India Inequality Report 2018

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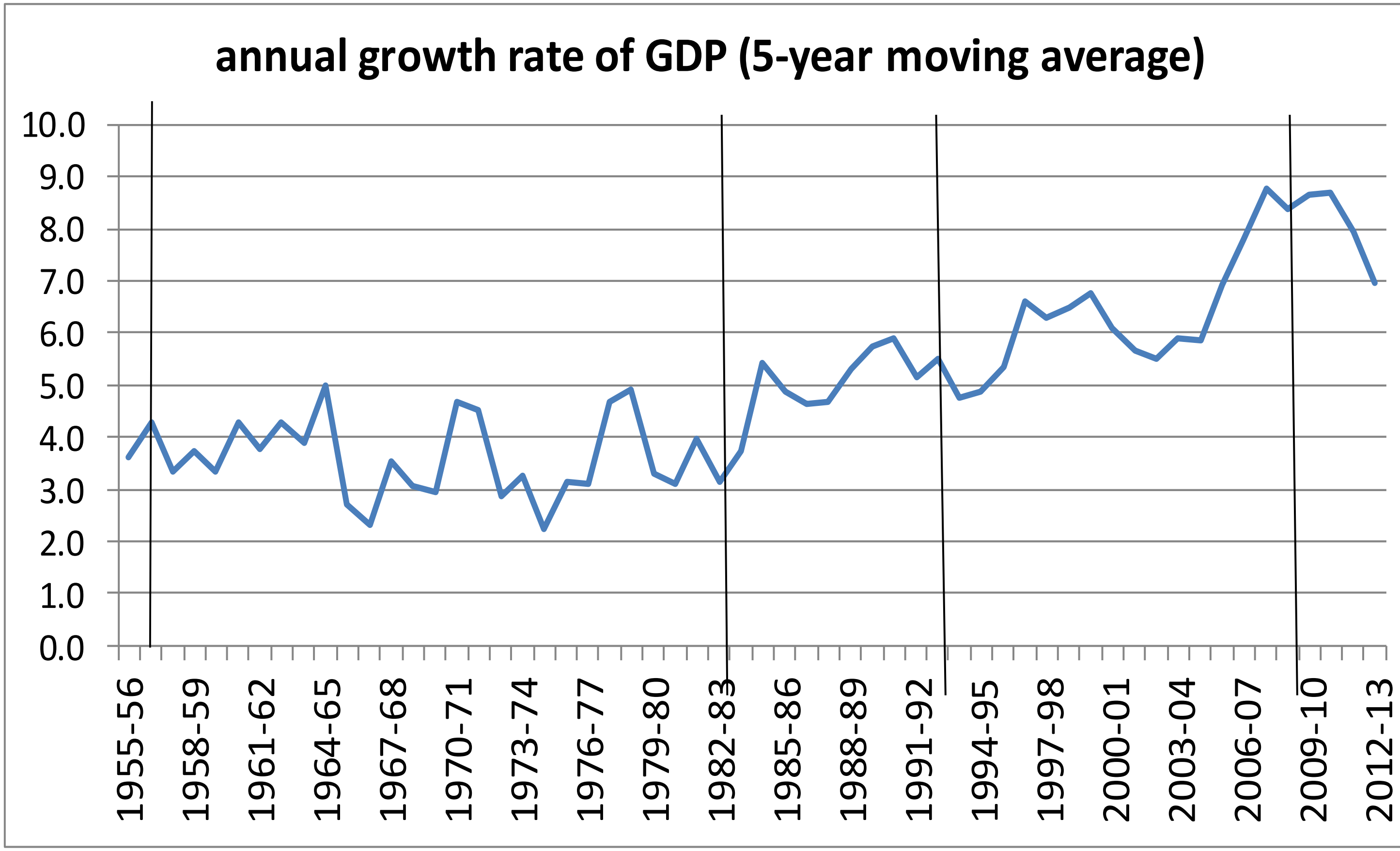
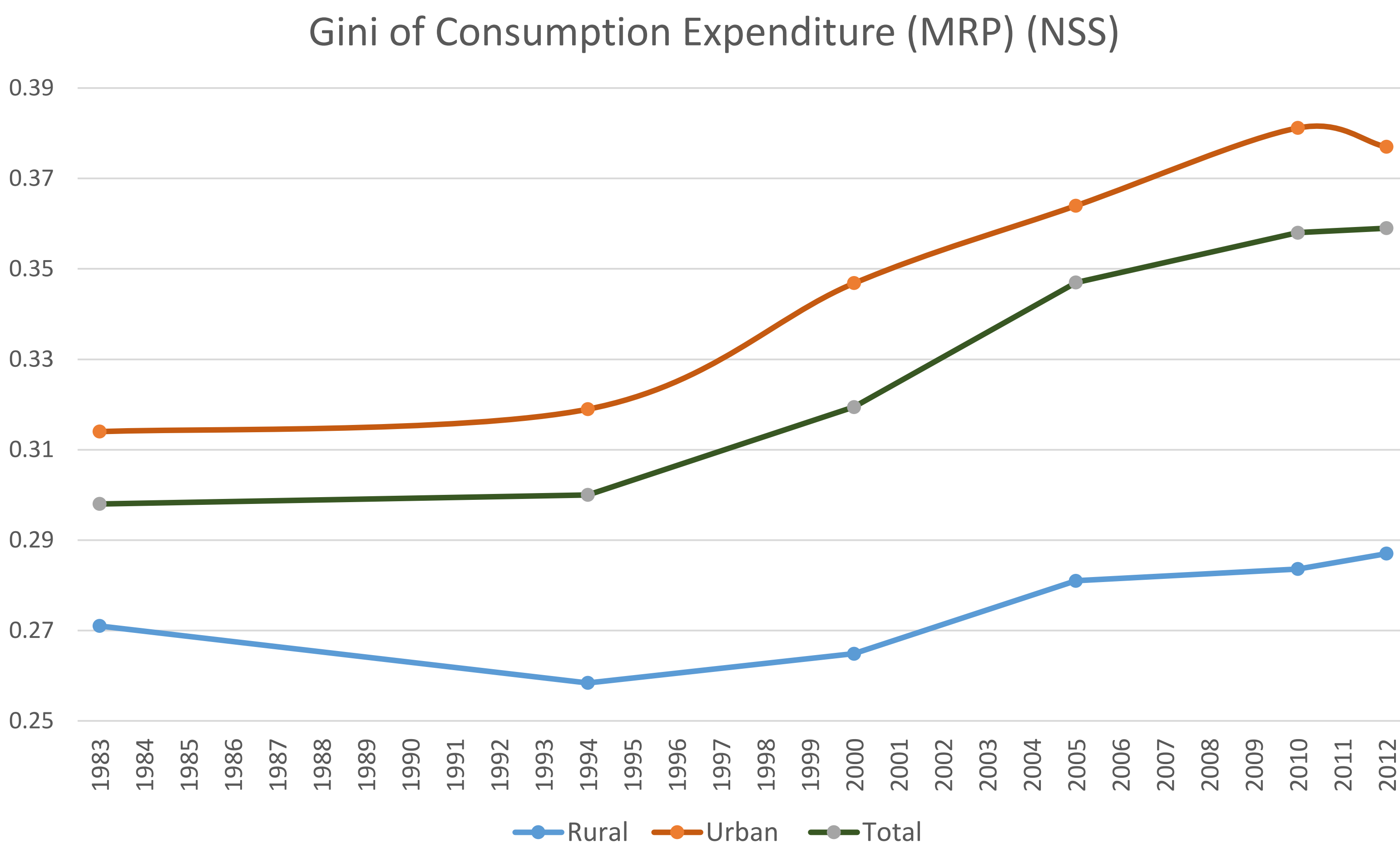
Key Messages

- Contrary to popular perception, India is not a low inequality country. In fact, India would rank among the high inequality large countries
- Unlike most countries where growth has been accompanied by stagnant or declining inequality, Inequality in India has increased in all dimensions
- Much of the increase in inequality since 1991 has been a result of policies skewed in favour of capital and the privileged
- Rising inequality combined with horizontal inequality across caste, religion, region and gender threatens to hurt the India growth story
- But it also threatens the social and political stability

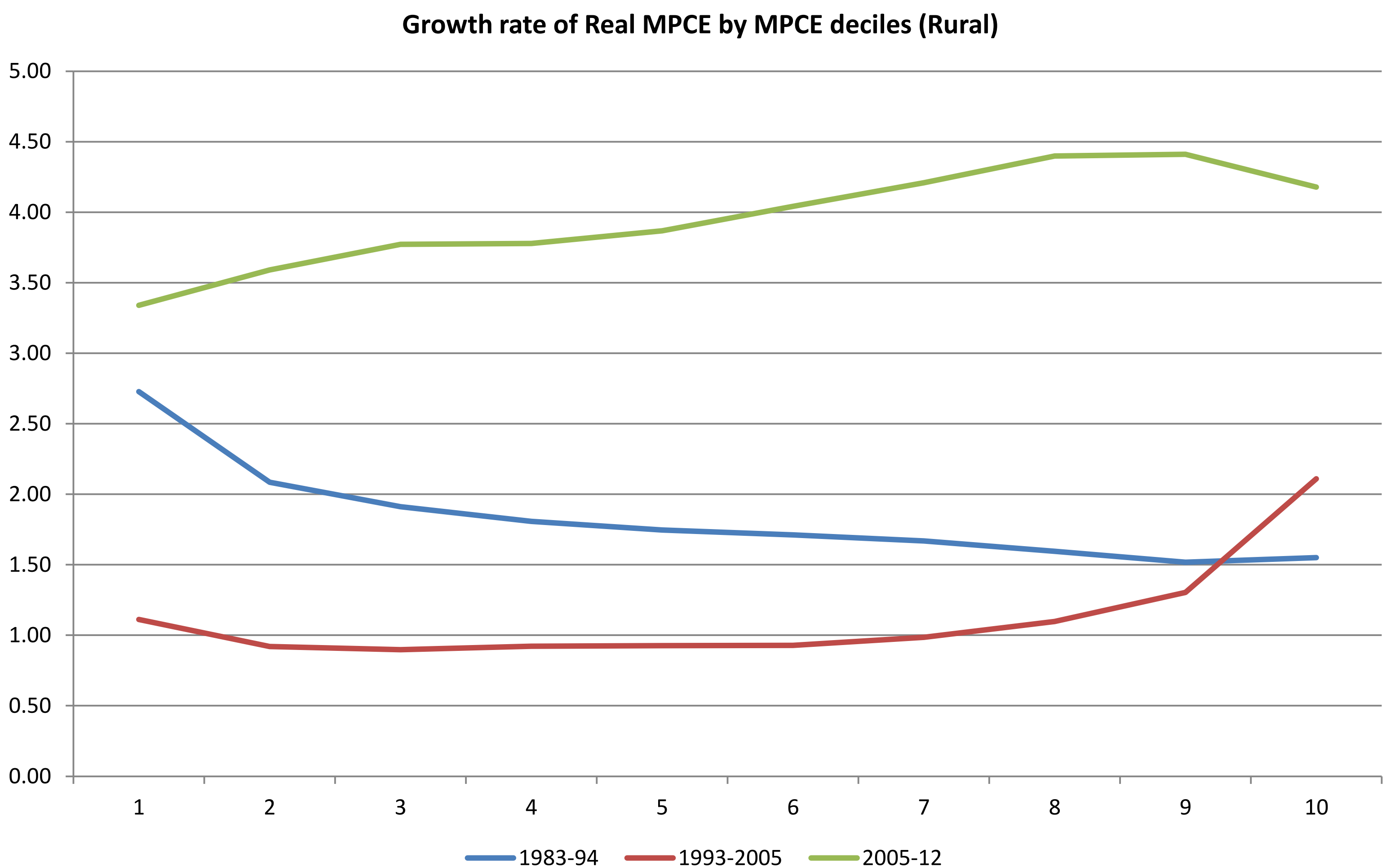
GDP has grown at more than 5% since the mid-1980s. The acceleration in growth rates to more than 9% since 2005-06 was short lived with growth rates slowing down in recent years.



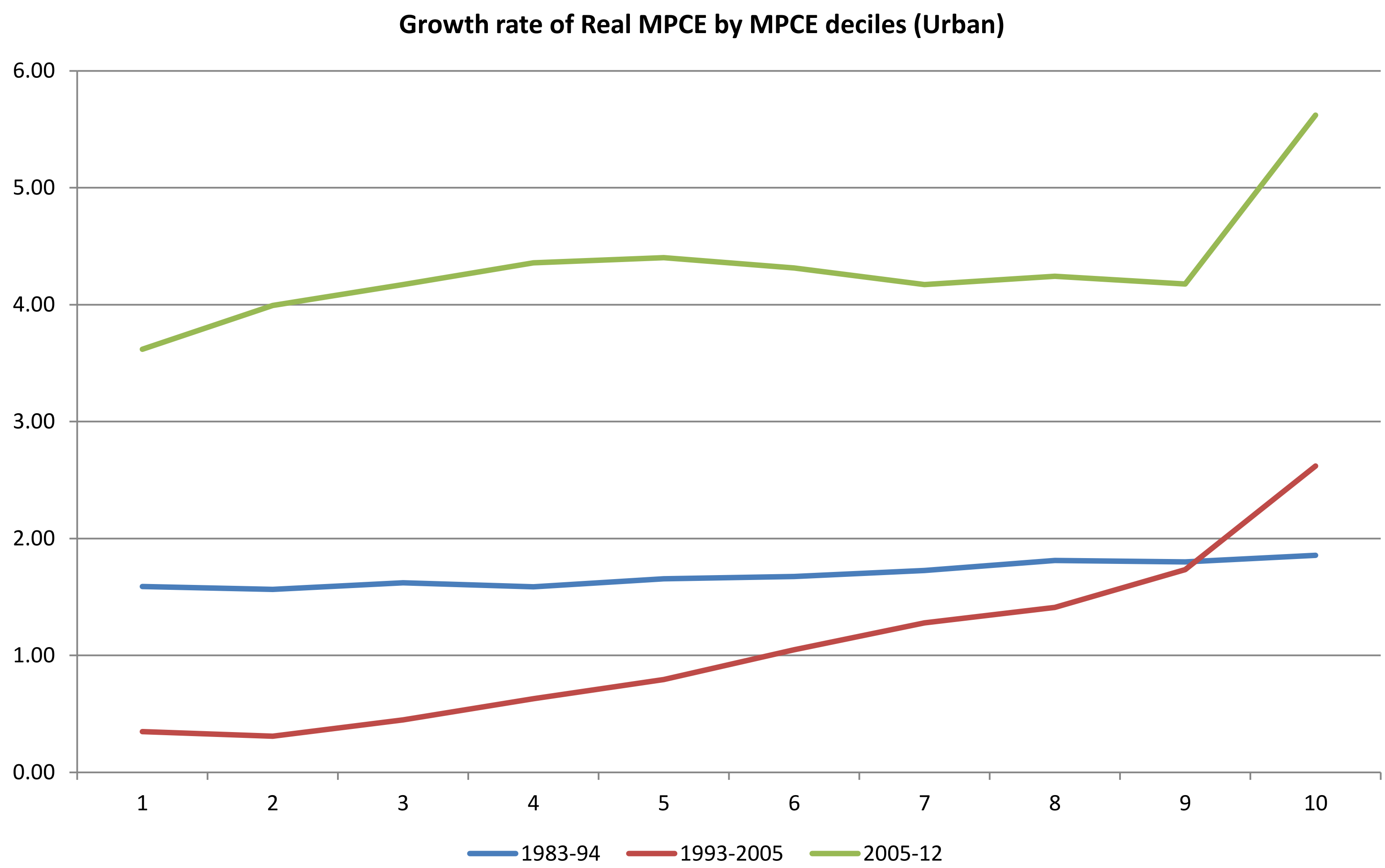
While the acceleration in growth rates has been accompanied by increase in consumption inequality as measured by the NSS consumption surveys, these admittedly are gross underestimate of the actual extent of inequality prevailing



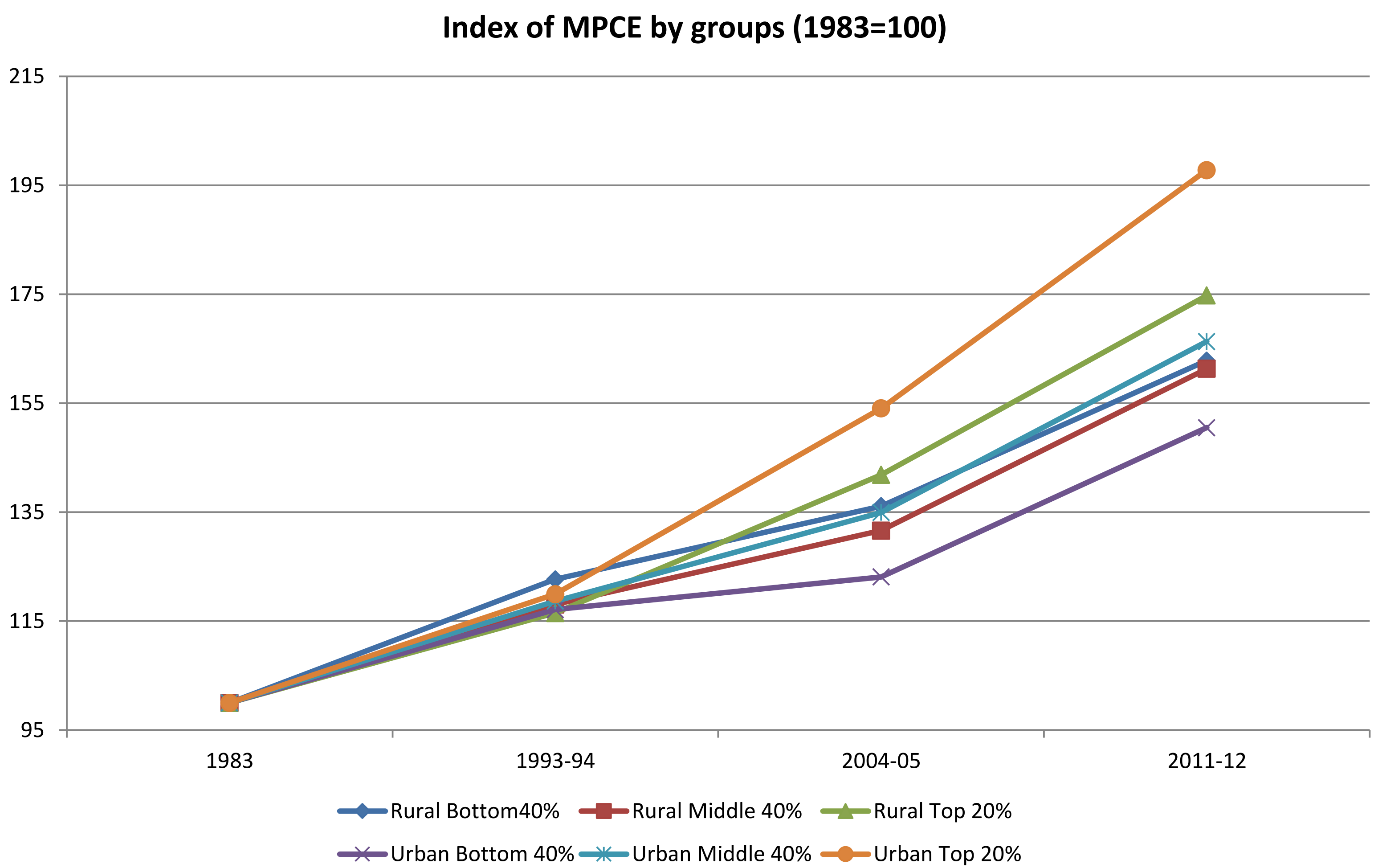
Growth Incidence Curve (Rural): Consumption of top deciles has increased faster than bottom deciles (Rural) after 1993



