

Economic Inequality: Measurement, Causes, Consequences, and Policy Implications

With special reference to India

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Abstract— This paper provides a comprehensive literature review of the relationship between income inequality and growth of country with a special reference of India. The paper includes Measurement, Causes, Consequences, and Policy Implications In the theoretical literature, I identified various models by which income inequality can be measure and what position India reserve? Literature review causes of inequality and how it effects the society. we found that the income inequality has a negative effect on growth of people and it is highly debatable.

Theoretical and empirical literature is reviewed, and synthesis is done to understand the income inequality-growth nexus

I. What is Inequality?

Economic inequality refers Disparities among individual's Incomes plus Wealth, in other words how much Money plus Wealth the Least well off make compared to the Most well of is known economic inequality whereas a fair and equitable distribution of income plus wealth is a fundamental element of the social contract.

Here word Income includes the money received through profit or surplus, wages, salaries, bonuses and other incomes like interest, dividends, rent, pensions etc. and Wealth refers to the total amount of assets of an individual or household held like value of Land , Building ,other properties ,financial assets i.e. bonds , stocks etc.

II. How does Economic Inequality effect the society?

Economic inequality is a very serious problem. The lack of financial stability for large portions of a population promote potentially destructive social and economic upheaval, leads to Social Cohesion, Crime and many more.

- **Social Cohesion:** The benefits of goodwill, fellowship, mutual sympathy, and social connectedness among groups makes a good society. It is proved that social and health problems lower in countries like Japan and Finland with high levels of equality, than in countries US and UK with a large difference in household income. It shows a positive relationship between a good society and Economic Equality.
- **Crime:** Crime has correlated with inequality in earning. There is a chain like Inequality → Low Economic Growth → Unemployment → Poverty → Crime.

- **Utilitarianism:** A society with more equality will have higher aggregate Marginal Utility. An additional Rs. spent by a poor person will go to things providing a great deal of utility to that person, generally he spend money on basic necessities like food, water, and healthcare and get higher level of utility while, an additional Rs. spent by a much richer person get less utility he will usually spend on luxury items which provides less utility to that person. Thus, the Marginal utility of wealth per person decreases as a person becomes richer. The societies with low inequality have higher satisfaction and happiness.
- **Poverty:** “The 2018 Oxfam report said that the income of the world's billionaires in 2017, \$762 billion, was enough to end extreme global poverty four times over.”
Inequality is impeding the fight against global Poverty. Oxfam Executive Director Jeremy Hobbs said that "We can no longer pretend that the creation of wealth for a few will inevitably benefit the many – too often the reverse is true
- **Monopolization of labor:** Greater income inequality can lead to Monopolization of the Labor force, resulting in fewer employers requiring fewer workers . Remaining employers can consolidate and take advantage of the relative lack of competition, result is less consumer choice and relatively higher real prices.
- **Unhealthy Competition:** Higher income inequality led to less of all forms of social, cultural, and civic participation among the less wealthy. When inequality is higher the poor do not shift to less expensive forms of participation.
The terrible situation of Economic Inequality flashed by step of IMF in which it strengthens its analytical work on income distribution issues country and cross country.

III. How does Inequality can measure and where does India stand

There are various ways of measuring economic inequality, some commonly used measures are as follows:

- **Gini Coefficient**

Gini coefficient is a typical measure of income inequality. It was developed by Italian statistician Corrado Gini in the early 1900s to help quantify and more easily compare income inequality levels across countries of the world.

Gini income inequality refers to disposable income or consumption and thus already reflects any redistribution through taxes and transfers. Perfect equality means a country's total income is shared equally among its residents, whereas perfect inequality means a country's total income is owned by a single or some individuals. The coefficient varies between 0 and 1, with 0 representing perfect equality and 1 perfect inequality.

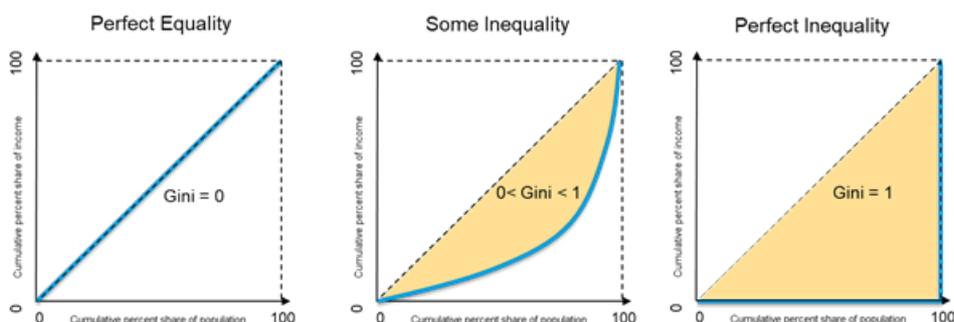


Figure 1: Gini Coefficient of Inequality

Following table shows Gini coefficient for some countries those people earning income on Middle level including India.

