Current Status of Income Inequality in India: An Analysis

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Abstract

This study uses Word inequality report data to analyze the income inequality trends in India after the economic reforms. Economic inequality is the main issue facing economists. Since classical ideology, the debate on globalization, liberalization, privatization, convergence, divergence, and economic inequality has always been critical economic problems. This article explores the income inequality in India between the population groups. The "World Inequality Report 2022" is the source of the data. Income inequality is a derivation from the Lorenz curve. The GINI coefficient of 1990 and 2021 indicates how much inequality increased after the economic reforms. The findings of this paper show that income inequality is vast between the lower 50% and the upper 10% population in India. After the economic reforms, inequality is continuously increasing in India. The leading cause of inequality in India is economic reforms. Undoubtedly, growth and development in various sectors rapidly grow after the economic reforms in India, but economic inequality is spreading continuously. This paper aims to analyze India's income inequality through the Lorenz curve and GINI coefficient.

Keywords: Economic inequality, Income inequality Lorenz curve, GINI Coefficient, Economic reforms

Introduction

Economic inequality is the uneven distribution of income, wealth, and economic possibilities accros a society or between countries. It can be quantified in various ways, such as economic mobility, wealth disparity, and income inequality. Significant social and economic repercussions can result from economic disparity. It can result in less stable and growing economies and social and political upheaval. High levels of economic inequality can also result in differences in access to opportunities, health, and education, prolonging cycles of disadvantage and poverty. Several causes, including disparities in training, experience, and knowledge and structural ones like discrimination, globalization, and technological advancement, can cause economic inequality.

A large number of studies have been done in history on inequality. Smith (1776) said that pursuing individual self-interest would result in maximum societal prosperity in a free-market economy. He maintained that economic prosperity will benefit all members of society, including the impoverished, when people are free to engage in trade and competition. In Ricardo's opinion, economic disparity results naturally from how the free market operates. He believed that the supply and demand for labour would determine worker salaries in a capitalist economy. More inequality would happen in the event that there was a labour shortage as opposed to a workforce excess.

On the other hand, if there was a labour shortage rather than a labour surplus, wages would increase, and inequality would decrease. 19th-century Marx thought that because capitalism is built on labour exploitation by capital owners, the economic disparity was an inevitable consequence of capitalism. Capitalist systems pay workers less than the value they create via their labour in order to maximize profits. As a result, there is a surplus value that the capital owners appropriate as profit. Marx maintained that this system causes economic inequality by growing the gap between wealthy capital owners and exploited workers.

The Kuznets Curve, a diagram that depicts the connection between economic growth and income disparity, was created by Kuznets in 1950. According to the Kuznets Curve, income inequality rises initially with economic growth before falling once a certain degree of economic development is reached. This relationship is curved like an inverted U. In many different nations, empirical data have proven this idea correct (Kuznets, 1955). Sen's research on inequality also led to the creation of the Gini coefficient, a widely accepted indicator of income inequality. He has written extensively on various topics, including poverty, gender inequality, and social exclusion.

In contrast to traditional economists' claim, Piketty's (2017) core claim is that political and institutional factors, not market forces, cause income and wealth disparity. Particularly, Piketty contends that wealth becomes concentrated in the hands of a few people, resulting in high levels of income and wealth inequality when the capital investment return rate is higher than the economic growth rate expansion, as it has historically done. Based on factual historical data, Piketty's study demonstrates that income and wealth inequality has significantly expanded over the past few decades, especially in Western nations. He contends that measures like inheritance taxes, fair taxation, and increased public spending on infrastructure and education are required to combat this rising disparity. Income inequality in recent times is a crucial issue. In the past, many studies pointed out that income inequality is increasing continuously (Chancel & Piketty, 2019; Piketty & Saez, 2013; Atkinson et al., 2011; Chancel and Piketty, 2021).

