Inequality in India

HIMANSHU

IN most discussions on global inequality, India is often referred to as a low inequality country.[1] This is largely a result of the fact that while inequality in India is measured on consumption expenditure, the comparator for other countries is income inequality. In general, consumption inequality measures are lower than similar measures of inequality based on income.[2] Further, there is also some evidence, although weak, that consumption as measured by the National Sample Survey Office (NSSO) in India tends to underestimate the consumption of the rich. Nonetheless, the fact remains that on comparable measures of consumption inequality across countries, India remains a high inequality country.

For the record, 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 were 0.26 in 1993-94 to 0.29 in 2011-12.[3] On income inequality, the limited informa-

1. 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).

2. Li, Squire and Zhou 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. See, Hongyi Li, Lyn Squire and Heng-fu Zhou, 'Explaining International and Inter-temporal Variation in Income Inequality', *The Economic Journal* 108(446), January 1998, pp. 26-43.

tion that is available suggests that inequality in India may be very high. The latest data on income inequality, which is available from the India Human Development Survey (IHDS) reports, shows income inequality in India in 2005-06 at 0.532 puts India among the high inequality countries.[4]

While nationally representative income estimates may not be available from reliable secondary sources, there is a wealth of information available from primary surveys, all of which have used some measure of income to estimate inequality. While these do suffer from the limitation of reporting inequality for villages, they are detailed as far as sources of inequality is concerned. For example, income inequality in Gokilapuram rose from 0.77 in 1977 to 0.81 in 1985 but land inequality rose from 0.89 to 0.91 during the same period.[5] On the other hand, estimates of inequality in more recent village studies by the Foundation of Agrarian Studies in several villages between 2005-2008 show a much lower inequality ranging between 0.5 to 0.7.[6] 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 rather than come down over time.[7]

The primary source of tracking inequality in India, despite its non-comparability with other countries, is the consumption expenditure surveys of the National Sample Survey Office (NSSO). These are available for a long period of time starting from the 1950s and provide estimate of consumption expenditures disaggregated by various categories. Table 1 provides broad estimates of some measures of inequality from the NSSO consumption surveys. It is obvious from the table that inequality as measured by the gini of consumption expenditure declined between 1983 and 1993-94 but has seen a rising trend since then. The trend of increasing inequality is also obvious from other measures of inequality. For example, the ratio of average consumption expenditure of the urban top 10% to the rural bottom 10% was stable between 1983 and 1993-94 but has increased since then. The same trend is evident from the consumption share of various groups, with an increase in the share of the top 10% and top 20% along with a corresponding fall in the share of bottom 20% and bottom 40%.

Apart from income/consumption inequalities, although difficult to characterize and quantify, inequalities exist in various dimensions and contexts. A simple characterization would be inequalities that exist in ownership of assets, most important of these being land in a primarily rural economy such as India; inequalities of opportunities such as access to education and nutrition; and finally inequalities of social status which cover a large range

TABLE 1
Estimates of Income Inequality from NSSO Consumption Surveys

	1983	*1993-94*	*2004-05*	*2009-10*	*2011-12*
Share of various groups in total national consumption expenditure					
Bottom 20%	9.00	9.20	8.50	8.20	8.10
Bottom 40%	22.20	22.30	20.30	19.90	19.60
Top 20%	39.10	39.70	43.90	44.80	44.70
Top 10%	24.70	25.40	29.20	30.10	29.90
Ratio of average consumption of various groups					
Urban top 10%/Rural bottom 10%	9.53	9.43	12.74	13.86	13.98
Urban top 10%/Urban bottom 10%	6.96	7.14	9.14	10.11	10.06
Urban top 10%/Rural bottom 40%	6.47	6.84	9.40	10.11	10.16
Gini of consumption expenditure					
Rural Gini	27.10	25.80	28.10	28.40	28.70
Urban Gini	31.40	31.90	36.40	38.10	37.70
All India Gini	29.80	30.00	34.70	35.80	35.90

Source: Computed by the author from NSSO unit level data.
Note: All estimates are based on Mixed Recall Period (MRP) estimates of consumption expenditure.

3. 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.