Table 1: Gini Coefficient [Other than Asia]

Sr.No.	Name of Countries		
	<i>Name of Countries</i>	<i>Index No.</i>	<i>Rank in inequality</i>
1	<u>Brazil</u>	47.1	1
2	<u>Guatemala</u>	46.7	2
3	<u>Guyana</u>	46.7	2
4	<u>Nicaragua</u>	46.7	2
5	<u>Suriname</u>	46.7	2
6	<u>Lebanon</u>	45.8	3
7	<u>Zimbabwe</u>	45.5	4
8	<u>Congo, Rep.</u>	44.1	5
10	<u>India</u>	42.6	6
11	<u>Botswana</u>	40.7	7
12	<u>Angola</u>	38.9	8
13	<u>Zambia</u>	38.3	9
14	<u>Namibia</u>	35.8	10
15	<u>South Africa</u>	34.6	11
16	<u>Eswatini</u>	33.3	12
17	<u>Eswatini</u>	33.3	12

[Gini Coefficient numbers shown on a scale of 0-100.
0 = Low levels of equality, 100 = High levels of equality.]

Table 2: Gini Coefficient [Asian Countries]

S.No.	Name of Countries		
	<i>Name of Countries</i>	<i>Index No.</i>	<i>Rank in inequality</i>
1.	<u>Singapore</u>	66.3	1
2.	<u>Taiwan</u>	66.0	2
3.	<u>Georgia</u>	65.8	3
4.	<u>New Zealand</u>	65.4	4
5.	<u>Thailand</u>	64.9	5
6.	<u>Russia</u>	64.5	3
7.	<u>Vietnam</u>	63.2	6
8.	<u>Pakistan</u>	62.8	7
9.	<u>Indonesia</u>	62.1	8
10.	<u>Philippines</u>	59.8	9
11.	<u>Malaysia</u>	59.7	10
12.	<u>Afghanistan</u>	59.0	11
13.	<u>Nepal</u>	58.5	12
14.	<u>Bangladesh</u>	57.6	13
15.	<u>China</u>	57.1	14
16.	<u>Mongolia</u>	57.1	15

S.No.	Name of Countries		
	<i>Name of Countries</i>	<i>Index No.</i>	<i>Rank in inequality</i>
17.	<u>Myanmar</u>	57.1	16
18.	<u>Laos</u>	56.7	17
19.	<u>Japan</u>	55.8	18
20.	<u>Cambodia</u>	54.6	19
21.	<u>Papua New Guinea</u>	53.7	20
22.	<u>Hong Kong</u>	51.8	21
23.	Shri Lanka	51.0	22
24.	Labanon	54.8	23
25.	India	42.9	24
26.	Yeman Rep.	41.8	25

• Ratio Measures

Ratio measures compare how much people at one level of the income distribution have compared to people at another. For instance, the 20:20 ratio compares how much richer the top 20% of people are, compared to the bottom 20%. For example:

- 50/10 ratio – describes inequality between the middle and the bottom of the income distribution
- 90/10 – describes inequality between the top and the bottom
- 90/50 – describes inequality between the top and the middle
- 99/90 – describes inequality between the very top and the top

IV. Palma Ratio

The Palma ratio is the ratio of the income share of the top 10% to that of the bottom 40%. In more equal societies this ratio will be one or below, In very unequal societies, the ratio may be as large.

Table 3 GINI COEFFICIENT

S.No.	Name of Countries		
	<i>Name of Countries</i>	<i>Ratio</i>	<i>Rank</i>
1.	UK	1.40	
2.	Sweden	>1	
3.	Denmark	0.89	
4.	India	1.5	
5.	Brazil	2.23	

V. Economic Inequality in India

The Above data shows that India is one of the unequal Income distribution country. The richest have cornered a huge part of the wealth created through crony capitalism and inheritance. A study from the World Inequality Lab finds that the present-day golden era of Indian billionaires has produced soaring income inequality in India—now among the highest in the world and starker than in the U.S., Brazil, and

South Africa. The gap between India's rich and poor is now so wide that by some measures, the distribution of income in India was more equitable under British colonial rule than it is now, Some facts presenting for a comprehensive analysis study that shapes the Economic Inequality in the country India.

TABLE 4 : Inequality Report 2022, Distribution of National Income
[Analytical Presentation]

	% part of Total National Income	
1	77% Part of National Income	Hold by 10% Of population
2	40% part of above 77%	Hold by 1% of the above given 10%
3	13% part of National Income	Hold by 90% of the Population.

