JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Government Policies to reduce income inequality in India.

Mrs. Alpna Yadav
PhD Research Scholar Department of Economics B.S.R. Govt. Arts College
Alwar, Rajasthan, India

Dr. Manju Yadav
Associate Professor, Department of Economics, B.S.R. Govt. Arts College
Alwar, Rajasthan India

Abstract

Over the last forty years, rising national income has helped reduce poverty rates, but this has been accompanied by an increase in economic inequality.

This paper examines the relationship between public policies and economic inequality. It shows that public policies have a significant and large effect on inequality. One influence is through redistribution, as fiscal policy affects the distribution of disposable income through progressive direct taxation and through social benefits. This effect is captured by a single comprehensive variable, which is public expenditures as percent of GDP. Public policy affects the distribution of market incomes as well, through public education, through hiring to the public sector, through building infrastructure and through labour market regulation. Increasing economic inequality has become a cause of concern for the developing countries like India, where economic growth and income inequality go hand in hand. India recorded tremendous economic growth after liberalization but unfortunately, the benefit of growth was not distributed equitably. Government policies are also responsible for increasing income inequality.
Keywords: GDP, inequality, taxation and developing countries.

Introduction

Rising inequality has emerged as one of the most important problems confronting societies across the world. Within the Asian region, South Asia has experienced rapid increases in income/consumption inequality during the recent period of its rapid growth. This is quite evident in case of India, the largest economy in the region with over a billion people. Inequalities in India are observed in terms of income, health, education and other dimensions of human development as well as between the states, rural and urban areas and different social groups. Besides economic factors, there are certain sociological factors that affect inequalities in India. Since independence Indian economy has thrived hard for improving its pace of economic development.

Economic inequality can be viewed from different perspectives. Each of these can provide insights into the nature, causes, and consequences of economic inequality.

Some different types of inequalities:-

1. Inequality of income: This focuses on the inter-personal distribution of income, which captures how individual or household incomes are distributed across the population at a point in time.
2. Inequality of wealth: Here the focus is on the distribution of wealth across individuals or households, which reflects differences in savings as well as bequests and inheritances.
3. Lifetime inequality: This focuses on measuring inequality in incomes or earnings for an individual over his or her lifetime, rather than for a single year.
4. Inequality of opportunity: This focuses on the relationship between income inequality and social mobility, in particular the extent of mobility between income groups across generations.

The History of Inequality

Human societies have exhibited inequality for millennia. In this chapter, we first examine how inequality began and how societal attitudes towards inequality may have evolved up to the end of the 19th century. We then discuss the history of inequality across the world in the 20th and 21st centuries, with better data availability over this period permitting a more data-driven approach.

Prehistoric and ancient inequality

The earliest substantial evidence of inequality is found in prestige burial sites dating to somewhere between 10,000 and 40,000 years ago, during the Mesolithic era (Wengrow & Graeber 2015). The Neolithic period followed the Mesolithic era, beginning with the end of the Ice Age roughly 10,000 to 12,000 years ago. Changes in geography and weather created favourable conditions for agriculture, leading human societies to move away from traditional hunter-gatherer practices. It is widely thought that this turning point led to persistent and widespread economic inequality (Diamond 1997; Milanovic, Lindert & Williamson 2007). There is limited evidence regarding inequality trends and attitudes towards inequality in ancient civilisations. Instead, we must rely on general observations about how these societies were structured, and excerpts from historical texts. For example, in Ancient Greece, the statesman Phaleas believed that inequality was unjust and argued with Aristotle, who believed the opposite (Aristotle 2013, p. 39). In Ancient China, Confucius wrote that "there is no problem of poverty when wealth is evenly distributed" (Li 2012).

Western perspectives on inequality from the 17th to the 19th century

Prior to the 1600s, vast inequality was largely normalised in Western Europe, with feudal hierarchies of lords, vassals and serfs (Hilton 1976). Inequality of wealth and inequality between different social groups was regarded by many as an intrinsic natural order (Habibis & Walter 2015). This started to shift during the Enlightenment, a movement of radically reoriented thinking about politics, philosophy and science. Whereas theology or unquestioned hierarchical power had previously reigned, people started to think about inequality in pragmatic terms. There was a philosophical shift towards legal positivism (that is, the notion that laws are defined by humans and have no necessary connection to morality), with the emergence of property rights and the rule of law (Hjorth 2011). A focus on values such as tolerance and respect for individual liberty emerged in western.

