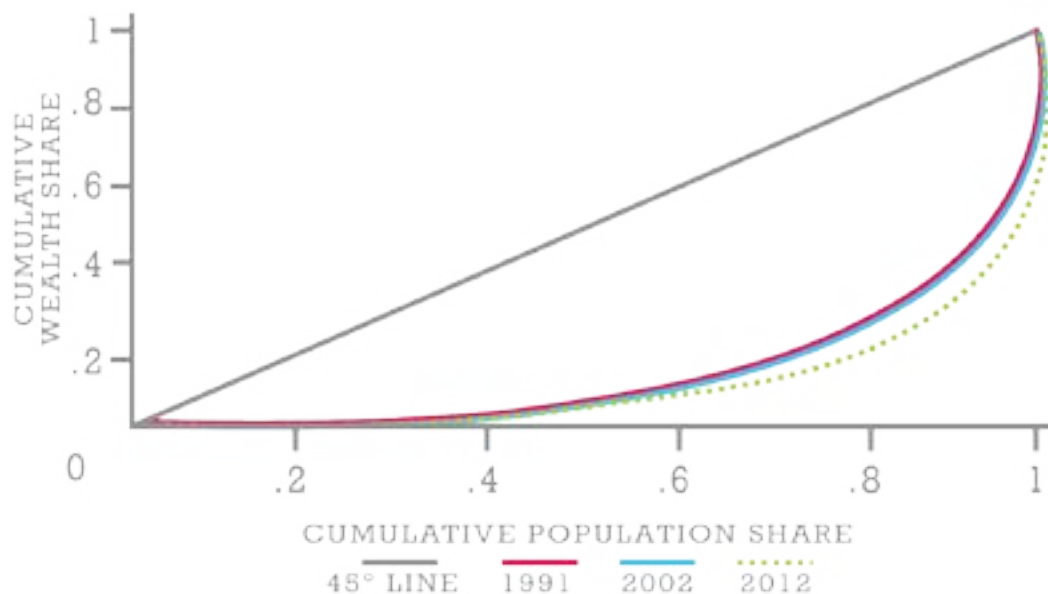


Figure 7: Lorenz curve for household wealth  
 Source: Computed using AIDIS data

# BOTTOM 50 POPULATION H

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The Gini coefficients of wealth are presented in figure 8. These are not only higher than the corresponding estimates of inequality based on income or consumption but also show an increasing trend in the last two decades. While the increase is marginal in the 1990s, it has increased sharply in the last decade. Figure 8 also shows that after accounting for debt, the inequality in net worth is higher than the inequality in assets. The inequality in wealth is, in fact, similar to estimates of inequality in landholding. Rawal (2008) reports the Gini of land ownership at 0.76 in 2003. Table 5 gives the Gini coefficients of various asset categories based on AIDIS data and these again show high inequality across asset groups, including land.

How does the wealth inequality estimates of AIDIS measure up to international comparisons? The Global Wealth Report (GWR) provides annual estimates of wealth inequality for a number of countries.<sup>17</sup> The last estimates report the Gini coefficient of wealth inequality in India at 0.83 in 2017. The corresponding estimate of Gini for wealth by GWR 2011 reports it at 0.804, suggesting an increase by 0.03 percentage points in the next six years. According to GWR 2017, the bottom 50% of the population in India held 8.1% of total wealth in 2002 which declined to only 4.2% by 2012. In contrast, the top 1% of the population held 15.7% of total wealth in 2002 which increased to 25.7% of total wealth by 2012. Among the countries for which GWR gives the share of wealth held by the top 1%, only Indonesia and the United States have higher shares of wealth than India.

AMONG THE COUNTRIES FOR WHICH

# GLOBAL WEALTH REPORT

(GWR) GIVES THE SHARE OF WEALTH HELD BY THE TOP 1%, ONLY INDONESIA AND THE UNITED STATES HAVE HIGHER SHARES OF WEALTH THAN INDIA

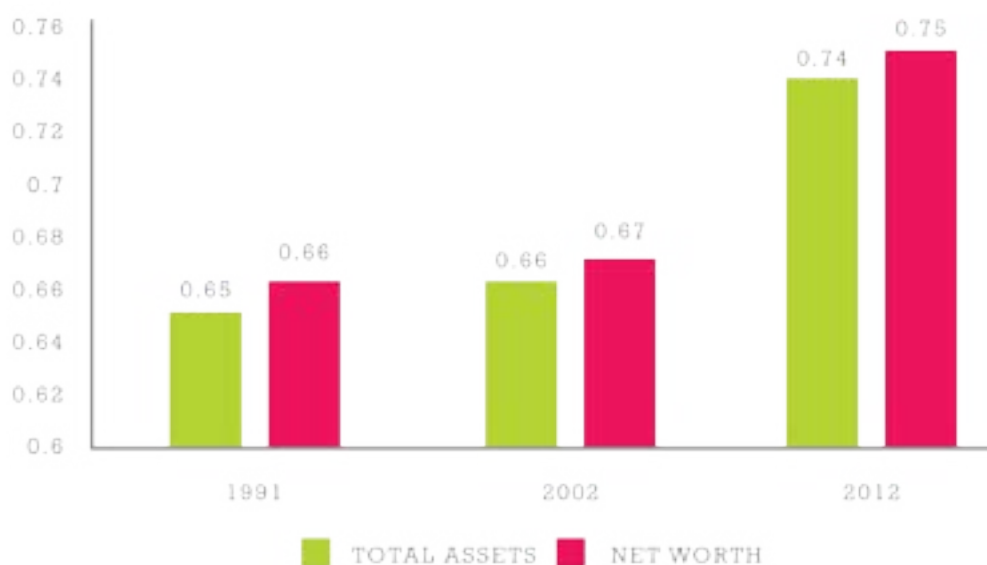


Figure 8: Gini Coefficient of Wealth








	RURAL			URBAN		
	1991-92	2002-03	2012-13	1991-92	2002-03	2012-13
	0.73	0.73	0.77	0.83	0.81	0.83
	0.61	0.59	0.59	0.8	0.74	0.84
	0.69	0.74	0.75	0.96	0.97	0.97
	0.91	0.92	0.89	0.99	0.99	0.99
	0.98	0.97	0.97	0.97	0.96	0.97
	0.9	0.92	0.91	0.92	0.91	0.87
	0.96	0.92	0.88	0.88	0.87	0.85
<b>ALL ASSETS</b>	0.65	0.65	0.69	0.75	0.72	0.77

Table 5: Inequality by Asset class

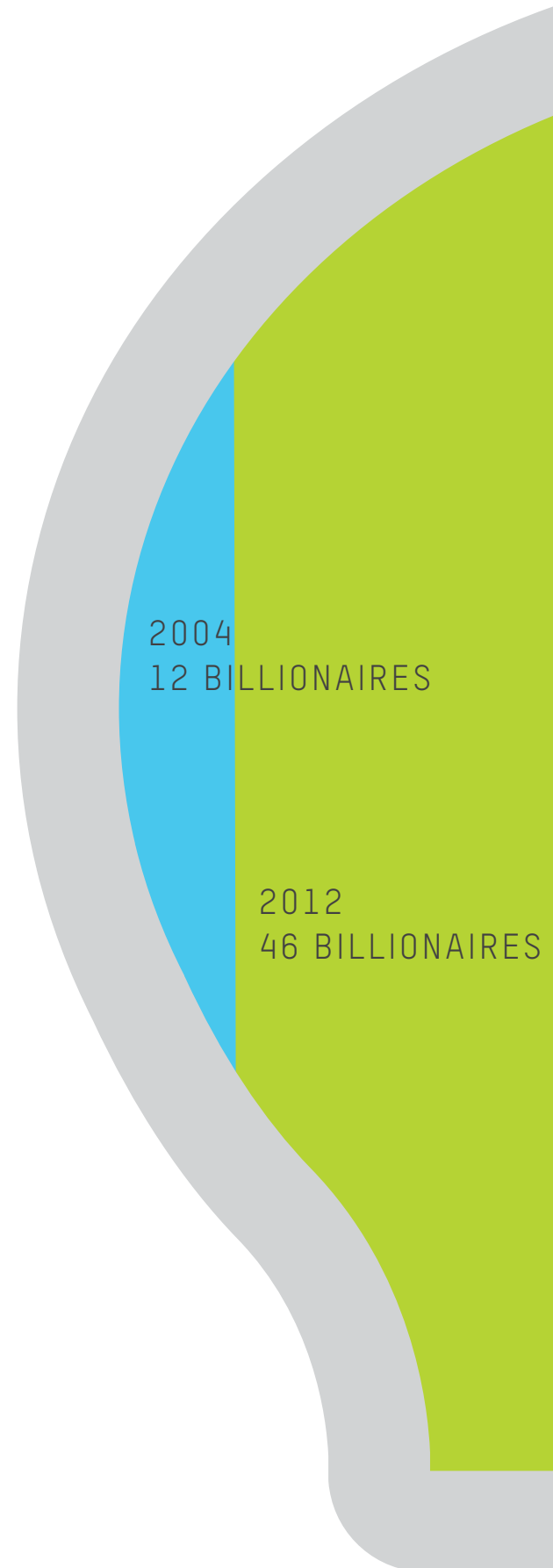
Source: Computed using AIDIS data

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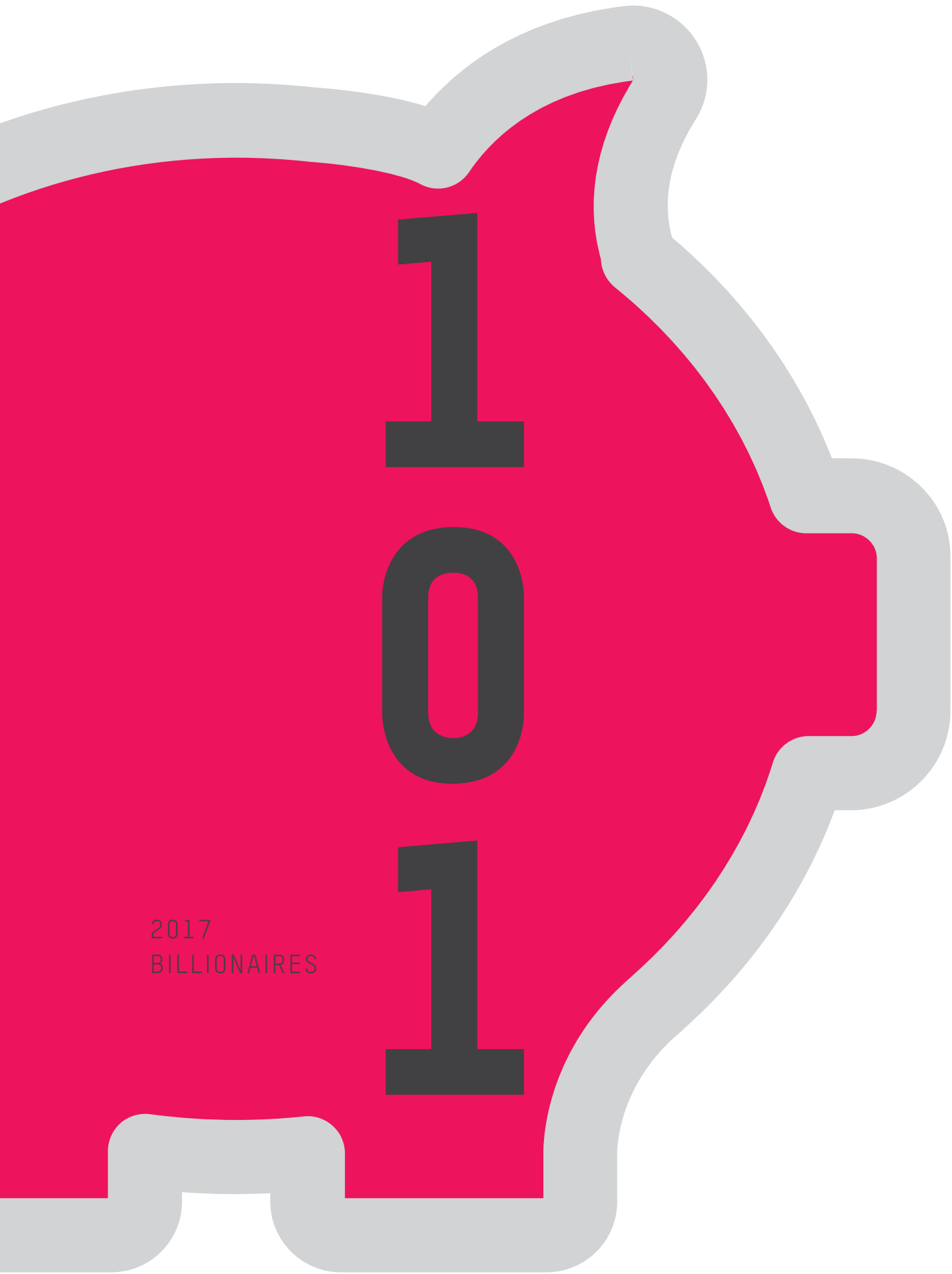
## 3.2.3 WEALTH OF INDIAN BILLIONAIRES (FORBES)

Although the AIDIS data confirm the rise in asset inequality, it clearly underestimates the levels of asset inequality in India. According to 2012 AIDIS data, the total wealth of the top 1% of the population of the country was Rs 96.2 lakh crores. Forbes (2012) reported, that the net worth of the 68 billionaires, alone was Rs 5.7 lakh crores. Clearly, the results obtained from the AIDIS are gross underestimates of the value of assets owned by the wealthiest in the country. Forbes releases annual data on billionaires which details their sources of wealth. By these estimates, the wealth held by the richest 100 billionaires, increased from \$49 billion in 2004 to \$479 billion in 2017; the wealth held by billionaires increased almost 10 times in a decade. There has been a steady rise in the number of billionaires as well – from 12 billionaires in 2004 to 46 in 2012 and 101 in 2017. India is fourth, behind the United States, China and Germany, in the number of billionaires.

Gandhi and Walton (2012) have compared the total wealth of resident Indian billionaires to the GDP of the country. According to them, the wealth of Indian billionaires was less than 5% of the GDP until 2005 but increased sharply to 22% in 2008; it however declined after the financial crisis to 10% in 2012. By the latest estimates, the total wealth of Indian billionaires is 15% of the GDP of the country; this has risen from 10% only five years ago. Interestingly, almost 40% of Indian billionaires have inherited their wealth; the inheritors account for almost two-thirds of the total wealth of billionaires.