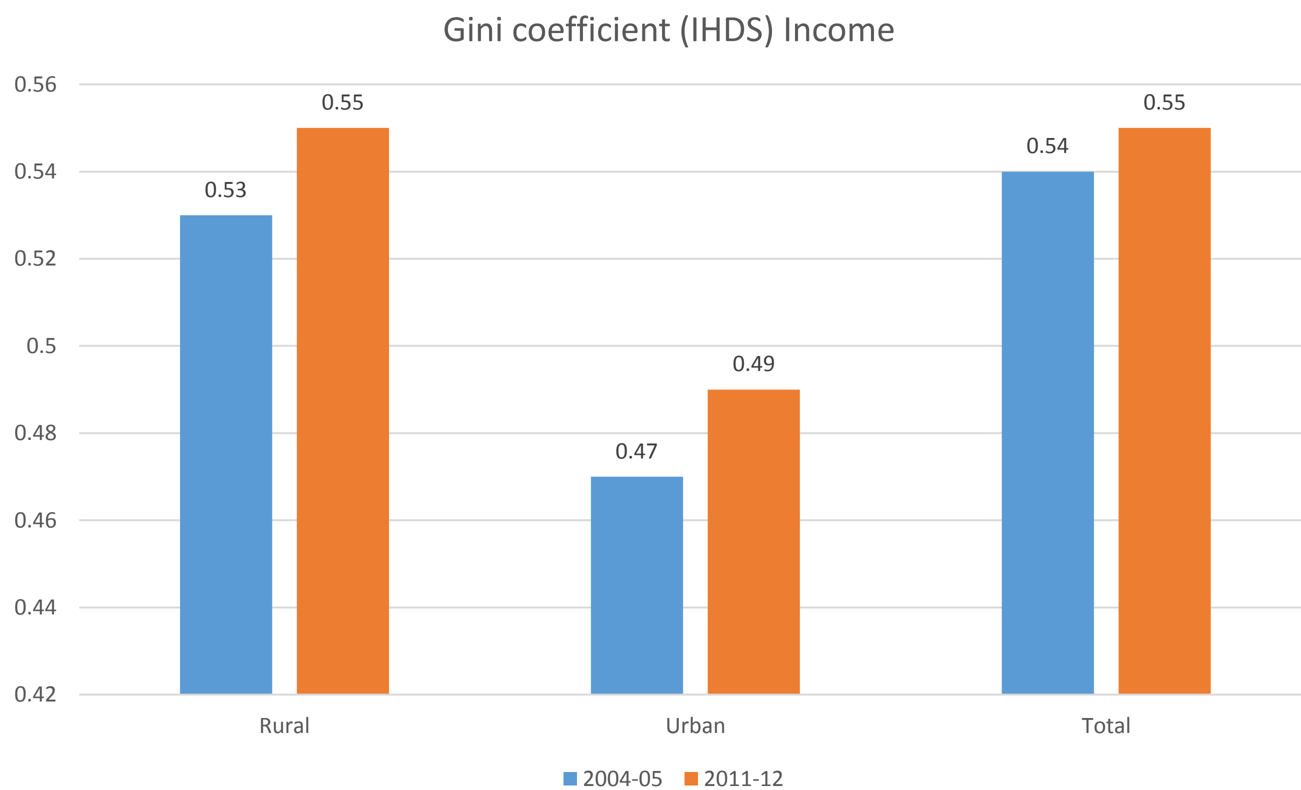
Growth Incidence Curve (Urban): Consumption of top deciles has increased faster than bottom deciles after 1993



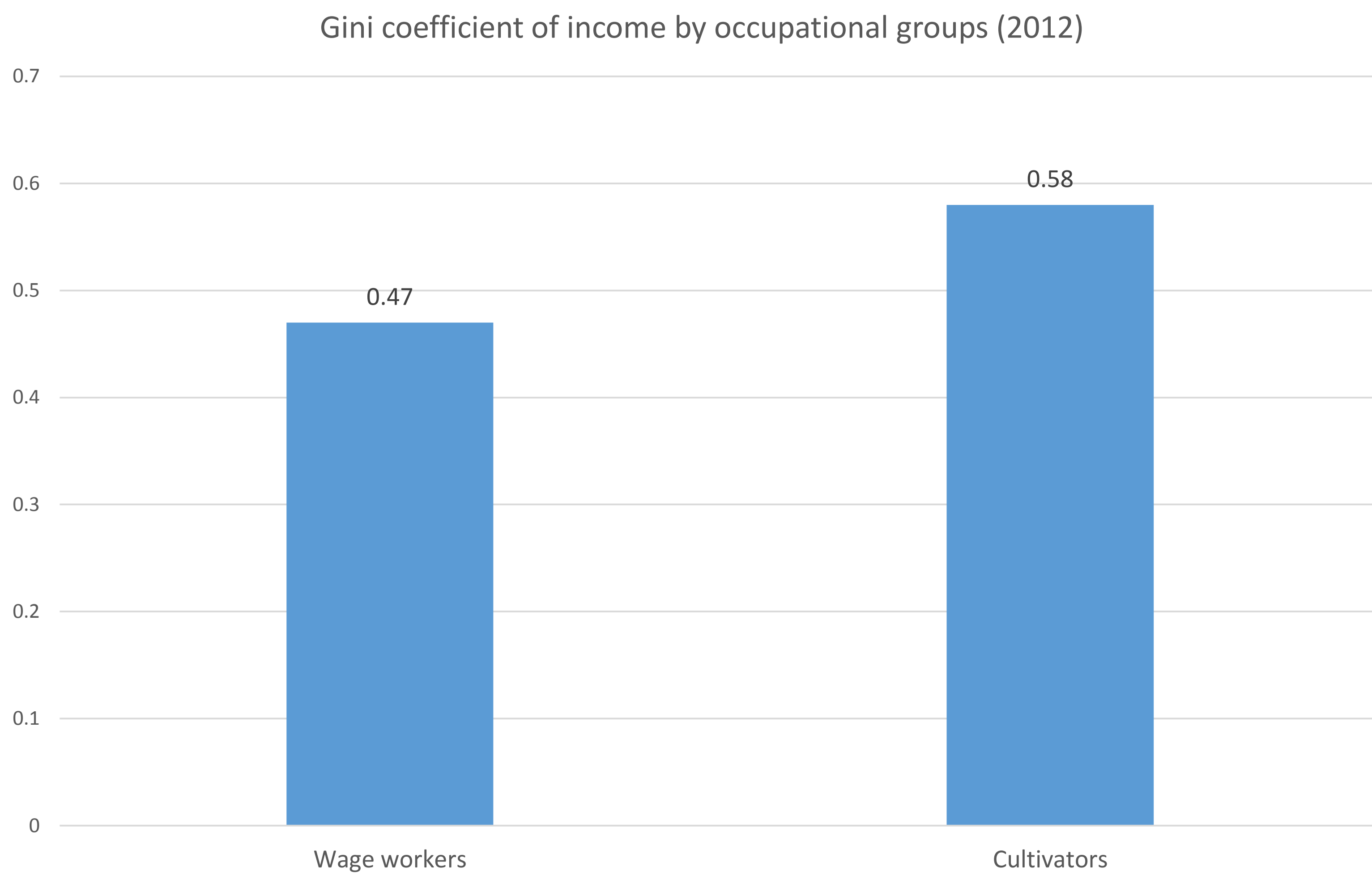
Urban inequality has been the major driver of rising inequality in India



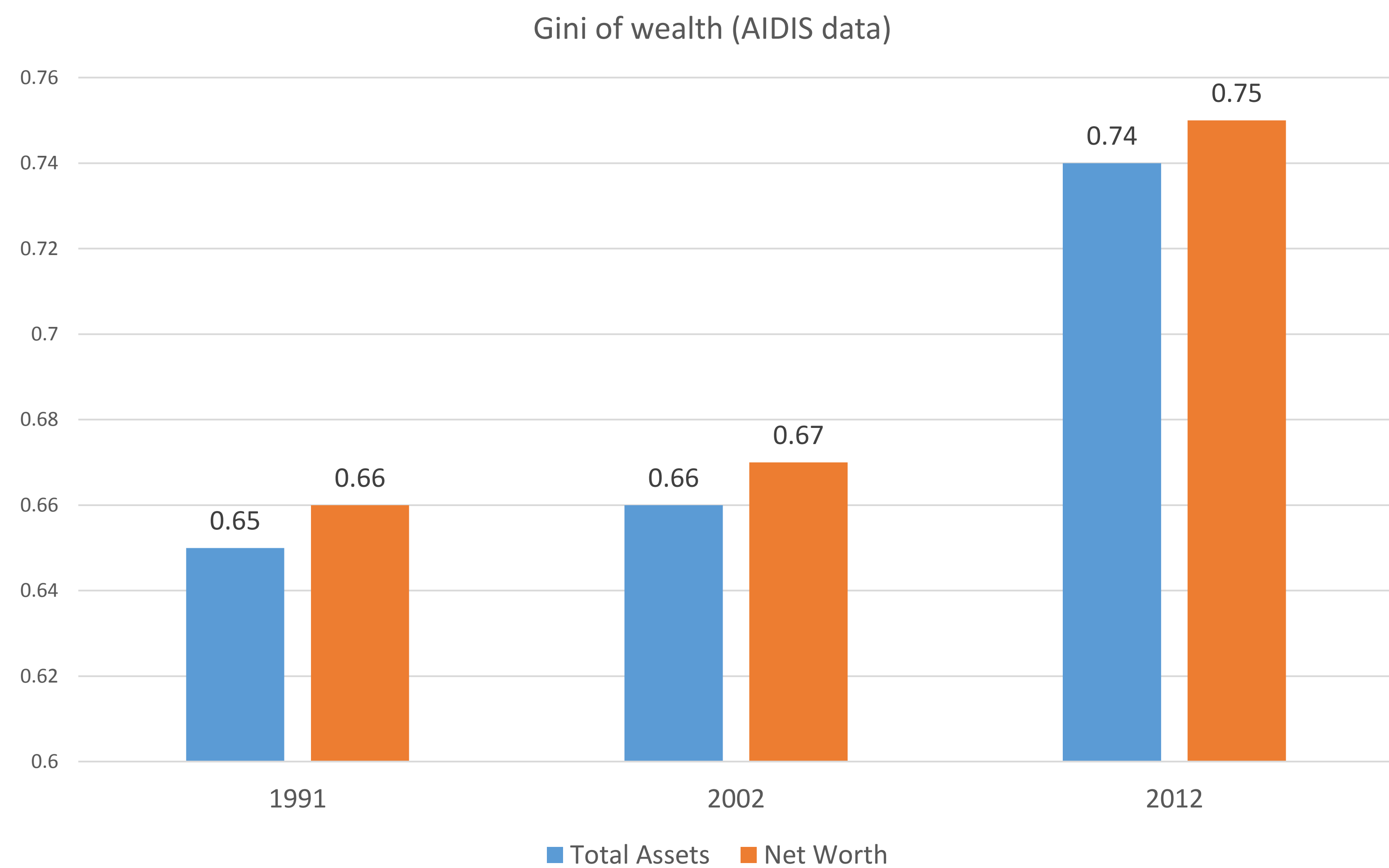
Evidence of inequality from Income data: IHDS Survey (2005)
Our inequality indices on income are among the worst in the world.
Income inequality based on IHDS data increased from 0.54 in 2004-05 to 0.55 in 2011-12



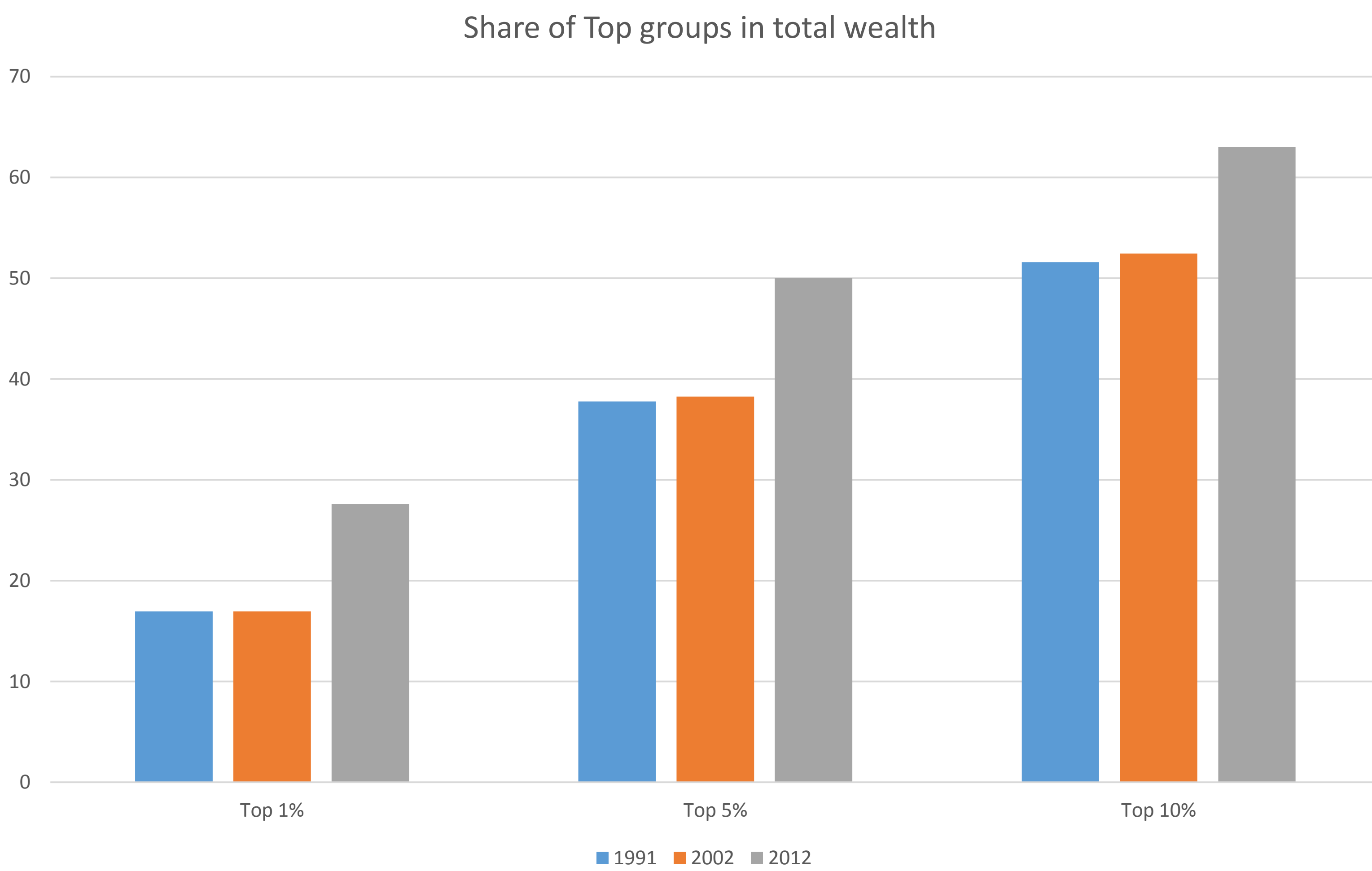
Limited evidence on income inequality from NSS surveys but available by occupational groups



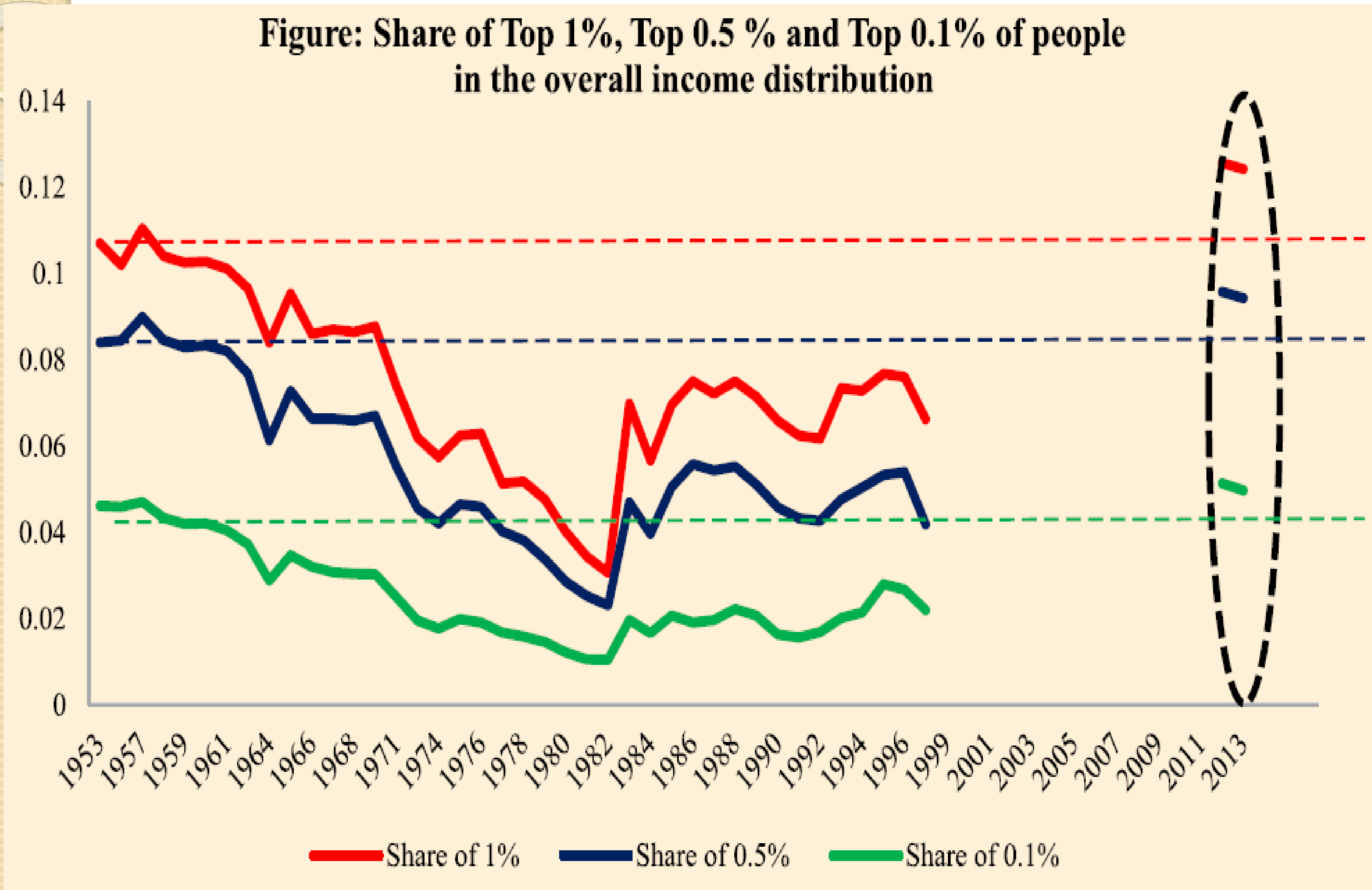
Some measures of wealth inequality based on AIDIS data. Sharp Increase in wealth inequality in last decade.



