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Leaders and Laggards in Income Inequality

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Nations are getting richer however the governments have become poor. There is a significant gap between the net wealth of governments and net wealth of the private and public sectors. Wealth and income inequalities have increased at the very top of the distribution. The rise in private wealth has also been unequal within countries and at the world level. Global multimillionaires have captured a disproportionate share of global wealth growth over the past several decades. (World Inequality Report, 2022). Indian economy is elevated to a high growth path triggered mainly by expansion of economic activities across the sectors and macroeconomic reforms. Despite India's impressive economic growth and development in recent decades, the country continues to grapple with deep-rooted income inequalities that have far-reaching implications for the country's overall progress. There are serious inter-sectoral, inter-regional and inter-state concerns about these imbalances in the growth scenario. These imbalances unquestionably have a serious impact on the goal of inclusive growth as envisaged in the plans and by the policy makers. Using the secondary data on various parameters like Gini coefficient, per capita NSDP, etc., the study analysis that still income inequality is very high in the economy despite high growth. The level of income inequality has been studied at the world level, for India as well as at state level for the country over a decade. Keywords: inequality, income, economic growth, Gini index, income distrivution.

Introduction

If 2022 was a year of uncertainty, 2023 is the year of inequality (World Bank, 2023). Income and wealth inequality have been growing in many countries around the world in recent decades, and this trend has been a source of significant economic, social, and political concern. Income inequality refers to how unequally income is distributed amongst the population. The less equal the distribution, the greater the income inequality. Inequality is not just lack of resources but a more profound experience of scarcity

relative to others. It is living in vulnerability, scarcity and deprivation with limited means of upward mobility. Inequality is widespread, to a greater extent unavoidable, and always at the centre of debates about how economies and societies should be organized. Several studies have examined the drivers and consequences of this inequality (Gill & Kharas, 2015; Piketty et al., 2017; Rofiuddin & Firmansyah, 2018; Esaku, 2021). Inequality varies significantly between the most equal region (Europe) and the most unequal (Latin America). In 2022, the richest 10% in Europe earned 36% of national income, compared to 58% in Latin America. The Middle East and Africa are just behind Latin America, with a top 10% income share of over 56% (Wid. World, 2023). The high impacts of inequality can be divided into several key areas. First, extreme income inequality can lead to economic inefficiency, as it concentrates decision-making power and political influence in the hands of a small elite, leading to suboptimal use of economic and human resources. Second, extreme income disparities can weaken social stability and solidarity, as they breed resentment and undermine social cohesion. Third, extreme inequality is generally considered unfair and a violation of principles of equity (Rofiuddin & Firmansyah, 2018).

One of the key drivers of rising inequality in many countries has been the growth of the "shadow economy" - the informal, untaxed sector of the economy (Esaku, 2021). The shadow economy can increase income inequality in both the short- and long-run, as it provides opportunities for those with wealth and connections to accumulate further resources outside the formal economy, while leaving the poor with fewer economic opportunities. (Esaku, 2021) In addition, the uneven distribution of the gains from economic growth across different regions and sectors has been a major contributor to inequality in many middle-income countries (Gill & Kharas, 2015).

Income and wealth inequality in India have been a longstanding issue that has implications for the country's economic and social development. While India has indeed experienced remarkable economic growth in recent decades, this progress has been marred by a troubling rise in income and wealth disparities, with the benefits of such growth disproportionately concentrated among the wealthy elite, leaving behind a large segment of the population (Joseph et al., 2018; Esaku, 2021). This trend is particularly concerning given the inherent linkages between inequality and development. As noted, widening income inequality can have significant policy implications, as it concentrates decision-making and political power in the hands of a privileged few, leading to suboptimal use of economic and human resources and increasing economic vulnerability (Esaku, 2021). Moreover, extreme income disparities have the potential to weaken social stability and solidarity, undermining the foundations of inclusive and

equitable growth (Rofiuddin & Firmansyah, 2018). Inequality and inequity contribute to poverty and deprivation, which further drives the socioeconomic exclusion of certain groups. In the Indian context, inequalities and socio-economic inequities intensify to produce a vicious cycle of poverty and deprivations, requiring multidimensional frameworks to investigate the processes at work (Bharti et al., 2024). The factors contributing to this widening gap are multifaceted and complex, stemming from the nature of India's structural transformation and the employment patterns generated by economic liberalization and globalization. While China has made some progress in addressing inequality, the implementation of similar policies in India has largely failed to generate the desired employment outcomes, leading to a persistently skewed distribution of the benefits of growth.