2017  
BILLIONAIRES

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Himanshu (2010) analysed the source of wealth of Indian billionaires. The analysis divides the source of wealth into rent-thick sectors, knowledge-based sectors and others. Rent-thick sectors are defined as sectors which are closely linked to access to natural resources or are dependent on the State for licenses. These include real estate, infrastructure, construction, mining, telecom, cement, and media. Telecom is included among the rent-thick sectors as the allocation of spectrum is a natural resource licensed by the government. The second set consists of knowledge-based industries that rely on research and development, primarily in services but also in manufacturing. The IT and pharmaceutical sector would ideally belong to this category. Of the two categories, the rent-thick sectors would essentially benefit from their cosy relationship with the political class.

In 2004, of the 13 billionaires, two belonged to the pharmaceutical sector and two belonged to the IT sector; the remaining made their fortunes in rent-thick sectors. In 2010, of the 69 billionaires, 11 were from the pharmaceutical industry and six from IT. In comparison, 18 billionaires made their fortunes in construction and real estate (15 of them in real estate alone).

**TOTAL WEALTH  
OF INDIAN BILLIONAIRES IS**

# 15%

**OF THE GDP OF THE COUNTRY**



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## THE RICHEST IN INDIA HAVE MADE THEIR MONEY THROUGH CRONY CAPITALISM RATHER THAN THROUGH INNOVATION OR THE FAIR RULES OF THE MARKET

Seven made their fortunes in commodities (metals and oil), and two in telecom. That makes 27 billionaires in rent-thick sectors. The total wealth of knowledge-based sectors (IT and pharmaceutical) is \$55 billion, against \$132 billion in the rent-thick sectors. Services account for only 20% of the total wealth of the 66 resident Indian billionaires.<sup>18</sup>

How do they compare internationally? The net wealth of the 100 richest Americans in 2009 was \$836 billion; that of the 100 richest Indians was \$300 billion. That is, the richest Americans are almost three times richer than their Indian counterparts. There are eight Indians among the top 100 billionaires in the world; there are none from China. Of the top 20 billionaires in the United States, eight are from the IT sector, three from finance, five from retail, and one from media. Of the remaining three, two are from engineering and one from real estate. In other words, one billionaire out of 20 is from a rent-thick sector. Among the top 20 in India, nine are from such sectors. All 15 real estate billionaires in India joined the club between 2005 and 2010. Incidentally, they have also seen the fastest rate of wealth growth; the IT sector billionaires have among the lowest rates of wealth growth.

A similar analysis is reported by Gandhi and Walton (2012). They report that 20 billionaires out of 46 in 2012 had their primary source of wealth from rent-thick

sector: seven from real estate, construction, infrastructure or ports, three from media, and the rest from cement and mining. While rent-thick billionaires accounted for 43% of all billionaires, they accounted for 60% of the total wealth of these billionaires.

Clearly, the richest in India have made their money through crony capitalism rather than through innovation or the fair rules of the market. Crony capitalism is defined as a system where businesses multiply their wealth not by the fair rules of the market, but through their nexus with governments. Classic examples of crony capitalism are the distribution of legal permits, licenses, land, contracts, tax breaks and so on. It is this crony capitalism which later surfaced in the form of various scams, such as the 2G spectrum scam and the coal scam. So is the case of real estate billionaires, many of whom benefitted from cheap land allotted to them by the governments. It is worth noting here that the majority of the 12 companies which have been reported for bankruptcy proceedings in 2017 are from rent-thick sectors, such as housing and steel. Not only have the richest benefitted from undue favours granted to them in the allocation of natural resources, they have also got easy credit from the financial sector. A look at the non-performing assets of the public sector banks has clearly established that the majority of these companies are held by the richest Indians.



### 3.2.4 INCOME INEQUALITY

Like data on consumption and assets, there are no reliable official sources of data on income. While information from village surveys on income inequality is available, this is too little to generalise, given the context, methodology, and varied time coverage. Some information on income inequality is now available from IHDS; this survey was conducted in 2005 and 2012, by NCAER and the University of Maryland, and provided information on consumption and income. The IHDS data has been used to study the inequality in household incomes. We begin by examining the overall trends in household income inequality in India. The Gini coefficient for household income in India has gone up from 0.54 in 2004-05 to 0.55 in 2011-12. Figure 9 presents the Gini coefficient by sector. However, unlike the trends reported in the case of consumption and assets, IHDS reports higher inequality in rural areas as compared to urban areas, although both show a rise in inequality between the two surveys. The income Gini of 0.55 in 2011-12 puts India alongside the unequal countries in the world.

While the level of inequality in itself is a worrying phenomenon, the fact that it has increased since the previous period makes it worse. Other measures of inequality show how the income distribution has worsened over the years. The P90/P10 or the ratio of average incomes of the top 10th percentile and the bottom 10th percentile was 13.27% in 2004-05. In other words, the top 10th percentile of the population had an average income which was 13 times higher than the bottom 10th percentile. This ratio, which was already very high, has further worsened in the 2011-12 round to 14.22%. The P90/P10 ratio shows worsening of the relative position of the poorest vis-à-vis the richest. The P90/P50 or the ratio of the top 10th percentile vis-à-vis the median income has hovered around 4% in both rounds, whereas the P10/P50 ratio has worsened slightly. This indicates that while the rich are able to maintain their position with respect to the median income, the position of the poorest sections of the population has deteriorated, when compared not only to the rich but also to the average median income.



Figure 9: Gini coefficient of income distribution

Source: Computed using IHDS data

### 3.2.5 INCOME INEQUALITY BY OCCUPATIONAL GROUPS

The IHDS is currently the only source of information as far as overall income inequality is concerned. However, their use remains limited due to the fact that they are longitudinal data starting from 2004-05. So it is likely that the income inequality in 2011-12 is not the true measure of income inequality for the country as a whole. Concerns have also been raised about the quality of income data; in particular the variation across states and time due the complexity of income data. Nonetheless, there are some data on income that are available from the NSSO Employment-Unemployment Surveys (EUS) and other surveys by occupation groups. Two of these are the inequality in income based on earnings data from the EUS for wage workers and the income of farmers from the Situation Assessment Surveys (SAS). The EUS provides estimates of weekly earnings of wage workers; these can be used to provide estimates of wage inequality among wage workers. The only lacuna in this data is the absence of any information on earnings of the self-employed. Since self-employed workers comprise almost half of total workers, the wage inequality measures are only a partial reflection of the level of inequality in incomes.

The Gini coefficient of wage income data from the EUS is presented in table 6. While the rural wage inequality has remained stable over the years, there is a clear rise in urban wage inequality which increased from 0.41 in 1983, when it was lower than rural wage inequality, to reach 0.50 by 2011-12. The overall inequality in wage income of regular and casual workers has not changed between 1983 and 2011-12. During this time period, the 1980s witnessed a minor decline in wage inequality but it was followed by a rise in the

1990s. The decline in the most recent period is largely driven by a sharp decline in wage inequality in rural areas; it declined from 0.42 in 2004-05 to 0.37 in 2011-12. The decline in wages during 2004-2011 is not surprising considering that this period witnessed a sharp rise in wages of casual workers. This was also accompanied by a declining gap between the wages of regular and casual workers.

YEAR	RURAL	URBAN	TOTAL
1983	0.42	0.41	0.47
1993-94	0.39	0.43	0.46
2004-05	0.42	0.49	0.51
2011-12	0.37	0.5	0.47

Table 6: Gini coefficient of wage income  
Source: Rodgers and Soundararajan (2015)

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Rodgers and Soundararajan (2015) also report the share of the top 10% of wage earners in total wage income of the country. By their estimates, in 1983, the top 10% of wage earners accounted for 35% of total wage income. By 2011-12, the share of the top 10% increased to 40%. During the same period, the share of the bottom 50% in total wage income declined from 19% to 18%. The corresponding decline in the middle 40% was from 45% to 43%.

The inequality in the income of wage earners is not very different from the level of inequality reported by IHDS. The overall inequality is only marginally lower than the overall income inequality reported by IHDS for 2004-05 and 2011-12. How do these compare internationally? Rodgers and Soundararajan (2015) provide some comparison with wage inequality measures from Brazil. Unlike the rising trend of wage inequality in India in the last two decades, wage inequality in Brazil declined sharply in both rural and urban areas. In 2011, the Gini coefficients of wage income in Brazil was 0.34 in rural areas, 0.41 in urban areas and 0.41 overall. The comparable estimates for 1995 in Brazil were 0.42, 0.51 and 0.52 respectively, thereby showing a sharp decline, against the trend of rising inequality in India.

Unlike wage income estimates which are available for regular and casual workers, there are no reliable data for self-employed workers which constitute almost half of all workers. However, there is some information available on the income of cultivators which are the dominant group of workers among the self-employed workers in rural areas. This information based on the Situation Assessment Surveys (SAS) of Farmers, conducted by NSSO, is available only for two

time periods i.e. 2002 and 2012.

Chakravorty, Chandrasekhar and Naraparaju (2016) provide estimates of income inequality for farmers based on the NSS-SAS data. They report income inequality among farmers at 0.58 in 2012; unlike other data inequality of income among farmers declined from 0.63 in 2002.<sup>19</sup> Despite the overall decline, inequality of farmers' income is much higher than overall income inequality reported by IHDS or inequality of workers income reported by NSSO.

## 3.2.6 INEQUALITY IN TOP INCOMES

Recent years have focussed on the share of top incomes as a measure of inequality. Using tax data of various developed countries, Piketty (2014) showed the income growth of top 1% and top 0.1% to highlight the disproportionate growth in incomes of the rich. One of the big lacuna of this data set was the absence of detailed analysis of developing countries. This gap has now been filled by the recently released World Inequality Report (2018) which has now extended the data on top incomes to more countries including developing countries. While there has been some work on tax data, there are complications on the methodology used to arrive at the share of top 1%.

The methodology involving survey data on consumption along with tax data has been used by Banerjee and Piketty (2005) to estimate income share of top 1%. They used individual income tax returns between 1922 and 1999 to understand the trends in income inequality in India. These have now been extended by Chancel and Piketty (2017) to include data from 1999-2000. Similar to the trends in the United States, United Kingdom

and France, income inequality in India decreased greatly between the 1950s and 1980s but increased thereafter. The share of income of top 1% reached a high of 21% in the pre-independence period, but declined subsequently until the early 1980s to reach 6%. They increased, thereafter, secularly with the estimate for the most recent period reporting the share of top 1% of income earners at 22%; the highest recorded so far. Figure 10 gives the share of top 1% in total income for India. Figure 11 gives the share of top 0.1% in total national income which shows a similar trend. The share of top 0.1% in national incomes is now at the highest level of 9%.

They have shown that the period 1950-1980 was equalising, as the bottom 50% increased its income share whereas the share of the top 1% declined. Figure 10 gives the share of the bottom 50% in total national income. The bottom 50% during this period captured 28% of the total income whereas the top 10% captured 24%. During this period even the households between the 50th and 90th percentiles saw rising shares in national income. Figure 11 shows the share of national income accruing to the 50th-90th percentile. However, the trend reversed after the 1980s and the share of top 10% increased at the cost of all other groups. While the bottom 50% of earners experienced a growth rate of 97% between 1980 and 2014, top 10% saw a 376% increase in their incomes. At the same time, the top 0.01% and top 0.001% saw an increase of 1834% and 2776%, respectively. In fact, the largest decline in the share of national income is seen in the 50th-90th percentile group whose share declines by more than 15 percentage points.

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**SIMILAR TO THE TRENDS IN THE UNITED STATES, UNITED KINGDOM AND FRANCE, INCOME INEQUALITY IN INDIA DECREASED GREATLY BETWEEN THE 1950S AND 1980S, BUT INCREASED THEREAFTER**

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Figure 10: Share of top 1% in national income