Increasing concentration of wealth among the top. Top 1% now accounts for more than one fourth of total wealth.

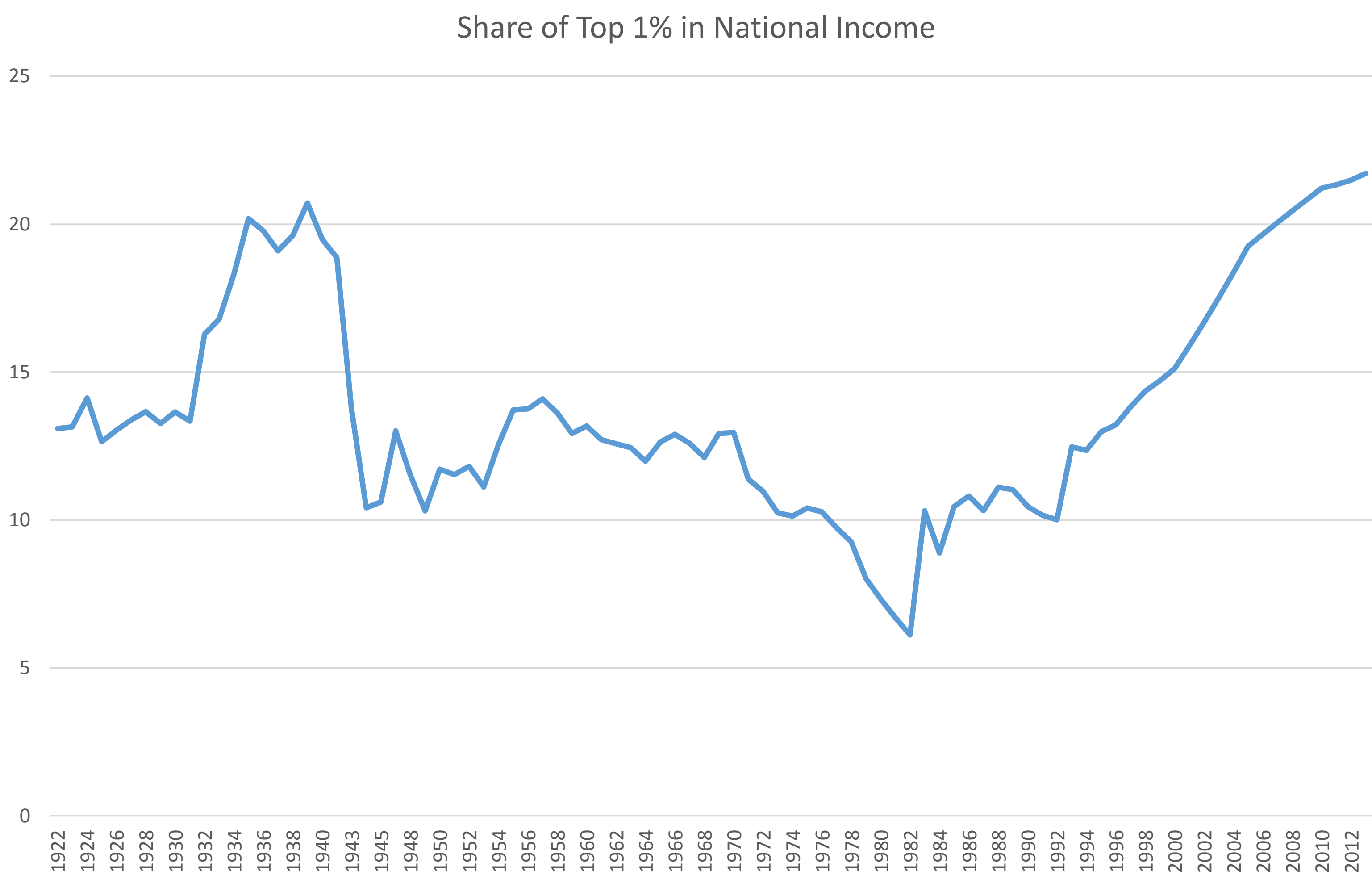


Top incomes have doubled in last decade

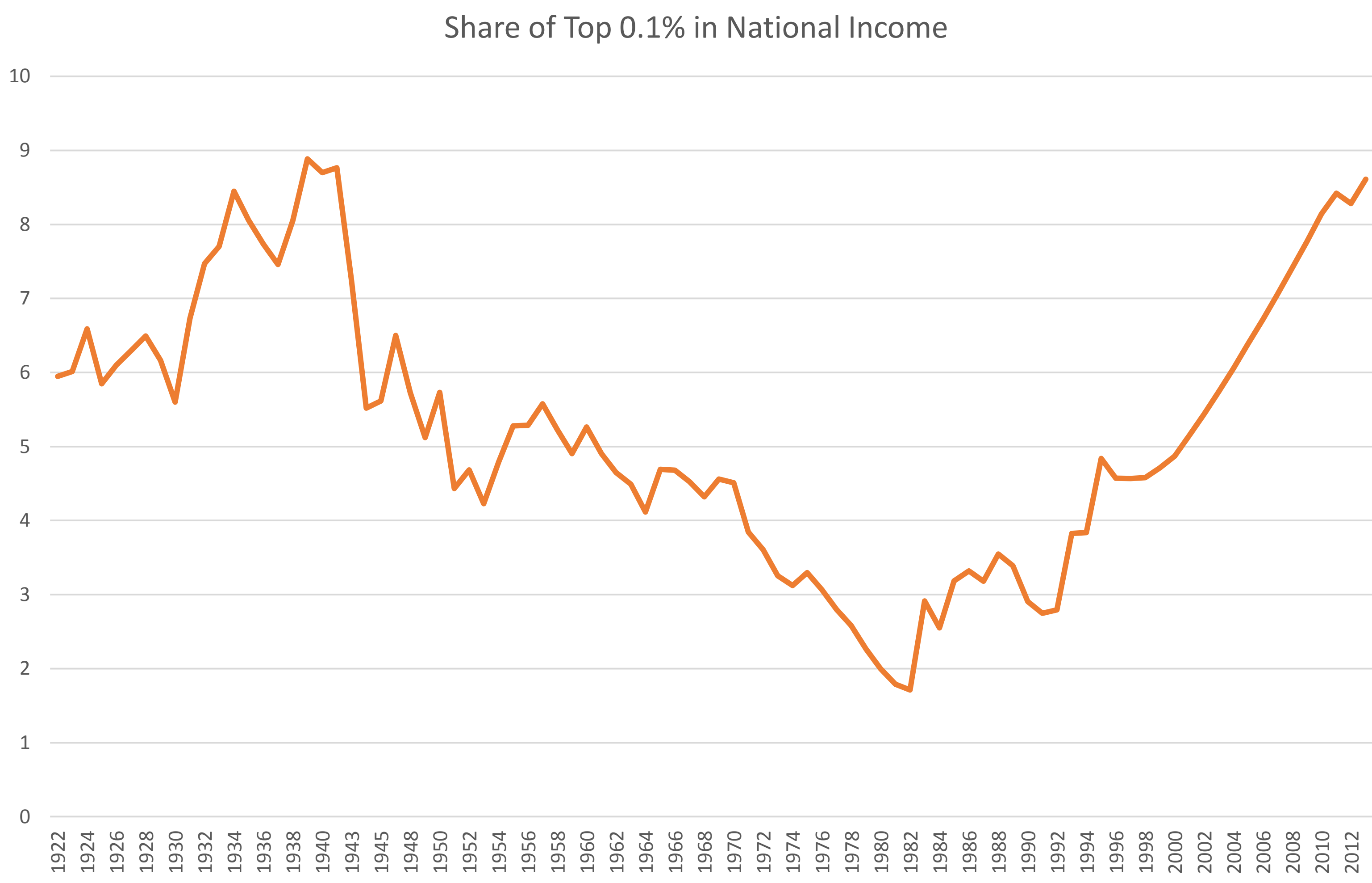


Source: Economic Survey 2016

Here is the long term series-Top 1%



Top 0.1%



Share of Top 0.1% in National Income
10
9
8
7
6
5
4
3
2
1
0
1922
1924
1926
1928
1930
1932
1934
1936
1938
1940
1943
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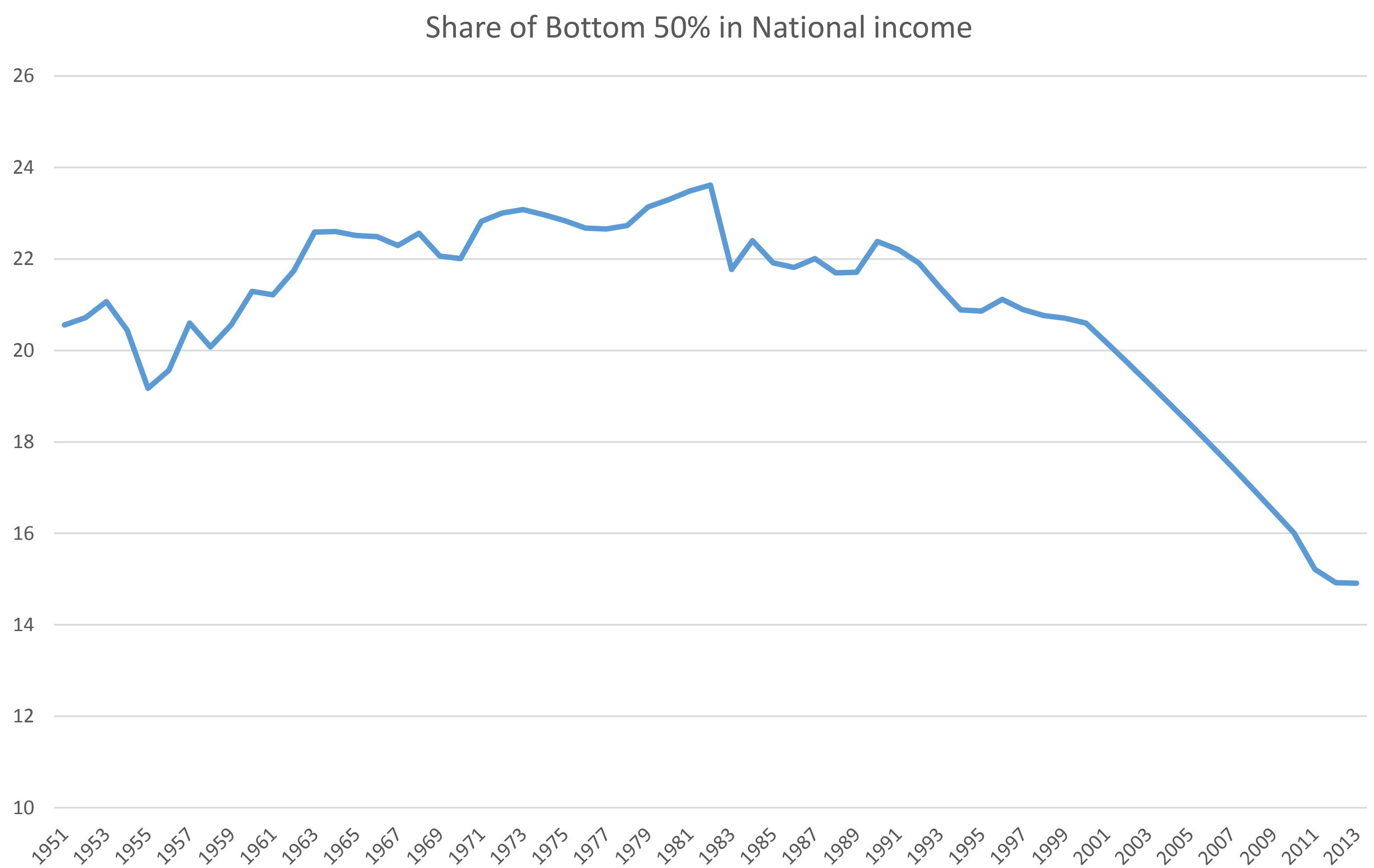
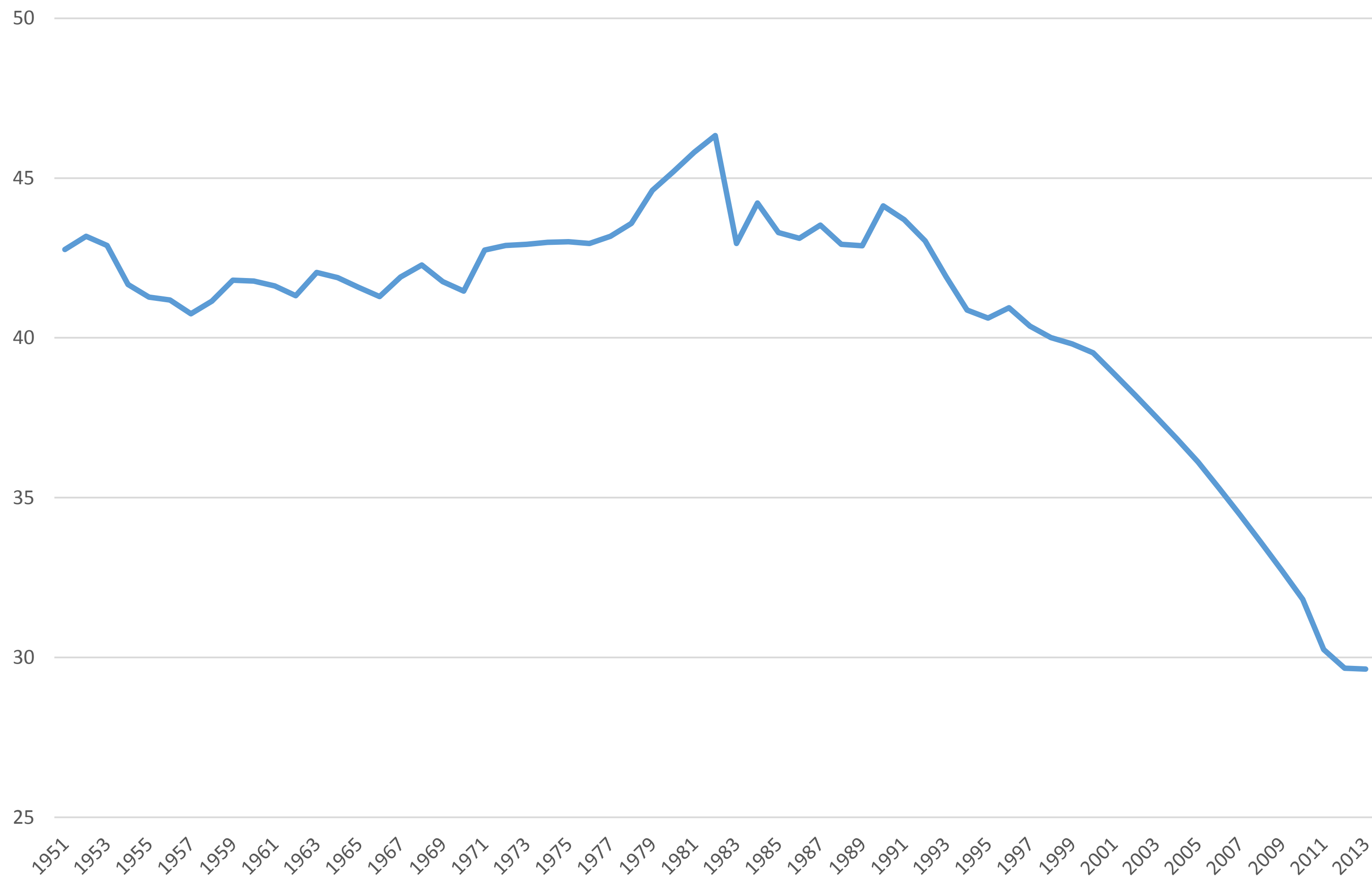
2012

