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Analyzing Economic Growth Versus Income Inequality Trends In India

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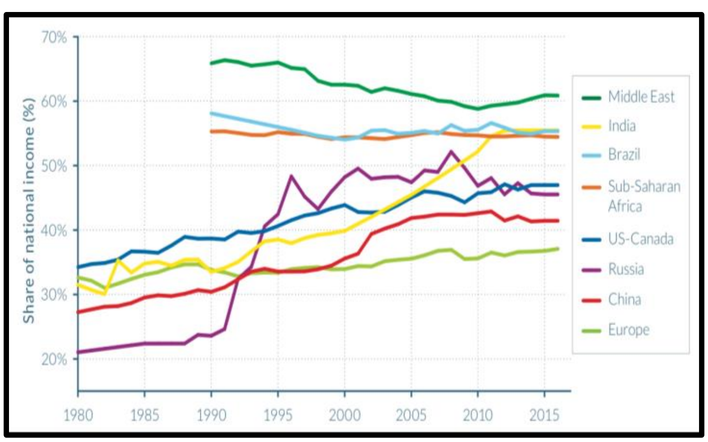
Executive Summary
From the beginning of the 19th century, the British colonial power in India exploited its abilities to drain the wealth of India, leading to mass impoverishment, increasing income inequalities and decreased employment levels in the nation. Hence, after India's independence in 1947, the economic policy of the nation was planned based on the Soviet Union communist economy — economic policy bent towards protectionism with a robust focus on import substitution industrialisation, economic interventionism and nationalization of strategic industries prevailed. From 1947 to 1964, India was a statist, centrally administered economy and commodity prices were regulated by the government. During 1966–77 and 1980–84, these economic policies were carried forward and a highly progressive tax system was administered, with an estimated top marginal income tax rate of 97.5% in the 1970s.

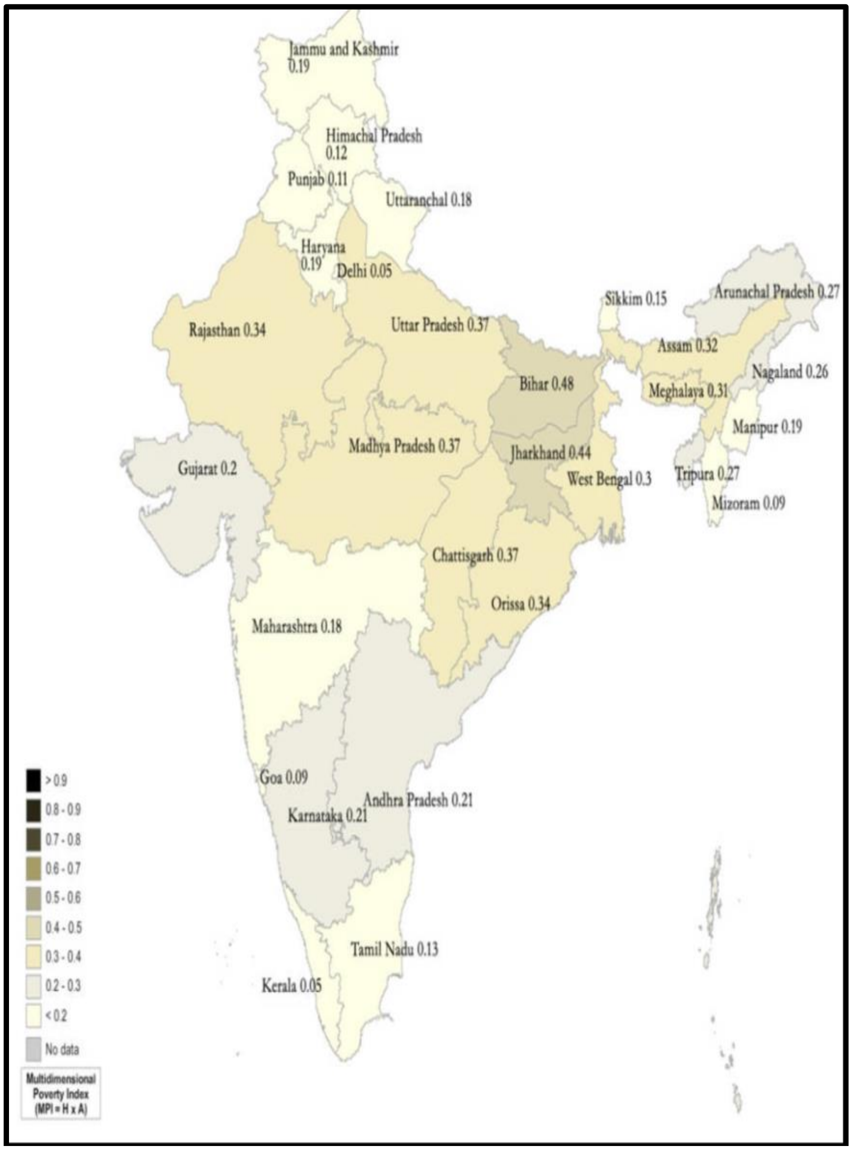
The end of the Cold War and an intense balance of payments crisis in 1991 in India led the nation to call for assistance from the International Monetary Fund. This financial help was conditioned to structural economic reforms which accelerated the deregulation and liberalization agenda. From 1991–2000 the economic reforms promoted the expansion of the private sector through disinvestment, delicensing and deregulation of the public-owned companies. This process was accompanied by a boost in GDP, and since the onset of the 21st century, the yearly average GDP increase has been approximately from 6% to 8%. Furthermore, according to the "World Economic Outlook Database: April 2023" International Monetary Fund, the anticipated GDP per capita rise in India is US$ 2,601 (nominal; 2023) and US$ 9,073 (PPP; 2023).

However, along with this economic growth during this period the income inequalities within the nation accelerated and as per the United Nations Development Program (UNDP), India's income Gini coefficient is 33.9 in 2018. Hence, the term "Shining India" could relate to the top 10% of the population rather than the middle 40% and the bottom 50% of India's population based on different income groups, as since the early 1980s the growth has been unevenly distributed within the top 10% income group.

Top 10% income shares across the world, 1980-2016



Source: World Inequality Report 2018
Mapping MPI for various states and union territories in India



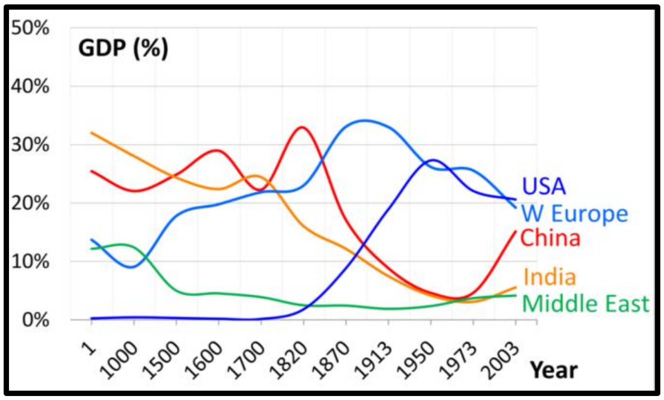
Source: "Country Briefing: India, Multidimensional Poverty Index (MPI) At a Glance" (PDF), Oxford Poverty and Human Development Initiative

There is an on-going controversy on whether India's economic development has been pro-poor or anti-poor. This research paper evaluates this debate and indicates that this economic evolution has been pro-poor as it has decreased absolute poverty levels in the nation. As per the World Bank, extreme poverty in India has diminished by 12.3% from 2011-2019 from 22.5% in 2011 to 10.2% in 2019. The paper provides a detailed analysis of the average incomes of the entire Indian population, the top 1% income group, the top 10% income group, the middle 40% and the bottom 50% from the 1950s onwards to the current scenario. It also compares the growing Indian income inequalities with other global economies (specifically China which can be compared to India) to study the world inequality conditions during the same time period. The white paper concludes by providing future global inequality trends and suggestions how to overcome the same.

Opening Statement: A Brief Preview Of The Indian Economy

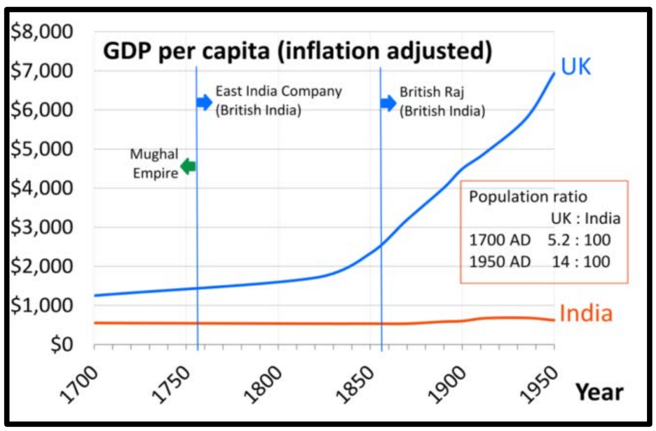
From the advent of the 19th century, the British colonial power in India through the East India Company manipulating its exploitative powers led to the draining of wealth, mass impoverishment, rising income inequalities and declined employment levels in the nation. According to the estimates calculated by the Cambridge historian Angus Maddison, 'India the brightest jewel in the British Crown' in 1700 captured a 23.3% share of world income, almost equal to Europe's share. However, post the British colonial era in India the corresponding figure in 1952 dipped to 3.8%. Refer to Exhibit 1 and Exhibit 2 which discuss this concept in detail.