4. The India Human Development Survey is a privately collected household survey by National Council for Applied Economic Research and University of Maryland. The next round of IHDS survey reports for 2011-12 are yet to be released, but informal communication with IHDS team suggest that the income inequality may have increased marginally from the estimate provided above. See, Sonalde Desai, Amaresh Dubey, Brijlal Joshi, Mitali Sen, Abusaleh Shariff and Reeve Vanneman, *Human Development in India: Challenges for a Society in Transition*. Oxford University Press, New Delhi, 2010.

5. Madhura Swaminathan, 'Growth and Polarisation: Changes in Wealth Inequality in a Tamilnadu Village', *Economic and Political Weekly*, 28 October 1988.

6. Vikas Rawal and Madhura Swaminathan, 'Income Inequality and Caste in Village India', *Review of Agrarian Studies* 1(2), July-December 2011.

7. However, these village surveys, despite the wealth of information available across states and over time remain unutilized 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 are still largely based 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.

of invisible categories such as caste, religion and gender to name a few.

Inequalities have existed from historical times and the most dominant of these have been inequalities of assets for which little information is available. Studies such as those by Kubo,[8] Subramanian and Jayaraj,[9] Vakulabharanam[10] and Jayadev, Motiram and Vakulabharanam[11] document the high inequalities in assets in India. According to Jayadev et al,[12] the inequality in per capita land holding in 2002 was 0.73, per capita asset holding was 0.65 and per capita holding of financial assets was 0.99. They also document an increase in all measures of inequality between 1991 and 2002. As against this, per capita land inequality in China in 2002 was 0.49. The asset inequality measures also show large regional variation as well as variation across social groups and income categories.

While most of the asset inequality can be traced to historical inequalities, inequalities of opportunity are also high in India and have seen an increase over the years. The most important and visible measure of this is the inequality in access to educational institutions. The gini coefficient of the distribution of adult schooling years in the population was 0.56 in India in 1999-2000. This is even worse if looked at from the perspective of access to higher education. Similarly, inequalities in access to health or inequalities in nutritional outcomes are high for India with more than 40% of children suffering from some form of malnutrition as per NFHS-3 (2005-06) findings.

However, inequality arising out of an individual's position in the social hierarchy is probably much more important for social and economic mobility than asset or income inequality. It is well documented that deep inequalities exist on the basis of caste, religion, gender and even spatial location. While it is difficult to quantify these by crude measures and their interaction with incomes and consumption, a sense of the magnitude can be had from the following: for 2011-12, in rural areas, the highest level of poverty (43%) was seen among Schedule Tribes followed by Scheduled Castes (29%) against 22% for all classes. 65% of all rural poor and 48% of all urban poor are located in just seven states of India (Bihar, Assam, Uttar Pradesh, Jharkhand, Chhattisgarh, Odisha and Madhya Pradesh).[13]

The spatial inequality is also evident from the most recent data from Census 2011 on access to basic services such as electricity and availability of sanitation facilities. The poorer states such as Bihar, Uttar Pradesh, Assam, Odisha and Jharkhand have less than 50% households with access to electricity as against more than 90% of households in the richer states of Gujarat, Haryana, Karnataka, Andhra Pradesh, Tamilnadu, Kerala, Punjab and Himachal Pradesh. A similar situation exists regarding the availability of basic sanitation, such as toilets.

While different measures of inequality represent different dimensions of inequality, most often these are synonymous with each other and mutually reinforcing. For example, nutritional indicators by caste and wealth from NFHS-3 confirm the disadvantaged status of those belonging to SC/ST households. These also confirm lower nutritional outcomes of those who are worse off in terms of asset distribution. The different nature of inequalities often interact with each other in reinforcing or modifying the nature of benefits that the individuals receive from the process of growth. While the asset inequality or the initial level of inequality has often been found to be a good predictor of the inequality in current income, inequality of opportunity are found to reinforce these inequalities through the imperfections in the labour market. On the other hand, despite a reduction in inequality of opportunity, inequalities arising out of relative social status may discriminate against individuals or exclude them from participation in economic growth.