Methodology and Data

This article is based on secondary information from the world inequality report, several research papers, published reports, the Indian census, the human development index (HDI), and socioeconomic metrics such as net state domestic product and per capita. poverty estimation, income (PCI), etc. This study reviews the income inequality in global and India. For examining income inequality, the paper adopts the descriptive method and derivation of the Lorenz curve to know the graphical income inequality in India. Anand & Thampi, (2016) analysis the wealth inequality through Lorenz curve and found that inequality was rise from 2002 to 2012, which conclude that wealth does not equally distributed in India. Through the tabulation and figures, income inequality is expressed in this study. The comparison among the GINI coefficient values from 1990 to 2021 shows income inequality after the economic reforms in India.

Inequality on Global Level

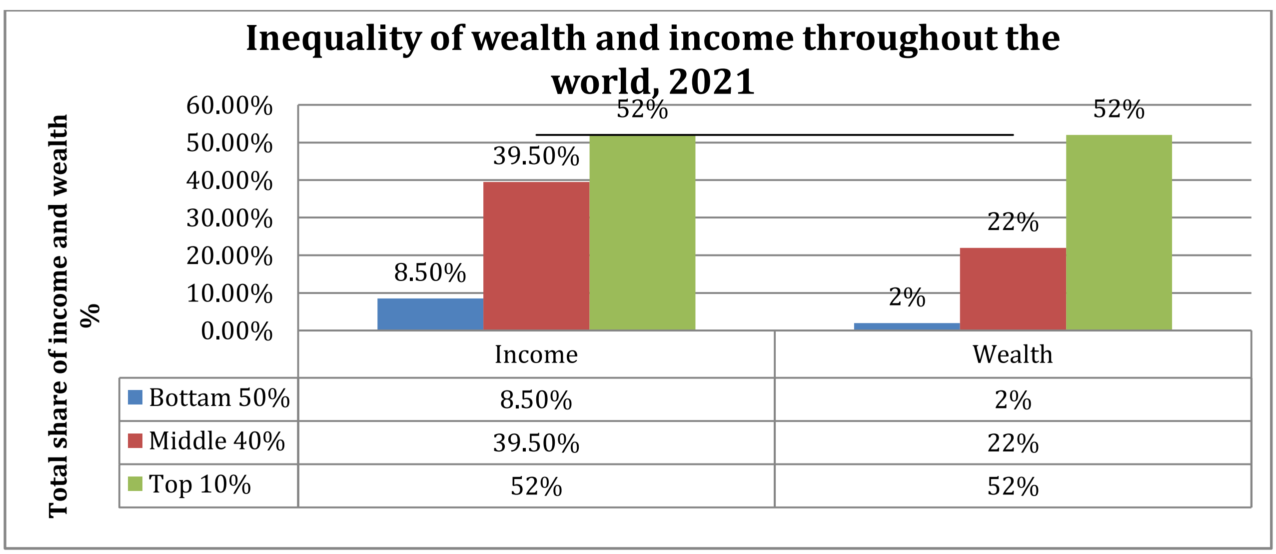
Large numbers of studies are available on global inequality. Singh Ghuman & Sharma (2021) found that global inequality is a crucial dimension of liberalization policies, and a study found that 95% of countries had more than 27% Gini coefficient from 1991 to 2019. Bourguignon (2015) used the Theil index to calculate global inequality and found that inequality declined from 1988 to 2012. The study found that between the countries, inequality has been decreasing, and within the countries, inequality has been upward since 2000. Lakner and Milanovic (2016) used the Lorenz curve to calculate global inequality and found that inequality declined during the

e-ISSN 2320 –7876 www.ijfans.org
Vol.11, Iss.12, 2022
Research Paper UGC CARE Listed (Group -I) Journal

study period. The study analyzed that global inequality is declining, and the Lorenz curve shows that income distribution changes. According to Chen's (2013) research,