Figure 11: Share of top 0.1% in national income

Source: World Inequality Report, 2017



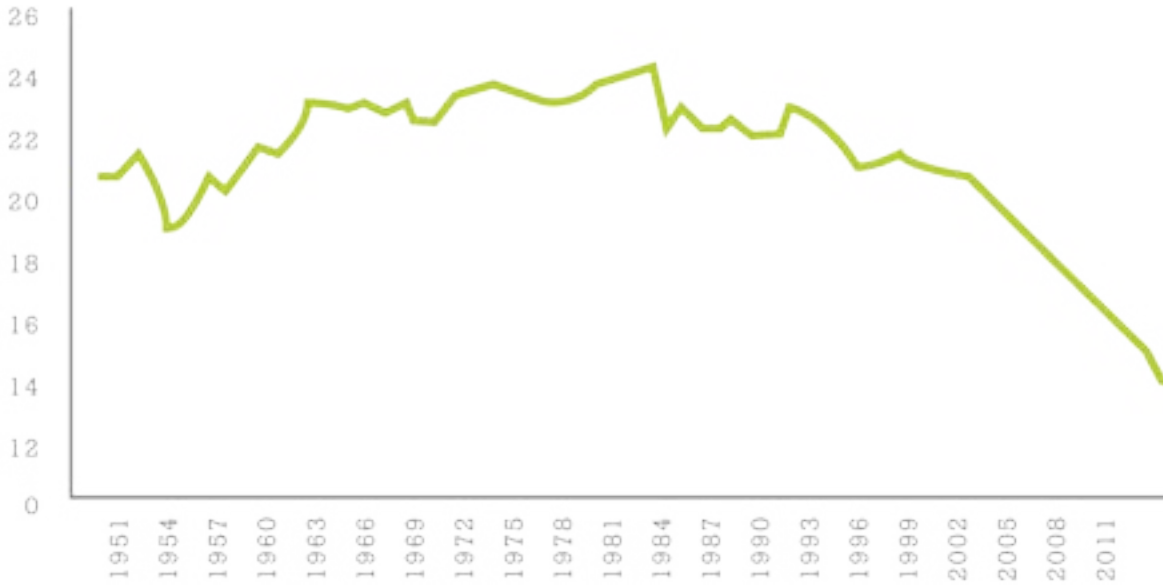


Figure 12: Share of bottom 50% in national income

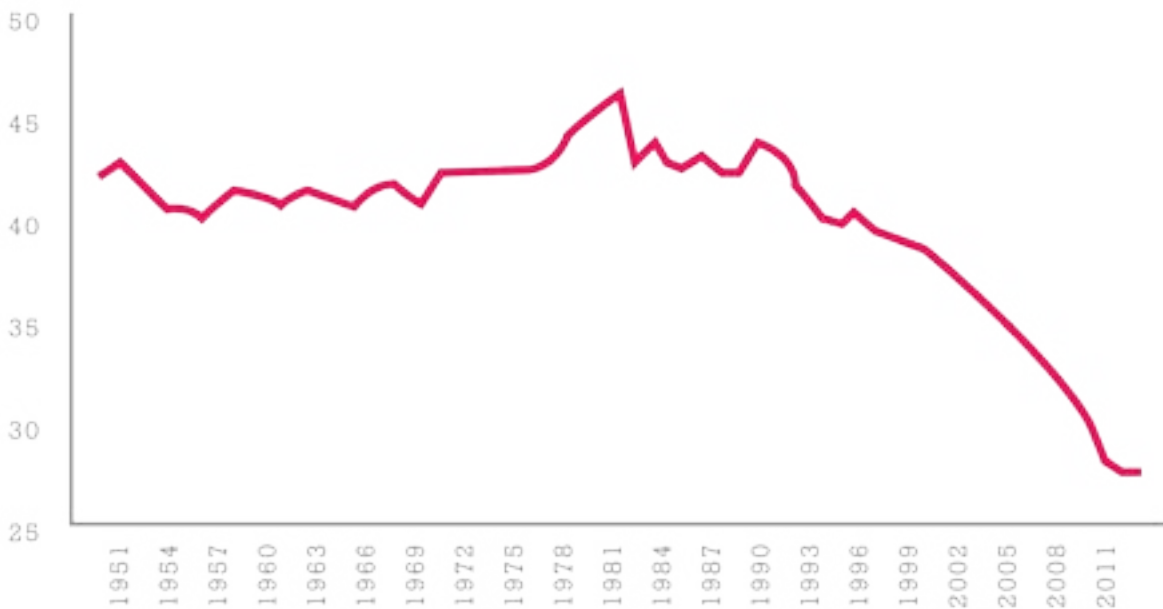


Figure 13: Share of middle 40 % (50th – 90th percentile) in total income

Source: World Inequality Report, 2017





# MULTIPLIED OF INEQUAL

## 4/

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**THE BROAD PICTURE THAT EMERGES FROM THE ANALYSIS OF DATA FROM VARIOUS SOURCES IS THAT INEQUALITY DECLINED UNTIL THE 1980S, INCREASED SINCE 1991, AND HAS BEEN RISING UNTIL 2017**

The previous section, using different measures of inequality has established that a) India is among the high inequality countries and b) the inequality in India has seen a rising trend in the last three decades contrary to most countries showing a decline in inequality. The broad picture that emerges from the analysis of data from various sources is that inequality declined until the 1980s, has increased since 1991, and has been rising until 2017. However, aggregate inequality sometimes masks the various dimensions of inequality which matter for inequality of opportunity. The inequality of opportunity is not just based on the aggregate distribution of wealth and income but is also shaped by where an individual is born, and to which caste, community, religion and gender.

Equal access to opportunities is difficult, partly because of horizontal inequalities (Stewart, 2002) – the inequalities that arise because individuals belong to various groups – which subjects them to prejudice, marginalisation, discrimination or disadvantage. Policies need to then compensate those in disadvantageous circumstances so that all individuals have more or less equal opportunities. Identities such as gender, caste or community interact with political forces and result in patronage and control. In the next section, we look at different dimensions of inequality.

# DIMENSIONS OF INEQUALITY IN INDIA

## 4.1 REGIONAL INEQUALITY

Some inequality across states is expected given the different situation they were in at the time of independence. Though the Indian planning process, at least in theory, tried to bridge the gap between different states, the outcome has not been as expected with inequality across states increasing over time. Within the country, the rise in inequality is partly a result of growing divergence of incomes between the states and increasing inequality within these states. Such regional divergence between states have existed since independence and they have increased over the years. While usual sources of data such as the consumption surveys of NSS and income surveys of IHDS confirm the rise in regional inequality, the data from national accounts also confirm the rising level of

inequality. One way of looking at inequality across states is to look solely at the inequality that arises because a person is born in a state assuming zero inequality in the state. Figure 12 presents the inter-state inequality using the state domestic product data from the national accounts. The state domestic product has been divided by the population assuming equal per capita income within the state that is zero inequality within the state. The resulting Gini coefficient for per capita income weighted by state population also shows that inequality which remained stagnant until the 1980s has seen a rapid rise since 1991. The trends from the inter-state Gini coefficient further confirms the trend of stable inequality in the 1980s followed by rising inequality since the 1990s.

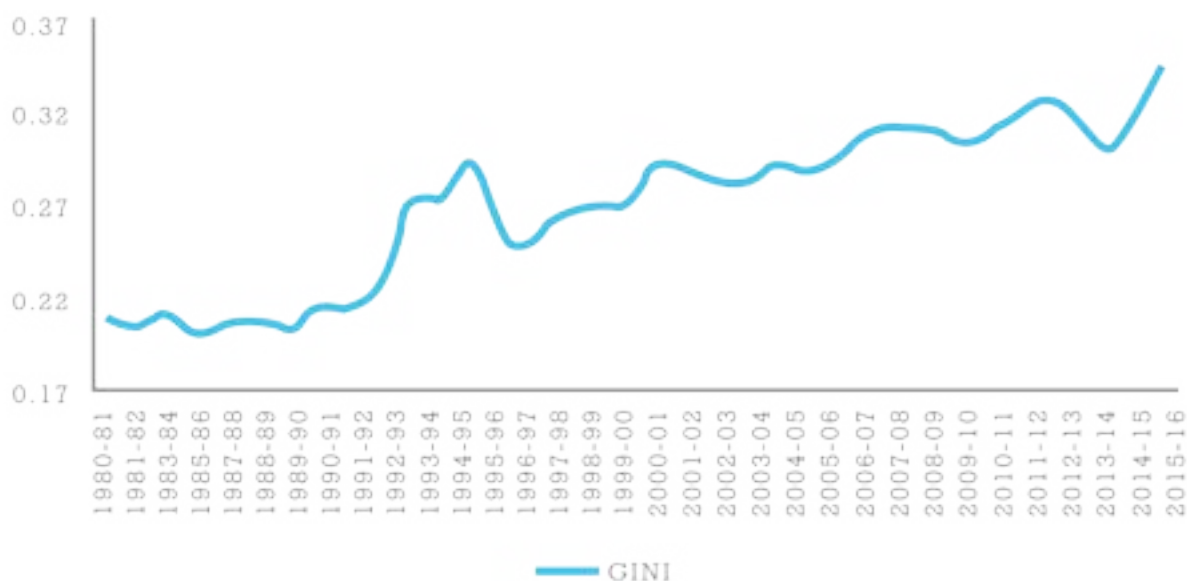


Figure 12: Per capita inter-state inequality

Source: Calculated using data from RBI

## 4.2 THE ROLE OF IDENTITIES IN PERPETUATING INEQUALITY

Inequality on the basis of social groups and religion is an important feature in India. It is a well-known fact that large disparities exist among different caste and religious groups. These disparities exist not only in the income and asset dimension but also on human development outcomes. The issue of discrimination on the basis of caste and religion has long been recognised and there have been attempts to correct the imbalance through reservation and other affirmative measures. Though they are important, large inequalities continue to exist in several dimensions.

ALL INDIA					
	CONSUMPTION SHARE/ POP SHARE			INCOME SHARE/ POP SHARE	
	1993-94	2004-05	2011-12	2004-05	2011-12
ST	0.76	0.69	0.69	0.68	0.67
SC	0.79	0.78	0.8	0.71	0.79
OBC	--	0.92	0.93	0.89	0.92
OTHERS	1.09	1.33	1.34	1.45	1.39
RURAL					
ST	0.83	0.76	0.77	0.75	0.72
SC	0.85	0.85	0.88	0.75	0.83
OBC	--	1	1	0.95	0.96
OTHERS	1.07	1.23	1.21	1.42	1.38
URBAN					
ST	0.83	0.81	0.81	1.02	1.08
SC	0.75	0.72	0.76	0.77	0.82
OBC	--	0.83	0.85	0.84	0.87
OTHERS	1.05	1.24	1.26	1.24	1.24

Table 7: Share of income/consumption over share of population for various social groups

Source: Computed using NSS and IHDS datasets

Among the various social groups in India, SC are among the disadvantaged castes followed by the OBC. Data for OBC groups were available only from late 1990s after the adoption of the recommendations of the Mandal commission. Another vulnerable social group is the ST group. Unlike the SCs, ST population is concentrated in certain states and show huge variations in economic status and other indicators. NSS categorises caste groups into the broader category of ST, SC, OBC, and a residual category Others, which comprises essentially the forward caste households. The real MPCE for social groups indicate a higher rate of growth of consumption expenditure for the Others category during the period 1993-94 – 2004-05 than for the ST/SC/OBCs. During the next period (2004-05 – 2011-12) however, the growth rates of ST/SC/OBCs increased and caught up with the Others category. Despite this increase in growth rates the ratio of the means of the different category to the overall mean, which indicates the relative position of the groups, did not show any significant change.

One way to understand the inequality across social and religious groups is to compare their share of income/consumption with that of the overall population. In an equal world without discrimination, the share of income/consumption and the share of the population will be the same. The ratio of the share of income/consumption over a share of the population then represents the level of inequality. A share of less than 1 represents disadvantage where a share greater than 1 would position a group in an advantageous position. Table 7 below presents the share in income and consumption over the survey years for which such disaggregation is available.

The SC and ST groups continue to have lower shares in income and consumption compared to their population shares. The OBC group

has relatively higher shares in consumption and income but still less than their population share. Meanwhile, the forward castes have higher shares in income/consumption relative to their population shares. The consumption data also reports a decline in income shares for the ST group, with a corresponding increase in the share of others.

Religious identities too play a role in individual's access to basic services. It also affects individual's mobility and human development outcomes. Religious affiliation may also lead to isolation and exclusion, and stereotyping of communities which have a further impact on access to employment and livelihood. Religious polarisation in elections also leads to their exclusion from the democratic process.<sup>20</sup> Some of these were highlighted by the Prime Minister High-Level Committee (2006) constituted to examine the issue of religious disparity. Popularly known as Sachar committee, the report highlighted multiple dimensions of exclusion as far as religious minorities were concerned. The situation was far worse for Muslims compared to other religious minorities.

A similar analysis by religious groups also confirm the relatively disadvantageous situation of the Muslims, the largest minority group in India. Table 8 presents the share of income/consumption relative to their population share. Smaller minorities such as Christians have a larger share of income/consumption than their population share, but this is not the case with Muslims. The situation of Muslims is relatively better in rural areas but they fare worse than SC or ST households in urban areas. The Muslims have also seen their share in national income, compared to their population share, decline over a period of time. This decline is seen in case of rural as well as urban areas.

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## SC AND ST GROUPS CONTINUE TO HAVE LOWER SHARES IN INCOME AND CONSUMPTION COMPARED TO THEIR POPULATION SHARES

ALL INDIA					
	CONSUMPTION SHARE/ POP SHARE			INCOME SHARE/ POP SHARE	
	1993-94	2004-05	2011-12	2004-05	2011-12
HINDU	0.99	0.99	1	0.98	0.99
MUSLIM	0.91	0.91	0.87	0.92	0.91
CHRISTIAN	1.23	1.41	1.39	1.74	1.52
OTHERS	1.12	1.28	1.29	1.22	1.21
RURAL					
HINDU	0.99	0.98	0.98	0.96	0.98
MUSLIM	0.95	0.98	0.94	1.03	1
CHRISTIAN	1.18	1.44	1.43	2.07	1.53
OTHERS	0.95	0.98	1.05	1.19	1.24
URBAN					
HINDU	1.02	1.03	1.04	1.03	1.03
MUSLIM	0.76	0.74	0.72	0.72	0.74
CHRISTIAN	1.22	1.29	1.23	1.28	1.3
OTHERS	1.15	1.33	1.18	1.29	1.33

Table 8: Share of income/consumption over share of population for various social groups

Source: Using NSS and IHDS data

The ratio of asset share by population share for each social group is shown in table 9. As was the case with consumption expenditure and income, the asset share by population share ratios for the social group paint a dismal picture of the relative position of SC and ST households. The ST and SC households actually perform worse in terms of household wealth than in consumption expenditure. This indicates that while consumption expenditure might underestimate inequality, the measure of asset inequality paints a stark picture of economic inequality among social groups. The same is true for religious groups and Muslims perform much worse than other religions; it is even worse when compared to

the same indicator in the consumption data.

Table 10 reports the asset share to population share ratio for religious groups. These are reported for 2002 and 2012 since no information on religion is available for 1991. Similar to the trend seen in the case of consumption expenditure, the smaller minority religious groups such as Christians, Sikhs, and Jains report higher asset shares compared to their population shares. However, Muslims and Buddhists have lowest asset to population share ratios compared to any other religious group. For Buddhists, the low asset share is a reflection of a large percentage of SCs who have converted to Buddhism.

## RELIGIOUS IDENTITIES TOO PLAY A ROLE IN INDIVIDUAL'S ACCESS TO BASIC SERVICES



		ASSET SHARE / POP SHARE		
		1991	2002	2012
RURAL	ST	0.51	0.54	0.50
	SC	0.49	0.49	0.50
	OBC	--	0.98	1.01
	GEN	1.22	1.61	1.71
URBAN	ST	0.48	0.60	0.54
	SC	0.40	0.42	0.35
	OBC	--	0.78	0.70
	GEN	1.11	1.38	1.59
TOTAL	ST	0.48	0.49	0.40
	SC	0.46	0.45	0.40
	OBC	--	0.90	0.83
	GEN	1.20	1.59	1.86

Table 9: Ratio of asset share and population share

*Note: OBC are included in the general category for 1991*

*Source: Authors' calculations from the 59th and 70th rounds of AIDIS*

RELIGIOUS GROUP	ASSET SHARE / POP SHARE	
	2002	2012
HINDU	0.99	1.00
MUSLIM	0.65	0.57
CHRISTIAN	1.58	1.67
SIKH	3.27	3.32
JAIN	3.52	7.09
BUDDHIST	0.58	0.57
OTHERS	0.81	0.52

Table 10: Measures of Asset Inequality by Religious Group

*Source: Authors' calculations from the 59th and 70th rounds of AIDIS*

# 4/

Further, the urban-rural divide is an important factor in understanding the wealth advantage within social groups. The wealth positions of the SC and ST groups in rural areas are quite similar to each other but very different from the wealth positions of the same groups in urban areas. The wealth inequality within each social group increased between 1991 and 2002. For the ST category it was strong enough to indicate the emergence of a “creamy layer” within this group (Zacharias and Vakulabharanam, 2011). At the same time, the creamy layer within ST category is still far below the creamy layer of the forward caste groups. Unlike the usual argument that free markets do not discriminate between caste groups, the forward caste groups have been in a much better position to grab the benefits of globalisation and have maintained and improved their wealth positions over time.