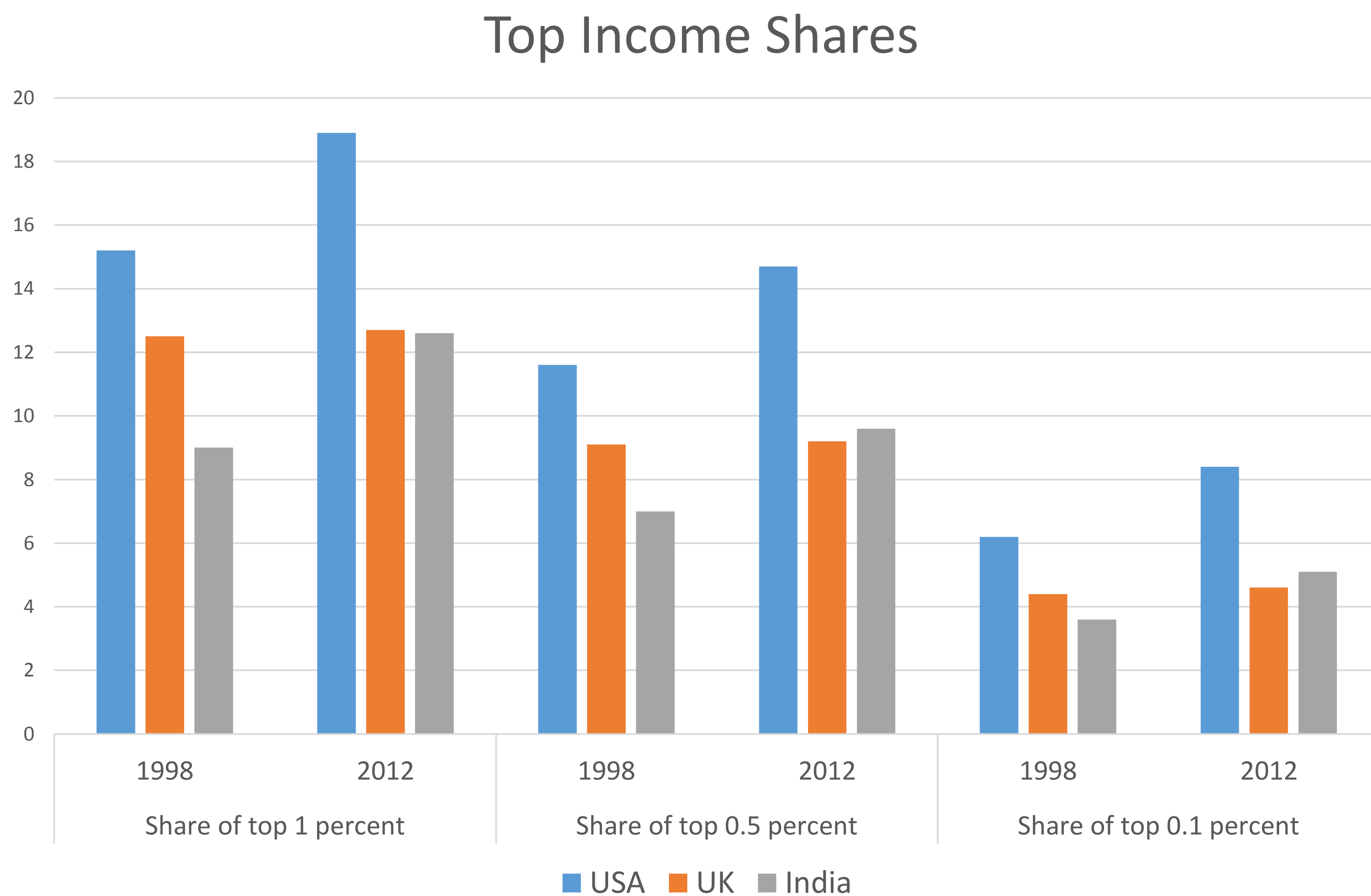
Share of bottom 50% declines after 1990



So is the case of next 40% (50-90%)



Our top income shares are now worse than UK



The wealthiest: Billionaires club

- The total wealth of the top 1% was Rs 96.2 lakh crores by AIDIS. On the other hand, the net worth of the 68 billionaires in 2012 was Rs 5.7 lakh crores (Forbes).
- The wealth held by Indian billionaires increased from 49 billion dollars in 2004 to 479 billion dollars held by richest 100 billionaires by 2017
- The wealth of Indian billionaires was less than 5% of the GDP until 2005 but increased sharply to 22% by 2008, declined after the financial crisis to 10% by 2012. By the latest estimates, the total wealth of Indian billionaires is 15% of the GDP of the country
- Interestingly, almost 40% of Indian billionaires have inherited their wealth, with the inheritors accounting for almost two-thirds of the total wealth of billionaires.

But where did they make money

- 69 billionaires in 2010, 49 in 2009, 13 in 2004
- For simplification, divided the sources of growth in two categories.
- The first comprises the 'rent-thick' sectors that essentially rely on government permits and contracts for public infrastructure. These include mining, metals, constructions, land, real estate and so on. Telecom too,
- The second set consists of knowledge-based industries that rely on research and development primarily in services but also in manufacturing. The IT sector and pharmaceuticals would ideally belong to this category.

- In 2004, of the 13 billionaires, two created their wealth in pharmaceuticals and two in IT; the remaining made their fortunes in rent-thick sectors.
- In 2010, out of 69 billionaires, 11 created their wealth in pharmaceuticals and six in the IT. In comparison, 18 billionaires made their fortunes in construction and real estate, 15 of them in real estate alone; seven made their fortunes in commodities (metals and oil) and two in telecom. That makes 27 billionaires in rent-thick sectors.
- The total wealth of the knowledge-based sectors (IT and pharmaceuticals) is $55 billion, against $132 billion in the rent-thick sectors. Services account for only 20% of the total wealth of the 66 resident Indian billionaires.
- All 15 real estate billionaires in India joined the billionaire club between 2005 and 2010. Incidentally, they have also seen the fastest rate of wealth growth. On the other hand, IT sector billionaires have among the lowest rates of wealth growth.

How do they compare internationally

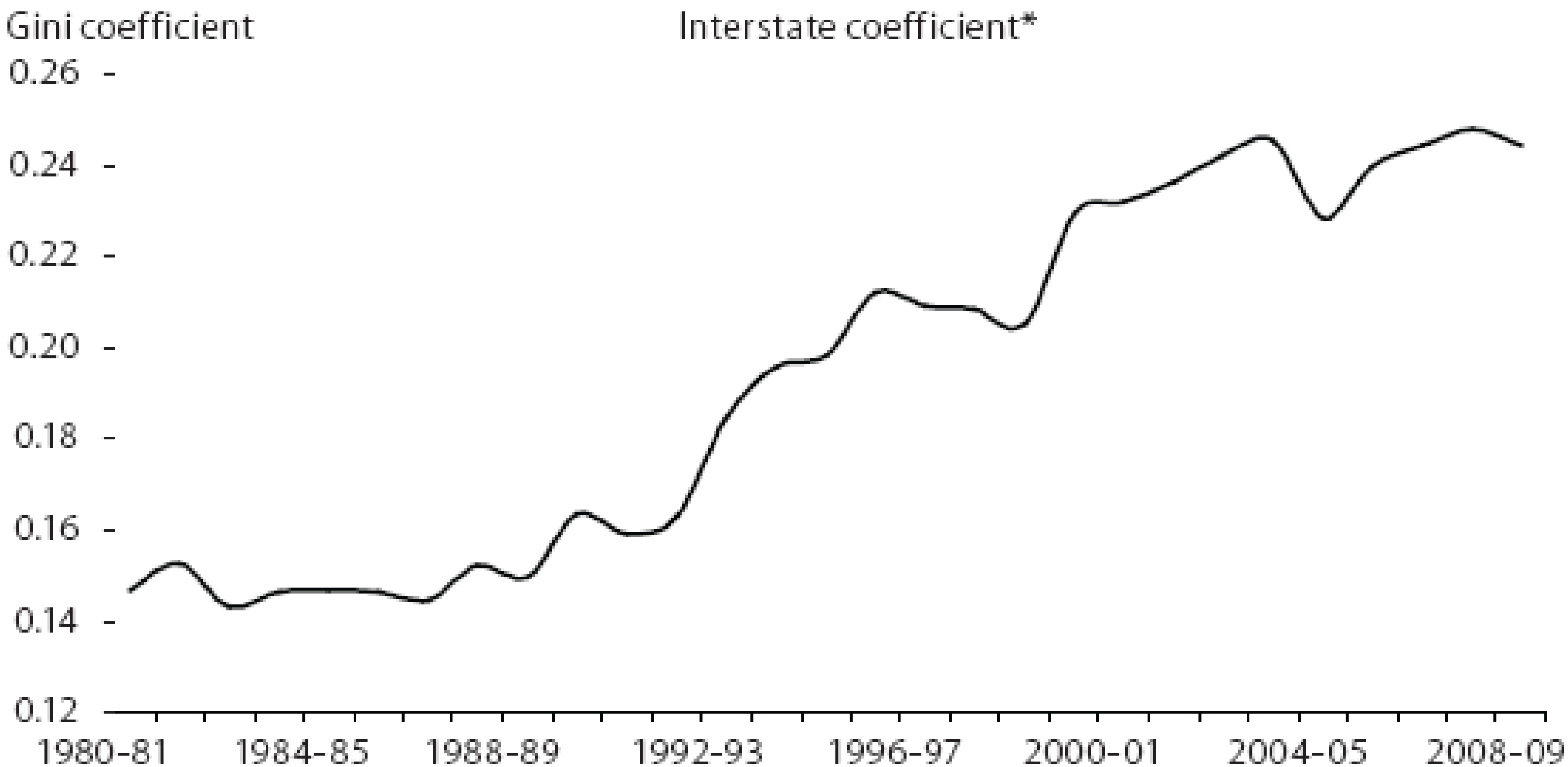
- Per capita income in the US is 45 times that in India at the nominal exchange rate, and almost 15 times in purchasing power parity terms.
- Net wealth of the 100 richest Americans is $836 billion; that of 100 richest Indians is $300 billion.
- There are eight Indians among the top 100 billionaires of the world. There are none from China.
- Of the top 20 billionaires in the US, eight are from the IT sector, three from finance, five from retail and one from media. Of the remaining three, two are from engineering and only one from real estate. In other words, one billionaire out of 20 is from a rent-thick sector. Among the top 20 in India, nine are from such sectors.

How about the other billion

- That billion, which is still consuming less than Rs50 a day, is slipping on international rankings in almost all measures of human development.
- Our rankings on food, nutrition, gender and poverty issues in the last decade have either remained stagnant or have worsened.
- India is home to the largest number of billionaires outside the US, China and Germany. It is also home to the largest number of poor, of hungry and malnourished, of child labourers, of people defecating in the open, of those without access to safe drinking water, of illiterates and so on.
- India is the last country on international environment index, PISA scores, Global hunger index and so on
- It is also among three countries in the world whose global hunger index has worsened

MULTIPLE DIMENSIONS OF INEQUALITY

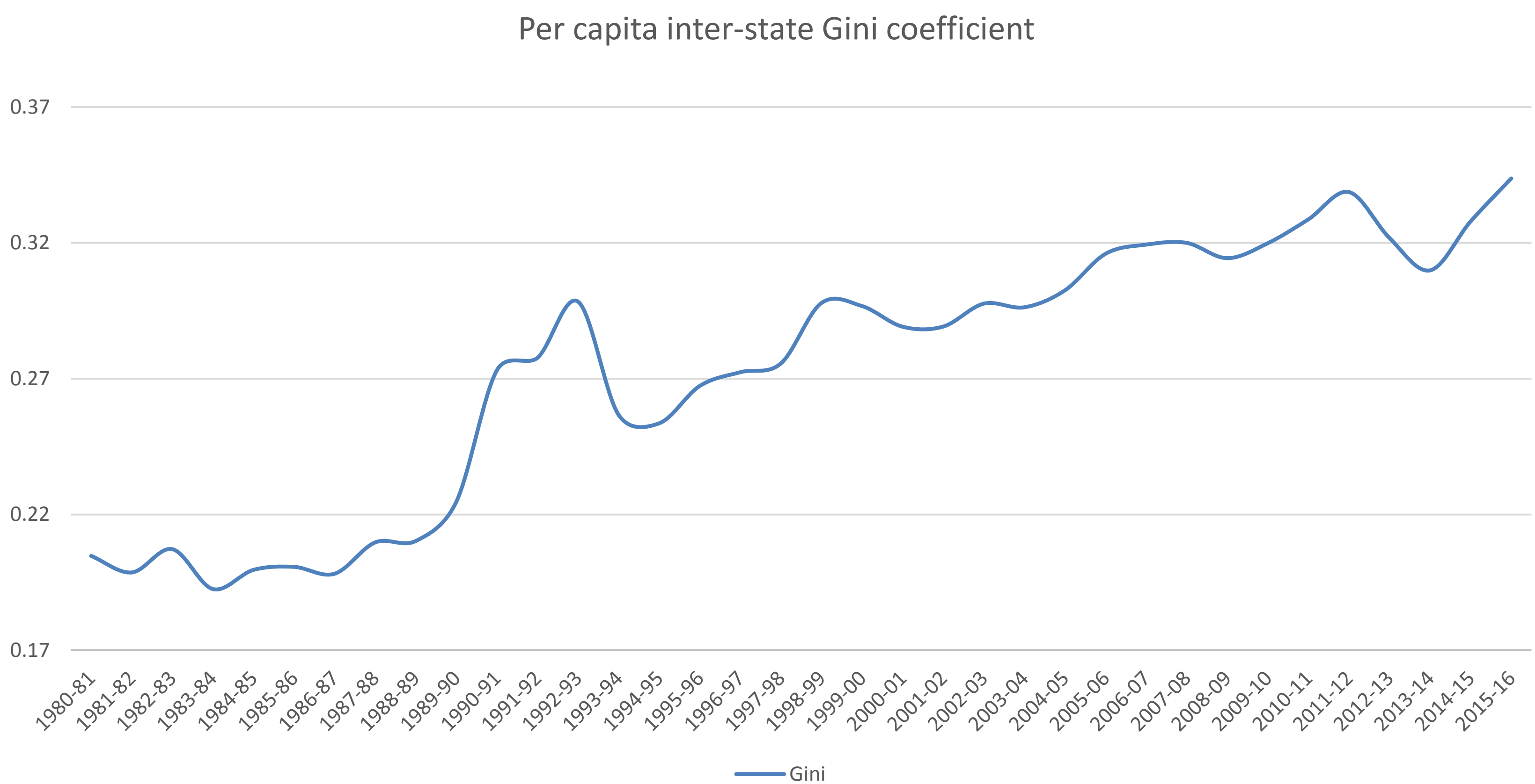
However, consistent with the earlier trend of increasing inequality at the national level, the growth pattern across states also confirms increasing regional inequality



* The Gini coefficient is calculated assuming that all individuals within each state have gross income equal to per capita GSDP. This method ignores the inequality arising out of the unequal distribution within each state, and focuses only on inequality arising from interstate differences in per capita GSDP.

Source: Ahluwalia (2011)