Exhibit 1: Individual nations' contribution to the globe's GDP estimates by prominent economies from 1 CE to 2003 CE



Source: Maddison Angus (2007), Contours of the World Economy 1–2030 AD: Essays in Macro-Economic History

Exhibit 2: Estimated GDP per capita of India and the United Kingdom during 1700–1950 (in US$)



Source: Maddison Angus (2007), Contours of the World Economy I-2030AD

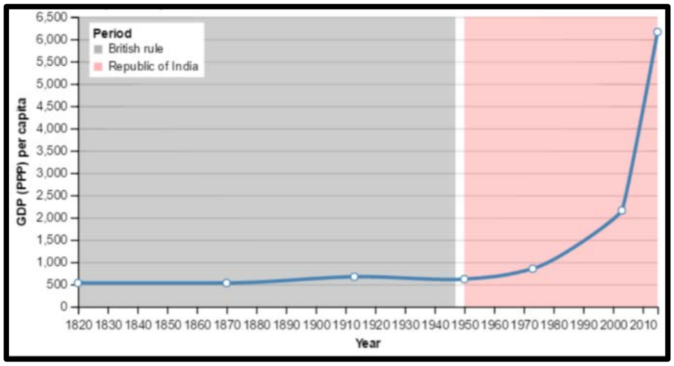
Post India's independence in 1947, the economic policy of the nation was planned based on the Soviet Union economy, as the Indian leaders were severely impacted due to exploitative colonial rule. Hence, the nation's economic policy bent towards protectionism created a 'Licence Raj' (the scheme under which businesses were mandated to obtain licenses from the government to operate) with a robust focus on import substitution industrialisation and economic interventionism, nationalization of strategic industries prevailed, government administration set pay scales and central planning measures were enforced.

From 1947 to 1964, India was a statist, centrally administered economy and commodity prices were regulated by the government. During the period 1966–77 and 1980–84, these economic policies were carried forward and a highly progressive tax system was administered. In the 1970s, it is estimated that the top marginal income tax rate attained a record high level up to 97.5%. From the mid-1980s onwards, relaxation of market regulations, liberalization and trade openness was initiated and the tax system was also altered, with top marginal income tax rates declining to 50%.

The end of the Cold War and an intense balance of payments crisis in 1991 in India led the nation to call for assistance from the International Monetary Fund. This financial help was conditioned to structural economic reforms which accelerated the deregulation and liberalization agenda. From 1991–2000 the economic reforms promoted the expansion of the private sector through disinvestment, delicensing and deregulation of the public-owned companies. These liberalization reforms eliminated the Licence Raj, diminished tariffs and interest rates and ceased multiple public monopolies, permitting automatic authorization of foreign direct investment in many sectors.

By the beginning of the 21st century, the nation had advanced towards a free-market economy, with a considerable decline in public administration management of the economy. This process was accompanied by a boost in life expectancy, an increase in literacy level and food security within the country. Exhibit 3 depicts the accelerated growth in per capita GDP in India from the 1980s onwards, due to ease in regulations.

Exhibit 3: Trends GDP per capita in India from 1820–2015



Note: Figures are inflation-adjusted to 1990 International Geary-Khamis dollars

Source: Prof. Angus Maddison (2010)

Exhibit 4: Economic indicators in India from 1980–2022

Year	GDP (in Bil. US$PPP)	GDP per capita (in US$ PPP)	GDP (in Bil. US$nominal)	GDP per capita (in US$ nominal)	GDP growth (real)	Inflation rate (in Percent)	Unemployment (in Percent)	Government debt (in % of GDP)
1980	371.9	532.0	189.4	271.0	▲5.3%	▲11.3%	n/a	n/a
1981	▲431.5	▲603.2	▲196.5	▲274.7	▲6.0%	▲12.7%	n/a	n/a
1982	▲474.1	▲647.5	▲203.5	▲278.0	▲3.5%	▲7.7%	n/a	n/a
1983	▲528.6	▲705.3	▲222.0	▲296.3	▲7.3%	▲12.6%	n/a	n/a
1984	▲568.6	▲741.4	▼215.6	▼281.1	▲3.8%	▲6.5%	n/a	n/a
1985	▲617.4	▲787.1	▲237.6	▲302.9	▲5.3%	▲6.3%	n/a	n/a
1986	▲659.9	▲822.8	▲252.8	▲315.2	▲4.8%	▲8.9%	n/a	n/a
1987	▲703.0	▲857.7	▲283.8	▲346.2	▲4.0%	▲9.1%	n/a	n/a
1988	▲797.9	▲952.7	▲299.6	▲357.8	▲9.6%	▲7.2%	n/a	n/a
1989	▲878.5	▲1,027.0	▲301.2	▼352.2	▲5.9%	▲4.6%	n/a	n/a
1990	▲961.8	▲1,101.3	▲326.6	▲374.0	▲5.5%	▲11.2%	n/a	n/a
1991	▲1,004.8	▲1,127.4	▼274.8	▼308.4	▲1.1%	▲13.5%	5.6%	75.3%
1992	▲1,084.1	▲1,192.2	▲293.3	▲322.5	▲5.5%	▲9.9%	▲5.7%	▲77.4%
1993	▲1,162.5	▲1,253.5	▼284.2	▼306.4	▲4.8%	▲7.3%	–5.7%	▼77.0%
1994	▲1,266.4	▲1,339.2	▲333.0	▲352.2	▲6.7%	▲10.3%	–5.7%	▼73.5%
1995	▲1,390.8	▲1,442.9	▲366.6	▲380.3	▲7.6%	▲10.0%	▲5.8%	▼69.7%
1996	▲1,523.2	▲1,550.6	▲399.8	▲407.0	▲7.6%	▲9.4%	▼5.7%	▼66.0%
1997	▲1,612.3	▲1,610.8	▲423.2	▲422.8	▲4.1%	▲6.8%	▼5.6%	▲67.8%
1998	▲1,731.2	▲1,698.1	▲428.8	▼420.6	▲6.2%	▲13.1%	▲5.7%	▲68.1%
1999	▲1,904.2	▲1,834.4	▲466.9	▲449.8	▲8.5%	▲5.7%	–5.7%	▲70.0%
2000	▲2,024.7	▲1,916.3	▲476.6	▲451.1	▲4.0%	▲3.8%	▼5.6%	▲73.6%
2001	▲2,172.7	▲2,021.1	▲494.0	▲459.5	▲4.9%	▲4.3%	–5.6%	▲78.7%
2002	▲2,292.8	▲2,097.1	▲524.0	▲479.2	▲3.9%	▲4.0%	▼5.5%	▲82.9%
2003	▲2,523.8	▲2,270.6	▲618.4	▲556.3	▲7.9%	▲3.9%	▲5.6%	▲84.4%
2004	▲2,795.0	▲2,474.2	▲721.6	▲638.8	▲7.8%	▲3.8%	–5.6%	▼83.4%

2005	▲ 3,150.3	▲ 2,745.1	▲834.2	▲726.9	▲9.3%	▲4.4%	–5.6%	▼81.0%
2006	▲ 3,548.3	▲ 3,044.5	▲949.1	▲814.4	▲9.3%	▲6.7%	–5.6%	▼77.2%
2007	▲ 4,001.4	▲ 3,381.8	▲1,238.7	▲ 1,046.9	▲9.8%	▲6.2%	–5.6%	▼74.1%
2008	▲ 4,236.8	▲ 3,528.7	▼1,224.1	▼ 1,019.5	▲3.9%	▲9.1%	▼5.4%	▼72.8%
2009	▲ 4,625.5	▲ 3,798.5	▲1,365.4	▲ 1,121.2	▲8.5%	▲12.3%	▲5.5%	▼71.5%
2010	▲ 5,161.4	▲ 4,181.7	▲1,708.5	▲ 1,384.2	▲ 10.3%	▲10.5%	–5.5%	▼66.4%
2011	▲ 5,618.4	▲ 4,493.7	▲1,823.1	▲ 1,458.1	▲6.6%	▲9.5%	▼5.4%	▲68.6%
2012	▲ 6,153.2	▲ 4,861.2	▲1,827.6	▼ 1,443.9	▲5.5%	▲10.0%	–5.4%	▼68.0%
2013	▲ 6,477.5	▲ 5,057.2	▲1,856.7	▲ 1,449.6	▲6.4%	▲9.4%	–5.4%	▼67.7%
2014	▲ 6,781.0	▲ 5,233.9	▲2,039.1	▲ 1,573.9	▲7.4%	▲5.8%	–5.4%	▼67.1%
2015	▲ 7,159.8	▲ 5,464.9	▲2,103.6	▲ 1,605.6	▲8.0%	▲4.9%	–5.4%	▲69.0%
2016	▲ 7,735.0	▲ 5,839.9	▲2,294.8	▲ 1,732.6	▲8.3%	▲4.5%	–5.4%	▼68.9%
2017	▲ 8,276.9	▲ 6,112.1	▲2,702.9	▲ 1,958.0	▲6.8%	▲3.6%	–5.4%	▲69.7%
2018	▲ 9,023.0	▲ 6,590.9	▲2,702.9	▲ 1,974.4	▲6.5%	▲3.4%	▼5.3%	▲70.4%
2019	▲ 9,540.4	▲ 6,897.8	▲2,835.6	▲ 2,050.2	▲3.9%	▲4.8%	▼5.3%	▲75.0%
2020	▼ 9,101.3	▼ 6,517.8	▼2,671.6	▼ 1,913.2	▼-5.8%	▲6.1%	▲8.0%	▲88.5%
2021	▲ 10,370.8	▲ 7,355.4	▲3,150.3	▲ 2,234.3	▲9.1%	▲5.5%	▼6.0%	▼84.7%
2022	▲ 11,855.4	▲ 8,329.3	▲3,386.4	▲ 2,379.2	▲7.2%	▲6.7%	n/a	▼83.1%
2023	▲ 13,033.4	▲ 9,073.0	▲3,736.9	▲ 2,601.4	▲6.5%	▲4.9%	n/a	▲83.2%
2024	▲ 14,165.5	▲ 9,773.0	▲4,062.2	▲ 2,802.5	▲6.3%	▲4.4%	n/a	▲83.7%
2025	▲ 15,330.6	▲ 10,484.8	▲4,547.2	▲ 3,146.8	▲6.9%	▲4.1%	n/a	▼83.8%
2026	▲ 16,563.8	▲ 11,232.6	▲4,765.5	▲ 3,231.7	▲6.1%	▲4.1%	n/a	▼83.8%
2027	▲ 17,877.0	▲ 12,024.0	▲5,153.0	▲ 3,465.9	▲6.0%	▲4.0%	n/a	▼83.7%