Europe progressing to North America and beyond. In the 18th century, the French Revolution built on the social momentum of the Enlightenment, with the middle-class bourgeoisie realising their economic power and demanding political influence and recognition.

The Industrial Revolution introduced new and more efficient manufacturing processes in Europe and the USA, and marked the beginning of capitalist societies in the modern sense. Economic growth and the general standard of living increased rapidly. As the Industrial Revolution extended into the 1800s, views on inequality became increasingly complex and varied. For example, Marx believed that the possession of capital leads to social stratification and exploitative inequality (Marx 1990), and therefore did not have a favourable view of the Industrial Revolution, despite its economic benefits. Other economic views on inequality emerged, such as Thomas Malthus' belief that human societies are subject to an inbuilt disequilibrium, and that the rapidly expanding world population will inevitably outstrip the limits of subsistence, resulting in rising inequality, war and famine (Dean 2015). Adam Smith also introduced his theory of the free market economy, in which inequality is a by-product of market forces (Kurz 2010). It is generally agreed that Smith was more concerned about poverty than economic inequality.

Political reforms further reshaped how societies viewed inequality, including through voting rights being extended to cohorts that previously did not have societal representation. This led to changes in taxation and redistributive programs (Acemoglu & Robinson 2000). Charles Darwin's theory of natural selection, which emerged in the late 1800s, was also an influential force in how inequality is perceived. Darwin argued that humans are fundamentally and biologically unequal, with innate variations in capacity, capability, strengths, inclinations, desires and personalities (Scheidel 2017, p. 58). More recently and in contrast, egalitarian ideals have increased in popularity, tied to views on social justice and incorporating general principles such as that all humans should have their basic needs met and be supported in fulfilling their potential (Habibis & Walter 2015, p. 256).

Global inequality

In an increasingly globalised world, it is meaningful to think about inequality in global terms. Global inequality refers to inequality between citizens of all or multiple countries across the world and it can be decomposed into inequality between countries and inequality within countries.

There are conflicting views regarding global inequality trends in the 20th and 21st centuries (Anand & Segal 2008). This may be due to discrepancies in how people measure inequality – for example, what metric is used and whether inequality is measured on a relative or absolute basis (i.e. whether incomes increasing by the same proportion are considered to have an unchanged or a more unequal distribution). In the following discussion, we focus mainly on income inequality as opposed to wealth or consumption inequality, due to better data availability for this measure.

The dominant view of inequality in India in policy circles and among a section of influential economists has been to either deny its rise altogether or to dismiss the concerns of distribution citing increase in economic growth and fall in poverty levels. Studies have used household consumer expenditure survey data to argue that neither the levels of nor the trends in inequality are alarming (Ahluwalia 2011; Bhagwati and Panagariya 2013; Bhalla 2017). The Gini coefficient of monthly per capita consumer expenditure increased from 0.326 in 1993–1994 to 0.375 in 2011–2012.1 The argument that a Gini coefficient of 0.375, or that its rise by 4.9 percentage points between 1993–1994 and 2011–2012, is not high enough to be alarmed is misleading for several reasons.

The State of Inequality in India Report was released today by Dr Bibek Debroy, Chairman, and Economic Advisory Council to the Prime Minister (EAC-PM). The report has been written by the Institute for Competitiveness and presents a holistic analysis of the depth and nature of inequality in India. The report compiles information on inequities across sectors of health, education, household characteristics and the labour market. As the report presents, inequities in these sectors make the population more vulnerable and triggers a descent into multidimensional poverty.