The World Inequality Report, released in 2022, offers a thorough analysis of the level of inequality worldwide. According to the report, income inequality has risen over the previous ten years in many nations, with the top 1% of earnings benefiting disproportionately from economic development. The report's main finding is that wealth disparity is more severe than income inequality. According to the research, the wealthiest 1% of wealth holders worldwide now own more than twice as much money as the poorest 90% of the population. Many causes, such as the expansion of the financial markets, rising real estate prices, and the growing influence of influential huge multinational organizations, have contributed to this concentration of wealth. The report also emphasizes the stark differences in inequality between various parts of the world. Even though inequality has increased in many industrialized nations, it is still more evident in low- and middle-income nations, where access to essential services like healthcare, education, and other necessities is frequently restricted. Overall, the examination of global inequality provided by the Global Inequality Report is thorough and insightful. The research emphasizes the urgent need for laws and other measures to deal with the underlying causes of inequality, such as raising taxes on the wealthy, investing in public goods and services, and taking steps to curtail the influence of powerful businesses and financial organizations (Chancel et al., (2022).

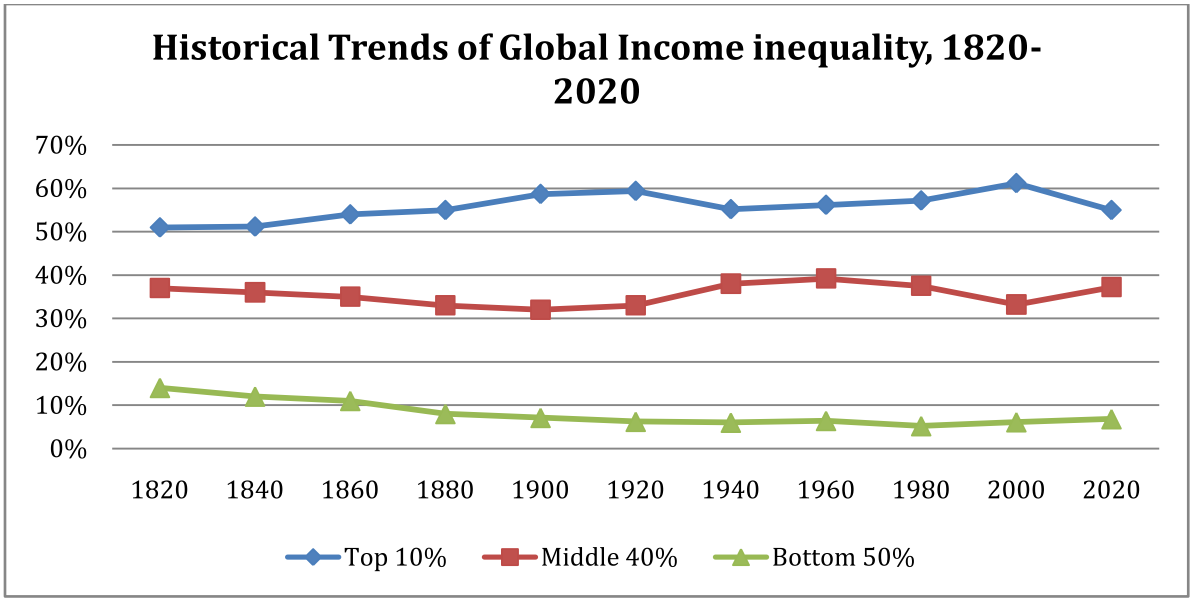
Figure: 1



Source: World inequality report, 2022

Figure 1 shows the inequality between the lower 50%, middle 40%, and upper 10%. Total income is calculated by purchasing power parity (PPP). The global 10% population captures 52% of total income and wealth. The global bottom 50% population captured only 8.50% of total income and 2% of total wealth, and another side the global 40% population captured 39.50% of total income and 22% of total wealth.

Figure: 2



Source: World inequality report, 2022

Global income inequality trends from 1820 to 2022 have been extremely high. The income inequality between the top 10% population and the bottom 50% population shows a significant gap from 1820 to 2022. The Bottom 50 % population captured an average of 10 to 12%.