Note: Inflation less than 5% is marked in green
Source: International Monetary Fund (IMF)

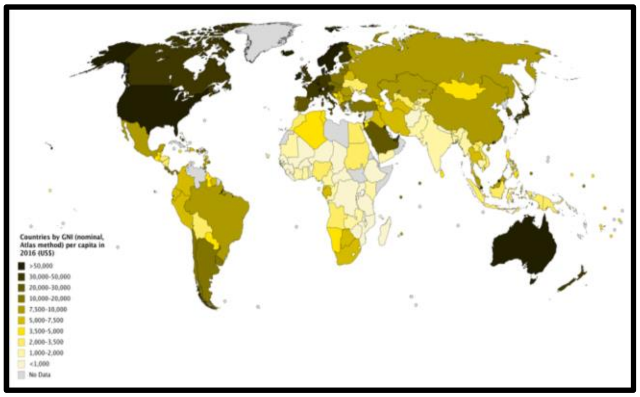
As per the International Monetary Fund (IMF) based on a per capita income rationale, India is rated 139th for GDP (nominal) and 127th for GDP (PPP). [1] Since the onset of the 21st century, the yearly average GDP increase has been approximately from 6% to 8%. [2] As estimated in 2022, India accounts for about 7.2% of the world economy in PPP terms and around 3.4% in nominal terms. As per the National Statistical Office GDP growth was 9.1% (FY 2021-22), 7.2% (FY 2022-23) and estimated to be 6.5% (FY 2023-24). Furthermore, according to the "World Economic Outlook Database: April 2023" International Monetary Fund, the anticipated GDP per capita rise in India is US$ 2,601 (nominal; 2023) and US$ 9,073 (PPP; 2023). Refer to Exhibit 4 which indicates India's economic indicators from 1980–2022.

"IMF DataMapper / Datasets / World Economic Outlook (October 2022) / GDP per capita, current prices / List (2022) - Analytical group: European Union, World". IMF.org. International Monetary Fund. 11 October 2022

[2] Kanungo, Rama P.; Rowley, Chris; Banerjee, Anurag N. (2018). Changing the Indian Economy: Renewal, Reform and Revival

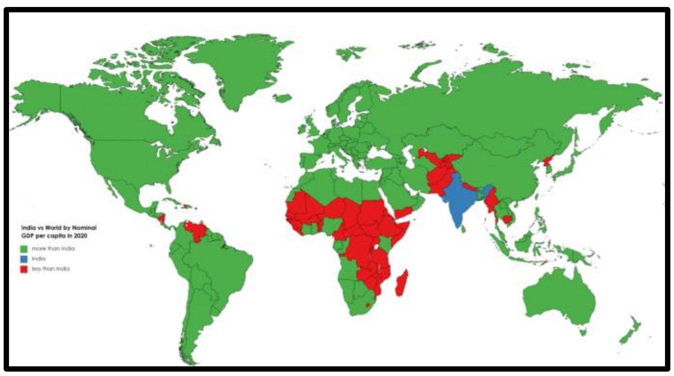
Also, India's Gross National Income (GNI) per capita has observed high growth rates since 2002, and in 2002–03 from a value of ₹19,040 it tripled to ₹53,331 in 2010–11, averaging 13.7% increase these eight years, with the highest surge of 15.6% in 2010–11. [3] These consumption levels are based on an individual level. The average family income in India based on the last census report in 2011 was US$ 6,671 per household. [4] Exhibit 5 and Exhibit 6 provide a comparison of India and the rest of the world - for nominal GNI per capita in 2016 and nominal GDP per capita in 2020 respectively.

Exhibit 5: Nations by nominal Gross National Income (GNI) per capita in 2016 using the Atlas method



Source: World Development Indicators: Distribution of income or consumption, The World Bank

Exhibit 6: India as compared to the rest of the world in terms of nominal GDP per capita in 2020



Source: World Economic Outlook Database, October 2020", World Economic Outlook, International Monetary Fund

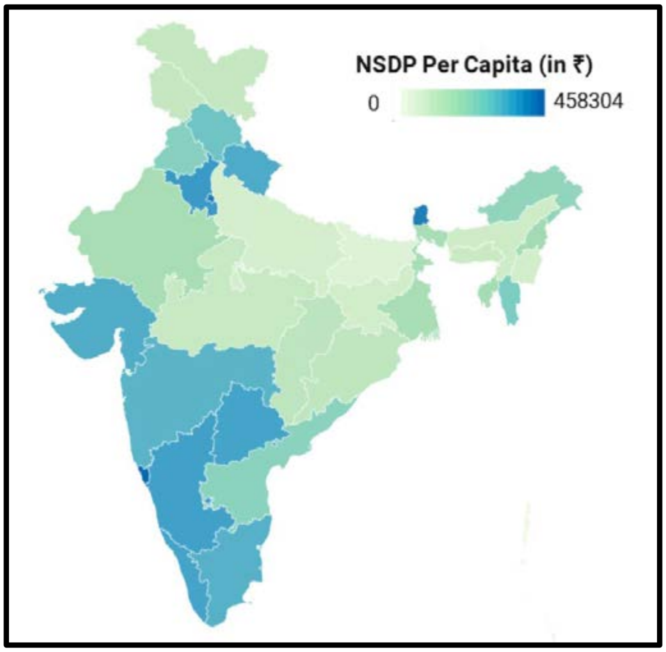
Additionally, as per the New World Wealth, India's total wealth rose from US$ 3,165 billion in 2007 to US$ 8,230 billion in 2017, at an accelerating development rate of 160%. However, along with this growth during this period the income inequalities within the nation accelerated. India has one of the world's largest numbers of billionaires but suffers from severe income inequality levels. There are 20,730 multimillionaires which is 7th largest internationally and 118 billionaires in India which is 3rd largest internationally. India has the 9th highest number of High Net-Worth Individuals (HNWIs) in the world amounting to 327,100. [5]

The Global Wealth Migration Review 2019 report, broadcasted by New World Wealth, stated that 5,000 HNWI migrated from India to Australia, the United States of America and Canada in 2018, which amounted to approximately 2% of all HNWIs in the nation. [6] The Global Wealth Migration Review 2019 report, broadcasted by the New World Wealth, evaluated that 48% of India's total prosperity was retained by HNWIs.

[3] "Homes become more affordable in last 10 years", The Times of India, 2 May 2012
[4] World Consumer Income and Expenditure Patterns – Annual Household Income Euromonitor International (2013)
"India 6th wealthiest country with the total wealth of $8,230 billion", livemint.com/. 30 January 2018
"India's millionaires are fleeing from homeland – and these are the countries where they are headed", Business Insider

A crucial issue that the Indian economy is encountering is the harsh and rising provincial divergences among India's different states and territories in terms of income equality, the development of infrastructure and socio-economic scenarios. Several low-income states, namely - Assam, Chhattisgarh, Nagaland, Madhya Pradesh, Odisha, and Uttar Pradesh which are occupied by more than one-third of India's population suffer from discrepancies in terms of income, literacy levels, life expectancy and living standards. Exhibit 7 explains such economic discrepancies among states and union territories in India based on the census report of 2011.