## 4.3 HUMAN DEVELOPMENT OUTCOMES

One of the outcomes of high and persistent inequality in income/consumption and assets is the deprivation households face in accessing basic services such as education, health, and nutrition. It also affects the state’s capacity to intervene in improving the physical infrastructure required to make it available to a larger population group. These are further exacerbated by the relative position of the households in the social hierarchy with disadvantaged social and religious groups further lagging behind in outcomes on human development. Despite impressive economic growth in recent times, India continues to lag behind in terms of improvement in hunger and nutrition indicators. Not very long ago, persistent child malnutrition was termed a ‘national shame’ by the former Prime

### 4.3.1 NUTRITION & HUNGER

Minister of India.<sup>21</sup> The recently released Global Hunger Index 2017 (von Grebmer, et al, 2017) ranks India 100th out of 119 countries that were studied. Two of the four indicators used in the calculation of this index are under-five stunting, and wasting. While the prevalence of child stunting has improved over the last decade, the prevalence of wasting has in fact worsened (NFHS-4). As of 2015-16, one in five children in India suffer from wasting. The mortality rate of infants is 41 for every 1000 live births and that of under-five children is 50.

Through the 1990s and the early 2000s, the underweight prevalence among women and children, and child mortality rates of the SC and ST groups was higher than in the Others group (Thorat and Sabharwal, 2011). The decline in malnutrition prevalence was also slower among these disadvantaged groups. This imbalance in undernutrition prevalence was still clear in 2015-16 (Figures 14 and 15). Although there have been improvements across groups over the last decade, the disparity between social groups has hardly changed. This is particularly true in the case of child stunting, where the gap between ST and Others, and that between SC and Others have remained the same in terms of percentage points.

This imbalance in the incidence of undernutrition and the slow pace of decline in nutritional deficiencies is rooted in the access to health services. Historically, marginalised groups such as Dalits, tribals and Muslims are disadvantaged not just in the access to wealth but also in the access to basic services, which then leads to lower levels of health, nutrition and education.

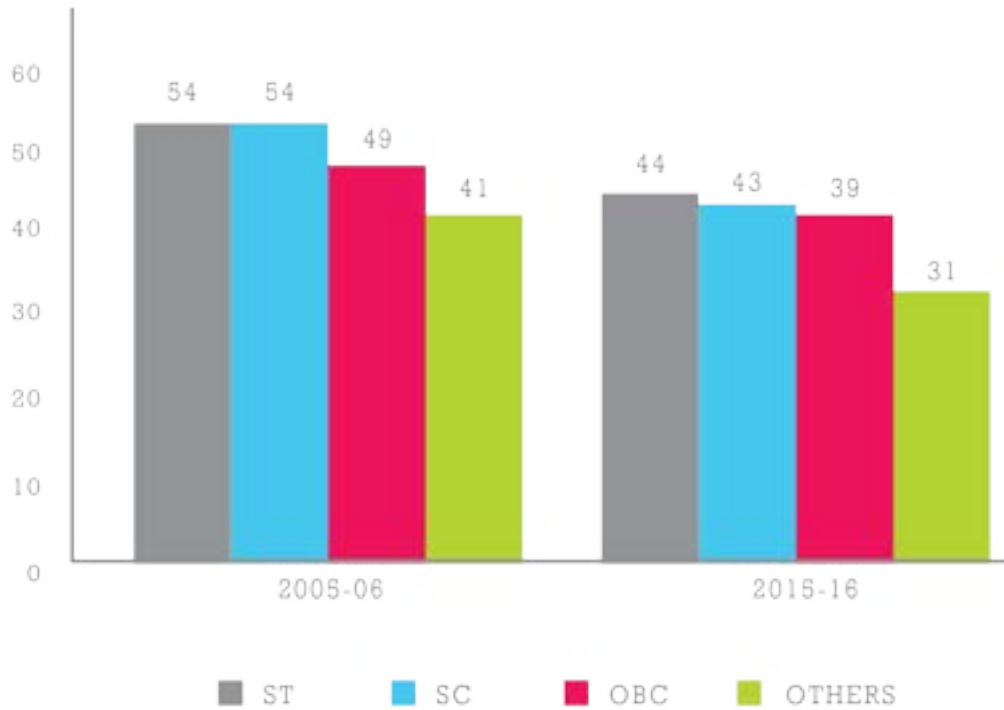


Figure 14: Under-five child stunting (%)

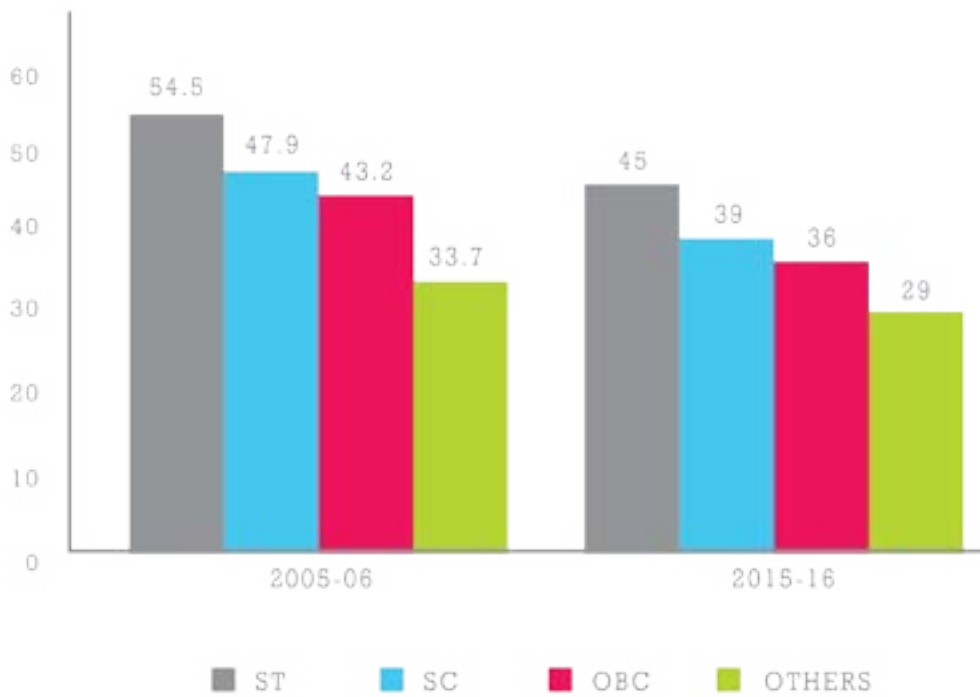


Figure 15: Under-five child underweight (%)

Source: Ministry of Health and Family Welfare (2017)

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## 4.3.2 EDUCATION

Over the decades, some progress has been made in improving the literacy rate; in 2011, the literacy rate (7 yrs and above) was 73%. This was higher than the corresponding figure of 65% in 2001. However, there remains a substantial gap, in the literacy rate, between the various population groups (Figure 16). The average literacy rate of the SC was 66% and that of ST was 59%. The figures for SC/ST were lower than the national averages for men and women. The STs were the most deprived in terms of literacy; in 2011, not even 50% of ST women were literate.

The male-female gap is evident from the figure 15. More than 80% men were literate, while the rate was only 65% for women. The latest data from 2015-16 reinforces the point (Ministry of Health and Family Welfare, 2017). In the 15-49 age group, only 68% women are literate as compared to 86% men.

Another dimension of disparity is between rural and urban areas. The literacy rate of rural women is 62%, while the rate is much higher among urban women at 81%. The corresponding rates for men are 83% and 91%, respectively. The disparity between social groups can also be seen in the average annual drop-out rates at all levels of school education (Figure 17). Except for primary education, the drop-out rates were higher than average for SC children. The rates were far higher for ST children at all levels of school education.

All of these figures clearly show the gap in the literacy rates between rural and urban areas, between men and women, and between social groups. These are clear indications of educational inequalities even in the completion of basic and primary education.

## 4.3.2 GENDER DISPARITIES

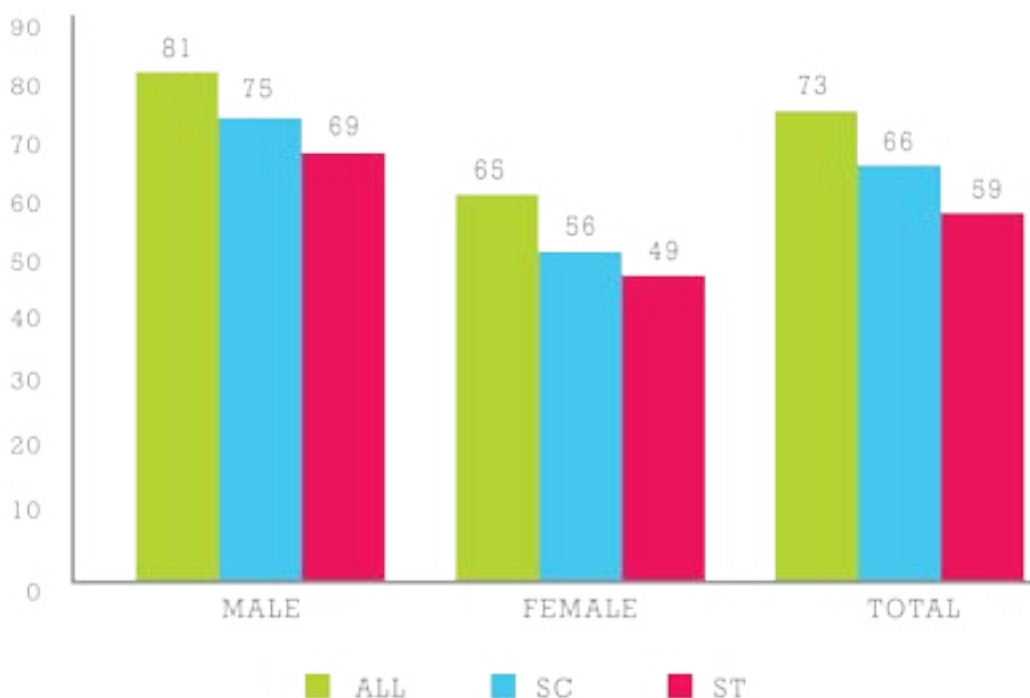


Figure 16: Literacy rates in 2011 (7+ age group)

Source: Office of the Registrar General and Census Commissioner

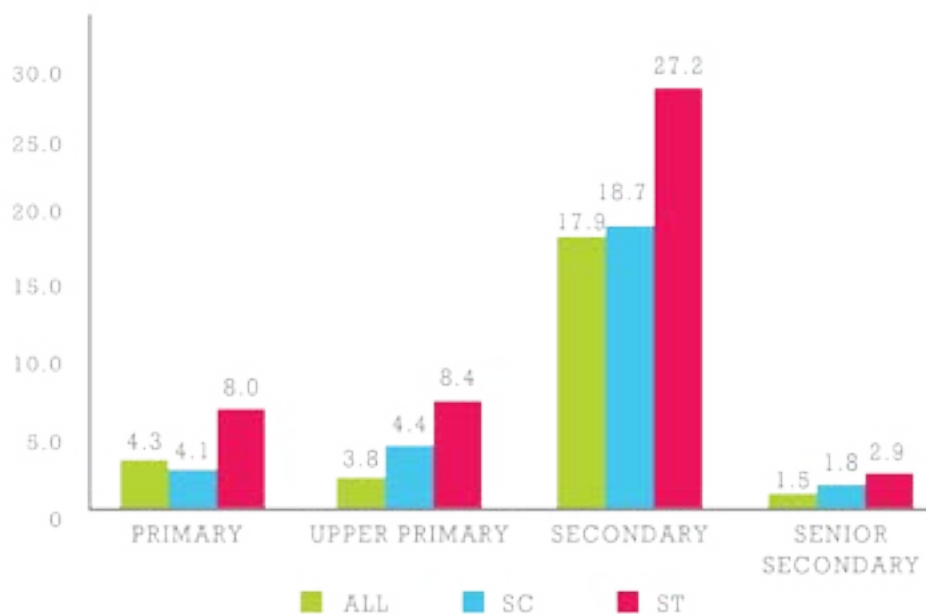


Figure 17: Average annual dropout rates (%)

Source: National University of Educational Planning and Administration, 2015

Inequality on the basis of gender is another dimension on which India fares poorly. This is true for almost all dimensions discussed above. While most economic dimensions are household-based and therefore mask the intra-household dimension of inequality, the disadvantaged position of women is obvious from the exclusion of women from the labour market. India continues to be among the countries with lowest workforce participation of women; these have showed a decline in recent years.

Chaudhary and Verick (2014) analysed the puzzling phenomenon of declining female labour force participation rate (LFPR) at the time of high economic growth. During 2004-2011, when the GDP grew at 8% per annum, the female LFPR declined from an already dismal 35% to 25%. Though part of it can be explained by the increasing female participation in education, but this cannot fully explain the decline (Chandrasekhar & Ghosh, 2014). The displacement of women from agricultural activities due to mechanisation and increasing informalisation could be other reasons. This is also manifested in the gender wage gap which remains high in almost all categories of occupation. Table 11 presents the gender wage gap for regular and casual workers from the NSS EUS. The ratio of female to male wages among

regular workers in rural areas is only 0.60 and has only seen a marginal improvement over the years. The wage ratio is better in case of regular workers in urban areas. Among casual workers, the ratio in rural as well as urban areas has remained stable over the years. The declining female LFPR, along with the gender wage-gap and unequal access to decent employment opportunities, has exacerbated the economic and social disparity on gender lines. These are further magnified by the inequalities across social groups and religious groups, with women among SC/STs and Muslims among the worst performers on education, health, and nutritional indicators.

	REGULAR		CASUAL	
	RURAL	URBAN	RURAL	URBAN
1993-94	0.60	0.80	0.65	0.57
2004-05	0.59	0.75	0.63	0.58
2007-08	0.62	0.77	0.67	0.57
2009-10	0.63	0.82	0.68	0.58
2011-12	0.63	0.78	0.69	0.61

Table 11 Female/Male wage ratio for regular and casual workers

Source: NSS Employment Unemployment Survey data





5/ IS INEQUALITY RISING?