Inequality in India

In India, where a sizable section of the population lives in poverty and experiences stark economic and social differences, inequality is a major problem. Piketty, (2005) studied that liberalization rice the top 1% income of Indian people. According to WIR 2022 Indian population average income is 204,200 rupees. Although the lower 50% population earns 53,610 rupees and the upper 10% population earns 1,166,520 rupees. Therefore has a unequal distribution of income and poverty is high, which is negative for social welfare and development

e-ISSN 2320 –7876 www.ijfans.org
Vol.11, Iss.12, 2022
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of income. Table 1 clearly interoperates the hug inequality in the different income groups in India.

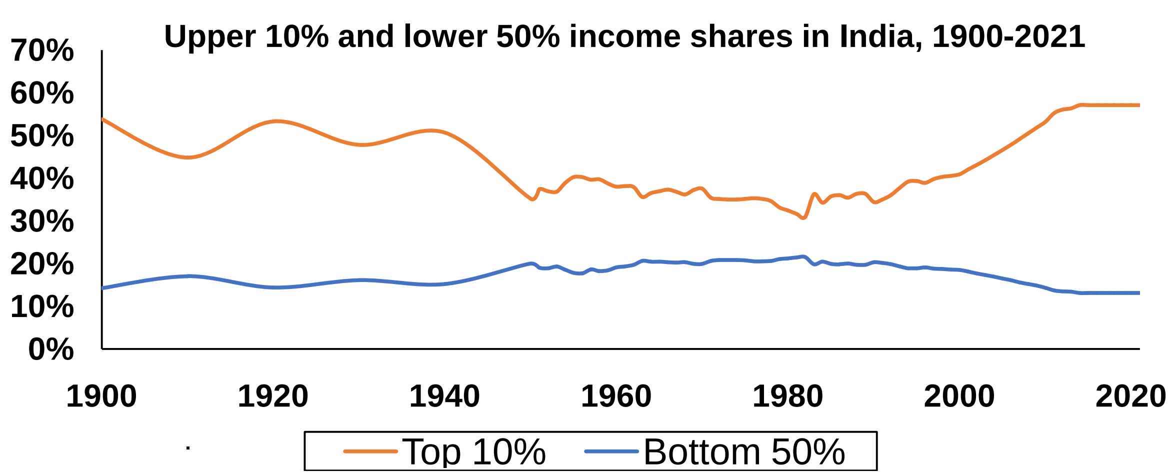
Table: 1

	Average income (PPP €)	Share of total %	Cumulative Income%
Lower 50%	2,000	13.1%	13.1%
Middle 40%	5,500	29.7%	42.8%
Upper 10%	42,500	57.1%	99.1%
Full population	7,400	100%	100%

Source: Compiled from World inequality report, 2022

Historical inequality trends in India were extremely high. In British rule, the upper 10% population held an average of 50% national income of India, and the lower 10% only held income. After independence, India adopted the five-year plan for the development of India. India's government initiated several programs to reduce the poverty and inequality in India. Large numbers of the study say that inequality increases continuously after globalization.

Figure: 2



Source: World inequality report, 2022

Inequality between the upper 10% and lower 50% Figure 2 shows that in historical data. The upper 10% of the population acquired an average of 60% of the national income, and the lower 50% acquired an average of 15 to 20%. Historical data clearly shows that income inequality is very high in India, but we can see in Figure 2 that the situation has changed dramatically after the economic reforms. Figure 3 shows the Lorenz curve on behalf of Table 1. Max Lorenz invented the curve for measuring the population groups' graphical income and wealth inequality. Many studies have been done to use the Lorenz curve for the derivation of income inequality, consumption inequality, wealth inequality, and educational inequality. The Lorenz curve shows the inequality between the populations of India. The Lorenz curve is far from the equality line, meaning income inequality in India is very high and extreme.