The trend continues…



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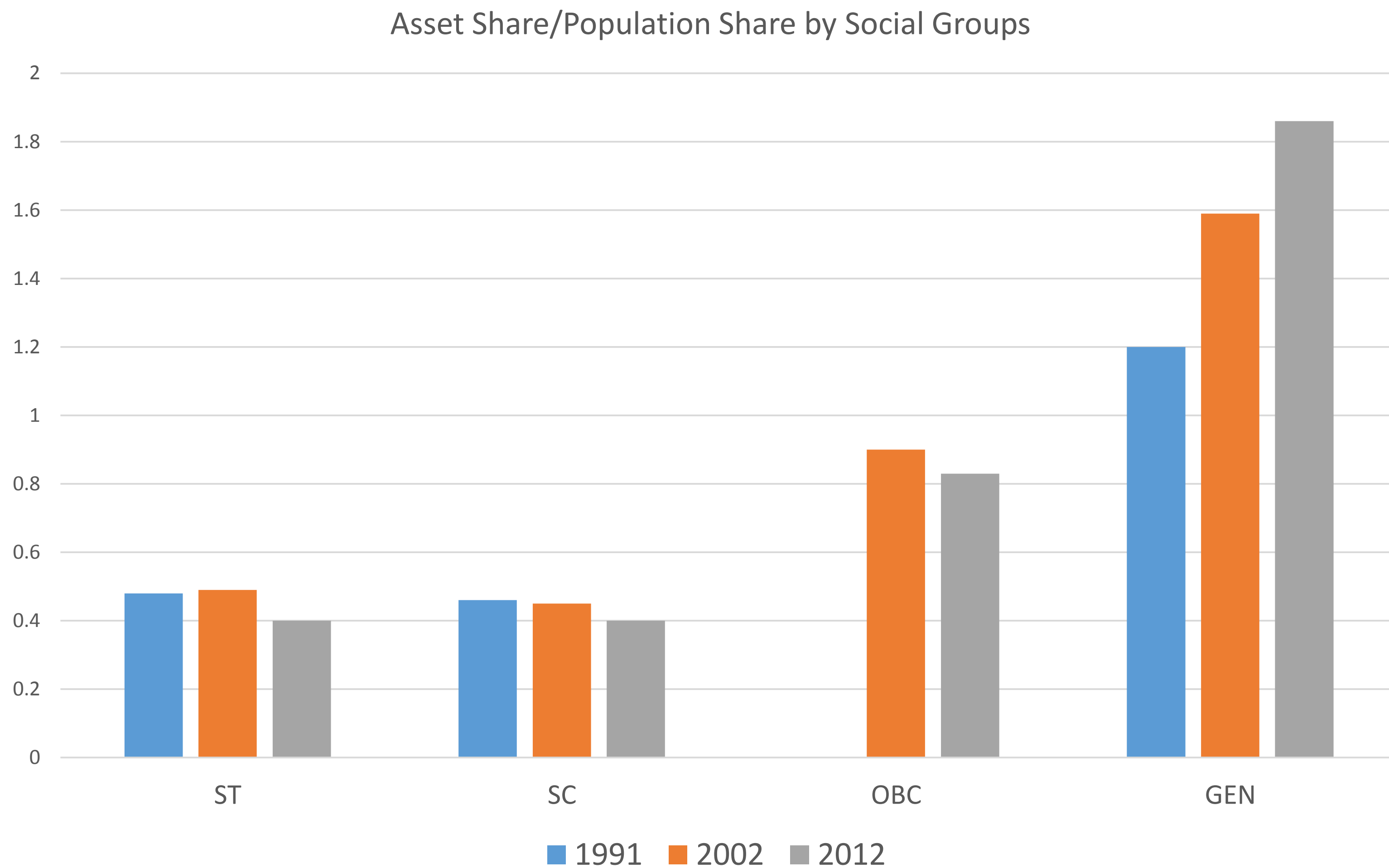
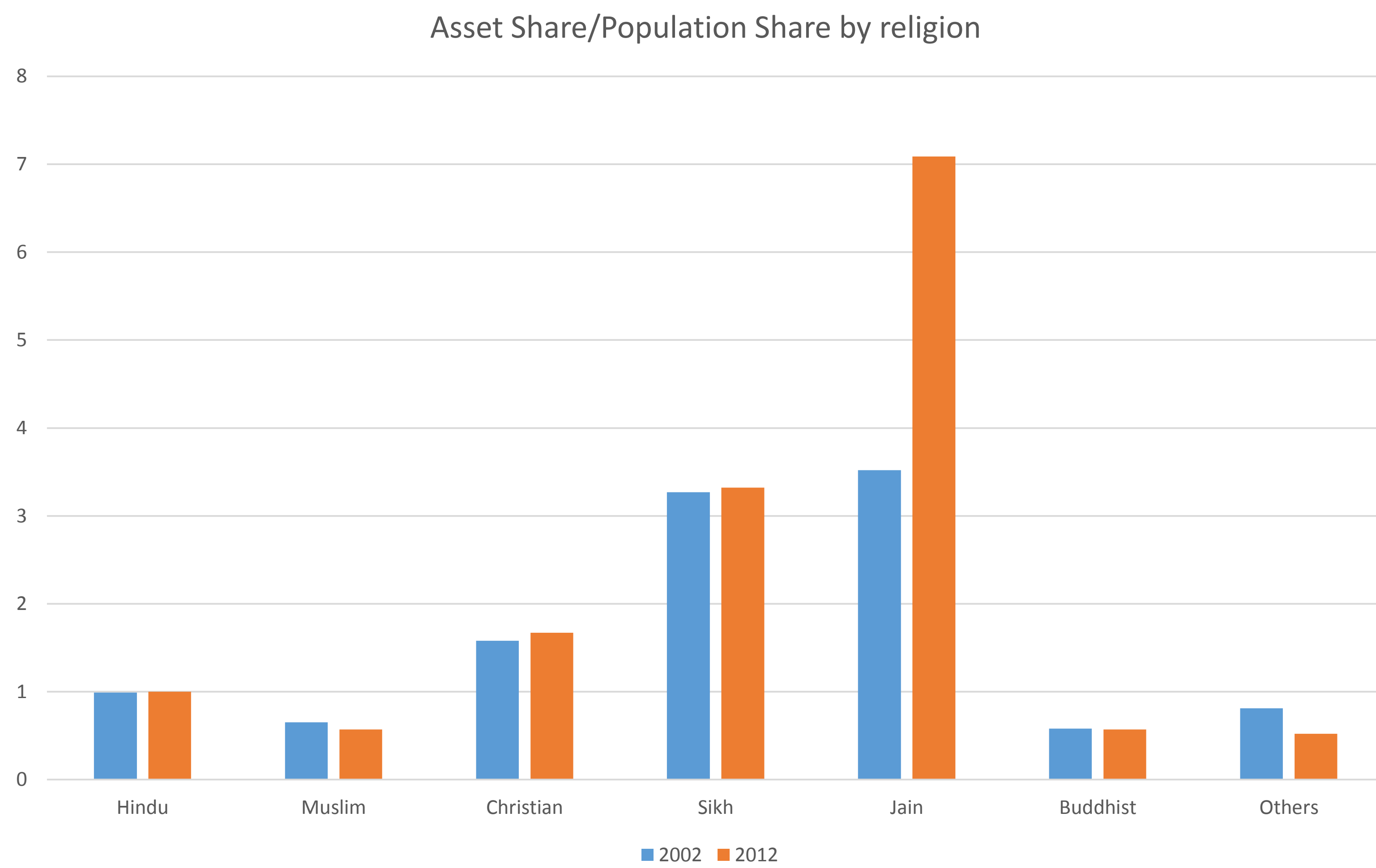
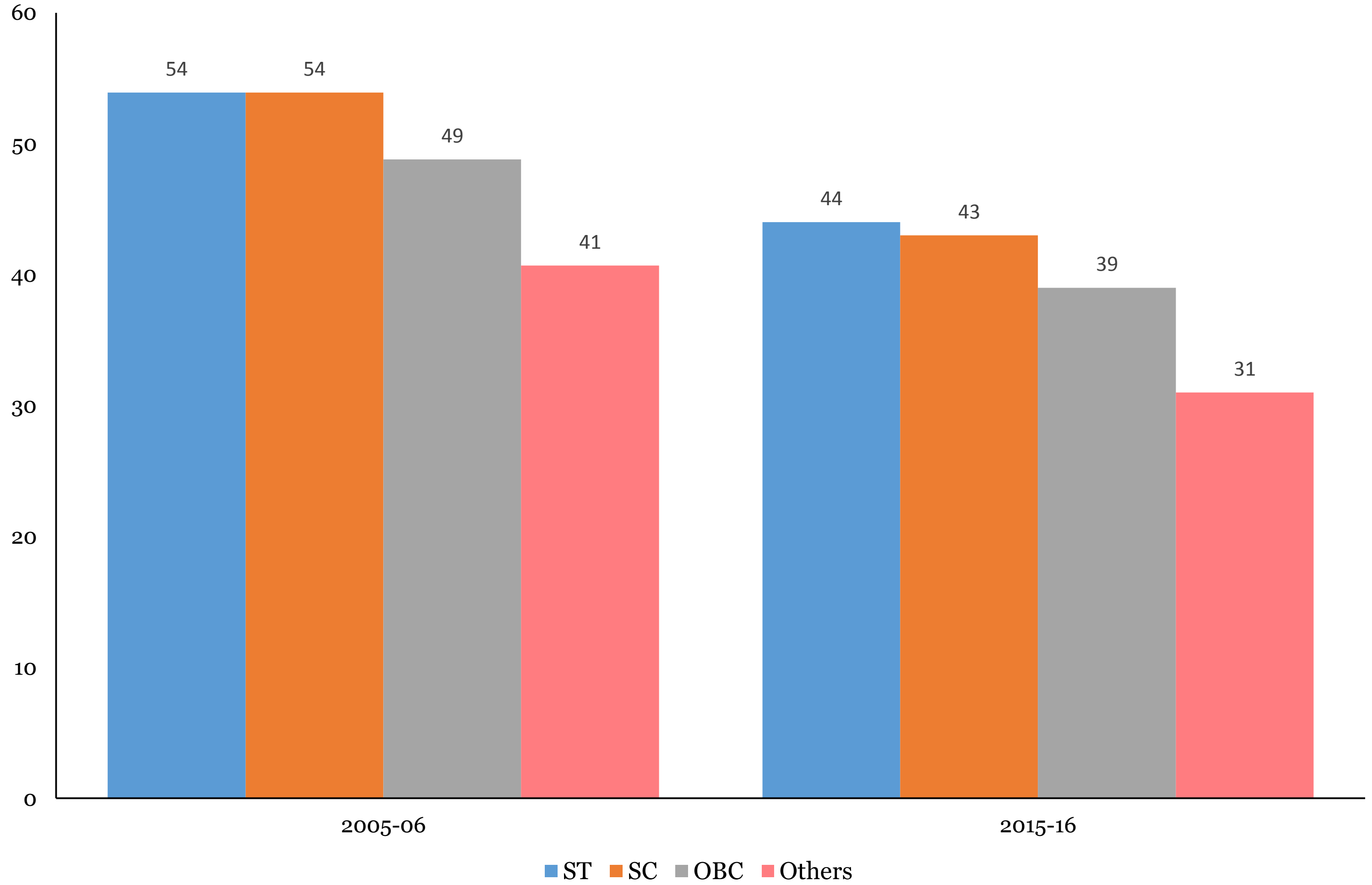
Disparity in asset ownership has worsened by social groups with disadvantaged groups losing out to privileged groups.



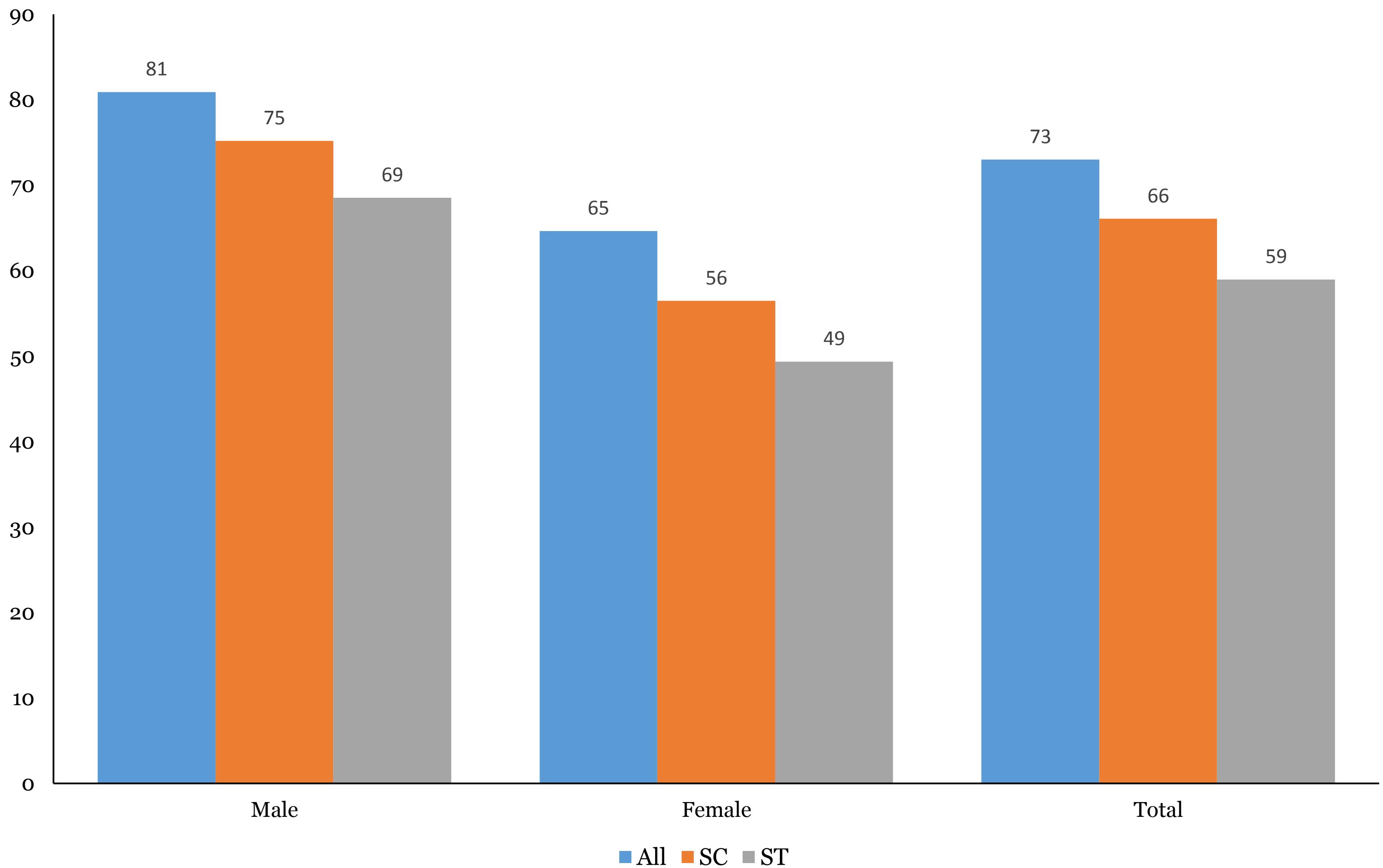
Muslims and Buddhists have the worst Asset share/Population share ratio and have declined



Nutrition: Worse but worst for disadvantaged

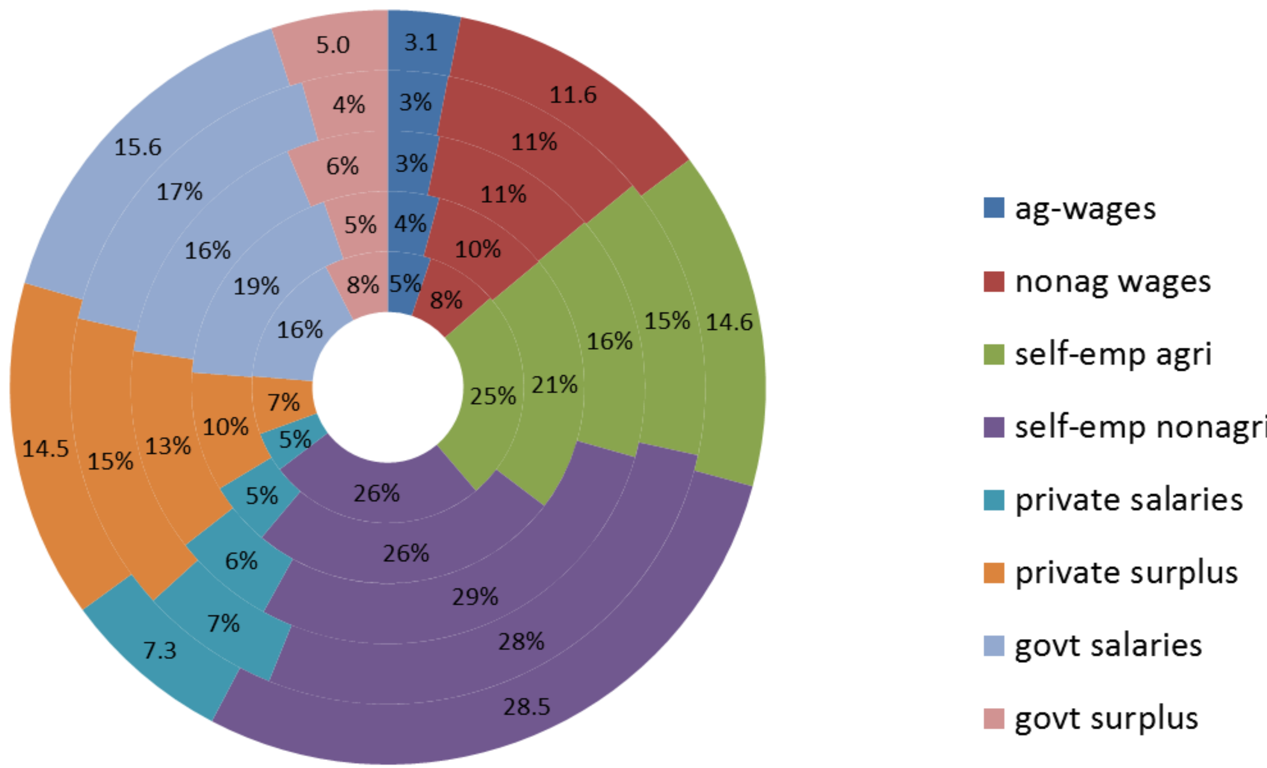


Education: Gender gaps exist so do gaps across caste



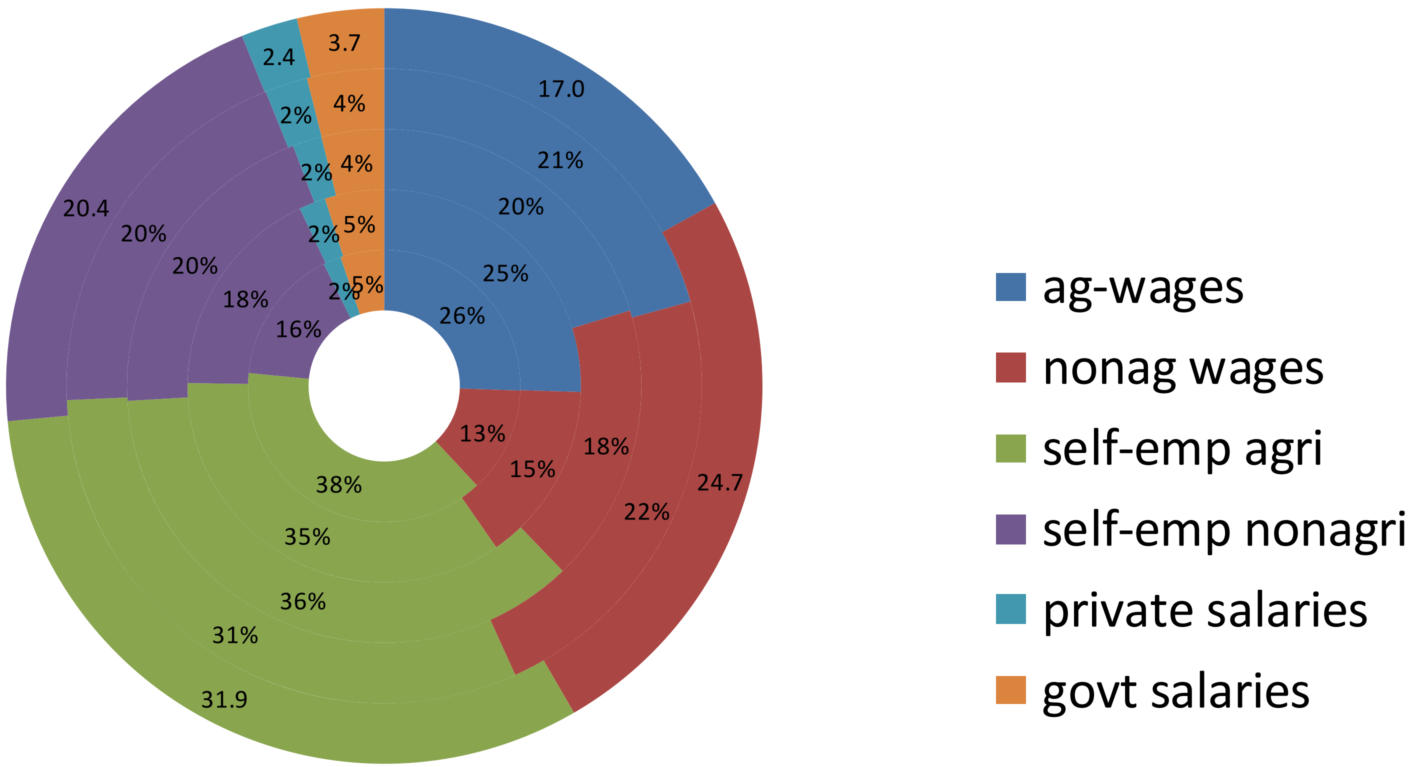
GROWTH, INEQUALITY AND EXCLUSION

Distribution of national income by factor shares : Only the private non farm sector has increased its share, mainly organised sector surpluses. Shares of both agriculture and the public sector have declined.