Dr Bibek Debroy has stated, “inequality is an emotive issue. It is also an empirical issue, since definition and measurement are both contingent on the metric used and data available, including its timeline”. He further adds, “To reduce poverty and enhance employment, since May 2014, Union Government has introduced a variety of measures interpreting inclusion as the provision of basic necessities, measures that have enabled India to withstand the shock of the Covid-19 Pandemic better”. The report is a stock-taking of both inclusion and exclusion and contributes to the policy debates.

Impact of govt. policies on Income and wealth inequality.

The direction of government policies determines wealth redistribution in the country. This is mainly done through taxation and monetary policy. Sometimes, governments Policy change leads to an increase in inequality. For e.g. the intervening economic policies by the Indian government, on one hand, tends to relax business restrictive laws and, on the other, fails to address the majority of the population which has minimum resources.

How do we tackle rising inequalities through public policy?

Although we focus more on economic inequality, social and political factors are equally important for framing public policies. Among other policies, we also focus on the issues relating to two challenges. The "structural change challenge" is focused on moving resources from traditional low- productivity activities into modern, more productive industries or activities. The "fundamentals challenge" relates to development of broad capabilities such as human capital and infrastructure (Rodrik et al, 2017). In this address, we argue that, among other things, the 'fundamentals challenge' is equally or more important for India's development and reduction in inequality.

PUBLIC POLICY AND INEQUALITY: GLOBAL LEVEL

Studies at global level have shown that measures such as fiscal policy, education policy, financial inclusion, well designed labour market and institutions can reduce inequality (Dabla-Norris et al, 2015). Similarly, fiscal redistribution can improve the share of the poor and middle class. However, there is no-one size fits all policies for tackling inequality. In developed countries, more reliance on wealth and property taxes, progressive income taxation, better targeting of social benefits are needed. In emerging market countries, better access to education and health services, well targeted conditional transfers can reduce inequality (Bastagli et al, 2012).

World Bank (2016) provides some lessons from the experiences of countries such as Brazil, Cambodia, Peru and Tanzania which are best performers in reducing inequalities during 2004-14 and Mali during 2001-10. In Brazil, labour market dynamics including a rising minimum wage and expansion of social policies helped in raising incomes of the poor. Some of the lessons for the success of these five countries are prudent macro economic policies, strong growth, functioning labour markets and coherent domestic policies focusing on safety nets, human capital, and infrastructure. The report also cautions that universal prescriptions are useful but we need country specific solutions.

Atkinson (2015) recommends ambitious new policies in five areas: technology, employment, social security, the sharing of capital and taxation. He defends the five areas against common arguments for inaction such as intervention will shrink the economy, that globalisation makes action not possible and countries cannot afford distribution policies. He gives importance to public policy including distributional issues, minimum wages, progressive tax rate structure etc. Although the recommendations refer to United Kingdom, they are widely applicable28. The recent Fiscal Monitor of IMF (2017a), discusses how fiscal policies can help redistributive objectives.

Government policy and measures

Even if they cannot answer the question of how much inequality is too much economists can still play an important role in spelling out policy options and tradeoffs. If a society decides to reduce the level of economic inequality. It has three Arms in sets of tools; redistribution from those with high income to those with low incomes; trying to assure that a ladder of opportunity is widely available; and a tax on inheritance.

In the earlier phase of economic planning, elimination of inequalities in income distribution was one of the proclaimed objectives of the government in this country. Plan document and policy declarations of the state from time -to-time indicated various measures for reducing income inequalities.

No society should expect or desire complete equality of income at a given point in time, for a number of reasons. Even if they cannot answer the question of how much inequality is too much inequality is too much. Economists can still play an important role in spelling out policy options and tradeoffs. If a society decides to reduce the level of economic inequality, it has three main sets of tools: redistribution from those with high incomes to those with low incomes; trying to assure that a ladder of opportunity is widely available; and a tax on inheritance.