According to the **World Inequality Report 2022**, India is among the most unequal countries in the world, with the top 10% and top 1% of the population holding 57% and 22% of the total national income respectively. The share of the bottom 50% has gone down to 13%. “India is among the most unequal countries in the world, with rising poverty and an ‘affluent elite,”. The Indian poor continue to suffer with no respite as income and wealth inequality continue to rise.

In addition, according to the **Oxfam’s Report “Survival of the Richest: The India story”,** the **richest 1%** in India now own more than **40%** of the **country’s total wealth,** while the **bottom half of the population** together share just **3% of wealth** between 2012 and 2021. The report reveals the growing disparity between the rich and the poor where India's richest man has seen his wealth soar by 46 percent in 2022.

As per Income and Wealth Inequality in India, 1922-2023 report, inequality declined post-independence till the early 1980s, after which it began rising and has skyrocketed since the early 2000s. Trends of top income and wealth shares track each other over the entire period of our study. Between 2014-15 and 2022-23, the rise of top-end inequality has been particularly pronounced in terms of wealth concentration. By 2022-23, top 1% income and wealth shares (22.6% and 40.1%) are at their highest historical levels and India’s top 1% income share is among the very highest in the world (Bharti et al., 2024).

No doubt, economic growth is a powerful force for reducing poverty. On the one hand, growth has succeeded in reducing poverty (Himanshu, 2007); on the other hand, it has increased inequality (Kar & Sakthivel, 2007) and regional disparities among the states of India (Bhattacharya & Sakthivel, 2004).

Singh, Bhandari, Chen & Khare (2003), Stewart and Moslares (2012) also found that on a sub-state level, intra-state levels of inequality had increased for some states. Rodrik & Subramanian (2004) found a statistically significant cross-state divergence of incomes beginning in the 1980s and continuing through the 1990s. They found an increased rate of inter-state inequality (divergence at an annual rate of 1.2 %). The increasing income gap among the states becomes the barrier for the balanced economic growth. It adversely impacts socio-economic conditions of an economy. Higher inequality leads to the lower growth by depriving the ability of lower income groups and increases the ability of higher income groups to stay healthy and accumulate physical and human capital (Aghion, Caroli, & Penalosa, 1999; Galor & Moav, 2004; Ranjan et al., 2021). The divergence between the states mainly occurred due to the agriculture sector and least in terms of infrastructure development. Although the Indian economy has experienced a slow growth in gross domestic product (GDP) in the post-reform period and at the same time regional disparities in the form of SDP has increased among the states of India (Bhattacharya & Sakthivel, 2004; Kar & Sakthivel, 2007; Aneja & Bishnoi, 2009; Kumar & Subramanian, 2012). Datt, Ravallion, and Murgai (2016) reveal that poverty declined during 1991, but inequality increased.

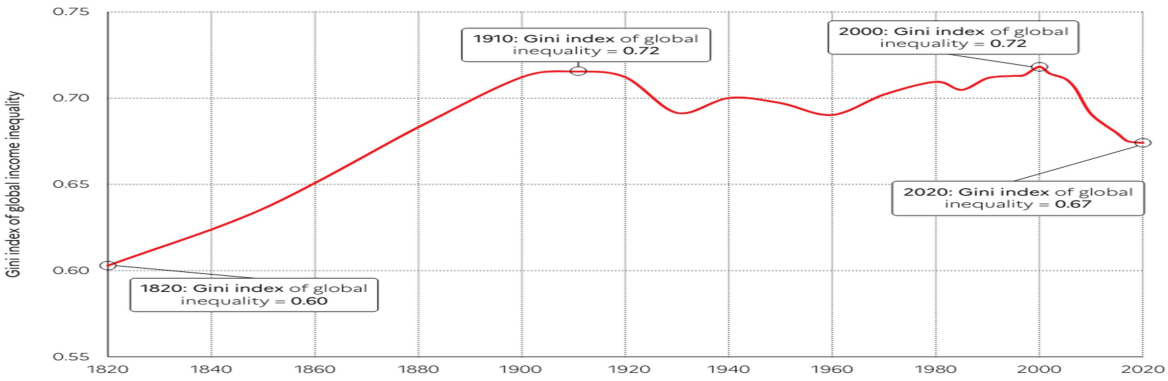
There are various economic studies that have been undertaken for the case of India on a national level, however exceptionally few look below the surface of the national experience and examine deeper into the matters of inter-state inequality and growth rates. With this backdrop, this study is based on secondary data collected from various government/non-government documents and reports. Simple tabular, graphical, and statistical tools have been used for the analysis. Detail of methodology used in any particular section is given in that concerned section. The paper is organized as follows: After introduction in section I, Empirical Analysis is presented in sections II, III and IV where, Section II deals with the level of inequality at the world level using Gini coefficient. Section III analyses the extent of inequality for India and examines the relationship between GDP per capita and income inequality and section IV further examines inter-state growth performance using the data on Net State Domestic Product and per capita income as well as their compound annual growth rates from 2011 onwards. Section V concludes the paper.

