A Study of E`xtent of Income Inequality in 21st Century India

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Abstract:

Income inequalities despite being bad are inevitable for the part of a growing economy. Any economy wanting to grow at fast rate has to deal with increasing income inequalities among its people. This trend is visible in Indian Economy; the recently released report on Income Inequality by Oxfam reveals dramatic increase in the wealth inequalities in India in the recent period. In 2017 alone the top 1% of the population owned 73% addition that occurred. The top 1% rich people in India owned around 58% of India's wealth in 2016. The implementation of New Economic policy 1991 resulted in a more matured and diversified economy in India. However this policy is a **double edged sword**, the impressive growth resulted in widening of income inequalities in the economy at an alarming rate. This paper is an attempt to understand these inequalities from of Income Tax collection by government of India.

Key words: Income Inequality, Growing economies, Income Tax collection.

Introduction:

Economic inequality is the difference found in various measures of economic wellbeing among group in a population or among countries. Economists generally focus on economic disparity in three metrics Wealth, Income and Consumption. India is regarded as one of the fastest growing nations in the world. Spectacular economic growth over the last three decades has made India a global economic powerhouse. As a strong emerging economy India has experienced an average of 8% economic growth in terms of GDP growth during the 2000-2010. The Indian economy is now the 3rd largest in the world by purchasing power parity after china and USA. However the welfare of the population is dependent not only on the growth of the economy but also on its distributional outcomes.

In the context of fast growing economy, inequality in India is a major concern. It is of the immense importance to know whether the gains of growth are being distributed evenly among all socio-economic groups or being concentrated among few. As we all know India is home to around 17% of the world population. It is also home to the largest number of people living below the international the international poverty line of 1.90$ per day measure of the World Bank. India is suddenly in the news for all the wrong reasons. It is now hitting the headlines as one of the most unequal countries in the world, whether one measure inequality on the basis of income or wealth.

According to a report by the Johannesburg based company New World wealth, India is the second most unequal country globally next only to Russia which holds number one position. In 2017 alone, the top 1% of the population in India owned 73% of the addition to the wealth that occurred. A year ago, the same top 1% owned 58% of the stock of wealth. Compared to this Japan, is the most equal country in the world, where according to the report millionaire control only 22% of the total wealth. By 2030 it is said that the richest 1% of the world will own 2/3rd of the global wealth.

Income Group	India	China	USA	Western Europe
Total	100%	100%	100%	100%
Bottom 50%	11.1%	13.3%	2.9%	17.4%
Middle 40%	22.6%	43.4%	33.1%	36.6%
Next 9%%	66.4%	28.4%	31.2%	29.3%
Incl. Top 1%	29.4%	14.9%	33%	16.8%
Incl. Top 0.1%	12.2%	6.8%	17.1%	6.5%
Incl. Top 0.01%	5.6%	3.5%	8.5%	2.8%
Incl. Top 0.001%	2.8%	1.5%	3.9%	1.3%

Indian Income Inequality, 1922-2015: From British Raj to Billionaire Raj

It is true that wealth inequalities have always existed, no matter what the design of the economy is. The billionaire boom is not a sign of thriving economy but a symptom of economic system. The growing divide undermines the democracy and promotes corruption.

Why does it matter? Oxfam believes that this sharp rise in inequality in India is damaging and need to be curbed because

a) Rising inequality will lead to slower poverty reduction.
b) Undermine the sustainability of Economic growth.
c) Compound inequality between Men and women.
d) Drive inequality in health, Educational and Life chances.
e) Problems of mental illness and violent crime.

This is true across both rich and poor countries- Inequality hurts everyone. Widening inequality engenders a feeling of being left out, a lack of equal opportunity and a suspicion that some are getting ahead by crooked means. It leads to increase in corruption, social tension and Political instability.

India along with all other countries in the world has committed to attaining the sustainable development by 2030, and to ending extreme poverty by that year. But unless, we make an effort to first contain and then reduce the raising levels of extreme inequality, the dream of ending extreme poverty for the 300 million Indians- a quarter of the population- who live below an extreme low poverty line, will remain a pipe dream. According to UN statistics, in 2005 over 80% of India's rural population is poor. Only silver line in the statistics is India had the lowest inequality among the BRICS countries.

Nature and Extent of Economic Inequality in India

In India inequality of income is calculated based on the data on consumption distribution (provided by NSSO) and income tax data. To examine the distribution of income in India, a Committee was appointed by the Government under the chairmanship of Prof. P.C. Mahalanobis. The committee submitted the report in 1964. Besides this Committee, National Council of Applied Economic Research (NCAER), Reserve Bank of India, World Bank and many economists have undertaken important research studies relating to distribution of income. However, these studies relate to different periods of time, and are based on different methodologies. The results of these studies are not strictly comparable. Higher Lorenz ratio or Gini-coefficient points to a greater degree of inequality. Gini index in India was 33.4 in 2011-12 which points to an alarming magnitude of inequality in India.