Figure: 3

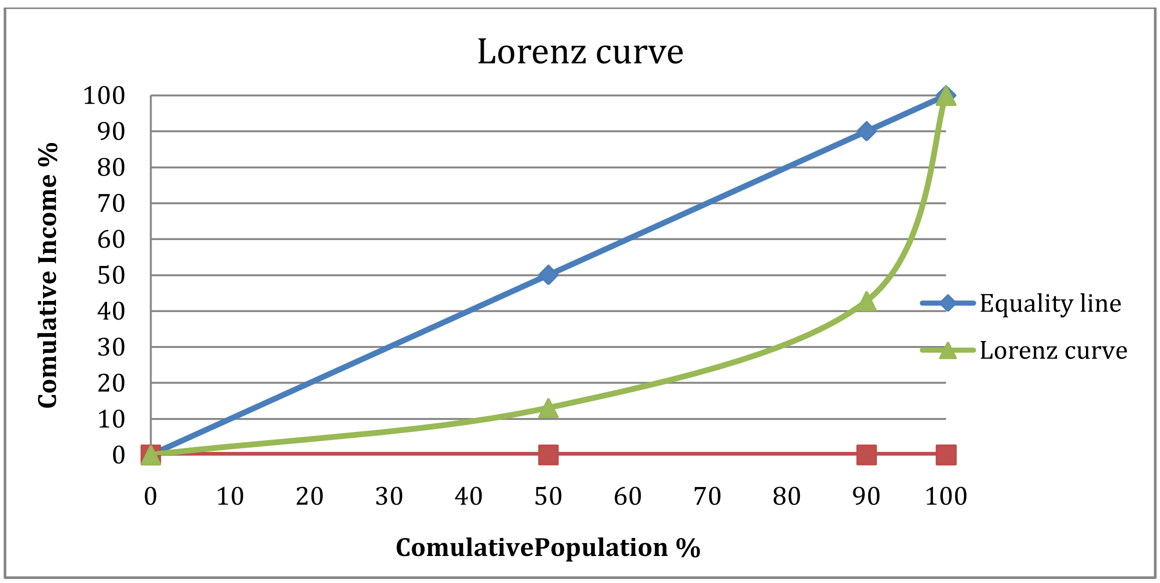


Table 2 shows the GINI coefficient value, which shows that inequality increases from 1990 to 2021. In 1990 the value of the GINI coefficient was 0.46, and in 2021 the value of the GINI coefficient is 0.63. A higher GINI coefficient value means high inequality in the population. After liberalization, privatization, and globalization, inequality in India is higher. The inequality in the Lower 50% share and Upper 10% share gap in 1990 was 0.1413 percentile, and that gap in 2021 is 0.44 percentile. It is the tremendous inequality in India after the economic reforms.

Table: 2

India pre-tax national income (adults)

Year	**GINI coefficient**	**Lower 50% share (Percentile)**	**Upper 10% share (Percentile)**
1990	0.46	0.2027	0.3440
2021	0.63	0.1313	0.5713

Source: Compiled from World inequality database

Findings

After the data analysis of the findings of this article, inequality in India is very high. Table 1 shows that income inequality is exists between the lower 50, middle 40, upper 10, and top 1% of the population group. The time series data also shows that inequality remains between the bottom 50% and the top 10% population. Lorenz's curve shows that there is high-income inequality in India. The Lorenz curve shows income inequality between cumulative income and population% in India. The gap between the equality line and the Lorenz curve is vast, which shows that inequality is a tremendous situation in India. Income inequality India's national income in adults from 1990 to 2021 seems to have vast unequal distribution. This article shows that inequality rapidly increases in India after the economic reforms.

Conclusion

This article concludes that income inequality is very high in India. Kuznets inverted U shape curve says that with the growth and development, inequality has been increasing, but inequality will decline after a point of time. However, after the economic reforms, the Kuznets hypothesis is rejected in India. The vast unequal distribution of national income between the lower 50% population and the upper 10% population shows that income inequality is very high in India. It is a negative issue for achieving sustainable development goals. For the establishment of equality in India, government steps should be taken to reduce inequality; for example taxation system of

India has been proven harmful to middle class, and lower class. The burden of indirect taxation is high on poor people as competitively to rich people in India. So Government should be reformed the Indian taxation system to reduce income inequality.

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