Empirical Analysis:

2. Trends of Income Inequality: World Level

A comprehensive income inequality data for almost all countries as measured by Gini coefficient from 1820 to 2020 is presented in figure 1. The Gini coefficient, or Gini index, is the most used measure of inequality. It was developed by Italian statistician Corrado Gini (1884–1965) and is named after him. It measures inequality on a scale from 0 to 1, where higher values indicate higher inequality. A value of 0 indicates perfect equality: everyone has the same income. A value of 1 indicates perfect inequality, where one person receives all the income, and everyone else receives nothing. This can sometimes be shown as a percentage from 0 to 100%, called the "Gini Index".

Figure 1: Global income inequality: Gini index, 1820-2020



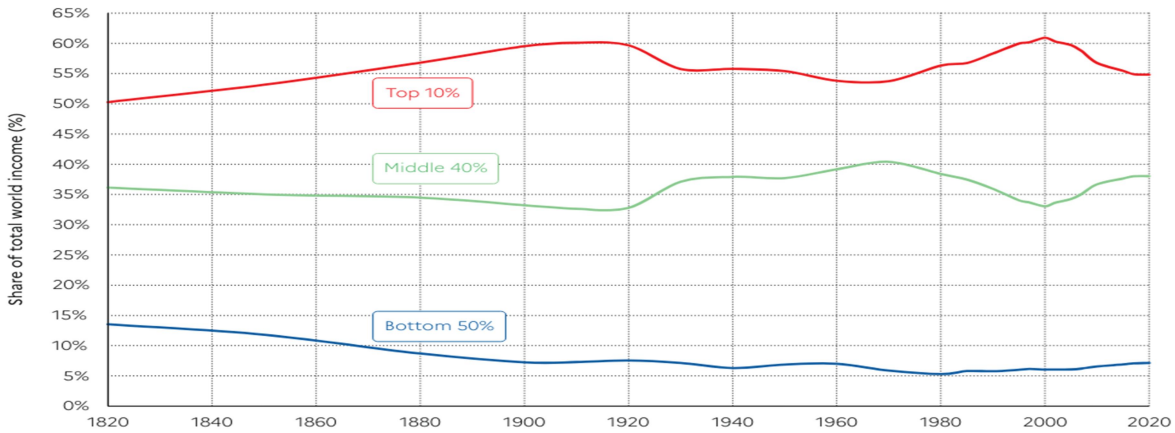
Source: The *World Inequality Database,* wid.world

Global inequality, as measured by the global Gini coefficient, rose from about 0.6 in 1820 to about 0.7 in 1910, and then stabilized around 0.7 between 1910 and 2020. But it is too early and doubtful to conclude that the decline in the global Gini coefficient observed since 2000 will continue as the income in the data is measured per capita after pension and unemployment insurance transfers and before income and wealth taxes. As per World Inequality Report, 2022, there is a sharp rise in within country inequalities which means that despite economic catch-up and strong growth in the emerging countries, the world remains particularly unequal today. It also means that inequalities within countries are now even greater than the significant inequalities observed between countries.

Further, the global inequality is analysed with the basic breakdown of the shares of world income going to the global top 10%, middle 40% and bottom 50% groups between 1820 and 2020 (figure 2). The global top 10% income share oscillated around 50-60%, registering a decline to 55% in 2020, while the bottom 50% share has generally remained around 5-15%. The overall change between 1910 and 2020 does not record any clear (downward or upward) long-run trend in inequality, except a small improvement in the share of the global middle 40%. A global inequality peak was reached twice, first

around 1910 and then in 1980-2000, and most of the decline in global inequality took place after the 2008 financial crisis. In all cases, global indicators indicate very high inequality levels in 2020.