A good indicator of inequality and its impact on economic growth is captured through the functioning of labour markets. In particular, participation in gainful employment such as non-farm employment and access to regular employment has been associated with decreasing income inequality. The performance of the Indian economy on both these fronts has been slow and gradual, not only with regard to non-farm diversification but also movement towards regular or formal sector employment. Two important facts are worth noting in this context. First, while the overall employment growth was lowest during the last seven years (2004-2012), it was accompanied by changes in the structure of workforce characterized by an increasing informalization and contractualization of the workforce.

Second, the period is also characterized by a declining wage share

8. Kensuke Kubo, 'Poverty and Asset Distribution Inequality in Rural India', 2009, mimeo.

9. S. Subramanian and D Jayaraj, 'India's Household Wealth Distribution Data: A Critical Assessment', 2006, mimeo.

10. Vamsi Vakulabharanam, 'Does Class matter? Class Structure and Worsening Inequality in India', *Economic and Political Weekly*, 17 July 2010.

11. Arjun Jayadev, Sripad Motiram and Vamsi Vakulabharanam, 'Patterns of Wealth Disparities in India During the Liberalisation Era', *Economic and Political Weekly*, 22 September 2007.

12. Ibid.

13. The population share of these states is 49% and 27% respectively in rural and urban areas.

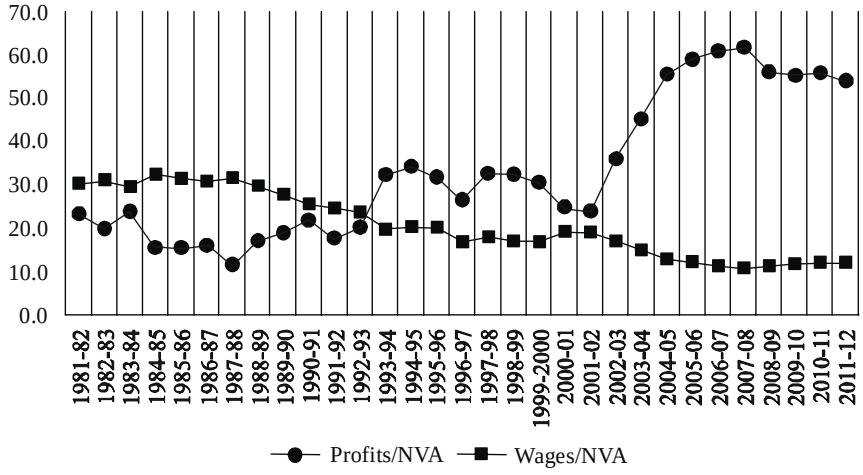
accompanied by an increasing profit share out of value added. The changing nature of the workforce structure is evident for the economy as a whole where the share of informal workers gradually increased from 91.2% in 1999-2000 to 92.6% in 2011-12. During the same period, the percentage of informal workers in the organized sector increased from 37.8% in 1999-2000 to 55.7% in 2011-12. Of these, the private organized sector had 67.2% of the workers as informal workers. That is two out of every three workers in the private organized sector in 2011-12 were informal workers with no social security. This is also confirmed by the Annual Survey of Industry (ASI) data which shows the percentage of contract workers increasing from around 19.7% in 1999-2000 to 35% by 2011-12.

Preliminary evidence from the Annual Survey of Industry (ASI) data also shows a consistent decline in the wage share in net value added (see Chart 1). The share of wages, which was 30% in the early 1980s, declined to 20% by the end of the 1990s and further declined to only around 10% by the end of the last decade (2000-10). On the other hand, the share of profits in net value added increased during the same period from less than 20% in the 1980s to more than 50% in the last decade. Further, while the share of profits was lower than the share of wages until 1993-94, it is now almost six times that of wages.

The fact that this happened during a period when wage growth saw a revival is not inconsistent with the overall trend of wage share decline. It is also evident from the ASI data that most of the increase in wages has been cornered by white-collar workers with managerial emoluments per day increasing much faster than workers' wages (see Chart 2). Along with the fact that the most recent period has seen little employment creation, this has meant a worsening of workers bargaining power as well as well-being during the period of arguably the fastest growth of the Indian economy.