Post reform scenario

Growth in income inequality is rampant in the post reform period. India felt strong need for New Economic Policy 1991 to the extent that India had to pledge its gold reserves with IMF and resort to devaluation of currency to correct the BOP disequilibrium. The implementation of NEP- 1991 resulted in more matured and diversified economy of India. India is recognized as Knowledge Pool where IT and IT-enabled industry has shown phenomenal growth in the form of Business Processing Outsourcing, Knowledge Processing Outsourcing etc. The success of these reforms can be understood from the fact that India could buy around 200 Mt.Tns. gold from IMF in 2009.

However these benefits came with some serious cost to Indian society like ever increasing income inequalities. Hence these reforms are often termed as ‘Double Edged Sword’, i.e. on the one hand they thrown ample opportunities for the business class and on the other hand created dualism in the society. There is empirical evidence to show that there is increase in the income inequality in the fast growing economies. India is not strange to this problem; it was evident in China post 1979 reforms, Russia in the post reform period and very recently in USA. The inequality in USA decreased in the year prior to ‘Sub Prime Crisis’ i.e. 2007-08 and the trend started reversing in the recovery phase.

According to Nicholas Kaldor, inequalities behave differs in short and long term. Economies experienced rise in it in the long run and fall in the short run. These trends make strong argument for more inclusive and sustainable development in the economy to make the societies equal. Indian economy is in the phase of jobless growth worsening the situation still further resulting in the cases of crime and terrorism in the society. Growth through any reforms should throw ample opportunities for the people.

Objectives of the study

1. To study the nature of income inequality in India.
2. To study the extent of income inequality in India.
3. To explore the causes of tax evasion by rich Indians.

Research Methodology

The study involves the collection of secondary data from Research Journals, Books, Periodicals, News papers, website of Central Board of Direct Taxes, Government of India. The data is analysed to understand the nature and extent of Income inequality in India.

Data Analysis:

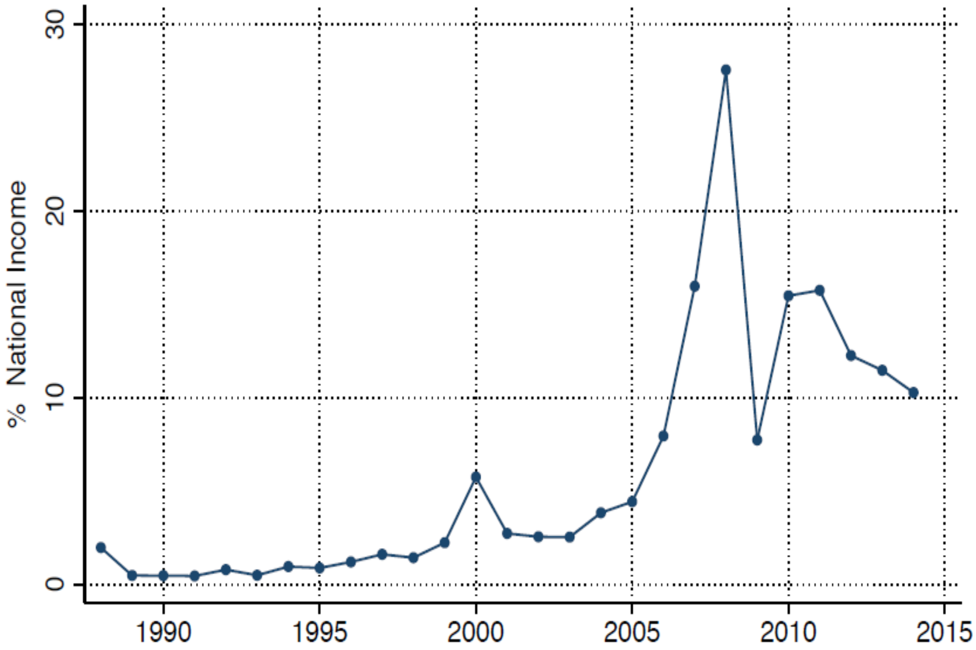
To understand the extent of income inequality in India in 2015, the data from different sources like World Bank, Central Board of Direct Taxes, Ministry of Statistics, government of India and World Inequality database and are compiled to analyze the nature and extent of Inequality in India. The year 2015 is selected for analysis due to availability of desired data.

As per the World Bank estimates India’s population was 131cr in 2015 growing at the rate of 1.2% per annum. The GDP of India was 2.1 lakh crores US $. According to world inequality database of world inequality lab complied by Economists Lukas Chancel and Thomas Piketty in their work Indian Income Inequality, 1922-2015: From British Raj to Billionaire Raj, the top 1% rich Indians held 21.3% National Income in India in 2015.