Figure 2: Global income inequality: bottom 50%, middle 40% and top 10%, 1820-2020



Source: The *World Inequality Database,* wid.world

Usually, there are two most used definitions of income: Incomes counted before people have paid taxes and received any benefits from the government and Incomes counted after such transfers. The level of inequality when measured before and after tax can differ substantially. The difference reflects the extent of redistribution achieved through a country's tax and benefits system.

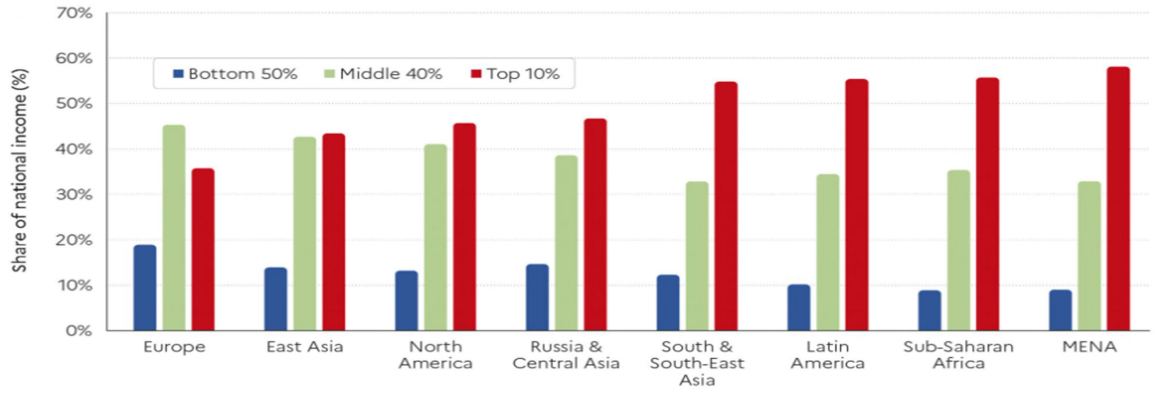
Figure 3: Inequality across the World, Leaders and Laggards: 2018 to 2021

Source: The *World Inequality Database,* wid.world

Figure 3 shows a measure of inequality for both definitions of income at the regional level in the World. As evident from the figure, inequality after redistribution is lower than inequality before taxes in all regions of the world implying that taxes and transfers reduce inequality everywhere. However, the inequality in regions that are extremely unequal before taxes and transfers remains extremely high after

taxes and transfers. For instance, Latin America, Sub-Saharan Africa, Russia & Central Asia, East Asia, South & South East Asia did not register any significant reduction in inequality gap.

Figure 4: Economic Inequality within countries and regions: 2021

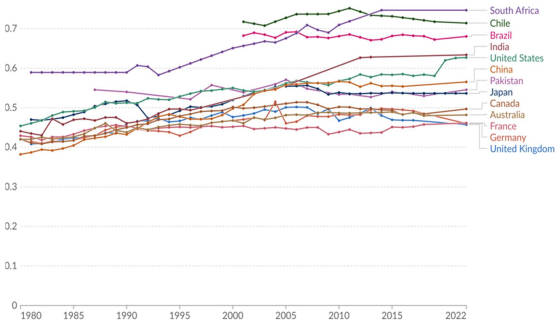


Source: The *World Inequality Database,* wid.world

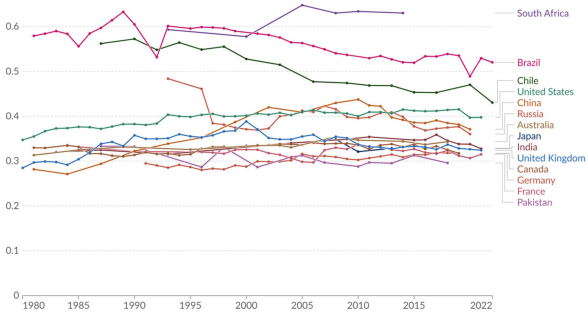
Figure 4 further presents economic inequality with top 10%, middle 40% and bottom 50% national income shares for various regions of the world. Nowhere in any of these regions the bottom 50% gain above 20% of the share of national income. Regions with the smallest bottom 50% shares are Latin America, the Middle East and North Africa, Sub-Saharan Africa and South and Southeast Asia, where the bottom 50% captures 9-12%. On the other hand, the top 10% captures more than 40% share for almost all the regions only except Europe that stands out as a relatively equal region.