# INEQUALITY

## 5/

Although the rise in inequality in recent decades has been among the fastest in independent India's history of seven decades, this has not attracted as much attention in the policy circles. Part of the reason has been the belief that rise in inequality is a necessary by-product of growth. This has some justification in the 'Kuznets curve' kind of an argument which posits rising inequality when countries grow fast, driven by the growth in the modern sector (industrial sector). According to these arguments, inequality would reduce at a later stage with further broadening of growth to include rural areas.

While there have been several empirical verifications of the Kuznets hypothesis, there is no consensus that rising growth will always be accompanied by rising inequality. Even in India's case, the two phases of growth acceleration, first in the

1980s and then again in the last decade after 2004-05 do not justify such an assumption. Most indicators suggest that the growth acceleration in the 1980s was also accompanied by declining or stable inequality. However, the trends after the 1990s suggest that the period after the 1991 reforms has unambiguously been one of rising inequality across multiple dimensions.

This then raises the question - Why did inequality rise after 1991? The outcome of income distribution is strongly linked to outcomes in the labour market. While inequality in labour market outcomes is determined by access to productive jobs and the distribution of gains of productivity across different factors of production, these are further reinforced by the existence of social and gender inequality.

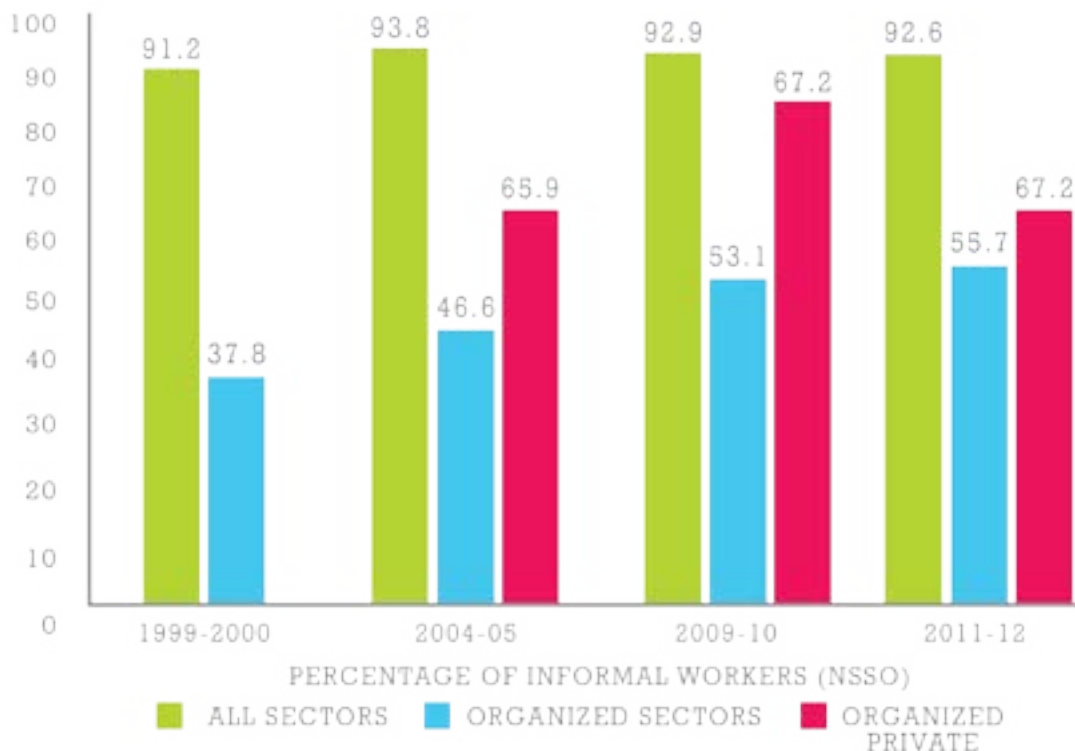


Figure 18: Percentage of Informal workers by type of employment

Source: NSS Employment Unemployment Survey data



# IN INDIA

## 5.1 INEQUALITY AND LABOUR MARKET OUTCOMES

As mentioned earlier, the labour market in India shows gross inequalities in terms of quality of employment. While a large majority of workers are employed in the informal sector with no social security, the organised sector has also seen a decline in employment quality over the years. Figure 18 gives the distribution of workers by type of employment. At the national level, 93% of all workers are employed as informal workers. While a majority of these are employed in the unorganised sector where almost all the workers are informal workers, but they are also in the organised sector where the percentage of informal workers employed has increased in recent years. In 1999-2000, 38% workers were employed as informal workers in the organised sector; this increased to 56% in 2011-12. Further disaggregation of the public and private sector suggests that it is the private organised sector which contributes to a significant chunk of informal workers; the share of informal workers in the organised private sector is almost two-thirds.

While the quality of employment has declined in the last two decades, the decline in the number of jobs created has also contributed to rising inequality. Against almost 10 million, in the working age-group, entering the labour force, the annual job creation in the economy in recent decades has been for 2 million workers. Figure 19 gives the number of workers in the economy. Between 1993-94 and 2004-05, the annual

addition to the workforce was 7.6 million per year, which fell to 2 million workers per year between 2004-05 and 2011-12. While recent estimates are not available, Abraham (2017) reports a net decline in the number of jobs after 2014.

The inequality in labour market also arises from the skewed distribution of workers across sectors. Despite its falling share in the GDP, around half of the workforce in India is still employed in the agricultural sector. While the growth of the agricultural sector has remained less than 2% on average since 1991, the employment in agriculture increased during the same period. On the one hand, a large share of workers are employed in the unorganised sector, even though its share in the GDP has been falling. On the other, the sectors which have grown the fastest, such as finance, insurance, real estate sector and IT-related services and telecommunications, employ less than 2% of the workforce. This has led to increasing divergence in per worker productivity between workers in sectors with the lowest productivity i.e. agriculture and construction and the workers in the fast-growing sectors. The ratio of labour productivity in the non-agricultural sector to labour productivity in the agricultural sector has increased from 4.46 in 1993-94 to 5.52 in 2011-12 (Dev, 2017). Estimates of wage inequality have been presented in an earlier section and these confirm the growing divergence between workers in different sectors.

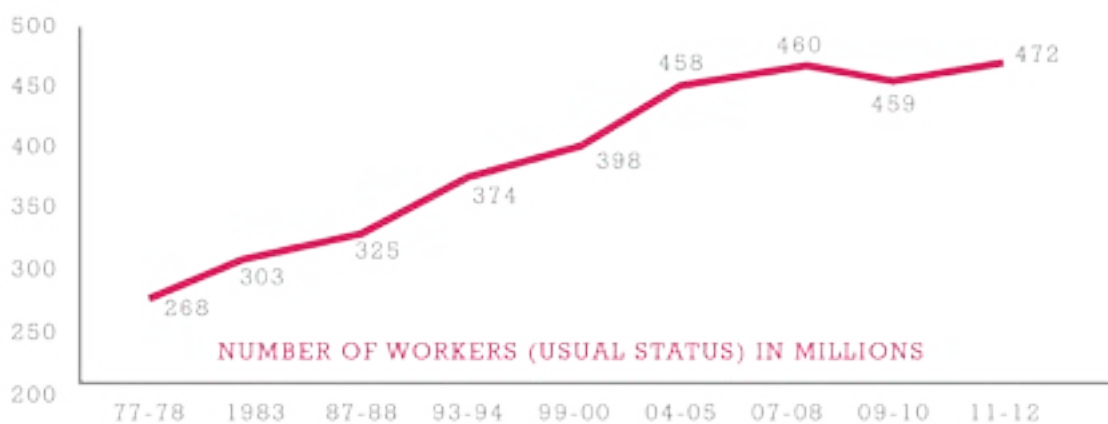


Figure 19: Number of workers (usual status) (in millions)

Source: NSS Employment Unemployment Survey data

# 5/

## 5.2 UNEQUAL DISTRIBUTION OF THE GAINS FROM GROWTH

The labour market outcomes are primarily a result of the fact that gains from growth have been unevenly distributed. This is because of the nature of the growth process itself. The liberalisation process, which was set in motion in 1991, attracted massive capital inflows. This set off a domestic retail credit boom, and along with fiscal concessions it created an environment for a hike in consumption of the better-off households and 'competitive consumerism'. While this fuelled a rapid growth of GDP, there remained an abysmally low public spending on basic facilities, insufficient employment generation and a persistent agrarian crisis. However, as the wage shares have fallen during the period of growth, consumption demand of the masses has stayed low. The persistence of low-productivity employment in all the major sectors even after many years of rapid economic growth in India is a particularly unusual growth pattern.

Thus, the pattern of capital accumulation in both the earlier dirigiste period and the current neo-liberal period has not generated the required structural changes in the economy. Chandrasekhar and Ghosh (2014) characterise the Indian system of capital accumulation as one of "exclusion through incorporation", particularly in the neo-liberal period. The growth strategy has not included measures which would enable mass consumption of goods. In the absence of sufficient measures, the inequalities in the system have persisted and even intensified. The capital accumulation process has exploited the differences on the basis of caste, community or gender in the labour market, which has further exacerbated these differences. The financial institutions, input and product

markets, and insufficient access to credit also intensify this problem. The social institutions and political forces allow the discriminatory labour practices to continue, and the legal and regulatory institutions enhance the bargaining power of capital. The governments have aided the existing capital accumulation process, by allowing heavy corporate tax exemptions (Sainath, 2014), appropriation of land and natural resources, and by the lax implementation of regulations.

Some confirmation of this trend is available from the national accounts which give the factor incomes by occupational categories. Figure 20 gives the break-up of factor incomes by occupational groups for 1993-94, 1999-00, 2004-05 and 2009-10. It is clear from the figure that the highest increase has been in the share of private surplus (profits), which has more than doubled from 7% in 1993-94 to 15% in 2011-12. On the other hand, the share of income accruing to cultivators has come down from 25% to 14.6% over the same period. While this mirrors a decline in the share of agriculture in GDP, along with increasing share of non-farm incomes as seen in the case of non-farm wages and non-farm self-employed, the growth of non-farm incomes as a whole is far lower than the corresponding increase in its share as seen through the national accounts. Figure 21 gives the corresponding break-up by employment for same years.

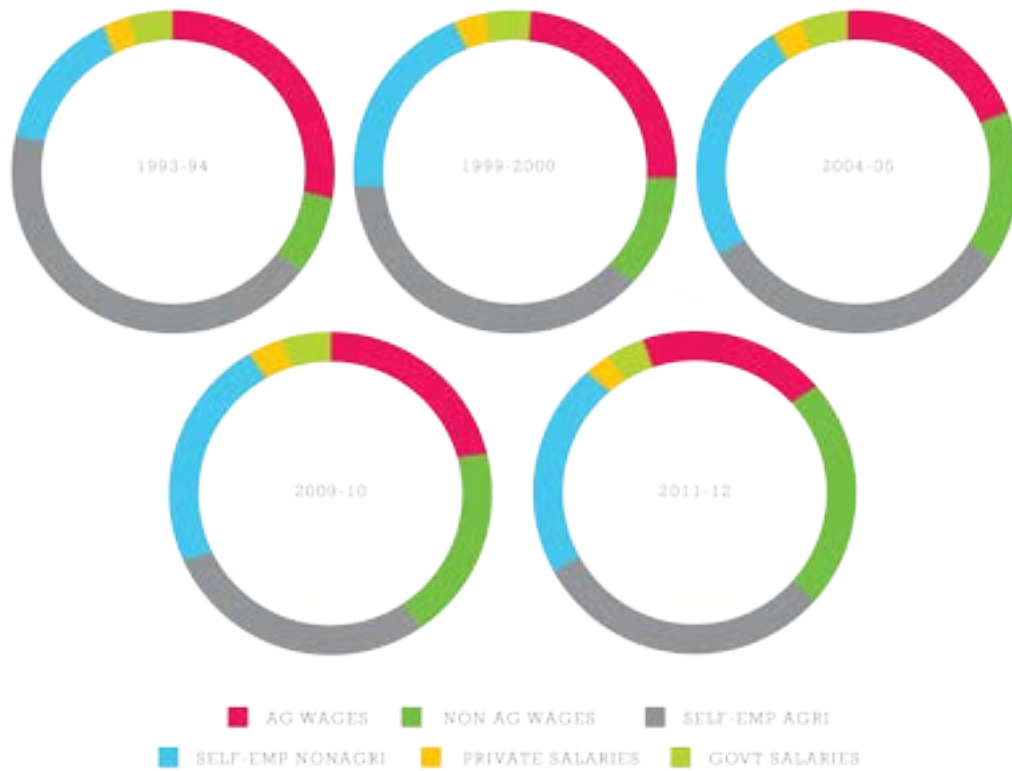


Figure 20: Break-up of factor incomes from the National Accounts  
*Source: Computed using National Accounts*



Figure 21: Break-up of employment by various groups from the NSS  
*Source: Computed using NSS Employment Unemployment Survey data*

# 5/

The changes in employment structure have been far slower than the corresponding changes in sectoral shares in the national accounts. An important aspect of the changing work-force structure has been the declining share of agricultural labourers and cultivators with a corresponding increase in non-farm wage workers and non-farm self-employed. On the other hand, share of private salaried workers has remained unchanged with a marginal decline in the share of government salaried workers. Using Figures 20 and 21, Figure 22 gives the indices of per worker income of the various occupational groups.

in the private salaried workers and government salaried workers. In fact, since 1999-00, the growth of per worker incomes of private salaried workers and government salaried workers has been almost double that of other workers.<sup>22</sup> There has been some increase and catch up as far as workers in agriculture are concerned after 2004-05 but over a longer period, their incomes have increased by less than half of those of private and government salaried workers. Vakulabharanam (2010) also confirms the unequal gains to different classes of workers; gains to the urban and rural elite being much more than the rural workers and the peasantry.