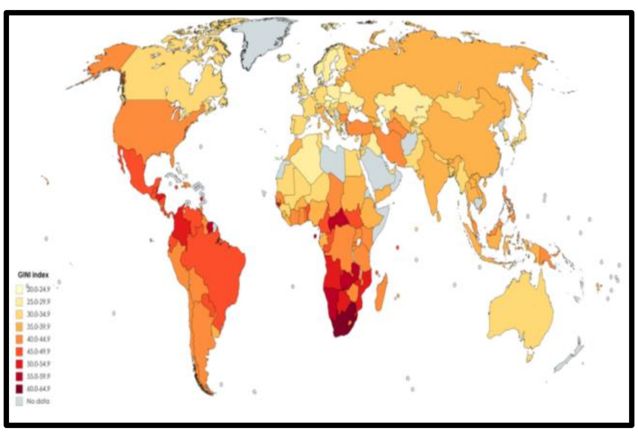
Exhibit 7: Economic discrepancies among states and union territories in India, on GDP per capita, PPP basis and GDP per capita basis in 2011



Source: Wikimedia Commons

As per the United Nations Development Program (UNDP), India's income Gini coefficient is 33.9, implying overall income distribution is better than some parts of East Asia, Latin America and Africa. Exhibit 8 explains this concept in detail. Furthermore, the number of taxpayers in the nation is about 82.7 million people which are 6.25% of the overall 132 crore population, which is overly tiny for the nation.

Exhibit 8: Gini index of India vs. other nations as per World Bank Data 2018



Source: "GINI index (World Bank estimate) | Data", World Bank

There is an on-going controversy on whether India's economic development has been pro-poor or anti-poor. Researchers indicate that this economic evolution has been pro-poor and has decreased poverty levels in the nation.

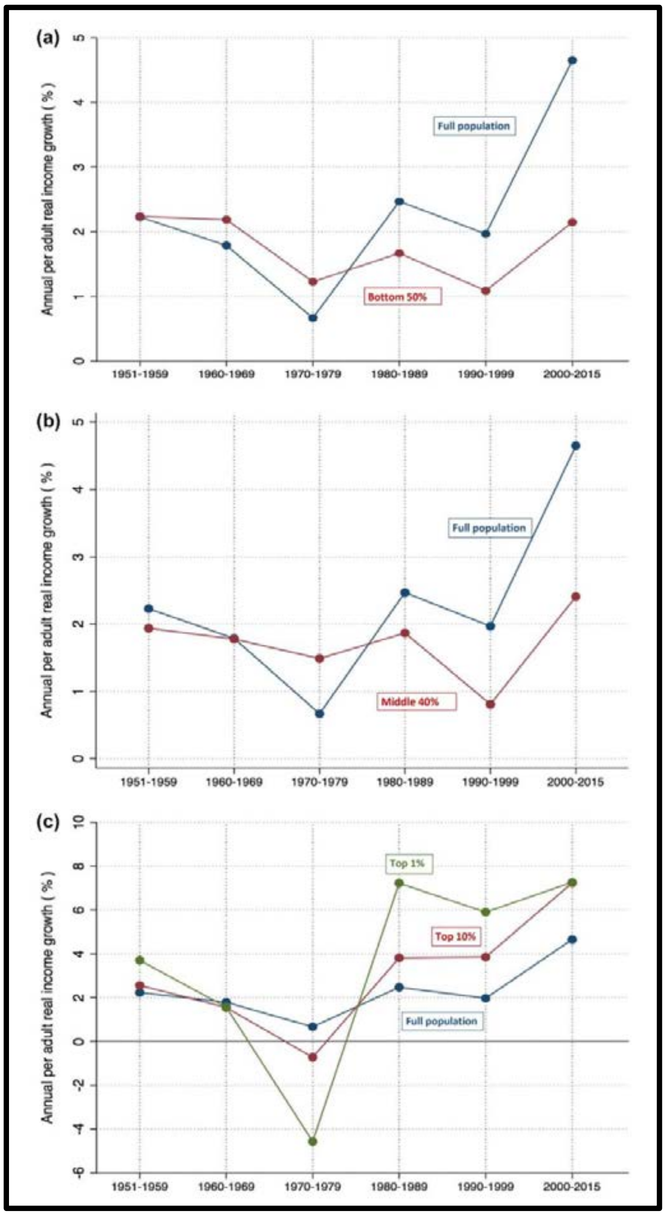
Evaluating Income Inequality In India

As per the Indian National Accounts estimates, in the 2000s the income growth has been considerably elevated as compared to the prior decades. The average yearly real income increase was less than 2% in the 1960 and 1970s; it attained a 2.5% growth rate in the 1980s and 2% in the 1990s. During the 2000s the corresponding figure reached 4.7%. Refer to Exhibit Figure 9. Also, the bottom 50% income group thrived at a considerably lesser rate than average growth since the 1980s. The middle 40% population thrived at a lesser rate than the average. However, the liberalization reforms and tax relief from the 1990s increased the growth rate for the bottom 50% and for the middle 40%. Nonetheless the top 10% and top 1% grew substantially faster than the average since the 1980s. Hence, the term "Shining India" relates to the top 10% of the population rather than the middle 40%, as since the early 1980s, growth has been unevenly distributed within the top 10% group.

Exhibit 9(a): National income growth in India for the - Full Population vs. Bottom 50% from 1951–2015

Exhibit 9(b): National Income Growth in India for the - Full Population vs. Middle 40% from 1951–2015

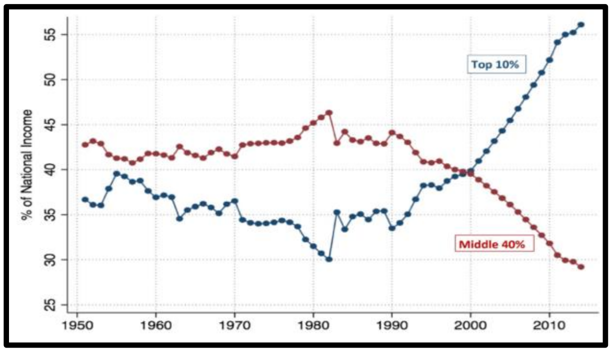
Exhibit 9(c): National Income Growth in India for the - Full Population vs. Top 1% and Top 10% from 1951–2015



Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

Exhibit 10 demonstrates the mirror expansion of the top 10% share and the middle 40% share in total income. During the mid-1950s, the top 10% and the middle 40% grabbed approximately 40% of total income each. Further, the share of the middle 40% boosted from the mid-1950s to 1982–83, achieving 46% of total income and then diminished from the 1990s. After the mid-1980s, the share of the top 10% grew rapidly. In the year 2000, the share of the top 10% and the middle 40% groups captured the same amount, 40%. However, by the year 2014–15, the middle 40% share fell to a historically low level of 29.2%.

Exhibit 10: Top 10% vs. Middle 40% national income shares in India from 1951-2015

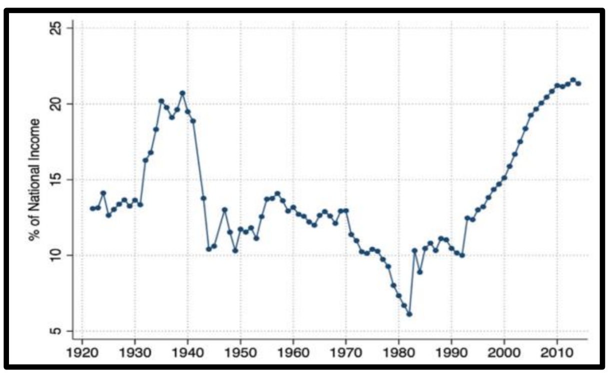


Note: Distribution of pre-tax per adult national income

Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

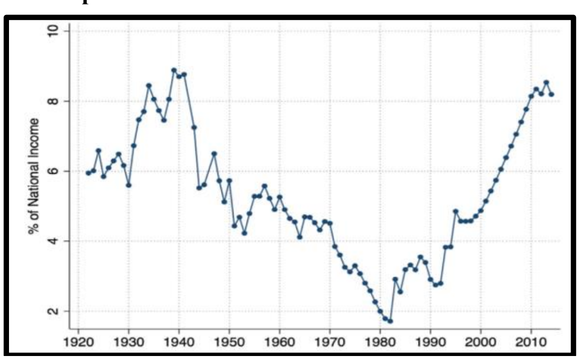
Similar to the trends of the top 10% were the trends for the top 1% and the top 0.1% in the national income share. Refer to Exhibit 11 and Exhibit 12 for further details. A substantial surge was observed in top-income shares since the mid-1980s. The share of national income attributed to the top 1% reached 21.3% of national income in 2014–15, an increase from 6.2% in 1982–83. The top 0.1% earners grasped 8.2% of total income in 2014–15. The top 1% and top 0.1% observed saw a substantial decline during World War II followed by a continued reduction up to 1982–83.

Exhibit 11: Top 1% national income share in India from 1922-2015



Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

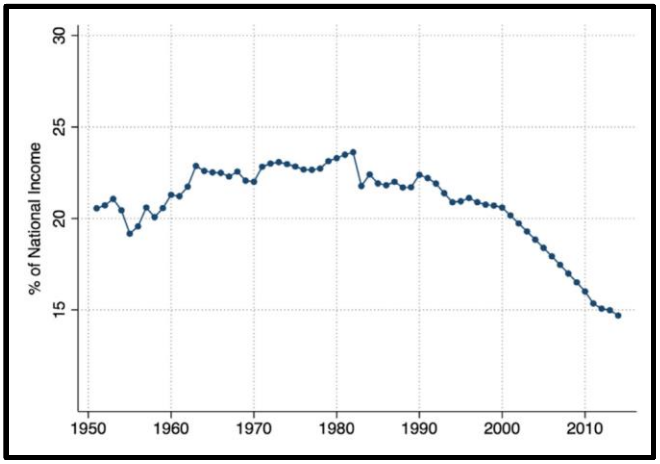
Exhibit 12: Top 0.1% national income share in India from 1922-2015



Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

Exhibit 13 depicts the income dynamics of the impoverished section whose income distribution demonstrates a similar pattern to that of the middle 40%. The bottom 50% share of national income boosted from 19% in 1955–56 to 23.6% in 1982–83 due to publicly regulated market systems and taxation policies but then reduced sharply and constantly thereafter to 20.6% in 2000–01 and 14.9% in 2014–15.