Table 5: DISTRIBUTION OF WEALTH
[Analytical Presentation]

	% part of Total Wealth	
1	73% of the wealth	Hold by Richest 1% of Population
2	About 670 million Indians	has only a 1% yearly increase in their wealth.

TABLE 6 Tax Burden (GST)
[Analytical Presentation]

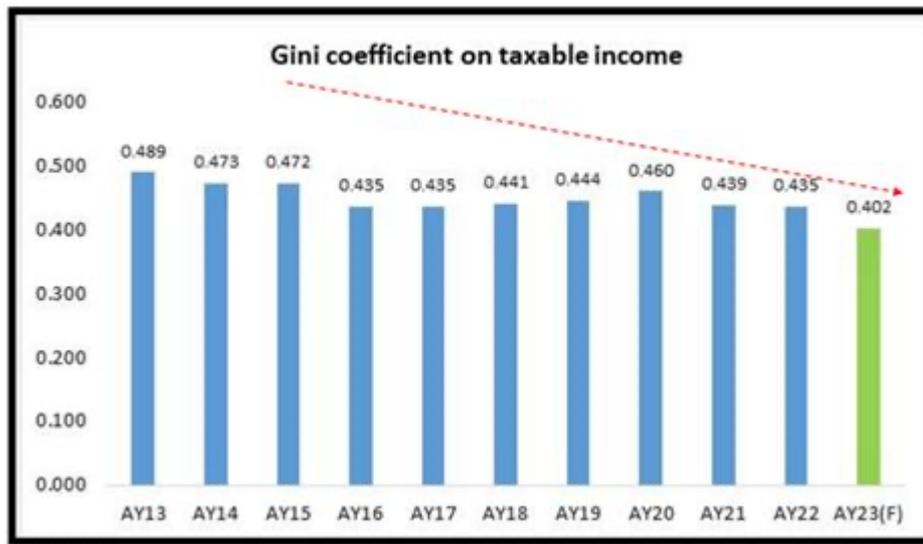
	Percentage of Population	Burden of tax bear by (in %)
1	Bottom 50% of the population	Pay 64% of GST
2	Top 10%. of the population	Pay only 4% of GST

4. How does Economic Inequality effect the Indian Society

Health care	Total of People need health care, 63 millions of them (almost two people every second) are pushed into poverty because of healthcare costs every year
	In 2005 total health centers in India were 1,72,608 these remains 1,85,505 in total in 2020 [only 12897 centers are increased in last 15 years]
Food	Around 74% of India's population could not afford a healthy diet
	Around 39% fell short of a nutrient-adequate one
GHI Score	Rate is 28.7 for India which considered serious according to the GHI Severity of Hunger Scale
Child-wasting rate	For India rate is 18.7, which is highest child-wasting rate
Income in Rural and Urban population	Worker of rural area need about 94 years to get income equal to an executive at a leading Indian garment company earns in a year.

Fortunes	Billionaires' fortunes increased by almost 10 times over a decade their total wealth is higher than the entire Union budget of India for the fiscal year 2018-19, which was at INR 24422 billion.
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However a new study by SBI Research has revealed that income inequality has declined in recent years, supporting the data shows a trend of upward migration through increased income and the ascent of the Indian middle class but actually it is not significant.



Above figure shows there is a decrease in Inequality rate but study shows it is not indicate a significant improvement in the situation .India has decline inequality but only by 0.087 in last 10 years (2013 to 2023) .The situation is more injurious when it is added to a society that is already fractured along the lines of Cast, Religion , Region and Gender Inequities in these sectors make the population more vulnerable and trigger a descent into multidimensional poverty

VI. What are the Causes of Inequality

There are various reasons responsible for the Inequality.

A. Causes related to Wealth Accumulation:

- Concentration of Wealth: Every wealthy pass on advantages to their descendants which make Concentration of wealth in the hands of a few.
- Inadequate Land Reforms: Inadequate land reforms can result in a significant portion of the population remaining landless or having insufficient land, pushing them to poverty and economic instability.
- Crony Capitalism: Corrupt practices and favoritism can result in wealth accumulation among a select group, contributing to inequality.

B. Lack of Inclusive Growth Policies:

- Skewed Distribution of Economic Gains: There may a disproportionately distribution of economic benefits, certain sectors or income groups, leading to economic gain others remain empty.
- Regressive Taxation Policies: Tax systems in favor of the wealthy can contribute to income inequality.