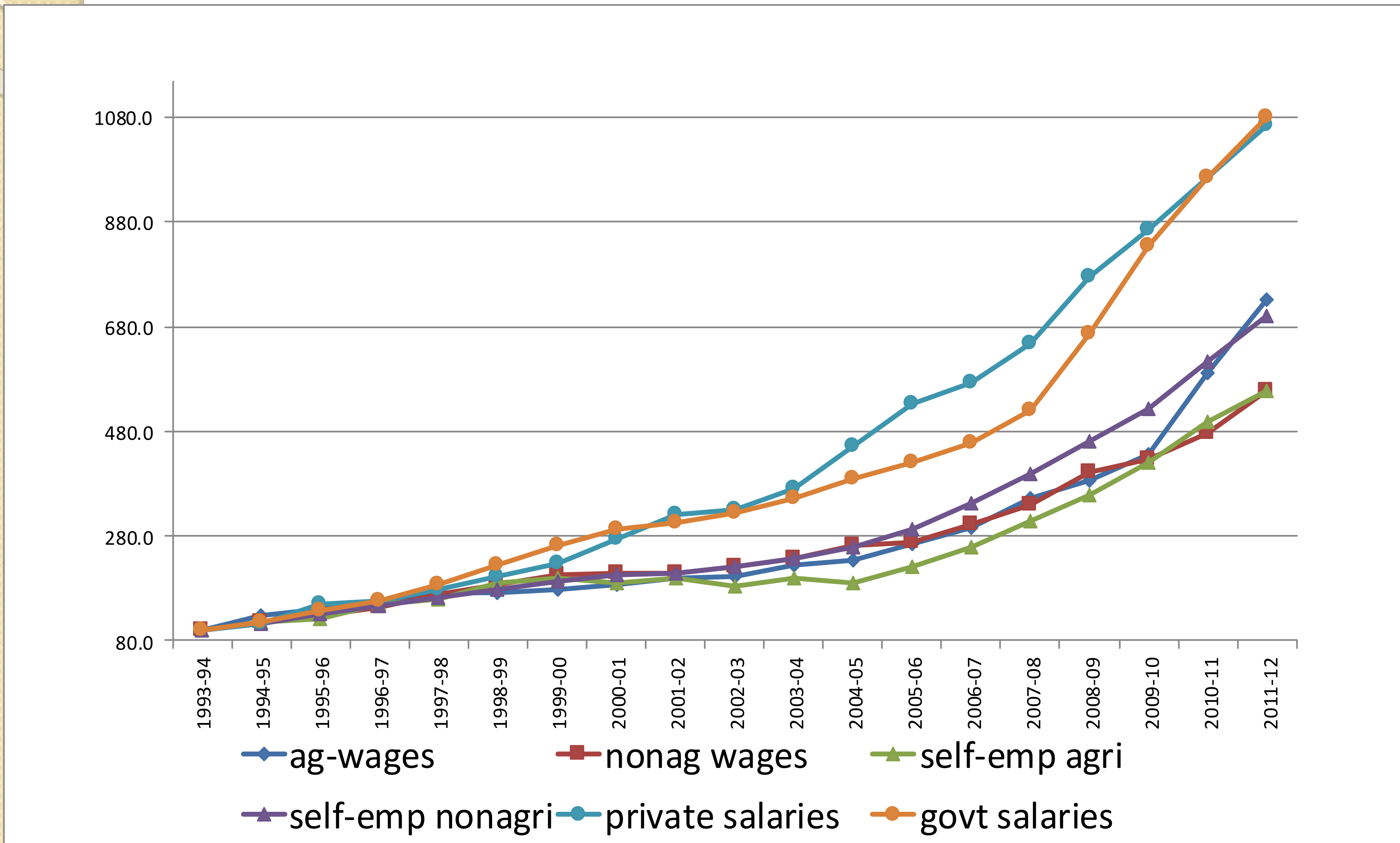
Innermost:1993-94, Second ring: 1999-00, Third ring: 2004-05, Fourth Ring: 2009-10, Outermost: 2011-12

But employment shares show no growth in organised employment and a sharp decline in agricultural wage employment.

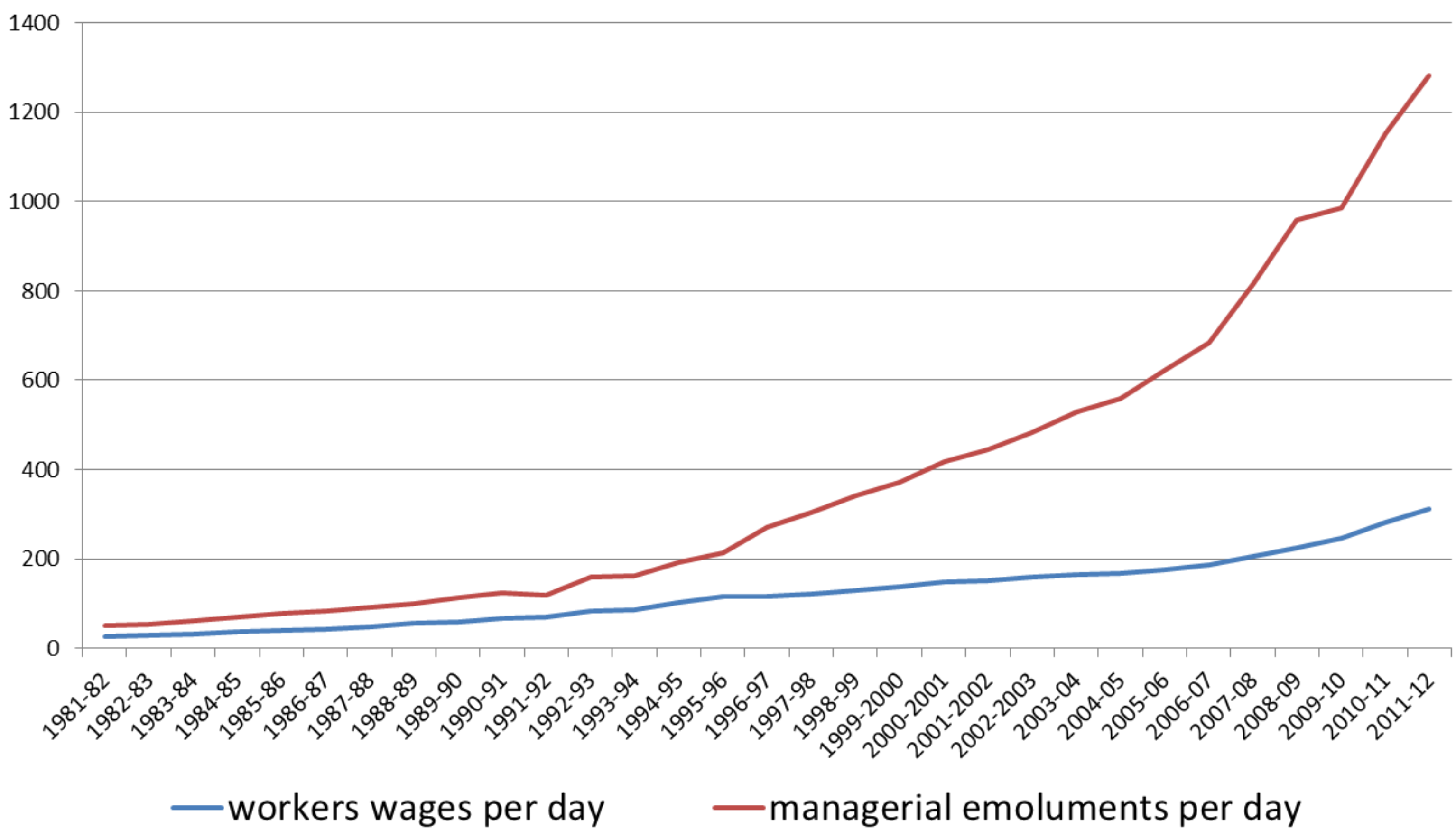


Innermost:1993-94, Second ring: 1999-00, Third ring: 2004-05, fourth ring: 2009-10, Outermost: 2011-12

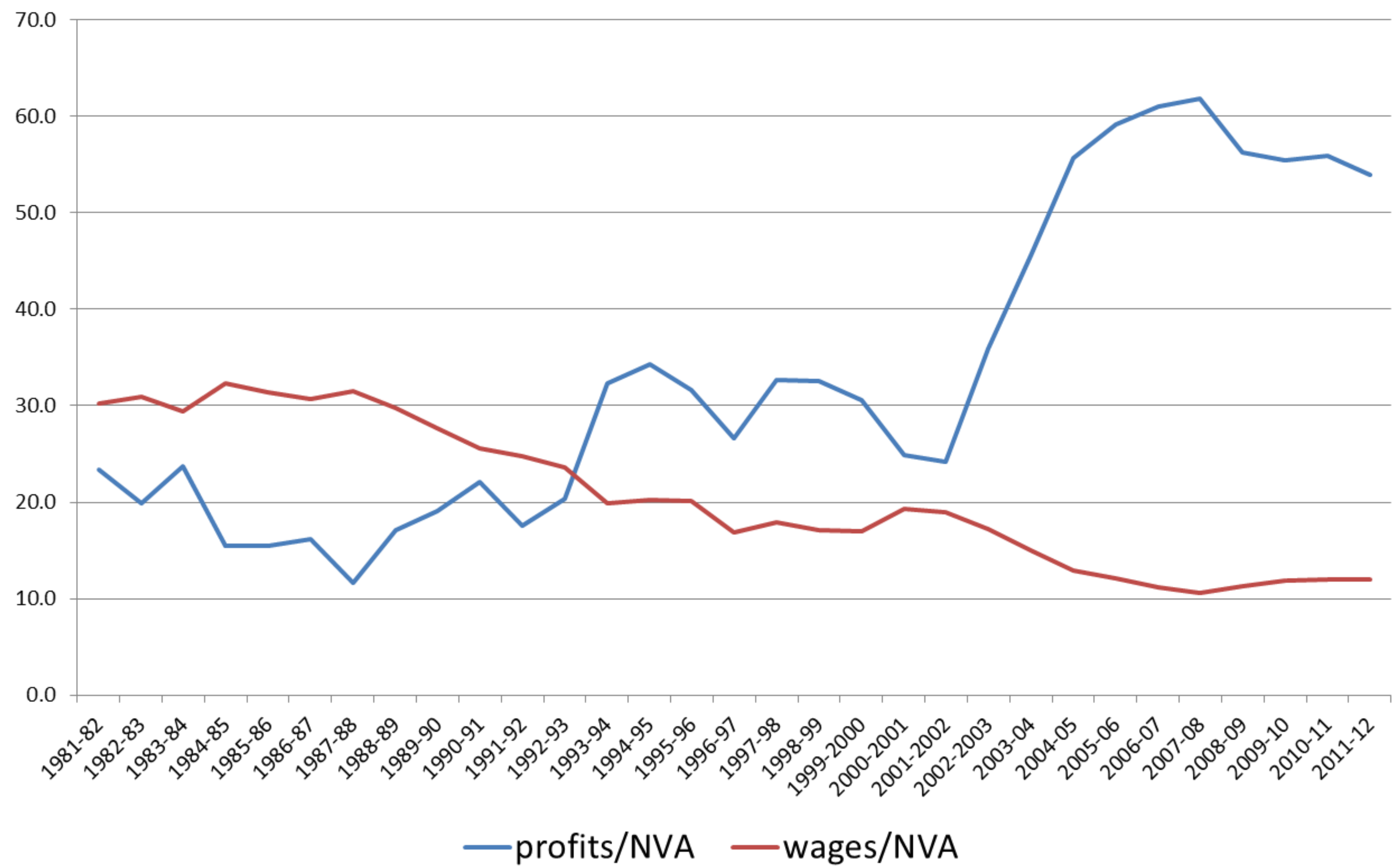
The gap between organised sector salaries and self-employed/wages started at the end of 1990s and has been growing thereafter.



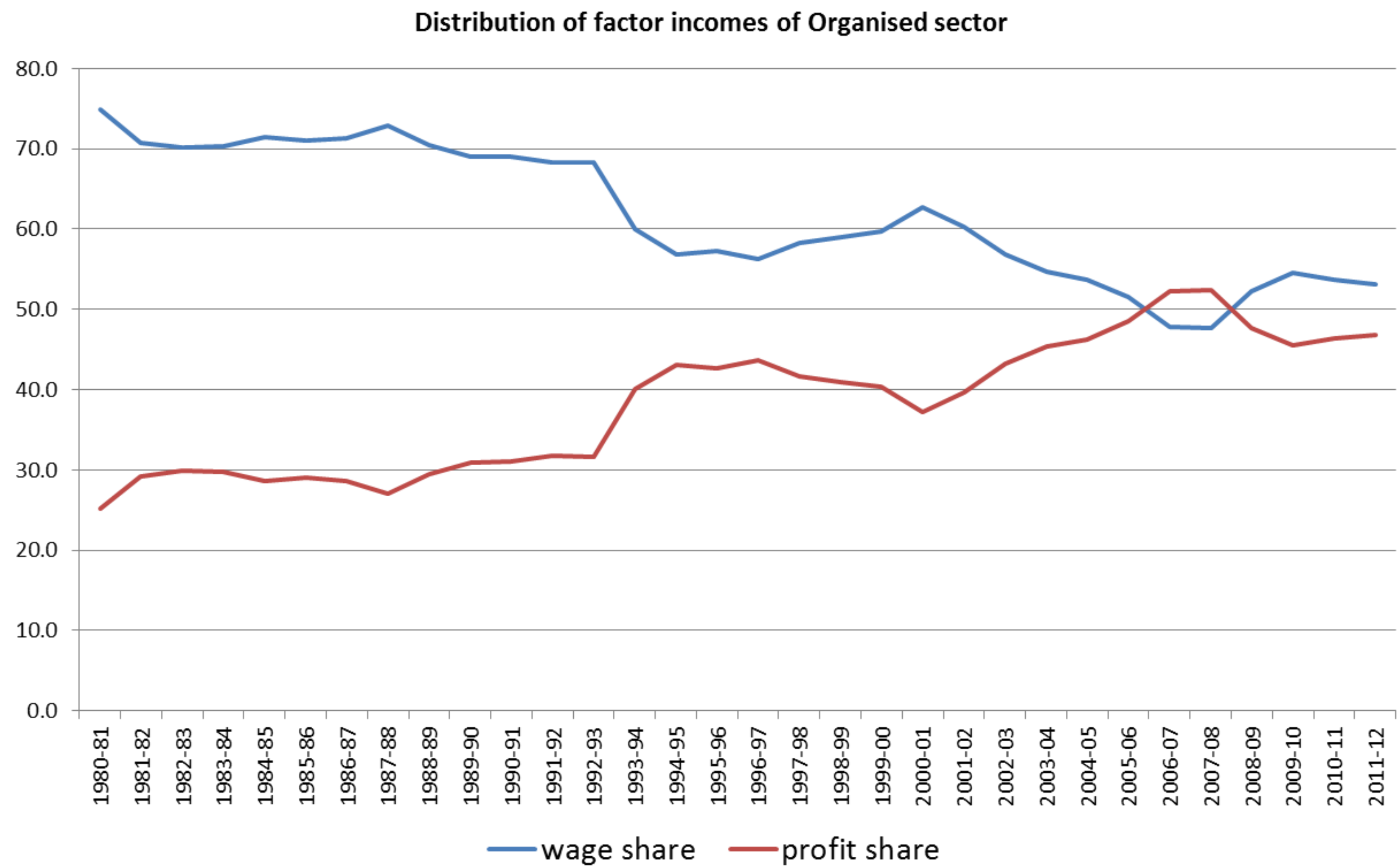
Within the organized manufacturing sector, the growth rate of income has largely been due to increase in managerial incomes. ASI data shows that the workers wages have increased much slower than managerial emoluments



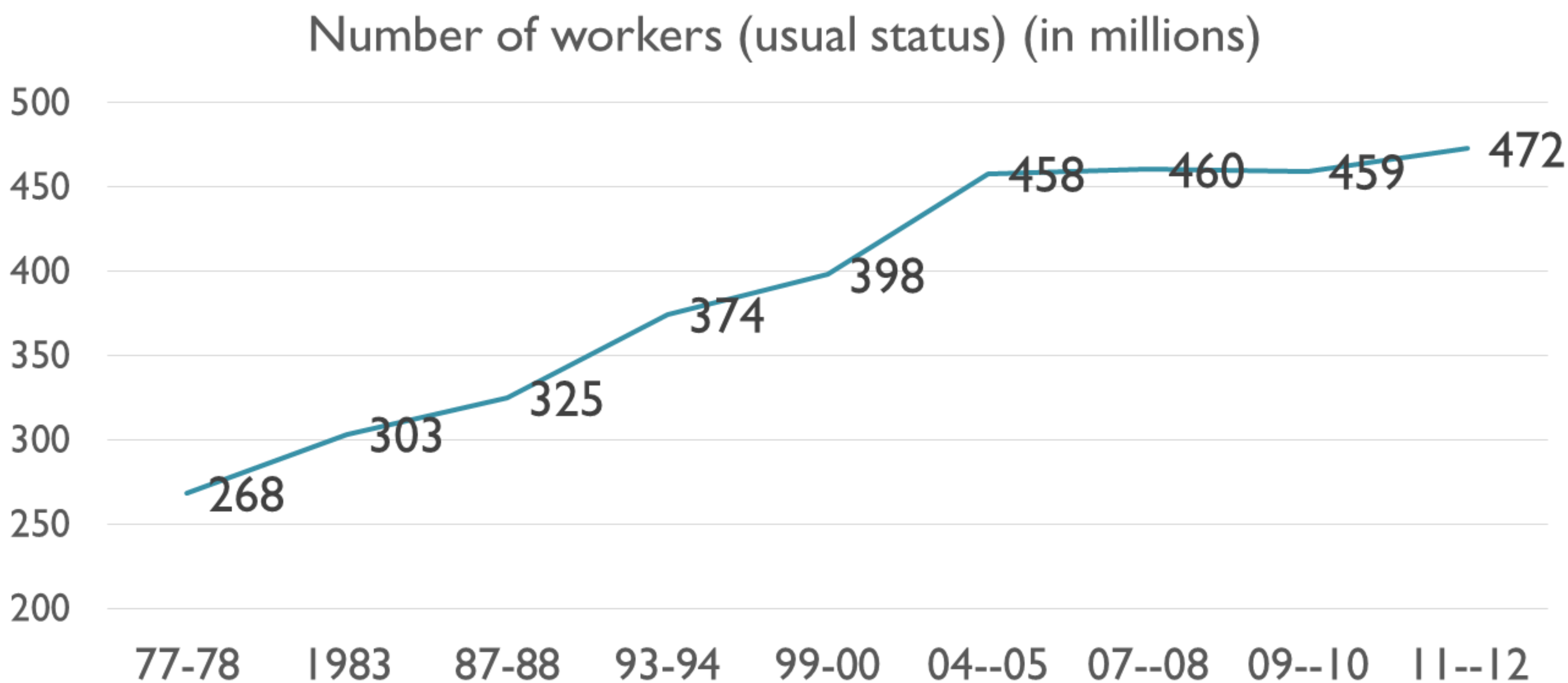
ASI data also shows that the share of wages have gone down considerably with profits share in NVA increasing faster than ever