Figure 5: Gini Coefficient: 1980-2022

a) Income before tax or consumption



b) Income after tax or Consumption



Source: Our World in Data, https://ourworldindata.org/about

In figure 5, the inequality in terms of Gini coefficient (both before and after tax) is shown for some of the major countries and most of these have high inequality levels. The general trend that can be seen in the countries is rise in the level of inequality in both the graphs from 1980 to 2022. The highest inequality 0.75 (before tax) is recorded by South Africa.

3. Trends of Income Inequality: India

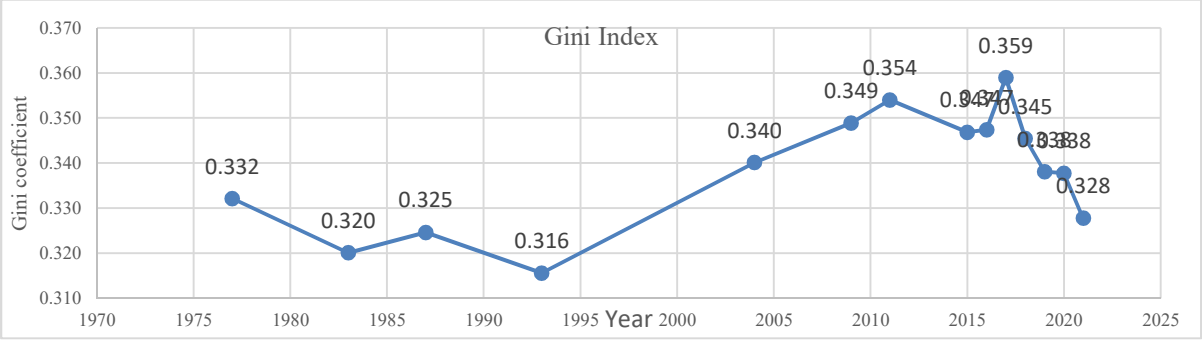
We now discuss the level of inequality particularly at the country level for India with Gini Index values from 1977 to 2021 (table 1). The index value is above 32 for almost the entire period under study signifying a high level of inequality. It can also be analysed that the level of inequality is higher in the urban areas in comparison to rural India.

Table 1: Trends in rural and urban inequality in India: Gini Index (after tax)

Gini Index			
Year	National	Rural	Urban
1977	33.21	34.2	35.74
1983	32.01	30.06	33.33
1987	32.46	30.13	35.57
1993	31.56	28.59	34.39
2004	34.01	30.45	37.64
2009	34.89	29.95	39.35
2011	35.4	31.13	39.01
2015	34.68	31.26	37.88
2016	34.74	31.01	38.29
2017	35.89	31.27	39.58
2018	34.54	31.05	36.22
2019	33.81	31.05	36.28
2020	33.77	31.24	36.24
2021	32.77	29.6	35.52

Source: Our World in Data, https://ourworldindata.org/about

Figure 6: Gini Index (after tax): India 1977 to 2022



Source: Table 1.

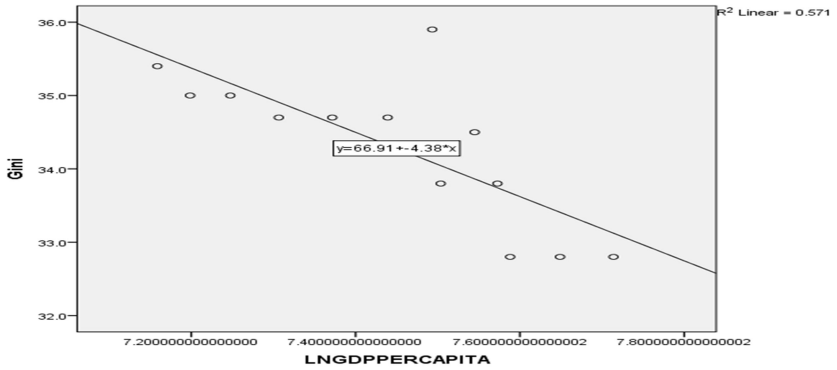
3.1. Income Inequality and Per Capita GDP:

The paper also examines the relationship between GDP per capita and income inequality (Gini coefficient) with the hypothesis that there is a negative relation between income inequality compared to its GDP. For this empirical analysis, natural log of GDP per capita is taken as independent variable and Gini coefficient as dependent variable, using the simple regression:

$$Gini = \beta_0 + \beta_1 (lnGDPPerCapita) + u$$

After running this regression, the output is: Gini = 66.912 - 4.380 (lnGDPPerCapita), R^2 = 57.1 The R value of 77% and R^2 value of 57.1% shows a strong relationship between the Gini and lngdppcap. Furthermore, there is a significant negative coefficient for lngdppcap, supporting our hypothesis that there is a negative relationship between the independent and dependent variable. This means that if the dependent variable, the Gini, increases, then the lngdppcap will decrease by the amount of the coefficient. The scatterplot shown in figure 7 also confirms the negative relationship.

Figure 7: Graphical Analysis: Gini and GDP per capita.



Source: Authors own calculations

4. Trends in Income Inequality: Inter-state Comparisons

Inequality at the state level is discussed using NSDP and per capita NSDP from 2011-12 to 2022-23. As evident from the table 2, state wise growth rates witnessed significant disparity among the states with the highest growth rate being recorded of more than 13% as compared with the minimum growth of less than 1.5% during 2012 to 2017. However, there is a narrowing of gap (in the growth rates, highest being 6.6%) during the next period from 2018 to 2023. But the coefficient of variation in these two time periods show increase in the inequality in second phase with CV of 35.87% in 2018-2023 as compared with CV of 31.60% during 2012 to 2017. In 2022-23 the NSDP

Table 2: State-wise, Period-wise Compound Annual Growth Rate of NSDP

State/UT	CAGR (2012 to 2017)	Rank	State/UT	CAGR (2018 to 2023)	Rank
Andaman & Nicobar	8.38	6	Andaman & Nicobar	NA	NA
Andhra Pradesh	7.03	14	Andhra Pradesh	5.01	10
Arunachal Pradesh	5.54	25	Arunachal Pradesh	5.59	4
Assam	6.79	16	Assam	6.22	3
Bihar	4.83	28	Bihar	4.74	12
Chandigarh	7.09	13	Chandigarh	3.45	21
Chhattisgarh	5.68	24	Chhattisgarh	6.33	2
Delhi	7.97	9	Delhi	2.39	25
Goa	4.06	31	Goa	2.18	26
Gujarat	9.63	2	Gujarat	6.57	1
Haryana	8.73	5	Haryana	3.63	18
Himachal Pradesh	7.80	10	Himachal Pradesh	3.79	17
Jammu & Kashmir	4.82	29	Jammu & Kashmir-	2.86	24

Jharkhand	5.12	26	Jharkhand	4.23	15
Karnataka	8.94	4	Karnataka	5.34	5
Kerala	6.22	20	Kerala	3.58	19
Madhya Pradesh	8.24	7	Madhya Pradesh	4.32	13
Maharashtra	7.22	12	Maharashtra	NA	NA
Manipur	5.74	22	Manipur	NA	NA
Meghalaya	1.37	33	Meghalaya	1.87	27
Mizoram	13.44	1	Mizoram	NA	NA
Nagaland	5.03	27	Nagaland	0.54	29
Odisha	7.51	11	Odisha	5.02	9
Puducherry	3.82	32	Puducherry	5.08	7
Punjab	5.71	23	Punjab	3.58	20
Rajasthan	6.02	21	Rajasthan	4.24	14
Sikkim	6.61	18	Sikkim	3.24	23
Tamil Nadu	6.45	19	Tamil Nadu	5.05	8
Telangana	6.99	15	Telangana	4.91	11
Tripura	9.33	3	Tripura	5.14	6
Uttar Pradesh	6.61	17	Uttar Pradesh	3.88	16
Uttarakhand	8.07	8	Uttarakhand	1.33	28
West Bengal	4.33	30	West Bengal	3.34	22