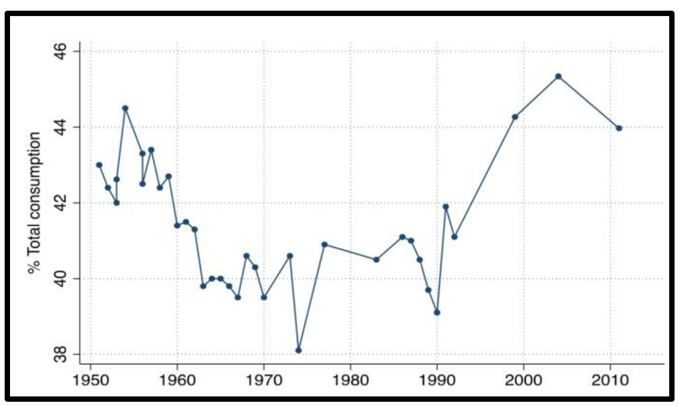
Exhibit 13: Bottom 50% national income share in India from 1951-2015



Note: Distribution of pre-tax per adult national income
Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

According to NSSO surveys, data available online from the World Bank and United Nations WIDER World Income Inequality Database, Exhibit 14 depicts the share of total consumption of the top 20% of consumers - a reduction in top quintile consumption share from the 1950s to the 1970s from around 43% to 40%, due to high taxation levels and then a surge thereafter from the 1990s around to 44%, depicting an overall "U-shape" trend. [7]

Exhibit 14: Top 20% consumption share

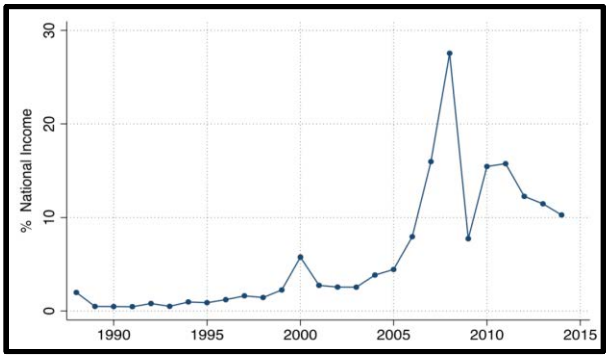


Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

The Forbes' Indian Rich lists indicate a significant growth in the wealth of the richest Indians after 2000. In the 1990s, the wealth of the richest Indians as a percentage of national income was estimated to be less than 2%, but from the 2000s the corresponding figure rose substantially reaching 10% in 2015 and with a peak of 27% before the 2008-09 financial crisis. The liberalization of economic policies, free market conditions and tax relations norms led to this surge and also increased employment opportunities within the nation, thereby increasing the income of the middle and lower-class society.

[7] Banerjee, A., and T. Piketty, "Top Indian Incomes, 1922–2000," The World Bank Economic Review, 2005

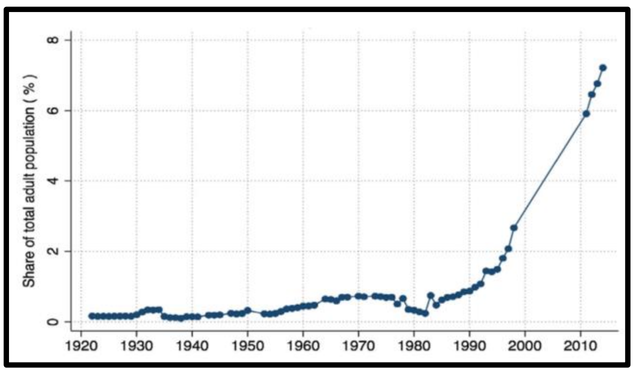
Exhibit 15: Wealth of richest Indians in Forbes' Rich List, 1988–2015



Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

The number of income taxpayers in India rose considerably over the past years. Less than 0.5% of the Indian population filed tax returns up to the 1950s, from 1960 to 1990 the corresponding value was 0.5%-1%, in the late 1990s it rose from 1% to about 3%, accelerated growth post-2000 and in 2015 the value attained was 7%. This growth over the years is remarkable; nonetheless, the current value is similar to the levels observed in France and the USA in the late 1910s. This rise despite the relations in taxes from the 1970s shows the increase in income of the middle and lower class. Exhibit 16 depicts this data graphically.

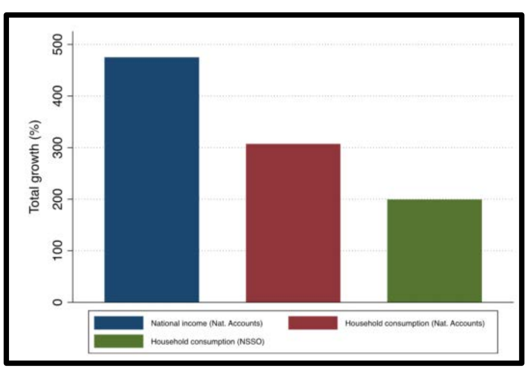
Exhibit 16: Proportion of income-tax payers in India from 1922–2015



Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

Exhibit 17 demonstrates the total growth rate of Net National Income and Household Final Consumption Expenditure from NAS and personal consumption from NSSO, from 1983 to 2011. As per the NAS, national income thrived at 475% and household consumption rose at around 300%, while NSSO data suggests that household consumption rose at 200%. However, both these income and consumption values indicate economic growth. Several factors could be responsible for this surge - the 1984–85 reduction in the top marginal tax rate and anticipations of a more pro-business environment led to a positive impact on income and consumption levels.

Exhibit 17: Income and consumption growth rates in India from 1988–2011



Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

Comparison Of Income Inequality In India With Other Global Economies

Exhibit 18 depicts the total growth rates across different income groups from the 1980–2015 period in India and compares the results to other corresponding figures in other nations namely - China, France and the USA. As we move upwards through the distribution of income sequence the growth rate also substantially rises. In India, the bottom 50% of earners observed an increased rate of 90% over the studied time, while the top 10% of earners experienced a 435% boost in their incomes and the equivalent estimates for the top 0.01% and top 0.001% were 1699% and 2040%, respectively during the same period.

However, these unequal growth dynamics during this time were not distinct only for India, similar trends were observed in China, in the USA and in France too, where with the upwards movement through the income distribution sequence, the growth rate also substantially rose. India's dynamics are, nevertheless, striking as the nation experienced the highest gap between the growth of the top 1% and the growth of the full population.

In the early 1980s, income inequality was at similar levels in China and India, it thrived at a parallel speed till the mid-2000s and stabilized in China thereafter, while it continued to surge in India. Also, the bottom 50% of earners grew 4 times slower in India as compared to China, and the middle 40% of Indians grew almost 7 times slower as compared to their Chinese counterparts. Discrepancies among top-income groups between the two nations were less apparent. What justifies such a deviation between the two Asian giants?

In China, the surge in inequality was not as severe as in India as greater investments were made in the field of education, health, and infrastructure for the bottom 50% of the Chinese population. In China the average income rose by 776%, and the bottom 50% by 386%, but in India the average income grew by 201% and the bottom 50% by 90%. However, none of the above nations met the new SDG targets where the bottom 50% is supposed to grow faster than the average income increase. Exhibit 19 depicts the total income growth in percentile terms in China, India, US-Canada and Western Europe from 1980-2016 for the bottom 50% and top 1% income growths.

Exhibit 18: Growth rates by different income groups in various nations

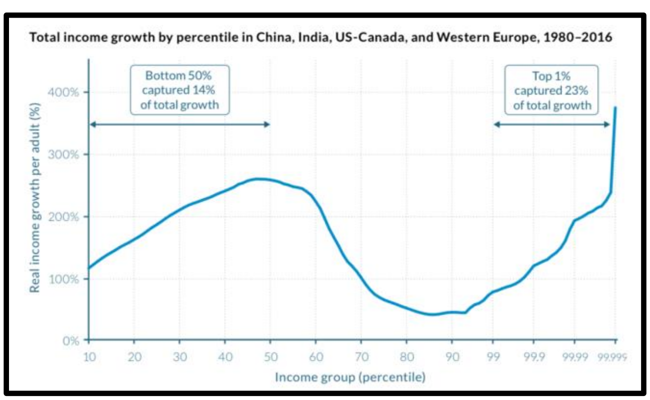
TOTAL GROWTH RATES BY INCOME GROUP IN INDIA, 1980-2015

Income Group (distribution of per-adult pre-tax national income)	Total Cumulated Per Adult Real Growth (1980-2015)			
	India (%)	China (%)	USA (%)	Western Europe (%)
Full population	201	776	74	44
Bottom 50%	90	386	10	34
Middle 40%	94	733	54	36
Top 10%	435	1232	139	62
incl. Top 1%	775	1800	230	74
incl. Top 0.1%	1134	2271	355	79
incl. Top 0.01%	1699	2921	499	90
incl. Top 0.001%	2040	3524	698	124

Notes: Distribution of pre-tax per adult national income, benchmark scenario (A0B1C1D1). Estimates for China, the USA, and Western Europe are based on WID.world and the World Inequality Report (wir2018.wid.world). Growth rates are net of inflation.

Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

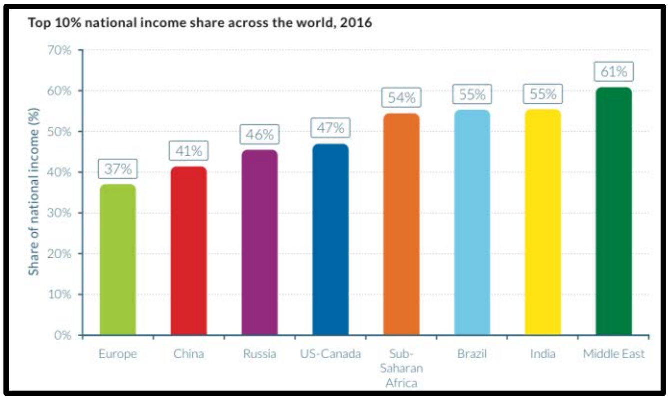
Exhibit 19: Total income growth in percentile terms in China, India, US-Canada and Western Europe from 1980-2016



Source: World Inequality Report 2018

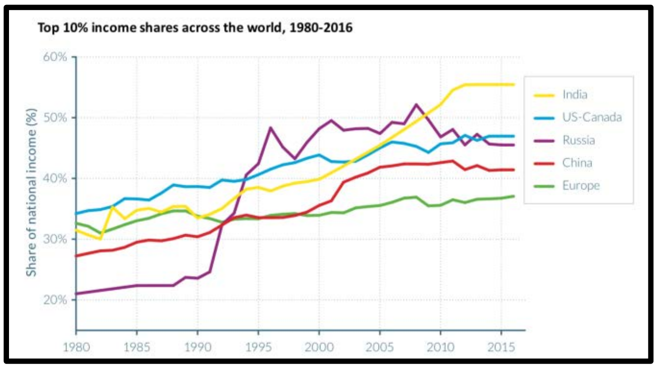
Nonetheless, India is rated among one of the highest increases in the top 10% income share concentration across the globe over the past thirty years. Refer to Exhibit 20 and Exhibit 21 for further details.

Exhibit 20: Top 10% of earners' national income share in various nations in 2016



Source: World Inequality Report 2018

Exhibit 21: Top 10% income shares among various nations from 1980-2016



Source: World Inequality Report 2018

While Exhibit 18 provides the perspective of individual growth dynamics Exhibit 22 depicts the share of total growth grabbed by diverse income groups. Undoubtedly, high-income growth at the individual level does not always restate into an increased share of total growth grabbed at the macro level. Exhibit 22 displays that the top 0.1% earners grabbed a greater total growth than the bottom 50%, which is 11% as compared to 10% of total growth, over the period. The top 0.1% of earners embodied less than which is about 800000 individuals in 2014–15, which is a strong discrepancy with the 397 million individuals that composed the bottom half of the adult population in 2014–15. Also, the top 1% of Indian earners grabbed 28% of total growth, which is equal to the bottom 83% of the population. As compared to China, the USA and Western Europe from 1980-2015 the share of the total growth captured by the middle 40% is lagging for India.

Exhibit 22: Share of the total growth captured by different income groups in India, China, the USA and Western Europe from 1980-2015

SHARE OF TOTAL GROWTH CAPTURED BY INCOME GROUPS, 1980-2015: INDIA, CHINA, THE USA, WESTERN EUROPE

Income Group (distribution of per-adult pre-tax national income)	India (%)	China (%)	USA (%)	Western Europe (%)
Total	*100*	*100*	*100*	*100*
Bottom 50%	10.4	13.3	2.9	17.4
Middle 40%	21.2	43.4	33.1	36.6
Next 9%	40.0	28.4	31.2	29.3
Top 1%	28.3	14.9	33.	16.8
Top 0.1%	11.3	6.8	17.1	6.5
Top 0.01%	4.8	3.5	8.5	2.8
Top 0.001%	2.0	1.5	3.9	1.3

Notes: This table shows the share of national income growth captured by different income groups be- tween 1980 and 2015. Distribution of pre-tax per adult national income, benchmark scenario (A0B1C1D1). Estimates for China, the USA, and Western Europe are based on WID.world and the World Inequality Report (wir2018.wid.world)

Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

Rising Income Inequality Versus Reduction In Absolute Poverty In India From The 1980s Onwards

The intense advancement in income inequality observed in India since the mid-1980s complements, instead of opposing, the Indian poverty publications, which state an enormous reduction in absolute poverty since the early 1990s. Studying income inequality trends Exhibit 23 displays income levels and income thresholds for various income groups in India and the related adult population proportions in 2014–15. The top 1% of income earners obtained an average of INR 2.9 million which is 21 times more than the national average as compared to INR 40,700 for the bottom 50% and INR 101,100 for the middle 40%.

Exhibit 23: Income inequality in India from 2014-15

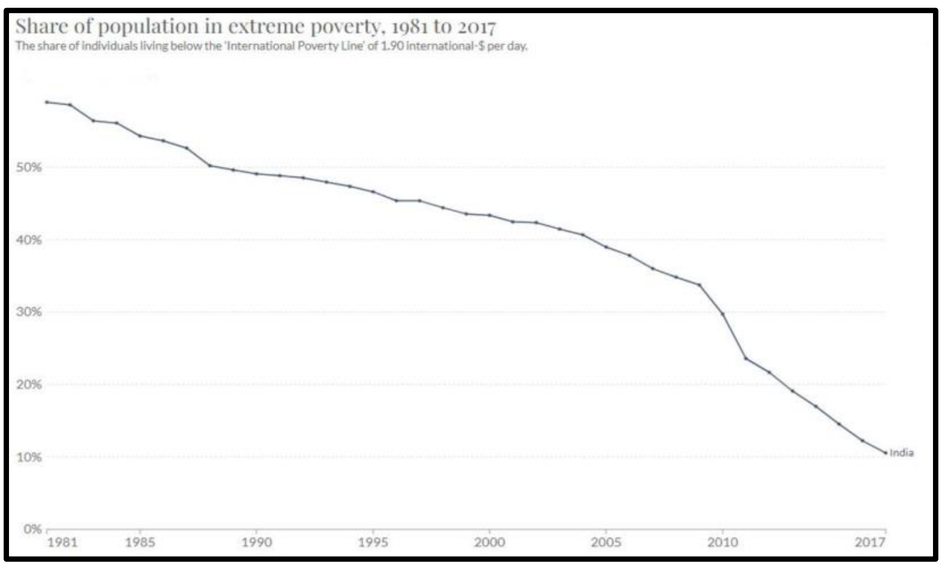
INCOME INEQUALITY IN INDIA, 2014-15

Income Group (distribution of per-adult pre-tax national income)	Number of Adults	Income Share (%)	Income Threshold	Average Income	Comparison to Average (ratio)
Average	794 305 664	100	0	138 426 INR	1
Bottom 50%	397 152 832	14.7	0	40 671 INR	.3
Middle 40%	317 722 266	29.2	63 728 INR	101 084 INR	.7
Top 10%	79 430 566	56.1	195 445 INR	776 567 INR	6
incl. Top 1%	7 943 057	21.3	1 303 946 INR	2 954 386 INR	21
incl. Top 0.1%	794 306	8.2	4 459 114 INR	11 346 371 INR	82
incl. Top 0.01%	79 431	3.4	18 260 916 INR	47 154 896 INR	341
incl. Top 0.001%	7 943	1.4	77 801 552 INR	188 558 192 INR	1362

Source: "Indian Income Inequality, 1922-2015: From British Raj To Billionaire Raj?" Lucas Chancel and Thomas Piketty

As per the World Bank, extreme poverty in India has diminished by 12.3% from 2011-2019 from 22.5% in 2011 to 10.2% in 2019. Also, rural poverty decreased from 26.3% in 2011 to 11.6% in 2019 and in urban areas, the poverty reduction was from 14.2% to 6.3% in the same period. [8] Furthermore, as per the International Monetary Fund, extreme poverty, specified by the World Bank is - sustaining living on US$ 1.9 or lesser in purchasing power parity (PPP) terms, and this value in India was 0.8% in 2019, and the nation manipulated to preserve it at that level in 2020 despite the unexpected COVID-19 outbreak. [9] Exhibit 24 depicts the diminishing share of the Indian population living in extreme poverty from 1981 to 2017. Exhibit 25 depicts the poverty rate and absolute poverty in numbers since 1993 to the World Bank US$ 1.99 ppp value.