As is evident from Figure 22, the highest growth in per worker incomes is observed

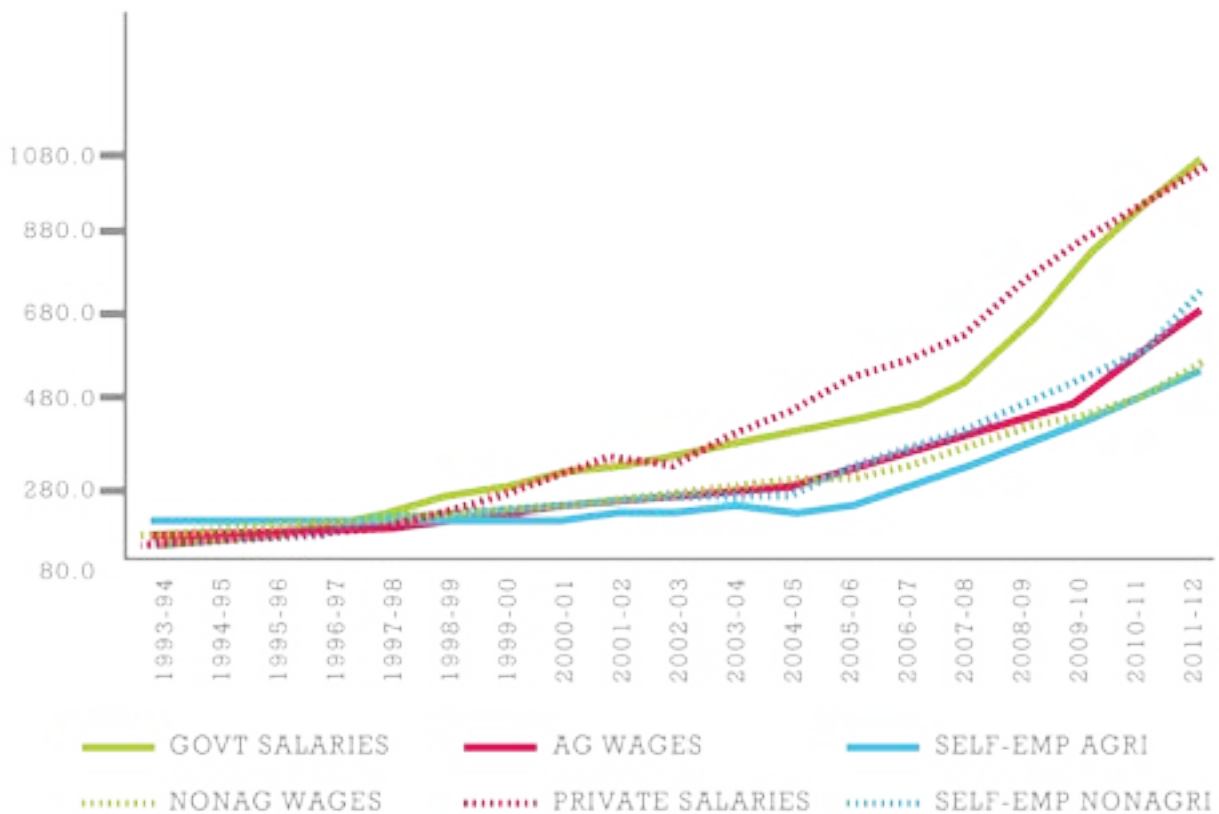


Figure 22: Indices of per worker incomes of selected occupational groups

Source: Computed using NSS and National Accounts data

Supporting evidence in this regard is also available from another source of data. The Annual Survey of Industries (ASI) brings out the emoluments received by various categories of workers. Figure 23 presents the wages of production workers and that of supervisors and managerial staff in the organised manufacturing sector. While worker's wages and emoluments of managerial staff were moving in tandem until the 1980s, they start diverging from the early 1990s and have continued to diverge further. By 2012, the last year for which data is available, managerial emoluments increased by more than 10 times but workers' wages have increased by less than 4 times.

The ASI data also shed light on the declining gains to workers even though productivity has increased in manufacturing. This has been achieved by suppressing workers' share in net value added at the cost of profits. Figure 24 gives the share of wages and profits out of net value added in organised manufacturing. While wage share was higher

at around 30% in the early 1980s with profit share at only 20%, the shares changed after 1990s. In recent years, the share of profits in net value added has increased to more than 50% reaching a peak of more than 60% in 2007-08. While it has declined after the financial crisis, it continues to be above 50% of net value added in organised manufacturing. During the same period, the share of wages in value added declined to 10% and has remained thereabout in recent years. The compression in wage share was accompanied by contractualisation and casualization of workforce in organised manufacturing. Figure 25 presents the share of contract workers in organised manufacturing. The share of contract workers to all workers being employed, was less than 20% in the beginning of this century. But within a decade it increased to more than one-third. The contract workers not only suffer from the insecurity of tenure but are also paid less with no social security benefits. This is further confirmed by the data from the NSSO employment-unemployment surveys.

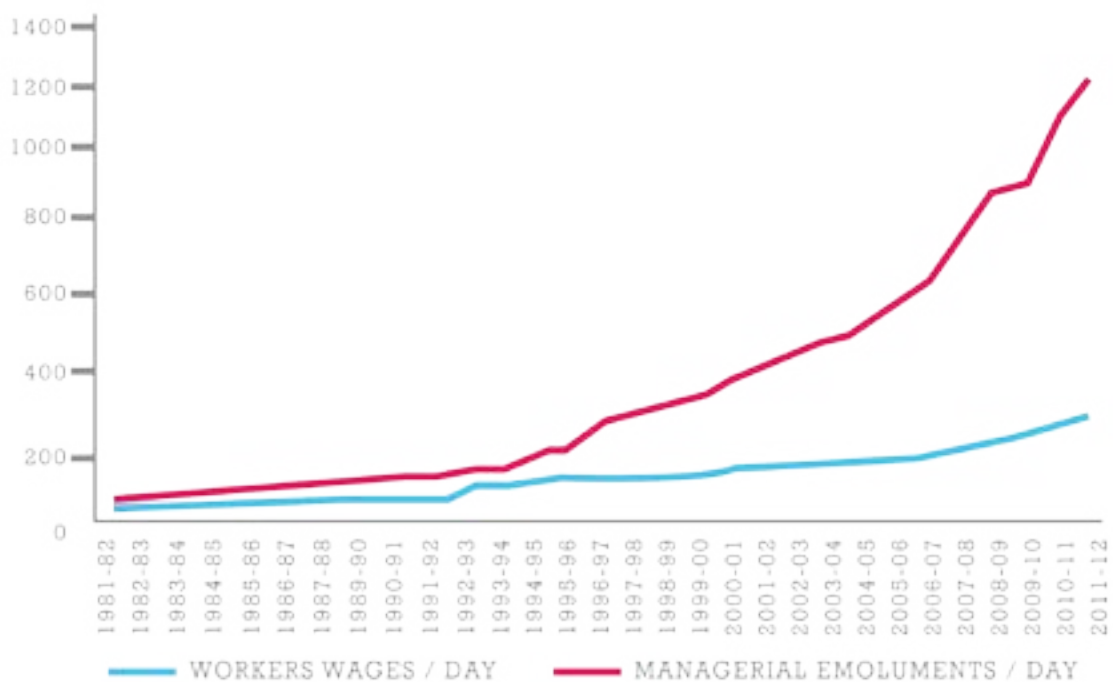


Figure 23: Workers' wages and managerial emoluments in organised manufacturing

Source: Computed using ASI data

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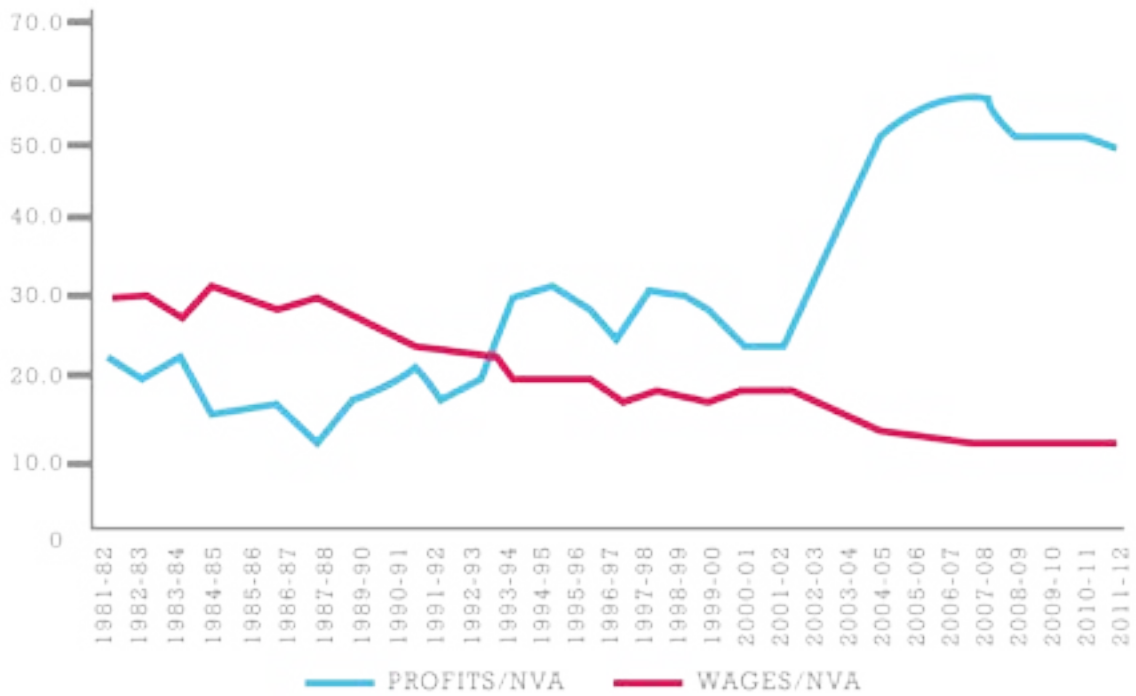


Figure 24: Share of profits and wages out of value added in organised manufacturing (ASI)  
 Source: Computed using ASI data

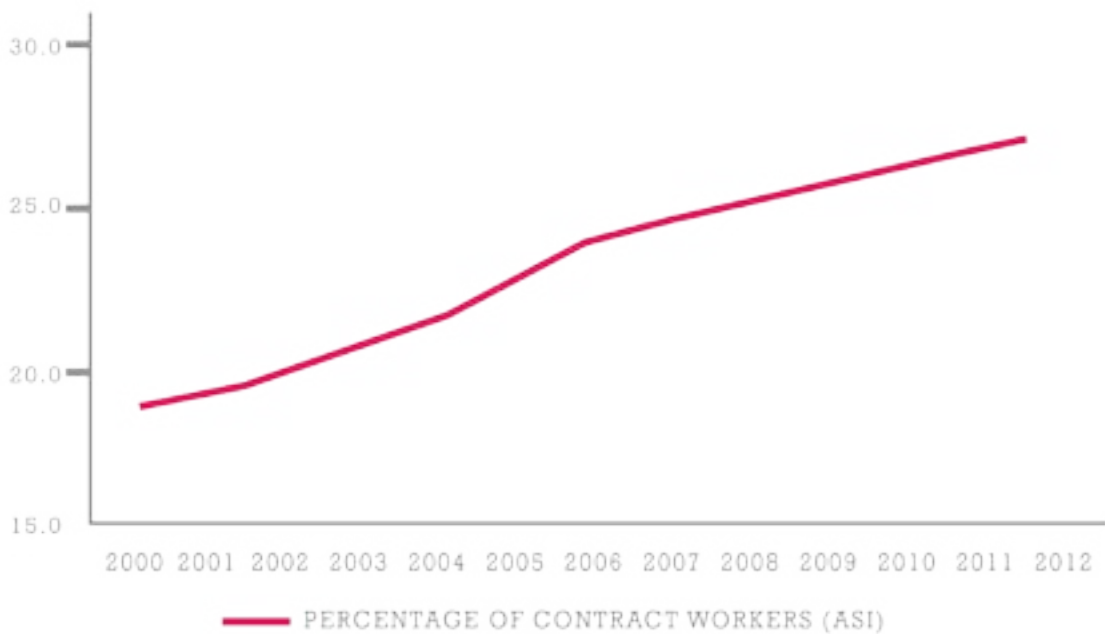


Figure 25: Percentage of Contract Workers in Organised Manufacturing (ASI)  
 Source: Computed using ASI data

The increase in inequality among workers in the organised sector is, however, only a small component of the overall inequality. But they do emphasise the changing nature of production in the organised sector with rising profit shares and declining gains to workers.

## 5.3 INEQUALITY HURTS

The literature on inequality focusses more on inequality in terms of income, consumption or wealth, and less on the inequality in terms of access to basic services such as education, health, safe drinking water, sanitation or electricity. Sen (2014) made it clear that the consequences of inequality depend on what type of inequality we are considering. Inequality in terms of income distribution is just as high in China as is in India, but there is close to full coverage of education and health services in China which make the consequences much less severe than in India. His capability framework, advanced in the 1970s, recognised that all people are not able to convert income into well-being equally. The goal should be to equalise not income, but the opportunities and freedom to lead their life as per their choice. This is linked to the idea of “development as freedom” (Sen 1999). What people can achieve depends on their economic, social and political opportunities and freedom, which creates the conditions for good health and basic education, and encourages initiatives.

While inequalities in outcomes such as assets, income, and consumption have been found to have an adverse effect on labour market outcomes, inequality of opportunity is shaped by race, gender, caste, religion and place of birth. It is the inequality of opportunity which shapes the individual’s behaviour and has an impact on future inequality of outcomes. While they affect individual’s participation in education and health and their ability to access public services, inequality in outcomes also affects collective behaviour. Societies with higher inequality tend to have poor public services. The rich and the powerful are in a relatively better position to access privately provided services and therefore are less concerned by the functioning of public services (Dreze and Sharma 1998; Sinha 2016).

Suryanarayana (2013) estimates the impact of inequality on Human Development Index (HDI) for India. They show that the loss in HDI due to income inequality is only 16.4% but is as high as 34.3% for health and 42.8% for education. In other words, in the absence of inequality, the HDI would be higher and the loss is due to inequality in the separate indicators. The average loss in HDI due to inequality is 32% at the all-India level.

## 5.4 INEQUALITY IS NOT INEVITABLE

The inevitability of rising inequality has been a prevailing orthodoxy for years. Attempts to tackle inequality were seen as putting a hurdle in the growth process. The simple idea was to let the economy grow even if it creates massive inequalities because the growth will eventually trickle down. Recent literature on development and inequality has raised doubts about the claims of trickle-down economics and pro-poor inequality. Inequality is now being given the attention it deserves worldwide through some compelling empirical work.