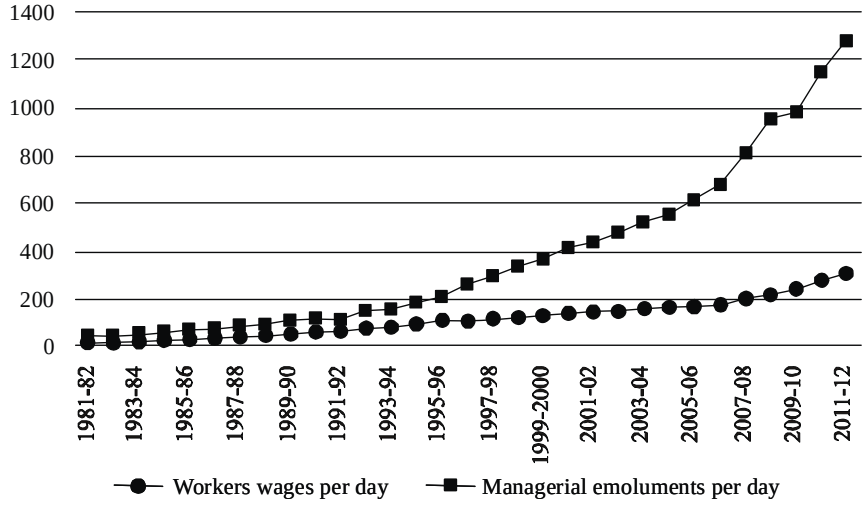
Increasing inequality in earnings of workers is not only evident from the ASI data but also from other sources of data on all workers.[14] Using the Central Statistical Organization (CSO) data of national accounts along with the employment data from the NSSO suggests that growth of workers in the private organized sector and the public organized sector has been higher than that of agricultural labourers or cultivators. Chart 3 gives the index number of workers income by various class of workers (1993-94=100). While income of wage workers and cultivators increased by 4-5 times between 1993-94 and 2011-12, the corresponding increase in case of salaried workers in private and public sector was 10 times their earnings in 1993-94. The gini coefficient of workers income also

CHART 1
Share of Wages and Profits in Net Value Added (ASI)



Source: Annual Survey of Industries, Various years.

CHART 2
Wages to Workers and Managers in Organized Industry (ASI)



Source: Annual Survey of Industries, Various years.

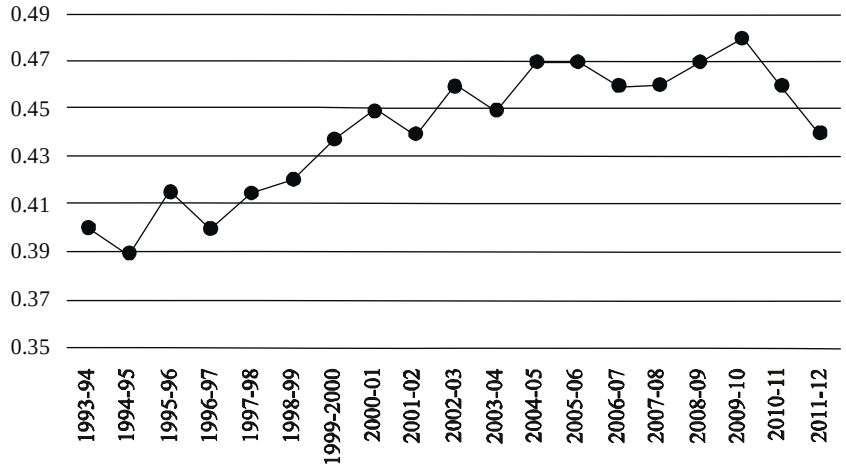
mirrors the trend in gini coefficient of consumption expenditure reported earlier, increasing from 0.39 in 1993-94 to 0.48 to 2009-10 before falling to 0.44 by 2011-12 (see Chart 4).[15]

Thus, a preliminary analysis of available secondary as well as primary surveys makes it clear that India not only has a high level of inequality compared to countries with similar levels of development, but unlike countries such as Brazil which have seen income inequality decline over the last decade, inequality in India has continued to increase, whichever way it is measured. However, the trend of rising inequality has received far less attention in the Indian context despite a clear rising trend since 1991. Part of the reason has been the fact that much of the focus in India has remained confined to poverty rather than inequality.