Exhibit 24: Share of population in extreme poverty in India, 1981 to 2017

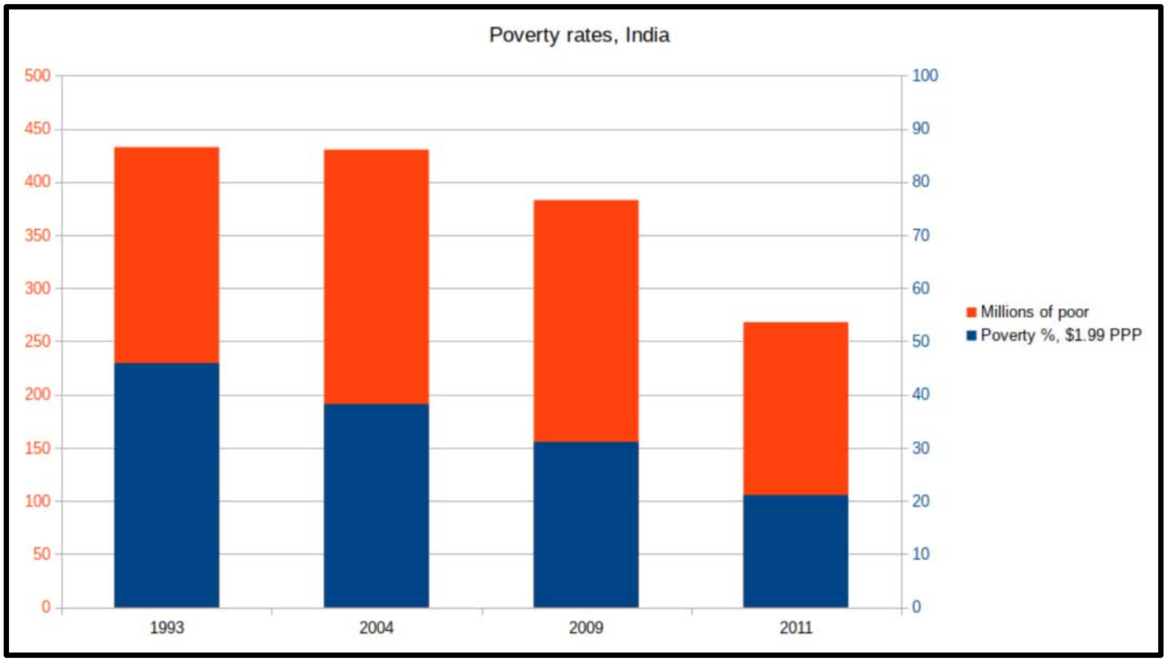


Note: Figures relate to household income or consumption per person, measured in international-$ (in 2011 PPP prices) to account for price differences across countries and inflation over time

Source: World Bank Povcal

[8] World Bank Search, https://www.worldbank.org/en/search
India kept extreme poverty below 1% despite pandemic: IMF paper, The Financial Express, 7th April 2022

Exhibit 25: India's Poverty rate since 1993 based on World Bank US$ 1.99 ppp value



Source: World Bank

The foreign exchange crisis of 1991 induced the nation to surrender decades of inward-looking socialism policies and embrace liberalized economic reforms. Consequently, this supported the growth in India's GDP which has averaged more than 8% over the last decade and per capita income rose from US$ 300 to US$1,700 in the last two decades. Booming businesses in the Indian economy due to multinational organizations coming in have built revenue expansion and financed government expenses on social sectors and safety nets. Absolute poverty levels declined and the literacy rate rose from 52.2% to 74% in two decades, India's fastest-growing progress ever. Several of the impoverished states made twice as much or tripled their growth rates since 2004 and their wage rates have increased by over 50% over the last couple of years.

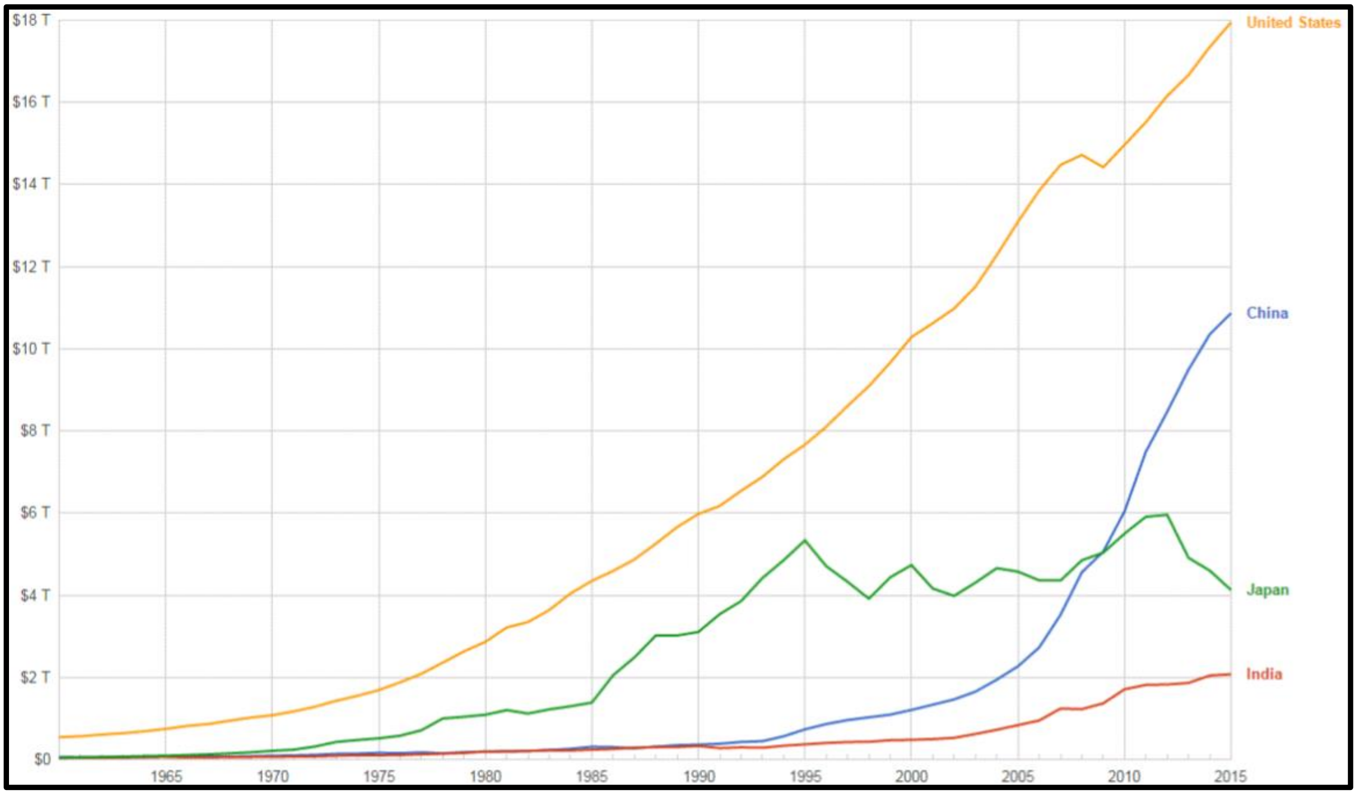
Since 1991, rapid economic expansion has led to a sharp decline in the harsh poverty levels in the nation. Even though the Indian economy has prospered steadily over the last two decades, its expansion has been uneven when drawing a parallel between social clusters, economic statuses and geographical territories. While the GDP growth in India may reasonably be on the path to eliminating extreme poverty, it still lags in additional crucial growth indicators in comparison to some of its neighboring nations like China, especially concerning health and education development.

Nonetheless, as per the United Nations report in July 2023, India lifted around 415 million people out of poverty from 2005 to 2021. Furthermore, the United Nations documented that 25 nations, including India, accomplished an extraordinary milestone by diminishing their international Multidimensional Poverty Index (MPI) values by 50% within 15 years. This report emphasized that the nation underwent a decrease in poverty across all indicators, with substantial improvement witnessed among the considerably poor states and marginalized residents, comprising children and disadvantaged caste groups. However, recent studies suggest that poverty decline could have been quicker if macroeconomic growth had been more evenly distributed and emphasis would have been laid on the rise of India's middle class and the economically challenged section of the society.

Conclusion

In the People's Republic of China, the Chinese economic miracle, which was initiated between the 1970-80s for opening up the economy - socialist market economy, the liberalization within the nation towards foreign investment, initiation of privatization, lifting of price controls and the reducing of government protectionist policies led to enormous economic growth? From 1978 to 2013, remarkable developments emerged in the Chinese economy, with the economy increasing by 9.5% a year. Similarly, India is following China in liberalizing economic policies and can take advantage of the yield of a big demographic dividend, just as China starts aging after exclusion from the world market economy post the spread of the pandemic, and India could overtake China in growth in the following decades. Refer to Exhibit 26 which depicts China's nominal GDP trend from 1952 to 2015, along with the fast rise since economic reforms in the late 1970s, specifically compared to India.

