

Understanding Inequality in India

Posted at: 14/07/2025

Understanding Inequality in India: A Multidimensional Perspective

Context:

A recent **World Bank report** claims that **India has one of the lowest inequality levels globally**, highlighting a decline in the **Gini coefficient of consumption inequality** from **0.288 (2011-12)** to **0.255 (2022-23)**.

However, this conclusion is being challenged by multiple independent studies, including the **World Inequality Database (WID)**, which point to **rising income and wealth inequality** in India.

Understanding Inequality: Key Types

1. Consumption Inequality

- Measures differences in **household spending patterns**.
- **World Bank** data shows a **decline in Gini**, suggesting reduced inequality.
- However, consumption data often **understates real inequality**, as consumption is more evenly distributed than income or wealth.
- The fall in Gini may reflect **consumption smoothing** rather than actual redistribution of income.

2. Income Inequality

- Refers to disparities in **earnings and wages** across individuals or households.
- As per **WID 2023**, India's **income Gini coefficient is 0.61**, one of the **highest globally** (only **47 countries** rank worse).

- Official figures underestimate this due to **underreporting in surveys**.

3. Wealth Inequality

- Captures concentration of **asset ownership** (e.g., land, shares, property).
 - According to **WID**, India's **wealth Gini in 2023 is 0.75**, indicating **extreme wealth concentration**.
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Challenges in Measuring Inequality in India

- **Household Surveys** miss high-income earners and underreport asset data.
 - Differences in methodology between **2011-12 and 2022-23** hinder long-term comparison.
 - **Tax data is limited**—only **6 crore individuals** file income tax (CBDT), missing a large informal sector.
 - **No comprehensive wealth census**; estimates depend on indirect sources like Forbes rich lists, SEBI data, and property values.
 - **Top income and wealth brackets** often go unrecorded in national surveys.
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Limitations of Gini Coefficient

- **Aggregate measure**—masks extreme disparities.
- Does not show the share held by the **top 0.1%** or the **bottom 50%**.
- Needs to be supplemented with:
 - **Top 1% wealth share**
 - **P90/P10 ratios**

- **Theil index**
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Implications of High Inequality

- **Reduced Economic Mobility**
 - Limited opportunities for upward movement, especially for **bottom 50%**.
 - **Lower Aggregate Demand**
 - The rich tend to **save more** and **spend less**, impacting economic growth.
 - **Social Fragmentation**
 - Rising resentment can lead to **polarisation and unrest**.
 - **Distorted Policy Making**
 - Greater influence of elite groups on **taxation, land use, and subsidies**.
 - **Unequal Growth**
 - Benefits of GDP growth accrue mainly to the **top 10%** of the population.
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Constitutional & Policy Framework

- **Article 38(2)** of the Constitution:
 - Directs the State to **minimize income and opportunity inequalities**.
 - **Article 39(c)** - Directive Principles of State Policy:
 - Prevents **concentration of wealth and productive resources**.
 - **Welfare Schemes:**
 - **MGNREGA, PM-KISAN, PM-SVANidhi, and JAM Trinity** aim to address inequality.
 - However, challenges such as **poor targeting** and **leakages** remain.
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Way Forward

- **Progressive Taxation**

→ Consider reintroducing **wealth and inheritance taxes** on the ultra-rich to expand fiscal space.

- **Universal Public Services**

→ Strengthen access to **health, education, and nutrition** to level life opportunities.

- **Financial Inclusion**

→ Expand **low-cost credit** and protect borrowers to reduce dependency on informal lenders.

- **Job Creation and Skilling**

→ Align skilling with market demand and promote **labour-intensive sectors**.

- **Better Data Systems**

→ Integrate **tax records, surveys, and asset data** to generate more accurate and transparent inequality metrics.

Conclusion

Reducing inequality is essential for both **social justice** and **sustainable economic growth**. India's growing disparities in income and wealth demand **bold reforms** in taxation, public investment, and data transparency.

An inclusive approach to development is necessary to ensure **equitable prosperity** for all.