Income Group	Number of Adults	Income Share	Comparison to average (Ratio)
Average	794 305 664	100%	1
Bottom 50%	397 152 832	14.7%	.3
Bottom 40%	317 722 266	29.2%	.7
Top 10%	794 305 66	56.1%	6
Incl. Top 1%	794 305 7	21.3%	21
Incl. Top 0.1%	794 306	8.2%	82
Incl. Top 0.01%	794 31	3.4%	341
Incl. Top 0.001%	7943	1.4%	1362

Indian Income Inequality, 1922-2015: From British Raj to Billionaire Raj

The above data reveals that, 1% of India's population i.e. 1.31cr. owned 21.3% of its GDP of 2.1 lakh cr.US $,which is 44.73 Th. Cr.US $. The average holding by these 1 % wealthy is around 34122 crs US $ each. This disparity is huge as compared to average income of the country and far high as compared to the income levels of the poor. There is a clear picture that the benefits of government's liberalization policies are not sufficiently tickle down to the poorest in the society.



Forbes Rich list 1988-2015

This amount of inequality will lead to grave socio-economic problems in the society and may lead to social revolution in the long run. The government should ensure effective redistribution of income through progressive taxation to promote equal and just society. However it is clearly evident from the data from Central Board of Direct Tax, rich are not taxed sufficiently in India aggravating the problem still further. As per the 2017 report of Income Tax Department of India, the number of Indians filed their income tax returns is very disappointing.

Range (in INR)	No. of Returns	Sum of Gross Total Income (in Crore INR)	Average Gross Total Income (in Lakh INR)
< 0	-	-	-
= 0	7,99,506	-	-
>0 and <=1,50,000	29,54,340	22,140	0.75
>150,000 and <= 2,00,000	16,95,585	30,227	1.78
>2,00,000 and <=2,50,000	46,48,296	1,07,333	2.31
>2,50,000 and <= 3,50,000	1,36,54,424	3,97,135	2.91
>3,50,000 and <= 4,00,000	33,83,664	1,26,443	3.74
>4,00,000 and <= 4,50,000	28,24,599	1,19,532	4.23
>4,50,000 and <= 5,00,000	20,72,519	98,302	4.74
>5,00,000 and <= 5,50,000	17,27,908	90,518	5.24
>5,50,000 and <= 9,50,000	63,08,057	4,40,605	6.98
>9,50,000 and <= 10,00,000	3,15,409	30,736	9.74
>10,00,000 and <=15,00,000	15,87,678	1,90,780	12.02
>15,00,000 and <= 20,00,000	6,28,169	1,07,903	17.18
>20,00,000 and <= 25,00,000	3,05,646	67,962	22.24
>25,00,000 and <= 50,00,000	4,33,197	1,46,103	33.73
>50,00,000 and <= 1,00,00,000	1,51,862	1,04,952	69.11
>1,00,00,000 and <=5,00,00,000	88,923	1,72,525	194.02
>5,00,00,000 and <=10,00,00,000	9,319	64,742	694.73
>10,00,00,000 and <=25,00,00,000	5,743	88,332	1,538.08
>25,00,00,000 and <=50,00,00,000	2,021	70,325	3,479.71
>50,00,00,000 and <=100,00,00,000	1,111	77,210	6,949.59
>100,00,00,000 and <=500,00,00,000	943	1,89,750	20,121.95
>500,00,00,000	273	6,18,459	2,26,541.76
Total	**4,35,99,192**	**33,62,014**	

Central Board of Direct Taxes

The data above shows the number of Indians declaring their incomes more than 500 cr. is only 273, this is in clear contradictory to the findings of database of Income inequality lab in 2015 which states that the top 1% earns 21.3% of India's National Income. The government should ensure the increase these numbers to solve the problem of inequality in India. The accountability of rich is very crucial in this movement.

Conclusion:

Hence, Income inequalities are inevitable part of a successful economy. However, to what extent it is faceable for the economy, the tradeoff between growth and inequality is crucial for the economy. Any economy wanting to grow at fast rate has to deal with increasing income inequalities among its people. However, to what extent it is faceable for the economy, the tradeoff between growth and inequality is crucial for the economy. On one hand the wealthy feels government's attempt to redistribute the income through progressive taxation and control over property holdings is unfair and poor and downtrodden on the other hand feels that growth benefits did not reach them. Hence, government should ensure the tickle down effects of the growth measures. The equal distribution of income can lead to increase in aggregate demand in the economy which is crucial for the growth and development of any economy.

It is of the immense importance to know whether the gains of growth are being distributed evenly among all socio-economic groups or being concentrated among few. The government should ensure the tickle down effects of the growth measures to the poorest in the society.

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