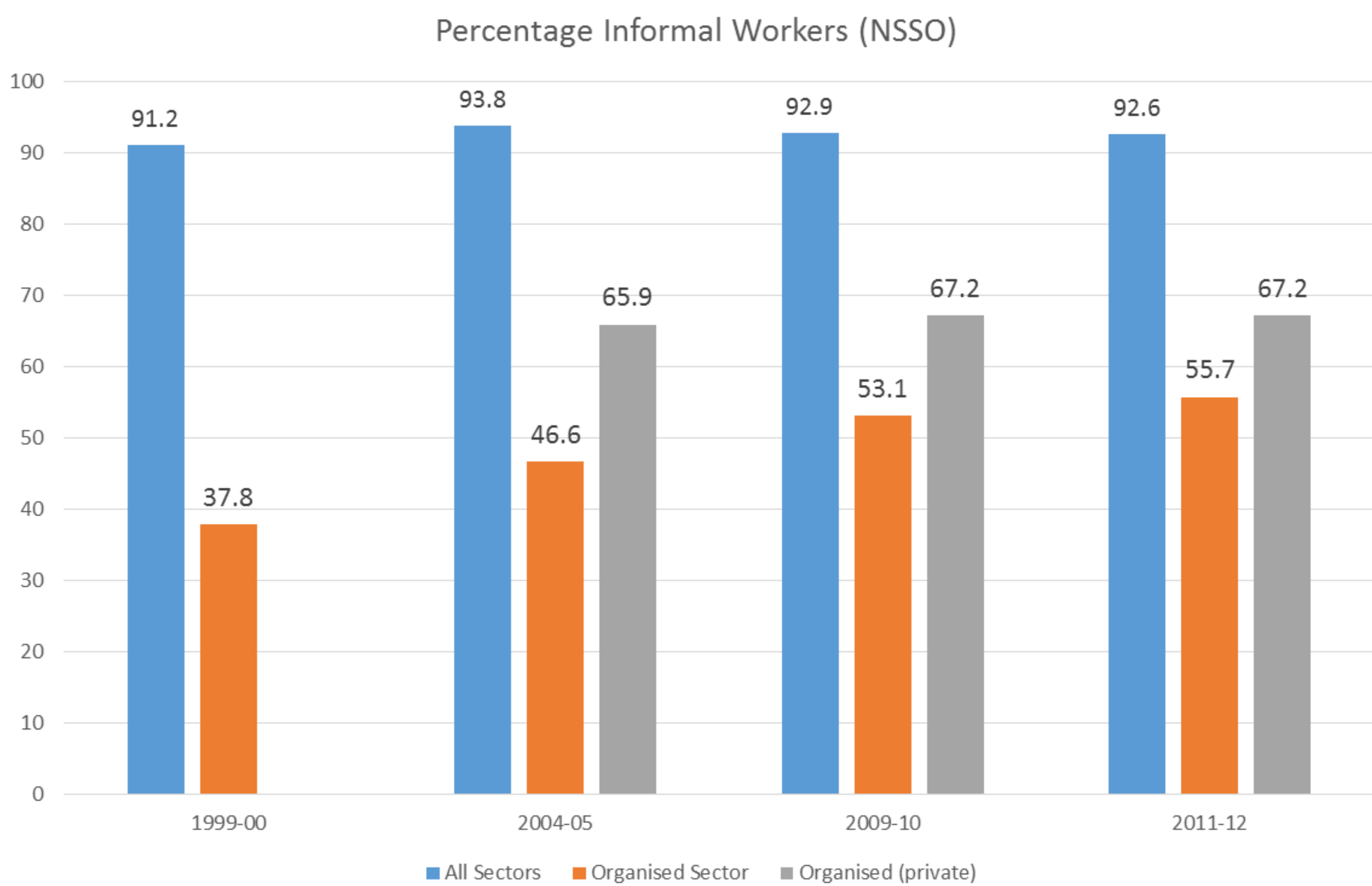
This is also confirmed from the National Accounts with profits of the organized sector increasing in the last decade



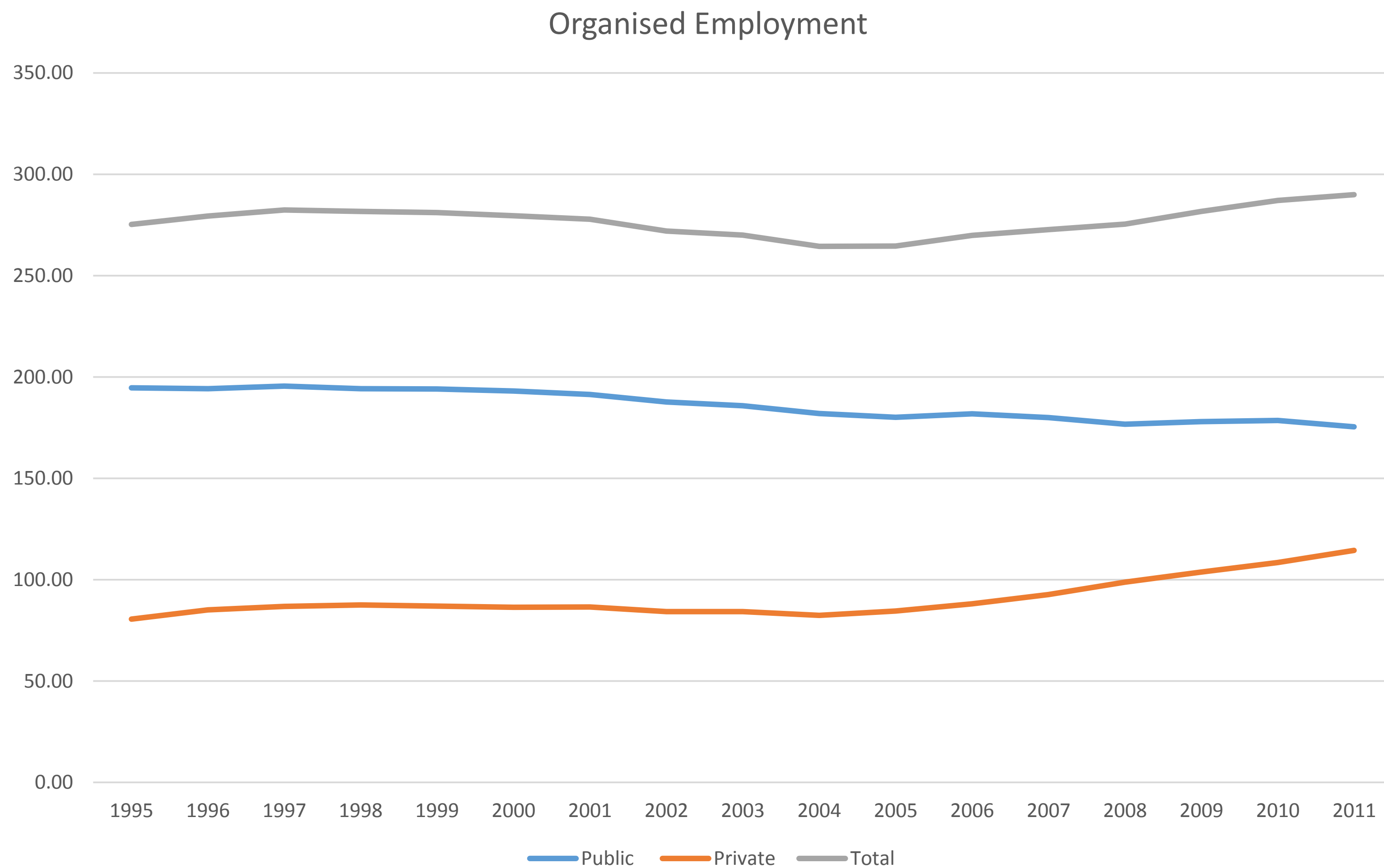
But even more worrying is the fact that this acceleration in GDP growth has also coincided with the worst phase of employment growth with employment growth slowing down to less than 0.1% per annum, the lowest in the post independence history.



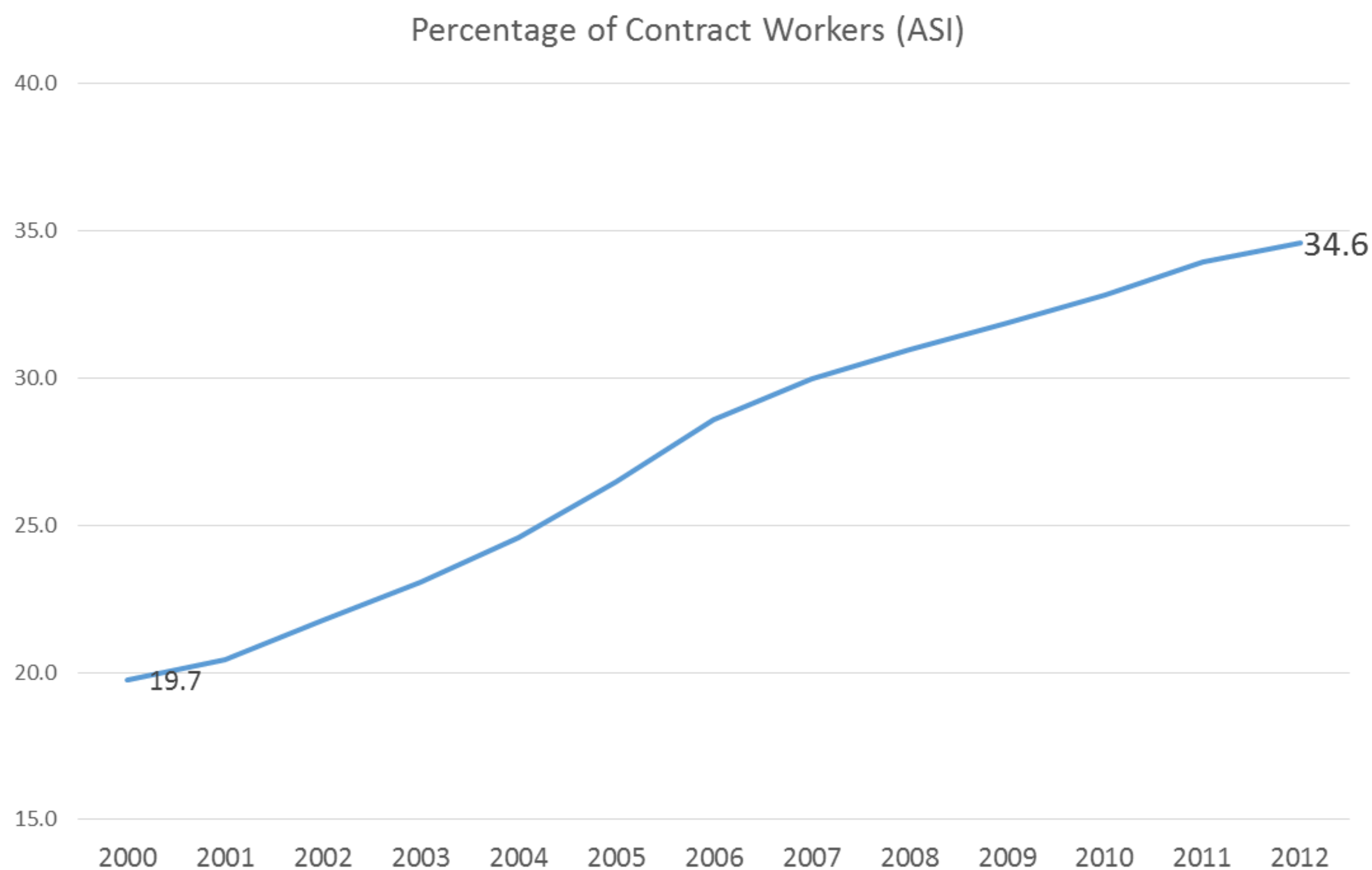
Not only did the economy not create sufficient jobs, there was deterioration in quality of existing jobs. Two third of all workers in organized private sector are informal workers.



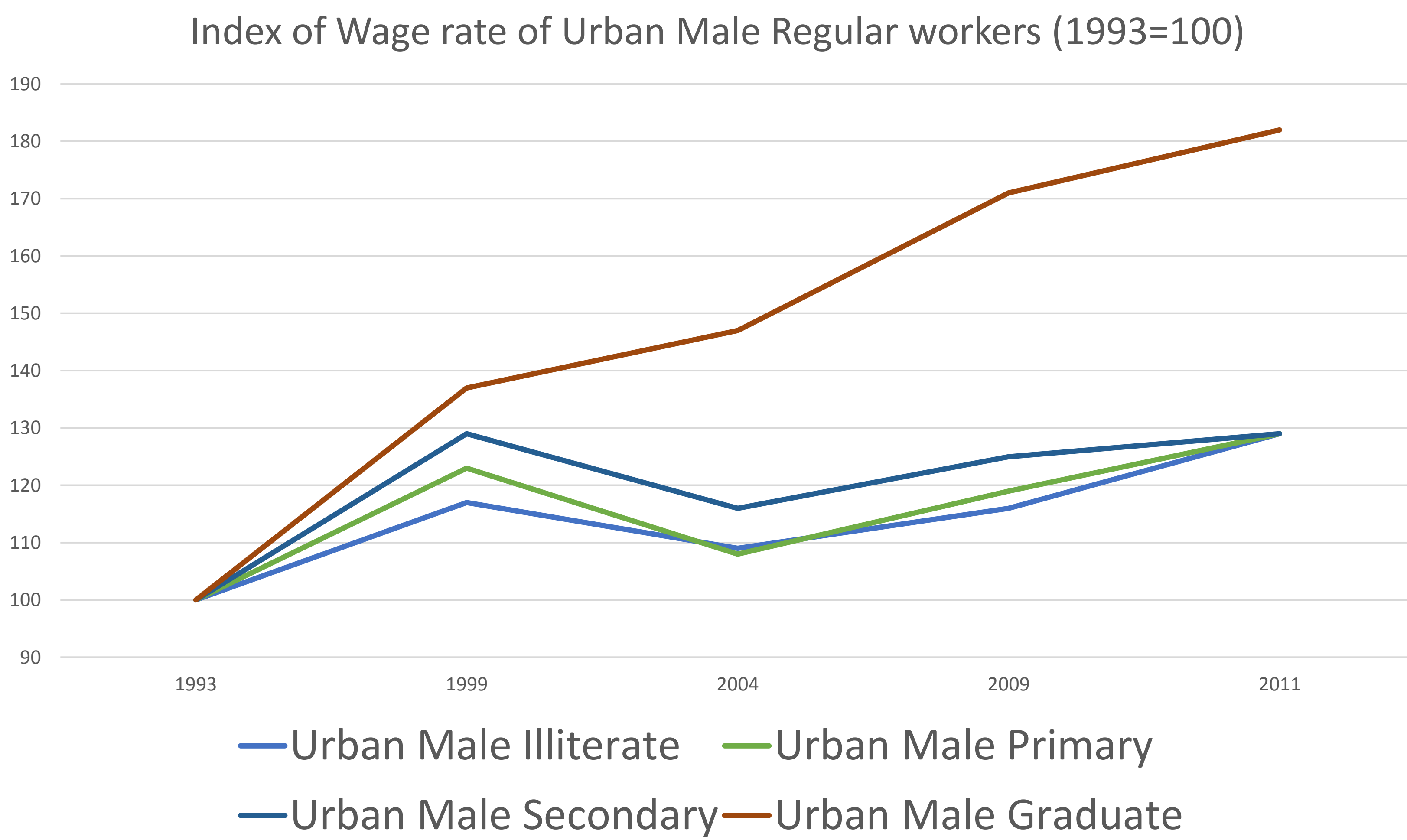
Organised sector hasn't contributed to employment generation



But even within organised manufacturing, the decline of wage share for manufacturing was partly achieved by increasing the share of contract workers.