1. **Land reforms and redistribution of agricultural land**- Redistribution means taking income from those with lower income. It is a well-known fact that income inequalities in the rural sector emanate mainly from the concentration of agricultural land. Before the abolition of the zamindari system most of the land belonged to the absentee landlords who appropriated a large portion of the agricultural who appropriated a large portion of the agricultural production while the tiller of the soil got hardly enough for subsistence. Thus, legislative measures were undertaken to abolish landlords and other intermediate and ceilings on holding were fixed. Serious attempt to carry out these reforms would have broken the concentration of agricultural land. But unfortunately not only the legislative measures to carry out land reforms were inadequate and defective, their implementation was also scuttled at various levels. As a consequence, even now about 40 per cent of the agricultural land belongs to top 5.0 per cent of the rural households. The fact that some degree of redistribution occurs now through the federal income tax and government anti poverty programs does not settle the question of how much redistribution is appropriate, and weather more redistribution should occur.
2. **Control over monopolies and restrictive trade practices**-control of monopoly tendencies is considered necessary for reducing income inequalities. However, for more than two decades after this country got independence virtually nothing was done to prevent the growth of monopolies. The monopolies and restrictive trade practices act was passed act
3. **Social security measures-**Although the country does not have a comprehensive social security, yet there are some social security provisions which are expected to help the workers in the organised sector. For example, the workmen's compensation Act entitles industrial workers to compensation in case of injury

resulting in death, disability or disease while on duty. Similarly the maternity benefit act regulates the employment of women workers for certain periods before and after child birth and the employees provident fund act entitles workers for certain periods before and after child birth and the employees provident fund act entitles workers employed in organised industries to the benefits of provident fund. The most comprehensive social security measures, however ,is the employees state insurance act which entitles the insured workers to medical benefits, disability benefits, benefits for the period of sickness, maternity benefits and benefits to dependents. Undoubtedly, these social security measures are of great importance and their contribution in alleviating destitution in urban life is not small. Nonetheless, social scientists and other experts insists that unemployment dole and old age pension are the only measures which make a frontal attack on poverty. Unfortunately these measures have not been introduced in India as yet.

4. **Minimum needs program: -** Since the beginning of the 1970s a very influential section of development economists has started asking for the pursuit of the minimum needs program in developing countries. They assert that the benefits of growth do not automatically percolate downwards and thus less developed countries have no choice except to pay direct attention to the basic needs of the people at the lowest strata of the society. They further argue that it would be wrong to believe that there is necessarily a conflict between the two objectives, viz., the basic needs and growth. Their assertion is that while ensuring of the fulfilment of the basic needs does not hinder economic growth, the reverse, as the experience in the various developing countries has proved, is not true. This approach influenced the planners in this country also. In the late 1970s the planners argued that the minimum needs programme which was introduced in the fifth plan was not only directed towards the alleviation of poverty but also aimed at assisting economic growth. The sixth five year plan stated thus," The programme is essentially an investment in human resources development. The provision of free or subsidised services through public agencies is expected to improve the consumption levels of those living below the poverty line and thereby improve the productive efficiency of both the rural and urban workers. This integration of social consumption programme programmes with economic development programmes is necessary to accelerate growth and to ensure the achievement of plan objectives."
5. **Programmes for the uplift of the rural poor**: - The hardcore of the poverty is to be found in the rural areas. The poorest sections in the rural areas belong to the families of landless agricultural labourers, small and marginal farmers, rural artisans, scheduled castes and scheduled tribes. In order to raise income of these categories of rural poor, broadly the following three types of programmes have been undertaken: (1) Resources and income development programme for the rural poor ,(2) special area development programme, and (3) special area development programme, and (3) works programme for creation of supplementary employment opportunities. A number of programmes for the uplift of the rural poor falling in one category or the other have been introduced in the planning period. However, the programme introduced earlier was often overlapping. They not only faced difficulties in effective monitoring and accounting but also lacked a clear perspective. "In practice, therefore, these programmes were reduced to mere subsidy

giving programmes shorn of any planned approach to the development of the rural poor as an in-built process in the development of the area and its resources. At present some special programmes for the uplift of the rural poor are being implemented important programmes from this point of view are swarnajayanti Gram swarozgar Yojana and Sam Poorna Grameen Rozgar Yojana. The most ambitious programme-Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREGS) was launched in February 2006. These programmes for the uplift of the rural poor are expected to reduce income inequalities in the countryside besides alleviating poverty.