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**THE RICH AND POWERFUL  
ARE IN A RELATIVELY  
BETTER POSITION TO ACCESS  
PRIVATELY PROVIDED  
SERVICES AND, THEREFORE,  
ARE LESS CONCERNED ABOUT  
THE FUNCTIONING OF  
PUBLIC SERVICES**

# 5/

## 5.4.1 INEQUALITY CAN BE ARRESTED – INTERNATIONAL EXPERIENCE GROWTH

There are numerous instances in history when inequality has declined over long periods of time. As characterised by Milanovic, both ‘malign’ and ‘benign’ factors contribute towards a rise in inequality.

Atkinson (2015) has noted the fall in the income share of top 1% during 1914-45 for countries like Finland, France, Japan, Netherlands, Switzerland, US and Canada, for which data is available. The reduction in inequality continued in the post-war period. For the United States, the income Gini coefficients at the end of the 1970s were similar to the levels in 1940s, indicating that inequality did not rise after decades of growth. A number of European nations saw a decline in levels of inequality in the post-war period too. The fall in inequality during that period was attributed to an increase in social provisions and welfare function of the state, which was at least partly financed by progressive income taxation.

In a more recent time period, the Latin American experience shows that inequality can be reduced through public action. Detailed analysis of countries like Argentina, Brazil, Mexico and Peru show that a reduction in earning gaps between skilled and low-skilled worker and a rise in government transfer to the poor are the major explanations for declining disparities (López-Calva and Lustig, 2010).

The Gini coefficient for 12 out of 17 countries, for which data was available, including Ecuador, Paraguay, Brazil, Bolivia, Chile, Dominican Republic, Mexico, Peru, El Salvador, Argentina, Panama, Venezuela and Guatemala fell during 2000-2006.

This came after a rise in inequality levels in most Latin American countries in the 1980s and early 1990s. Declining inequality in educational attainment is a major determinant of declining economic inequality. The reduction of disparity in non-labour income through progressive redistribution policies played an important role in reducing inequality too. Programmes like Bolsa Familia in Brazil and Progres/Oportunidades in Mexico not only played an important role in lifting people out of poverty but also in reducing inequalities (López-Calva & Lustig, 2010).

## 5.4.2 ADDRESSING INEQUALITY: INDIAN EXPERIENCE

Unlike the South American countries which managed to reduce inequality sharply during the last decade, India has seen an increase in inequality in several dimensions. While issues of deprivation and poverty continue to dominate discussions in policy spheres, inequality has remained on the periphery, in particular, the inequality at the top end of the distribution. Analysis of inequality trends reveal that the increase in inequality has been aided by the nature of growth followed in the country since 1991 which allowed capitalists to corner a larger share of the growth of national income. During the same time, labour share has seen a decline along with deceleration in the creation of decent jobs and stagnant wages. However, the focus on endemic poverty and deprivation has also brought in policy changes to provide protection to the bottom end of the distribution.



## 5.4.2.1 FISCAL AND MICRO POLICIES



The rise in top incomes, based on tax data, clearly shows that the successive governments has failed in its responsibility to mobilise revenue by taxing the rich. Though this has been noted by the authorities, measures to mobilise revenue by taxing the rich continues to remain a dream. This was also noted by the Finance Minister in his budget speech (2017),

“As against estimated 4.2 crore persons engaged in organised sector employment, the number of individuals filing return for salary income are only 1.74 crore. As against 5.6 crore informal sector individual enterprises and firms doing small business in India, the number of returns filed by this category are only 1.81 crore. Out of the 13.94 lakh companies registered in India upto 31st March, 2014, 5.97 lakh companies have filed their returns for Assessment Year 2016-17. Of the 5.97 lakh companies which have filed their returns for Assessment Year 2016-17 so far, as many as 2.76 lakh companies have shown losses or zero income. 2.85 lakh companies have shown profit before tax of less than Rs 1 crore. 28,667 companies have shown profit between Rs 1 crore to Rs 10 crore, and only 7781 companies have profit before tax of more than Rs 10 crores. Among the 3.7 crore individuals who filed the tax returns in 2015-16, 99 lakh show income below the exemption limit of Rs 2.5 lakh p.a., 1.95 crore show income between Rs 2.5 to Rs 5 lakh, 52 lakh show income between Rs 5 to Rs 10 lakhs and only 24 lakh people show income above Rs 10 lakhs. Of the 76 lakh individual assesses who declare income above Rs 5 lakh, 56 lakh are in the salaried class. The number of people showing income more than Rs 50 lakh in the entire country is only 1.72 lakh. We can contrast this with the fact that in the last five years, more than 1.25 crore cars have been sold, and a number of Indian citizens who flew abroad, either for business or tourism, is 2 crore in the year 2015. From all these figures we can conclude that we are largely a tax non-compliant society.”



# 5/

While tax evasion is certainly a problem, the rich have also benefited from the largesse bestowed upon them by the government. The total revenue forgone as stated in the budget increased from Rs 2,06,700 crores in 2005-06 to Rs 5,89,285 crores in 2014-15. That is, the revenue forgone increased by almost three times in just ten years. The revenue forgone in 2005-06 was 56% of the total gross tax collection of the government. For every rupee of tax collected, the government was losing 56 paise of taxes, which could have been collected by the government. Most of these exemptions benefitted the rich and

PROFIT BEFORE TAX	2005-06	2014-15
0-1 CR	24.29	26.89
1-10 CR	18.49	25.84
10-50 CR	17.17	24.99
50-100 CR	16.33	24.29
100-500 CR	17.21	23.11
>500 CR	19.1	20.68
ALL SAMPLE COMPANIES	19.26	23.22

Table 12: Effective tax rates for corporate sector

Source: Budget documents from various years

the corporate sector. Within the corporate sector, it was the largest corporate groups which benefited the most. Table 13 gives the effective tax rate of the corporate sector in 2005-06 and 2014-15 by the size of companies based on profit before tax. As against the statutory tax rate of 33.66%, the effective tax rate in 2005-06 was 19.26% which increased to 23.22% by 2014-15. However, most of this increase was due to the increase in effective tax paid by the smaller companies that are below Rs 10 crores and below Rs 100 crores. The effective tax rate of companies with more than Rs 500 crores increased only marginally from 19.1% in 2005-06 to 20.7% in 2014-15.

By 2014-15, the effective tax rate of companies with lowest profits was the highest and companies in the highest tax bracket paid the least effective tax rate.

During the same year, the total subsidy on all schemes meant for the poor was Rs 2,53,913 crores and excluding the petroleum subsidy, it was only Rs 1,93,642 crores. That is, the benefits given to the rich and the corporates were almost three times the subsidy provided to the poor. This amount was more than 15 times the allocation to MGNREGA, the rural employment scheme. These exemptions, to the rich and the corporate sector, were accompanied by cut backs on social-sector and development spending.

Figure 26 shows the trends in India's development expenditure as a percentage of GDP. The development expenditure to GDP ratio fell continuously during 1985-1995. While it did increase during 1996-2009 it has stagnated since. To put things in perspective, we have compared India's spending on education and healthcare to some other countries.

The expenditure on education as a percentage of GDP for selected countries is shown in figure 27. India fares poorly not only in comparison to poorer countries in the Sub-Saharan Africa and Bhutan but also vis-à-vis developing countries like Brazil. In terms of health expenditure, India is among the worst in the world (Figure 28). India's public health expenditure stands around a paltry 1.4% of its GDP, lower than Sri Lanka, Bhutan, Sub-Saharan Africa, and Brazil.

**INDIA'S PUBLIC HEALTH EXPENDITURE STANDS AT AROUND A PALTRY 1.4% OF ITS GDP, LOWER THAN SRI LANKA, BHUTAN, SUB-SAHARAN AFRICA**

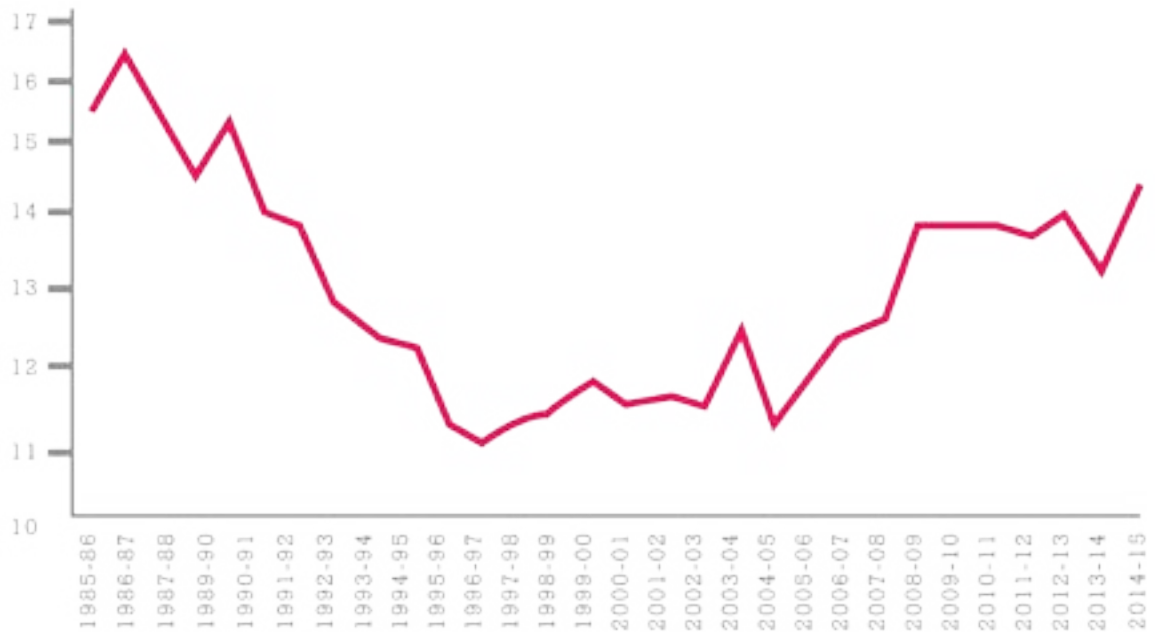


Figure 26: Development Expenditure as a percentage of GDP

Source: Combined expenditure of the Centre and the state (Revenue and Capital) as a percent of the GDP (market price) from Indian Public Finance Statistics

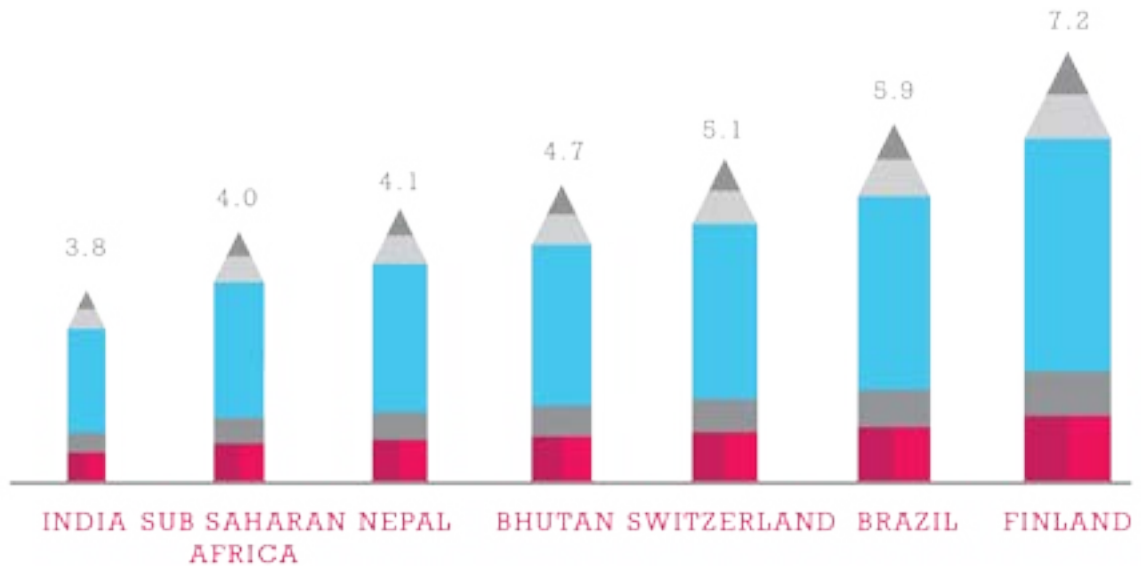


Figure 27: Education expenditure as a percentage of GDP (2012)

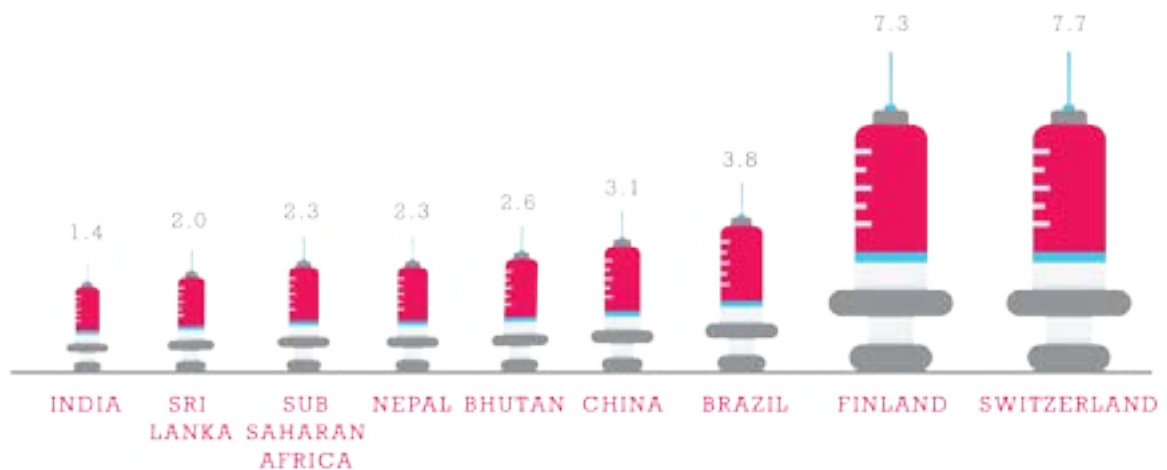


Figure 28: Health expenditure as a percentage of GDP (2014)

Source: World Development Indicators, World Bank

### 5.4.3 REDISTRIBUTIVE AND SOCIAL POLICY

The international experience shows the vital role played by progressive taxation in tackling inequality. To be able to raise more resources, India will have to learn from the world experience and ensure financial inclusion, tax-compliance, and introduction of wealth and inheritance tax. The trajectory of corporate loan-waivers and tax write-offs also need to be altered to be able to check the rising concentration of income at the top.