- Tax evasion: Many wealthy individuals and companies avoid the taxes by go through loopholes of taxation rules which is a legal way of corruption and creating a situation that leads to financial inequality where the poor are further disadvantaged.
- Tax policies also play a role in widening the gap between rich and poor. Taxing lower-income households at higher rates than wealthier households means that those with less money must pay a greater portion of their earnings, thus increasing the financial disparity between them and the wealthy.
- Lack of Social Safety Nets: Inadequate social safety nets and welfare programs may leave vulnerable populations without sufficient support, widening the wealth gap.
- Inflation: It is also a contributing factor to income inequality. Rising prices make it difficult for those on lower incomes to keep up with the cost of living, while those with higher incomes can afford to buy more goods and services without feeling the same pinch

C. Inadequate Labour Policies:

- Financialization of the Economy: An emphasis on financial markets and speculation over productive investments can lead to wealth concentration in the financial sector.
- Wage gaps: Wage gaps between skilled and unskilled workers can contribute to income inequality. Informal labor markets with lower wages and fewer benefits can widen the income divide.
- No Minimum Wages: Weak labor market policies, including insufficient minimum wage regulations and limited collective bargaining rights, can contribute to income disparities.

D. Social Exclusion:

- Caste Discrimination: Social exclusion based on caste played a significant role in increasing inequality in India by marginalizing certain groups and limiting their access to opportunities, resources, and benefits.
- Gender Inequality: Discrimination based on gender can lead to unequal access to employment opportunities and wage disparities.
- Lack of Access to Education: Unequal access to quality education limited opportunities for upward mobility, reinforcing existing disparities.
- Technological Deprivation: Automation and technological advancements lead to job displacement and wage stagnation for certain groups, exacerbate

E. Unemployment:

It is one of the primary causes of income inequality. As more people are out of work, the economic gap between the wealthy and the poor widens. This can be seen in India's high unemployment rate, which remains at around 6%.

- Underemployment plays a part in increasing income inequality. Many workers are underemployed, meaning they are working fewer hours than they would like to be and earning less money than they need. This can lead to higher levels of poverty among those who have jobs but cannot make ends meet.

VII. How can this Inequalities may reduce?

Role of Government: The Government should ensure before making the various financial policies that these not enhance gap between rich and poor. There should be a fairness and justice between poor and rich. Indeed, Government must create some policies to reduce the gap between the rich and the poor and to maintain a balance in the financial economy. The governments need to take steps forward for redistribution money from those with higher incomes to those with lower incomes by creating a ladder of opportunity for everyone and imposing heavy taxes on inheritance. Already the Indian government has made some economic policies, but government fail to adequately address the needs of the majority of people with limited resources. Government needs to take proper steps to curb the issue of financial inequality and corruption in the economy.

Stop Black Money and Corruption: This is also a big reason that lead to income inequality *In India. the top 1% of earners take home almost 23% of the total income while the bottom 50% earn just 27%.* This financial inequality can be attributed to the presence of black money in India's economy, which undermines the taxation system, depriving citizens of their due share of taxes. *According to the World Bank's Worldwide Governance Indicators, India scores a mere 35/100 on control of corruption.* This means that there is an ineffective system of checks and balances in place to curb corruption, leading to millions of rupees in revenue being lost due to misappropriation and fraud.

To solve this issue, governments need to make some strong policies for improving the efficiency of public institutions and creating stricter regulations for businesses. Government should impose an environment in country in which people can report instances of corruption, so that offenders can be held accountable.

Promotion of Labor Intensive Manufacturing: Lack of knowledge of 'Labor Intensive Manufacturing' among the labour force in India is a big reason of rising inequalities. There is a broad gap in compensation between labour-intensive manufacturing like; Construction, Textile, Clothing, Footwear etc. and farming labour whereas the Labour-intensive manufacturing has the potential to absorb millions of people who are leaving farming.

The proportion of the labour force in agriculture who have left farms have not got jobs in modern factories or offices. Most are stuck in tiny informal enterprises. If Government could somehow reverse this trend and make some policies to promote labour-intensive manufacturing than a part inequality ditch may fill.

More Inclusive Growth: The promotion and adoption of an Inclusive Growth Agenda is can be a solution of inequality problem. The Government may set up some sort of planning which may provide equal opportunities rich and poor people in getting employment or getting a start in trade and industry

Investment on Education: The development of advanced skills among the youth of India leads demographic dividend in Economy and fulfill the gap on Inequality. The government should increase investment on education for skilling of youth .India needs to become a Skill-led economy. the government may provide scholarships, so that the poorest can acquire the highest education and technical skill.

Progressive Taxation: Higher taxes on the Rich and the luxuries will help reduce income inequalities.

Role of common people: They also matters in this fight against income inequality. People need to be vocal and demand their rights. They should also participate in programs and activities that are aimed at creating a more equitable society. People should be informed about the issue and hold their government accountable for their actions.

Joining the hand and working together, we can make sure that our country's economic situation improves and that everyone has the same chance of success.

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