6. **Taxation: -** Looking at the taxation structure and the degree of progression in the rates of direct taxes one gets the impression that the Indian tax system is progressive and has been designed to prevent concentration of wealth in a few hands. Amaresh Bagchi rightly asserts," The sharpness of progression in the nominal rates is , however, no guarantee of the redistributive effect of tax. Much depends on the extent to which the tax base comprehends the various ingredients of economic power. The base on which income tax is levied in India corresponds to what is called in the tax jargon a ' realised income' and is arrived at after allowing for all expenses of earning (subject to a few restrictions). In addition, the law allows numerous expectations and deductions in order to promote various "non- tax " objectives. No systematic attempt has been made to examine how the Indian income tax base compares with a true index of the economic position of the tax payers such as the net accretion concepts of income which is more relevant for judging the impact of taxes on the distribution of the command over goods and services in the community. Data required for such an enquiry are simply not available." Thus on the basis of superficial examination of the tax rates it would be wrong to claim that Indian tax system redistribution income in favour of the poorest sections of the society. Taxation of income on the basis of realisation, as is the practice in this country, does not touch the major source of inequality.
7. **Fiscal Policy**: - Redistribution in favour of poor can be made through fiscal policies. Taxes, expenditures and subsidies are the major instruments of fiscal policy. Some advocate measures such as redistribution of assets and wealth in favour of the poor via higher tax rates for the rich. In order to reduce inequalities, richer sections have to pay much more taxes. The tax/GDP ratio has to be raised with a wider tax base and removing exemptions for corporate. One of the distortions in India is that the share of direct taxes is much lower than that of indirect taxes. It is known that indirect taxation is regressive in nature. Fiscal instruments like public investment in physical and social infrastructure can be used to reduce inequality. Generally developed countries use counter-cyclical and developing countries follow pro- cyclical. Using the data for the period 1950-51 to 2007-08 Krishnan and Vaidya (2013) examined whether Indian fiscal policy is pro-cyclical or counter-cyclical. The results show that fiscal policy has been generally a-cyclical over the period of study.
8. **Youth Unemployment and Social Tensions**: - It is known that youth unemployment in India is three times to that of general unemployment. One of the main problems for the agitations by the people like the Marathas in Maharashtra, Patidars in Gujarat, Jats in Haryana and Kapus in Andhra Pradesh relates to youth

unemployment and aspirations of these castes to move to quality employment. Central and State governments have to be sensitive to youth employment problem.

9. **Education, health: Equity in quality**: - Reduction in inequality of opportunity is important for promoting equity. “The distinction between inequality of opportunity and inequality of outcome can be particularly useful in guiding public policy. Equality of opportunity is not only intrinsically important but also a critical condition for a prosperous society. Public policy must be put in place to reduce or eliminate inequality of opportunity. Governments must work hard to promote equality of opportunity and to ensure that everybody has equal opportunity to participate in the growth process and benefit from its fruits. To the extent that inequality of parents’ income leads to inequality of opportunity for children, this inequality needs to be overcome by interventions to assure equal access to public services and to markets for all in society.” (Kanbur et al, 2014).
10. **Increase the minimum wage: -** Research shows that higher wages for the lowest-paid workers has the potential to help nearly 4.6 million people out of poverty and add approximately $2 billion to the nation's overall real income. Additionally, increasing the minimum wage does not hurt employment nor does it retard economic growth.
11. **Expand the Earned Income Tax: -** In recent years, the EITC has been shown to have a positive impact on families, lifting roughly 4.7 million children above the poverty line on an annual basis. Increases in the EITC can pull more children out of poverty while providing more economic support for the working poor, especially single parents entering the workforce.
12. **Build assets for working families: -** Policies that encourage higher savings rates and lower the cost of building assets for working and middle class households can provide better economic security for struggling families. New programs that automatically enrol workers in retirement plans and provide a savings credit or a federal match for retirement savings accounts could help lower-income households build wealth. Access to fair, low-cost financial services and home ownership are also important pathways to wealth.
13. **End residential segregation:** - Higher levels of racial residential segregation within a metropolitan region are strongly correlated with significantly reduced levels of intergenerational upward mobility for all residents of that area. Segregation by income, particularly the isolation of low-income households, also correlates with significantly reduced levels of upward mobility. Eliminating residential segregation by income and race can boost economic mobility for all.