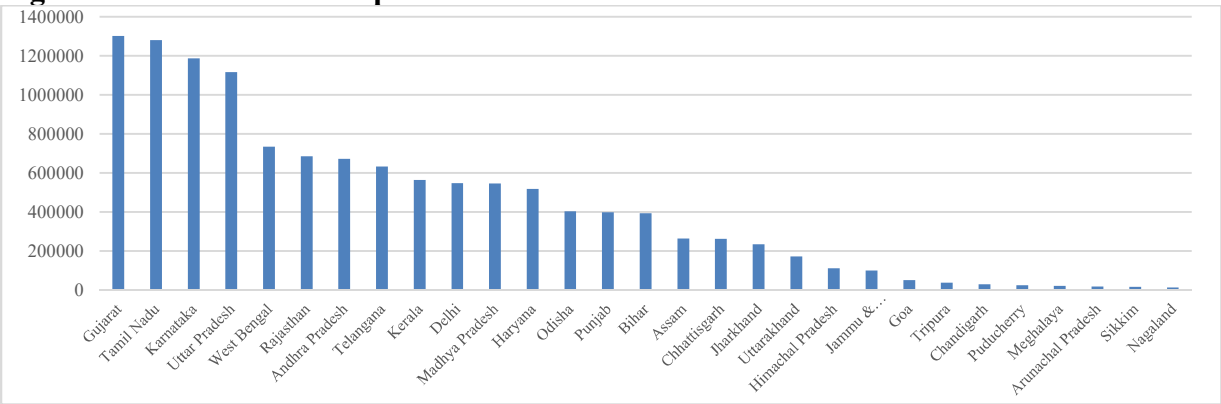
NA: Data not available

For the years 2011-12 to 2018-19, information relates to Jammu and Kashmir and Ladakh and for the years 2019-20 to 2023-24, relates to UT of Jammu and Kashmir

Source: GOI, Ministry of Statistics & Programme Implementation (MOSPI), https://mospi.gov.in/data

figures recorded a huge difference of 1286503.6 crores between the highest income state of Gujarat as compared with lowest NSDP in Nagaland.

Figure 8: State wise Per Capita NSDP: 2022-23



Source: GOI, Ministry of Statistics & Programme Implementation (MOSPI), https://mospi.gov.in/data

However, it is important to note that NSDP figures hide the distributive effect of growth, therefore to probe further into the details, we look into the per capita NSDP figures which give a better indicator of standard of living compared to the state average growth. Here again, it is noted that per capita income (PCI) also has limited value in examining inclusive growth as it gives little revelation on the distribution of income across the population. Table 3 gives the distribution of Per capita income across states. Compared to NSDP, the disparity is higher in the case of per capita income across states and during the period under study. The CV (PCNSDP) is as high as 49.05% during 2018-23 as compared to 39.64% during 2012-17.

Table 3: State-wise, Period-wise Compound Annual Growth Rate of Per capita NSDP

State\UT	CAGR (2012 to 2017)	Rank	State\UT	CAGR (2018 to 2023)	Rank
Andaman & Nicobar	7.77	4	Andaman & Nicobar	NA	NA
Andhra Pradesh	6.40	11	Andhra Pradesh	4.19	9
Arunachal Pradesh	4.42	22	Arunachal Pradesh	4.57	6
Assam	5.42	19	Assam	5.12	2
Bihar	3.20	31	Bihar	3.20	11
Chandigarh	5.55	17	Chandigarh	2.29	21
Chhattisgarh	4.00	24	Chhattisgarh	5.14	1
Delhi	5.71	15	Delhi	0.47	27
Goa	3.35	29	Goa	1.60	25
Gujarat	8.20	2	Gujarat	4.95	3
Haryana	7.21	6	Haryana	2.18	24
Himachal Pradesh	6.86	7	Himachal Pradesh	3.17	12
Jammu & Kashmir	3.80	26	Jammu & Kashmir	2.53	20
Jharkhand	3.43	28	Jharkhand	2.81	18
Karnataka	7.76	5	Karnataka	4.56	7
Kerala	5.71	16	Kerala	3.06	14
Madhya Pradesh	6.52	10	Madhya Pradesh	2.94	17
Maharashtra	6.06	12	Maharashtra	NA	NA
Manipur	3.47	27	Manipur	NA	NA
Meghalaya	0.32	33	Meghalaya	0.91	26
Mizoram	11.44	1	Mizoram	NA	NA
Nagaland	3.92	25	Nagaland	-0.48	29
Odisha	6.54	9	Odisha	4.26	8
Puducherry	1.12	32	Puducherry	3.12	13
Punjab	4.34	23	Punjab	2.24	23
Rajasthan	4.52	21	Rajasthan	2.96	16
Sikkim	5.50	18	Sikkim	2.26	22
Tamil Nadu	5.76	14	Tamil Nadu	4.62	5
Telangana	5.93	13	Telangana	4.85	4
Tripura	8.18	3	Tripura	4.13	10
Uttar Pradesh	5.00	20	Uttar Pradesh	2.63	19
Uttarakhand	6.71	8	Uttarakhand	0.21	28
West Bengal	3.30	30	West Bengal	3.04	15