CHART 3
Index Number of Worker's Income by Class of Workers

Source: Calculated from National Accounts and NSS EUS.

CHART 4
Gini Coefficient of Workers Income



Source: Calculated from National Accounts and NSS EUS.

But a much larger reason for this has been the belief that inequality is less of a problem in an economy which is growing so fast. In some ways, popular writing has even justified rising inequality as a necessary by-product of growth in developing countries.[16] Much of this is also due to the way inequality is treated in most discussions in the development literature. Primarily these have been seen as an outcome event focused on income or consumption inequality with little attention given to sources of inequality and how inequality in access to assets, opportunities and public services interact in shaping final outcomes of inequality in incomes.

What role do inequalities play in fostering or hampering economic processes? This depends a lot on the nature of markets and institutions in which various factors of production operate. These are also mediated by the role of the state, which has a moral claim on encouraging equality in access to markets and equality in outcomes. This is done partly through providing fair play through efficient regulation of markets which tend to be captured by the rich but also through

14. Although information on income of workers is also available from the NSS employment-unemployment surveys, NSS does not collect information on earnings of self-employed.

15. It is worth mentioning that the income inequality estimates of workers' income is an underestimate compared to overall income inequality of the country because it does not take into account incomes earned as profits, rents and dividends. Although these are comparably higher than estimates of workers inequality they are still an underestimate.

16. Most of these issues have been debated in the broader context of inequality and its relationship to economic growth. Most famous of these is the hypothesis proposed by S. Kuznets ('Economic Growth and Income Inequality', *The American Economic Review* 45(1), March 1955), who postulated a rise in inequality in the early stages of development as incomes and employment shift

transfers and taxation by redistribution of resources from the rich to the poor.

While the economic policies pursued since independence had a specific role of the state in not only allocating resources across sectors and states but also as a major instrument of redistribution, the onset of economic reforms has meant that the state has been merely reduced to a political instrument charged with the basic role of allocating resources while redistribution is seen as an outcome of market based policies. The withdrawal of the state from the essential functions of shaping economic outcomes has led to the erosion of the state as an instrument of 'inclusion'. The interplay of markets and government is also conditioned by the nature of markets in the economy. Imperfections in the credit and labour markets continue to be dominant features of developing countries.[17] Instances of crony capitalism in the last decade have raised serious questions about the role of the state in facilitating inclusion or regulating the market outcomes.

However, the pressures of democratic politics have also ensured that the state has remained responsive to the demands of redistributive politics. The pressure has come from civil society groups who have raised concerns on specific issues, ranging from land acquisition to issues of crony capitalism as also on basic provisioning of essential services such as food, livelihood, education and health. Largely bracketed as 'populism', the recent years have seen heightened competition among political parties, incidentally to provide basic amenities to the poorer sections of the population, during the same period when the state was seen to collude with the corporate elite.

While this has forced the state to respond by recognizing some of these as legal entitlements, notably the Mahatma Gandhi National Rural Employment Guarantee Act, Right to Education Act, National Food Security Act and the Right to Information Act, the basic and fundamental nature of economic production which gave rise to these inequalities has still not been addressed either by the state or by the democratic movements. Which is why, although desirable and necessary, these initiatives do not imply a significant departure from the existing nature of economic policies, which are designed to reproduce inequalities.

from agricultural to non-agricultural sectors as well as a growing accumulation of savings by the rich. Since then, rising inequality with economic growth has continued to dominate the debate. This has also led to primacy of growth as an engine for redistribution with the assumption that inequality may be reduced by means of direct redistributive measures such as transfers by the state or as a consequence of policies designed to help the poor participate in the growth. In other words, the issue of inequality is not only seen as a beneficial outcome of a natural process of growth but to be taken care of by redistribution. While there may be a logical fallacy in the statement above, this discourse has continued to dominate the analysis of inequality and its nature.

17. These imperfections arise not only because of the unequal nature of the endowments and access to opportunities available to citizens, but also because of the relationship of markets with the existing social and political institutions.

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