While fiscal and macro policies have facilitated rising income inequality through tax concessions and reduction in expenditure on basic services such as health and education, the pressure of democratic politics has also led to some improvements in the living condition of poor. The fact that the period during 2004-11 is also the period with highest poverty reduction is then not a surprise. However, these have been achieved by enactment of several legislations which have strengthened the social protection measures for the poor. The National Food Security Act (NFSA), National Rural Employment Guarantee Act (NREGA), Right to Education (RTE) and Forest Rights Act are legislations which have strengthened the social protection measures. These have also contributed to the improvement in income of poor through indirect income transfer. Himanshu and Sen (2013) estimate that the transfers on just food-related schemes have contributed to a one-third reduction in poverty headcount ratio and almost half of the total poverty reduction using the squared poverty gap measure.

The demand for strengthening the food schemes and the consequent pressure on the government to raise public procurement of food grains also

contributed indirectly. The expenditure on Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and the rise in MSP were also instrumental in a sharp rise in casual wages during 2008-13 which insulated the rural poor during times of high food inflation. It also explains the moderation in the rise of inequality after 2008. However, most of these have now seen a reversal with a reduction in expenditure on these social protection measures and large exclusion in the existing schemes.



# CONCLUSION

Inequality is no longer only a moral and philosophical concern but reducing inequality is central to functioning of a democratic society. It is also an economic concern affecting outcomes on growth and poverty. The trends and dimensions of inequality presented earlier confirm that India is not only a high inequality country but also that inequalities have seen a rising trend through the last two decades. The rising inequality is not only obvious in economic dimensions but also in aspects of horizontal inequality which have seen widening of the gap between the marginalised and excluded groups versus the rest. It is also clear that the nature of increase in inequalities is determined not only by the initial endowments but also by the inequalities in access to opportunities. The people who have fewer economic resources are unlikely to be treated in the same way as those with more resources, and also have unequal access to opportunities. The few who control economic resources can then use it to influence political decisions, impeding democratic processes and social cohesion. Inequality would also make it difficult to fully utilise the innate abilities of poor people. Such economically and socially disadvantaged people may be tempted to revolt against the existing order; controlling such protests would be costly. It is also difficult to maintain trust and

cooperation in a highly unequal society. A more equal distribution of resources would prevent consumerism; the resources could be used for improving the quality of life for all and for greater environmental sustainability. Most of these goals cannot be achieved only by reducing poverty without reducing inequality. Redistributive policies that reduce unproductive disparities would improve, and not impede, economic growth, and thereby contribute to poverty reduction.

One of the recent critics of this is Piketty (2014) who argues that inequality and economic development do not follow such an a priori relationship. Alongside the path of economic growth, inequality outcomes are also policy-induced. Piketty's arguments are rooted in the political economy approach which suggests that economic growth may actually increase the concentration of wealth and income among the rich. Piketty has argued that a market-based economy, left to itself, contains powerful forces of convergence and divergence.

There is sufficient evidence to show that inequality outcomes are not just a result of the nature of growth. There is enough indication as well that reduction in inequality is not achievable without policy interventions. These include progressive taxation, redistribution of assets and incomes, and state support in terms of social spending and public provisioning of essential goods and services. In the Indian context, there is an ongoing debate around policies such as maintaining low levels of public expenditure and fiscal deficit, and around social welfare schemes like the MGNREGA and right to food.

Success in reducing inequalities of outcomes and inequalities of opportunities is not only a function of markets but also requires the state to play a central role. The state, at least in a democratic society, has a moral claim on encouraging equality in outcomes and opportunities. While this requires for the states to play a proactive role in efficient regulation of markets to provide a level playing field to everybody, it also has a responsibility of redistribution and affirmative action to ensure equal participation by every citizen in the process of growth and development.

The nature of economic policies being pursued at any point of time has a bearing on the outcomes in economic and social dimensions. There is now a clear evidence that the nature of economic growth since the 1990s has led to widening of inequalities. Further there has been marginalisation and exclusion of individuals, communities, and religious groups. The nature of economic policies since the 1990s have allowed greater role to the private sector in almost all spheres including in provision of basic services. On the one hand, the consequence of the withdrawal of the state from the essential role of providing basic services which shape economic outcomes has resulted in the erosion of the state as an instrument of 'inclusion'. On the other hand, the nature of economic policies followed since the early 1990s also strengthened the claim of the state being a silent facilitator in rising inequality in recent decades. This has been seen in the case of rising instances of crony capitalism and the preferential treatment to the rich at the cost of the poor, and the inability of state to protect the rights of the poor and marginalised.

Pressures of democratic politics have seen the state respond through increased spending on policies and programmes of redistributive transfers such as those on pensions, education, and nutrition and the recognition of some of these basic rights which have been enacted as legal entitlements such as the MGNREGA, RTE

and NFSA. However these have remained symbolic with little effort to use these as instruments of inclusion. These have been accompanied by instruments to increase marginalisation and exclusion; UID/Aadhar being a good example of it, exposing the basic distrust of the state against the poor.

The distrust is also evident among communities divided on the lines of caste, religion, and region. Recent years have seen increasing demand for reservation by dominant farmer groups such as Jats, Patels, and Marathas. In the case of the Marathas, it has also been accompanied by anger against Dalits. These issues arise from the growing feeling of alienation, discrimination, and exclusion and are now getting channelised into street protests. The same is the case with farmers who have come out and protested at different levels. The inequalities of opportunity are determined by access to basic services and this brings in focus the existing social arrangements. In particular, the lack of mobility of SC/ST households along with Muslims will continue to pose problems of inclusion in a society. While a piecemeal solution of providing temporary relief will only keep the problem in abeyance, what is required is political willingness to change the basic architecture of markets, governance, and economic policy which have so far played a silent spectator to rising inequality.

# APP END IX

## DATA METHODOLOGY

The analysis of inequality has been done on three axes. We have looked at large scale nationally representative data sources to describe and analyse trends in inequality on consumption expenditure, income and assets. For inequality estimates based on consumption expenditure, we have used the National Sample Survey (NSS) consumer expenditure surveys, which are nationwide surveys of randomly selected households. The analysis presented in the paper used thick quinquennial surveys of 1983, 1987-88, 1993-94, 1999-00, 2004-05, 2009-10 and 2011-12. Since there have been methodological changes in the estimates of consumption expenditure over the survey years, the estimates presented here have been recalculated using unit level data to arrive at a comparable measure of consumption expenditure. All the estimates of consumption expenditure reported in the paper are based on Mixed Recall Period (MRP) estimates of consumption expenditure.<sup>23</sup> Since the unit level data is only available from 1983 onwards, the exercise on inequality trends is done from 1983 onwards. The NSS estimates of consumption expenditure are widely accepted source of trends on inequality in India. Since the NSS consumption surveys also provide various demographic characteristics such as social groups (SC, ST, OBC and others) and religion, wherever possible such disaggregation has been used to provide a detailed picture of the level and trends in inequality.

Unlike the NSS consumption surveys which are available for a long period of time and have been used extensively for analysis of inequality trends, there is not much information on income inequality in the country. The only available source of income from a nationally representative source is the India Human Development



Surveys (IHDS) conducted by University of Maryland and National Council of Applied Economic Research (NCAER). IHDS is a nationally representative panel dataset which was conducted in 2004-05 and 2011-12. IHDS-I surveyed 41,554 households in 2004-05; IHDS-II re-interviewed these households in 2011-12. The focus of the IHDS is on collecting data related to human development issues and this survey collects information on various development indicators which are not covered in the NSS consumer expenditure surveys. The IHDS also provides estimates of household income, which is not available in other surveys.

The third source of data that has been used extensively is the NSS All-India Debt and Investment Survey (AIDIS). The debt and investment survey is a decadal survey and unit level data of the debt and investment surveys are available from 1992 onwards. Currently, three rounds of debt and investment surveys (1992, 2002 and 2012) are available. The latest 70th round of this survey was conducted between January and December 2012. This survey collected information on the household stock of assets for 1,10,800 households. This survey has been used to arrive at estimates of wealth inequality in the country. While there have been minor changes in the three surveys used, care has been taken to arrive at a comparable estimate of wealth for all the three surveys.

The information on wealth has been supplemented by data from other sources, notably from the Forbes list of billionaires. The data available from the Forbes on the list of billionaires is incomplete but has been supplemented by filling up information on the billionaires from other publicly available sources. The analysis not only looks at the trend in assets owned by the billionaires but also analyses the sources of earnings.

These three datasets have been used extensively to arrive at a picture of inequality in the recent period but also attempt has been made to extend the analysis to historical period as much as possible. Other than inequality at the national level, an attempt has also been made to present estimates of inequality at the disaggregated level of states, sectors, social groups and so on. These shares have been compared to the population shares of these groups to get a sense of the distribution. Gini coefficients have been computed to get a numerical measure of the inequality in these distributions by various groups.

Other than the three major sources mentioned above, an attempt has been made to extend the analysis by using various sources of data from the Central Statistical Office (CSO). We have used the data from national accounts to arrive at estimates of factor incomes. Data from Annual Survey of Industries has been used to supplement the information on wage inequality.

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# ENDNOTES

1 While there has been considerable academic interest in inequality across social science disciplines, the issue has also been raised by several civil society groups and advocacy groups. The 'Occupy' movement and the 99% movement have also raised the issue of inequality in different forums. There has also been several reports by research agencies and advocacy groups such as Oxfam which regularly bring out reports on inequality.

2 The United Nation's General Assembly adopted the Sustainable Development Goals (SDGs) in September 2015. SDG 10 asks the member states to reduce economic inequalities by 2030.

3 A notable example of this is the judgement delivered by Justice Sudarshan Reddy and Justice S S Nijjar of the Supreme Court on the inequalising role of economic growth (Supreme Court of India, 2011). The judgment was delivered in a writ petition challenging the use of armed militia by the Chhattisgarh government to fight the naxalite problem. The judges noted, "That violent agitator politics, and armed rebellion in many pockets of India have intimate linkages to socio-economic circumstances, endemic inequalities, and a corrupt social and state order that preys on such inequalities has been well recognized. In fact the Union of India has been repeatedly warned of the linkages." (para6, page 7). Judgement of Supreme Court of India in the Writ Petition (civil) 250 of 2007, available at <http://supremecourtfindia.nic.in/outtoday/wc25007.pdf>

4 The committee in its 59th report submitted to the parliament noted, "In the context of the economic growth and per capita income, the committee is concerned to note the emerging ever-widening gap between the rich and poor and the increasingly disproportionate distribution of assets in our country. It is being observed that the purchasing power is getting concentrated in the hands of a few, whereas the majority is stuck below the expenditure curve".

5 <http://www.businessstoday.in/current/economy-politics/india-has-highest-number-of-people-living-below-poverty-line-world-bank/story/238085.html>

6 <http://indiatoday.intoday.in/story/india-china-fastest-growing-economies-world-bank/1/1004183.html>

7 <http://indiatoday.intoday.in/story/india-china-fastest-growing-economies-world-bank/1/1004183.html>

8 According to the World Poverty and Inequality Database of the World Bank, the consumption Gini for India was 33.4 for 2004-05 whereas comparative Gini coefficients for selected countries was: Brazil (56.9), China (42.5), Mexico (46.05), Malaysia (37.9), Russia (40.8), South Africa (67.4 in 2006), United Kingdom (37.6), United States (40.6) and Vietnam (36.8).

9 Li, Square and Zhou (1998) find that consumption inequalities are systematically lower compared to income inequality. Although they suggest that the gap between income and consumption inequality is around 6.6 Gini points, evidence from India on this count suggests that this gap may be anywhere close to 15 points.

10 The Gini is a simple measure of inequality with a higher values representing higher inequality. The Gini lies between 0 and 1 with 1 as extreme inequality and 0 as perfect equality.

11 The India Human Development Survey is a privately collected household survey by National Council for Applied Economic Research and University of Maryland.

12 The report provides the information by group of countries but emerging countries such as India, China, Brazil and Russia are treated as separate countries.

13 However, these village surveys, despite the wealth of information available across states and over time remain unutilised as measures of inequality because the inherent difficulty in comparability across village surveys. The variation is partly due to the difference in time period covered and the local context but also methodological with each survey having its own methodology of estimation of incomes. This is further compounded by the fact that most of the village surveys still are based largely on agricultural incomes. On the other hand, very few have non-agricultural incomes included to the same extent as is suggested by the secondary sources. For recent changes in income distribution through village surveys, see, Himanshu, Jha and Rodgers (2016).

14 Thick round survey data is also available for 1999-00 but has not been considered for analysis since there are well known comparability issues with the 1999-00 survey due to the change in recall period.

15 An analysis of decile-wise MPCE growth and share of each decile shows that only the top 10 percent has increased its share in consumption expenditure in the last three rounds. The share of bottom 90 percent has actually gone down over the years. The top 1 percent now has a share of around 9 percent in the total consumption expenditure.

16 It is also important to note here that even the valuation of household wealth in the form of land, building and jewelry suffers from underestimation. Therefore, the extent of inequality based on AIDIS data are at best the lower bound of any estimate of wealth inequality.

17 The Global Wealth Report is an annual publication by Credit Suisse. The wealth data for India is based on the AIDIS survey but is further refined using regression techniques to fill the gap for intervening years. It also uses external data to rescale the wealth estimates.

18 Out of the 69 Indian billionaires, 3 were non-resident

19 However, the estimate of consumption inequality based on the SAS data also shows an increase during the same period consistent with consumption expenditure surveys of NSSO.

20 In most state legislatures, the share of Muslims in elected representatives is much lower than their population share.

21 <http://in.reuters.com/article/child-malnutrition-in-india-a-national-s/child-malnutrition-in-india-a-national-shame-manmohan-singh-idINDEE80A03F20120111>

22 The increase in government salaried workers after 2008-09 is primarily a result of upward adjustment of salaries of government workers as a result of sixth pay-commission.

23 The National Sample Survey consumer expenditure surveys report estimates of consumption expenditure on three different recall periods. Uniform Recall Period (URP) estimates are based on a uniform recall period of 30 day for all items of consumption. Mixed Recall Period (MRP) estimates are based on estimates of consumption expenditure of all items except low frequency items (clothing, footwear, durable, health and education) on 30 day recall period. The MRP estimates of the low frequency items are based on annual recall period. Since 2009-10, NSS is also using a Modified Mixed Recall Period (MMRP) which uses 7 day recall period for some items of food expenditure along with 30 day recall for all other items except low frequency items which continue to be collected on annual recall period.









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