Recommendations

To solve the problem of income and wealth inequality one has to deconstruct the very agreement for globalisation. One has to understand how the forces of Internationalization and liberalization contribute to a steady rise in inequality. In India the problem has translate low effective policy interventions.

- Progressive taxation

- Cap on executive compensation

- Increasing Govt. expenditure in education and healthcare

- Inclusion of all stakeholders in the decision-making process - empowering the workers

- Collective bargaining minimum wage

Conclusion:

The real growth of India lies with its human resource. If we want to see India in the club of developed nation, we must devote enough resource for its development. As Maskin (2015) points out, if India wants to increase its economic growth in the long run, it must take special care to promote education with vigour. So the call of time is that government must allocate plenty of resource for this purpose. We can't leave education and skill development on market forces; we must devise alternative ways and means beside market(Maskin,2007 &2015).The political class of India may see merit in saving some resource by not allowing sufficient resource for education, but this route only will take us nowhere near to economic development. Increasing inequality in income may pose problem for social unrest, political crisis, social disharmony which in turn will spoil the tempo of economic growth.

References

1. Atkinson, B. Anthony, (1975) "Economics of Inequality" Clarendon Press, London

2. Banerjee, Abhijit (2016), "The Best way to Welfare", Indian Express, June 18.

3. Bastagli, F.D. Coady, and S. Gupta (2012), "Income Inequality and Fiscal Policy", IMF Staff discussion Note 12/08, International Monetary Fund, Washington

4. Basu, K (2006), "Globalization, Poverty and Inequality: What is the Relationship? What can be done?, World Development, Vol.34 No.

5. Chancel, Lucas and Thomas Piketty (2017) "Indian Income Inequality 1922-2014: From British Raj to Billionnair Raj", WID.world working paper series no. 2017/11, World Wealth&Income data base, The source for global inequality in India.

6. Chakravarty, Manas (2016), "The richest 1% of Indian own 58.4% of wealth", Livemint, November26, 2017.

7. Dev, S.Mahendra and C. Ravi (2008), "Poverty and Inequality: All India and States, 1983-2005",

8. Economic and Political Weekly, Vol. 43, No.10

9. Goyal, Ashima (2017), "Macroeconomic Policy for an India in Transition" Economic and Political Weekly, Vol.52, No.4

10. Himanshu (2014), "Rural non-farm Employment in India: Trends, Patterns and Regional Dimensions", India Rural Development Report 2013/14, Orient Black Swan

11. Kannan, K.P. (2014), "Interrogating Inclusive Growth: Poverty and Inequality in India", Routlege, New Delhi

12. Kuznets, S (1955), "Economic growth and income inequality", American Economic Review, Vol.95, N0.1.

13. Piketty, Thomas (2014), "Capital in the Twenty-First Century" The Belknap Press of Harvard University Press, London

14. Ranganathan, T, A Tripathi, Ghanshyam Pandey (2017), "Income mobility among social groups", Economic and Political Weekly, Vol.42, No.41

15 .Srinivasan and Bardhan (1974), Poverty and Income Distribution in India", Calcutta: Statistical Publishing Society.

16. Tendulkar, S.D. (2010), "Inequality and Equity during Rapid Growth Process", in Acharya, Shankar and Rakesh Mohan (2010), "Indian Economy: Performances and Challenges, Essays in Honour of Montek Singh Ahluwalia, Oxford University Press, New Delhi

17UNDP (2015), "Round Table: Intersectional Inequality, Perspectives from South Asia, Summary of Discussions", February 2015, UNDP, New Delhi

18 .World Bank (2016), Taking on Inequality", Poverty and Shared Poverty 2016, World Bank, Washington DC.

19. Zhuang, J. R. Kanbur and C. Rhee (2014), "What drives Asia's rising inequality?", in Kanbur et al (2014), op.cit.