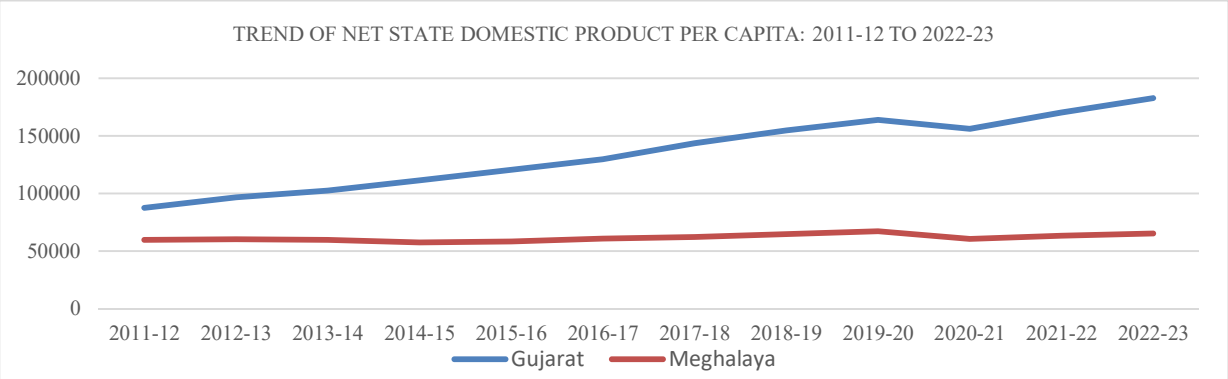
NA: Data not available

For the years 2011-12 to 2018-19, information relates to Jammu and Kashmir and Ladakh and for the years 2019-20 to 2023-24, relates to UT of Jammu and Kashmir

Source: GOI, Ministry of Statistics & Programme Implementation (MOSPI), https://mospi.gov.in/data

Figure 9 shows a clear trend towards higher levels of divergence between the richest and poorest state levels of Per capita NSDP during 2011 to 2023. This separation seems to accelerate from the

Figure 9: Divergence between richest and poorest state levels of Per Capita NSDP: 2011-12 to 2022-23



Source: GOI, Ministry of Statistics & Programme Implementation (MOSPI), https://mospi.gov.in/data

beginning and demonstrates even further deviation during the 2020s and beyond. The rich and poorest states are analysed from the compound annual growth rates from 2011 to 2023 and the trend of divergence is shown in terms of per capita NSDP.

Conclusion

Income inequality is a persistent issue in India, the country ranks amongst the most unequal in the world. This disparity not only undermines economic growth and development, but also aggravates social and political tensions. There is a need for multifaceted approach to break the inequality trap through comprehensive and consistent policies and reforms. Introducing universal basic income as well as raising minimum income should be adopted to reduce the income gap. Equitable access to education and creation of high-quality employment opportunities are necessary for generating an upward mobility among the poor. There is a need to ease the tax burden on the poor and the marginalized and even reduce GST slabs on essential commodities and hike the taxes on luxury goods. The government must allocate more percentage of the expenditure towards social services and the social sector (education, healthcare, and other basic services) to make the most vulnerable population resilient to rapid and unexpected shocks and prevent their descent into poverty and inequality. Strengthen labour laws, increase the employment opportunities in more productive sectors, check on informal or "shadow" economy and private sector (tax benefits to corporate and NPAs (Non-Performing Assets) are required. In addition, deep-seated social inequities based on caste, gender, and religion should be checked through sustained investments in human capital development, as well as policies to promote inclusive growth and social mobility.

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