Higher premium to skill/education meant that wages of graduates and above rose faster than others even among regular workers



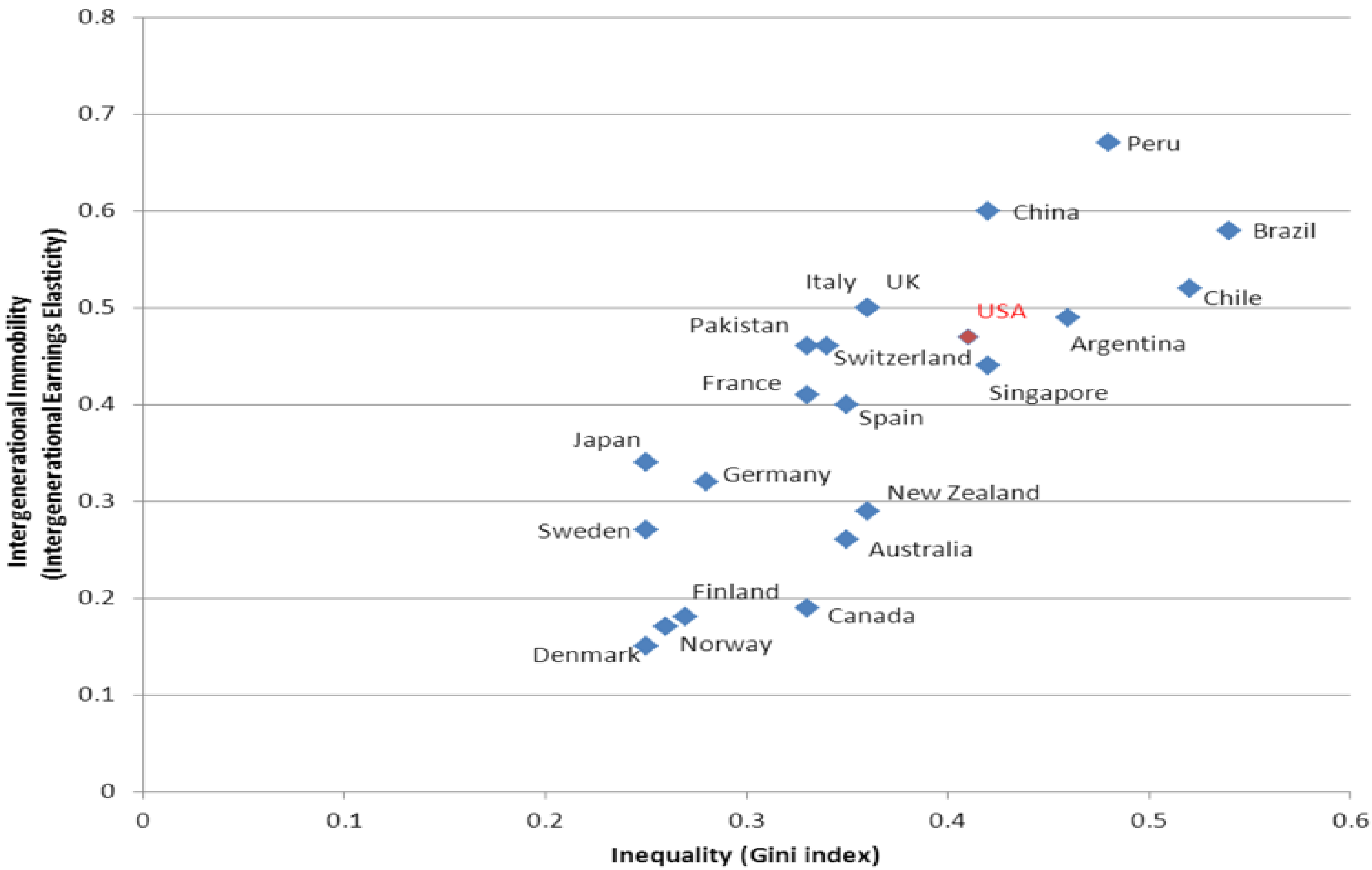
Inequality Matters

- Horizontal Inequality (caste, gender, religion, location)
- Access to basic services (education, health, nutrition, employment)
- Sinha (2016) and Dreze and Sharma (1998) use village data to look at the impact of inequality and collective action
- "poor services"

Inequality and Mobility

- Health: increases vulnerability and reduces access to jobs
- Education: Large gaps along with poor outcomes
- Stunted structural transformation: Can create crisis and political instability
    - Employment and farm crisis
- Regional imbalances can threaten political stability
- Also affects inter-generational mobility

"The Great Gatsby Curve"

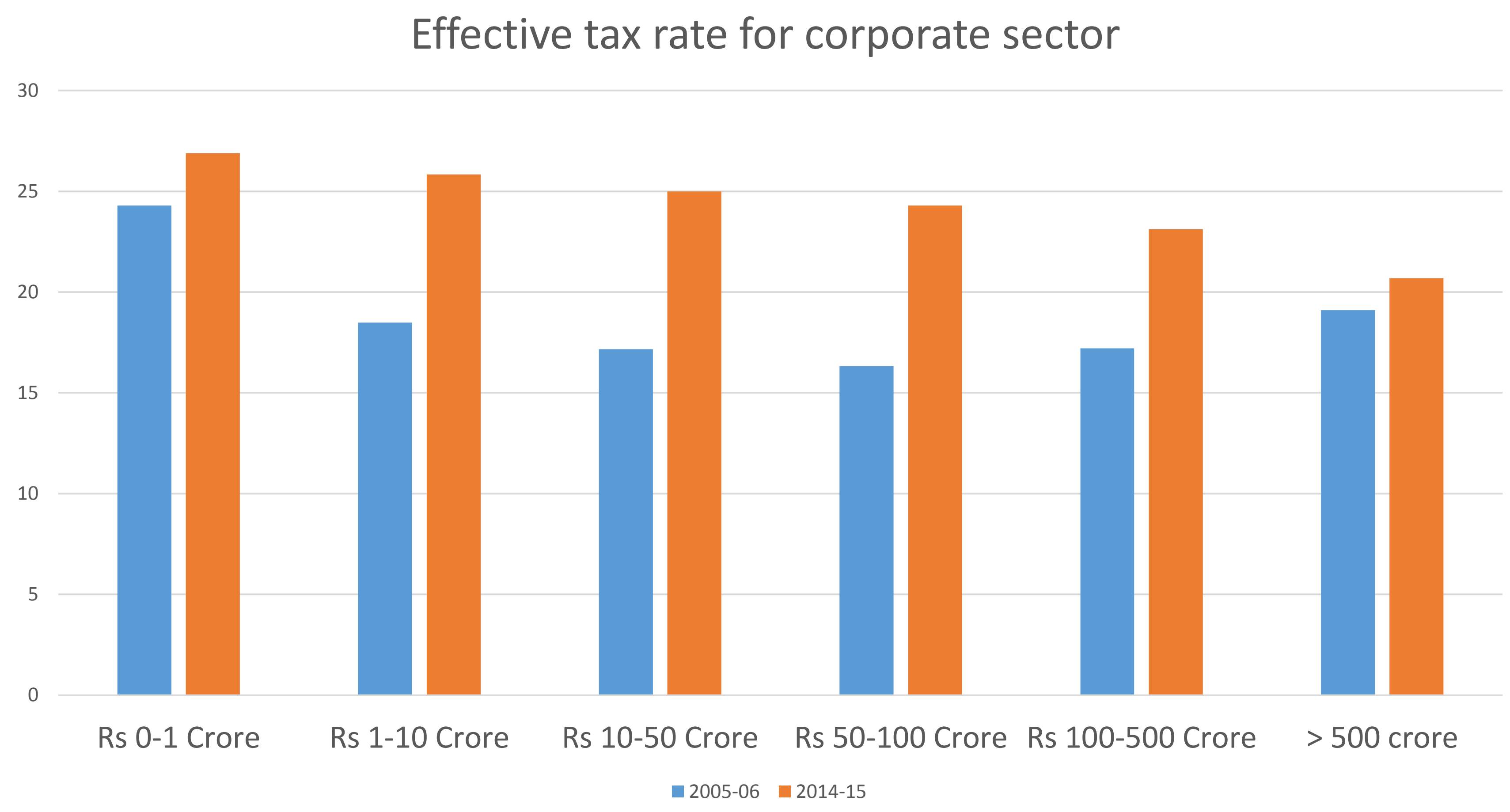


INEQUALITY IS NOT INEVITABLE

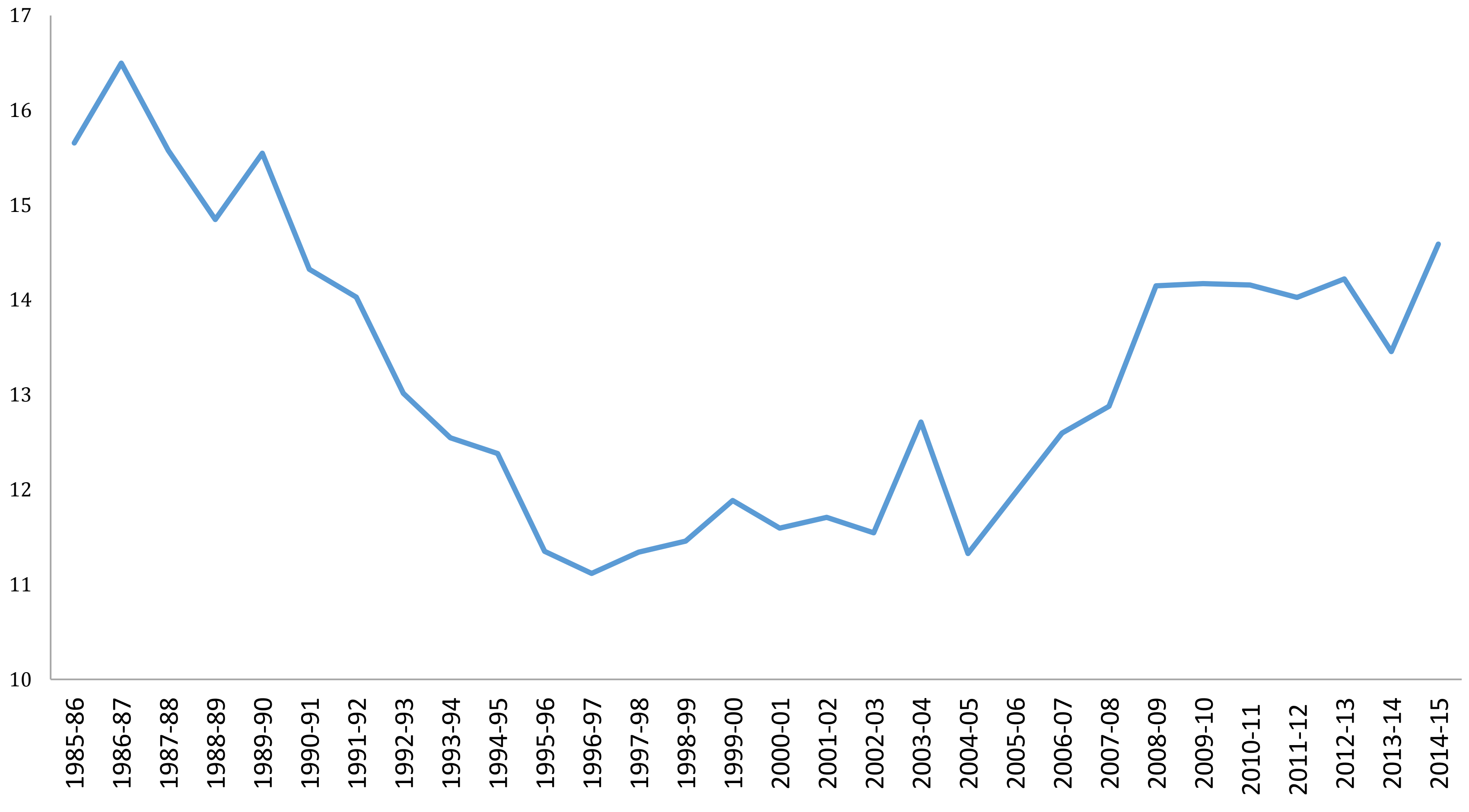
Need for Progressive Fiscal Policies

- 4.2 crore persons engaged in organised sector employment, the number of individuals filing return for salary income are only 1.74 crore
- 5.97 lakh companies filed returns for 2016-17: 2.76 lakh companies have shown losses or zero income. 2.85 lakh companies have shown profit before tax of less than Rs 1 crore. 28,667 companies have shown profit between Rs 1 crore to Rs 10 crore, and only 7781 companies have profit before tax of more than Rs 10 crores.
- The number of people showing income more than Rs 50 lakh in the entire country is only 1.72 lakh. We can contrast this with the fact that in the last five years, more than 1.25 crore cars have been sold, and a number of Indian citizens who flew abroad, either for business or tourism, is 2 crore in the year 2015.

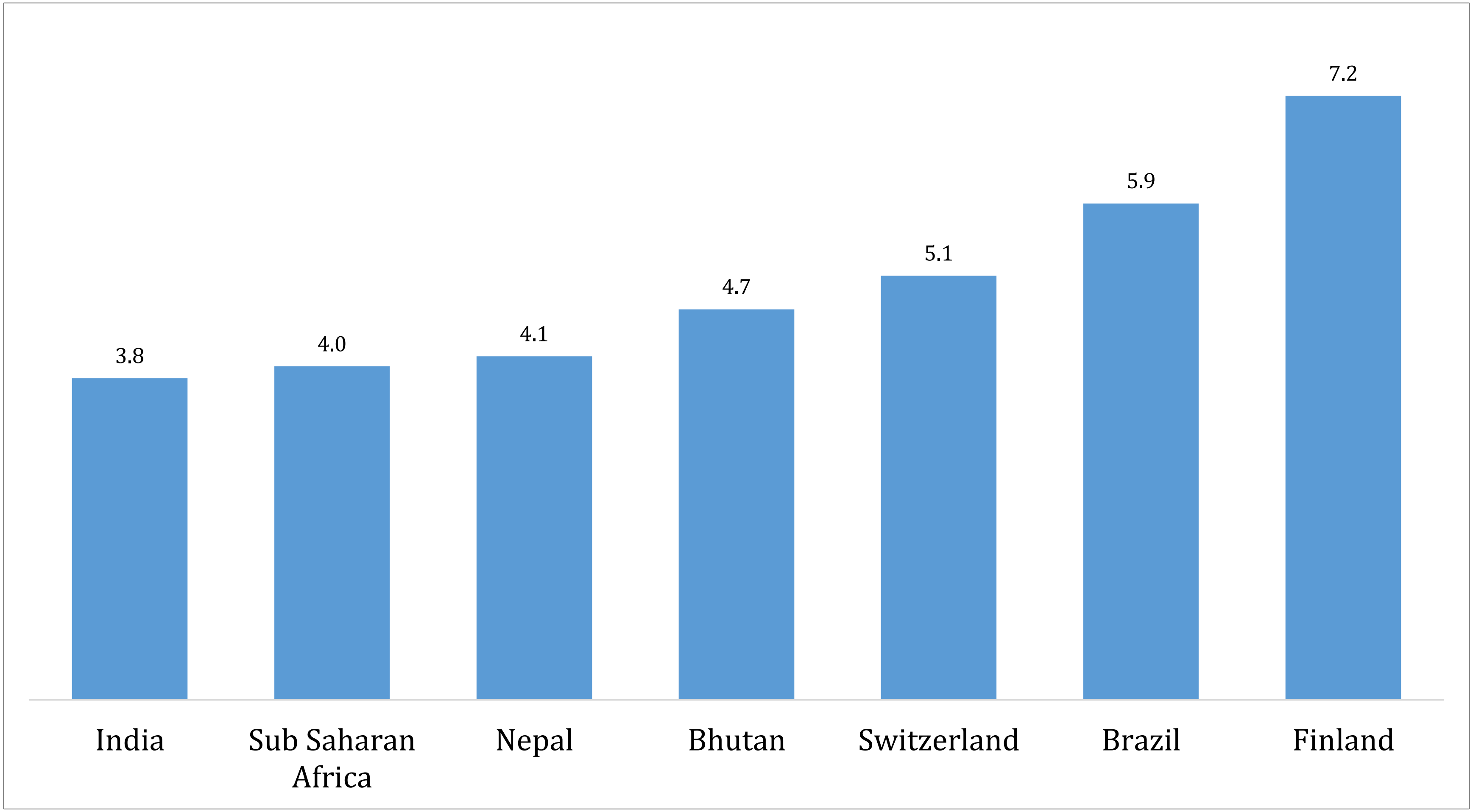
Smaller companies pay higher tax



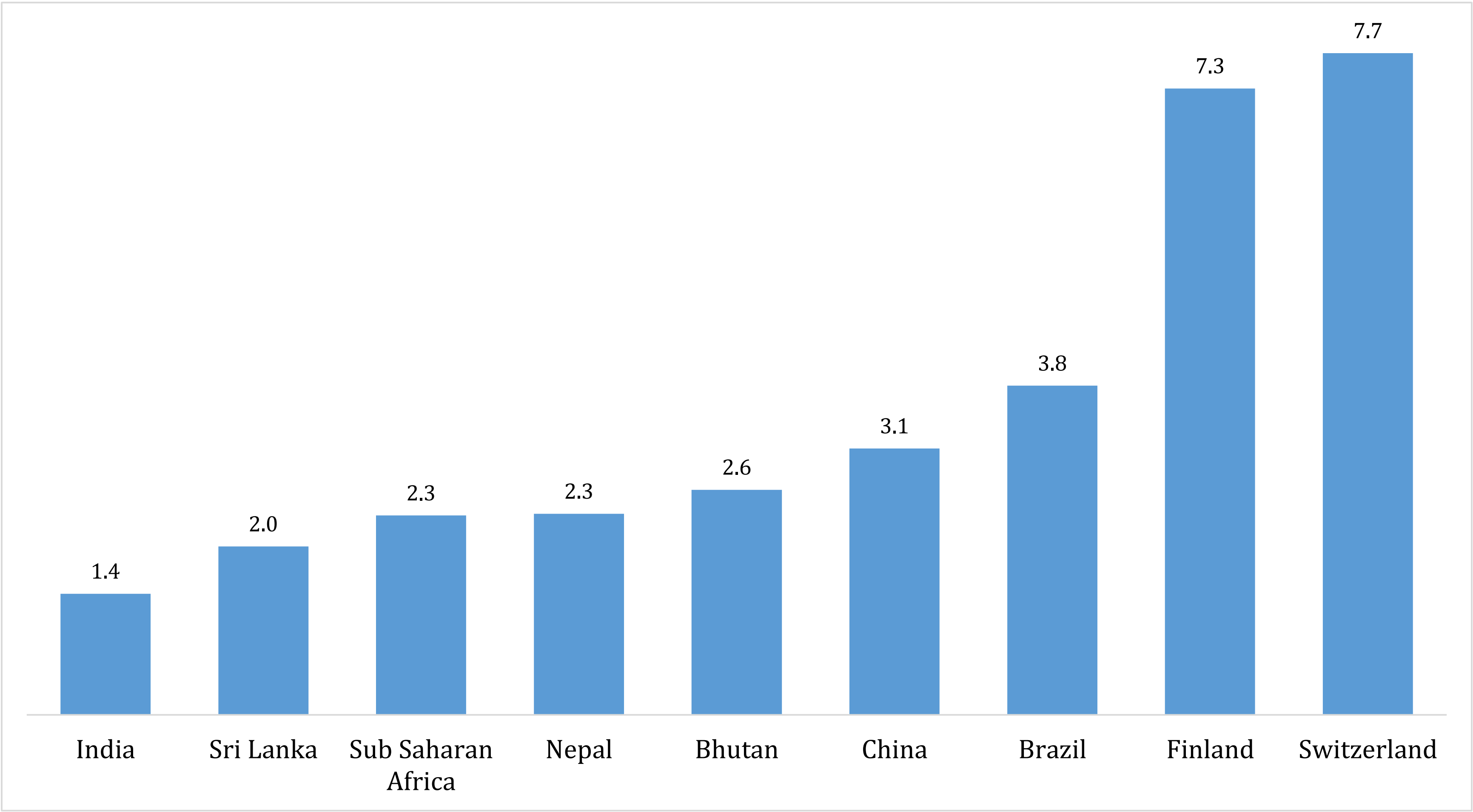
Development expenditure is declining as share of GDP



How do we compare internationally: Education (Education expenditure as a percentage of GDP (2012)



Health: Health expenditure as a percentage of GDP (2014)



Poverty, Inequality and Inclusion

- Although inequality is largely structural and historical
- Reinforced by economic, social and political processes
- The role of state?
- The trade-off between growth and redistribution
- The entitlement approach
- Inclusive growth is not just an economic outcome but also political