Exhibit 26: China's nominal GDP trend from 1952 to 2015 and comparison with other leading economies



Source: Wikipedia Commons

Although the economic reforms in China have resulted in considerable economic expansion, it has also generated higher income inequality, leading to a backlash and an endeavor at pushing back the reforms by the Chinese New Left faction. This rapid economic evolution has nearly eradicated absolute poverty in urban China and decreased it largely in rural provinces. The Gini coefficient of China in 2019 is calculated to be above 0.45, which is much higher than India and comparable to some Latin American and African nations. In 2022, around 10,800 high-net-worth individuals in China, who have an average wealth of US$ 6m, left the nation, due to the government's efforts to stabilize growing income inequality within the nation.[10]

Hence, following China's experience, the idea of redistribution of income through high taxation rates for high-net-worth individuals or organizations in India will lead to the rolling of capital outside the nation, leading to lesser investment and employment opportunities in the nation, further resulting in unfavorable impacts to decrease poverty and enhance economic growth.

Also, as per the United Nations International Migration Highlights 2022, India has the largest global emigrant population with 18 million people residing internationally(Exhibit 27).

Exhibit 27: Top 20 countries of origin and destination, by number(millions) and proportion of total population

Table 3. Top 20 countries of origin and destination, by number (millions) and proportion of total population

Origin					
1995			2020		
Country	Emigrants	(%)	Country	Emigrants	(%)
Russian Federation	11.38	7.1	India	17.79	1.3
India	7.15	0.7	Mexico	11.07	7.9
Mexico	6.95	7.0	Russian Federation	10.65	6.8
Ukraine	5.60	9.9	China	9.80	0.7
Bangladesh	5.37	4.5	Bangladesh	7.34	4.3
China	4.70	0.4	Pakistan	6.14	2.7
United Kingdom	3.61	5.9	Ukraine	6.05	12.2
Pakistan	3.33	2.6	Philippines	6.01	5.2
Kazakhstan	3.30	17.2	Poland	4.82	11.3
Italy	3.20	5.3	United Kingdom	4.62	6.4
Germany	3.04	3.6	Indonesia	4.58	1.6
Turkey	2.73	4.5	Venezuela, Bolivarian Republic of	4.49	13.6
Philippines	2.43	3.4	Kazakhstan	4.20	18.3
Indonesia	1.93	1.0	Romania	3.98	17.1
Portugal	1.91	15.9	Germany	3.85	4.4
Morocco	1.88	6.5	Egypt	3.57	3.4
Poland	1.76	4.4	Turkey	3.28	3.7
Belarus	1.74	14.7	Morocco	3.25	8.1
Republic of Korea	1.68	3.6	Italy	3.25	5.1
Afghanistan	1.67	8.5	Viet Nam	3.07	3.1

Destination					
1995			2020		
Country	Immigrants	(%)	Country	Immigrants	(%)
United States of America	24.60	9.3	United States of America	43.43	13.1
Russian Federation	11.91	8.0	Germany	14.22	17.0
Germany	7.28	9.0	Saudi Arabia	13.00	37.3
India	6.69	0.7	Russian Federation	11.58	7.9
France	5.96	10.3	United Kingdom	8.92	13.1
Ukraine	5.77	11.3	United Arab Emirates	8.43	85.3
Saudi Arabia	4.94	26.5	France	8.09	12.4
Canada	4.69	16.1	Canada	7.81	20.7
Australia	4.11	22.9	Australia	7.41	29.1
United Kingdom	3.99	6.9	Spain	6.63	14.2
Kazakhstan	2.89	18.3	Italy	6.13	10.1
Pakistan	2.46	2.0	Ukraine	4.57	10.4
China, Hong Kong SAR	2.09	34.4	India	4.48	0.3
Côte d'Ivoire	2.02	14.2	Thailand	3.53	5.1
United Arab Emirates	1.78	73.6	Kazakhstan	3.39	18.1
Italy	1.70	3.0	Malaysia	3.08	9.5
Israel	1.55	29.5	Kuwait	2.98	69.8
Jordan	1.53	33.4	China, Hong Kong SAR	2.85	38.1
Argentina	1.51	4.3	Jordan	2.69	26.4
Uzbekistan	1.43	6.3	Japan	2.49	2.0

HDI: Low Medium High Very High

Source: United Nations World Migration Report 2022

Furthermore, as per the World Bank report accessed in June 2019 India receives one of the highest international remittances in 2019-20(Exhibit 28), depicting a brain drain from the nation over time due to the high taxation systems.

Exhibit 28: Top 10 countries receiving international remittances (2005–2020) (current USD billion)

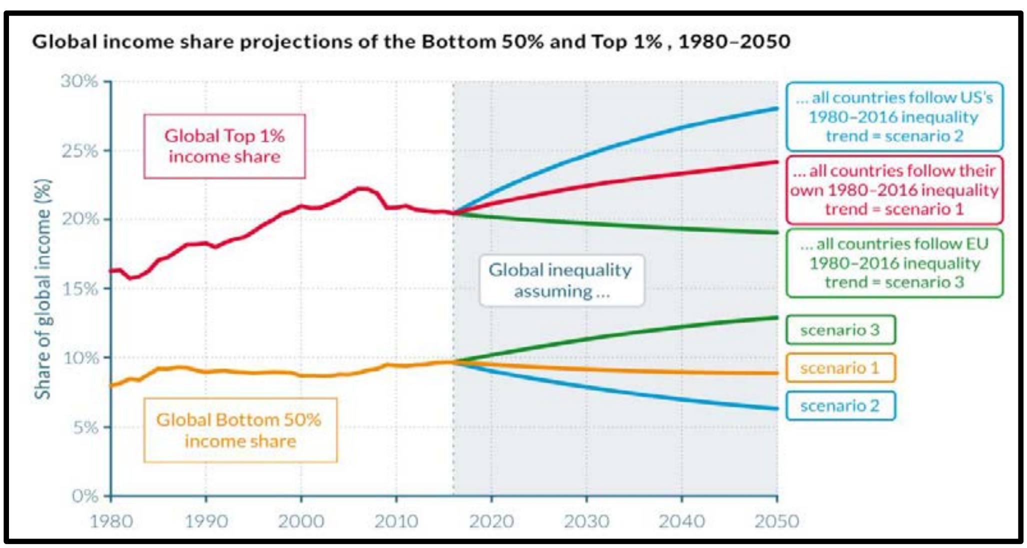
Top countries receiving remittances							
2005		2010		2015		2020	
China	23.63	India	53.48	India	68.91	India	83.15
Mexico	22.74	China	52.46	China	63.94	China	59.51
India	22.13	Mexico	22.08	Philippines	29.80	Mexico	42.88
Nigeria	14.64	Philippines	21.56	Mexico	26.23	Philippines	34.91
France	14.21	France	19.90	France	24.07	Egypt	29.60
Philippines	13.73	Nigeria	19.74	Nigeria	20.63	Pakistan	26.11
Belgium	6.88	Germany	12.79	Pakistan	19.31	France	24.48
Germany	6.86	Egypt	12.45	Egypt	18.33	Bangladesh	21.75
Spain	6.66	Belgium	10.99	Germany	15.58	Germany	17.90
Poland	6.47	Bangladesh	10.85	Bangladesh	15.30	Nigeria	17.21

Source: United Nations World Migration Report 2022

As per the World Bank, to attain further sustainable economic expansion, the nation must focus on deep-rooted public sector reforms, development of infrastructure, agricultural and rural growth, stimulate private investment and boost exports, enhance the education system and improve public health services.

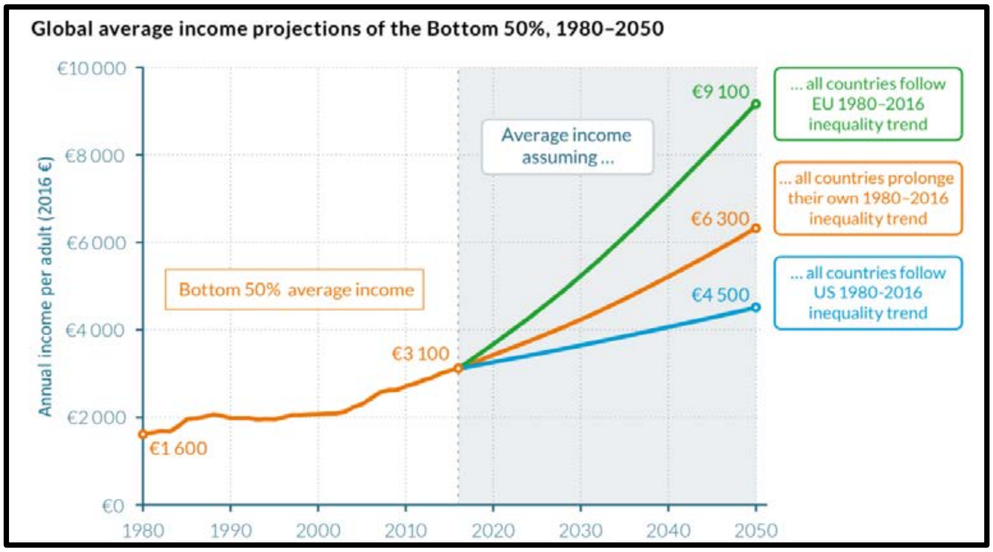
Furthermore, economic inequality is primarily steered by the unequal ownership of capital. Since the 1980s, globally both in prosperous and developing economies, exceptionally high value transfers of public to private wealth have transpired in virtually all nations. Also, in affluent nations while national wealth has considerably risen, public wealth is currently negative or nearly negligible. This restricts the proficiency of government administration to solve inequality; leading to crucial implications for wealth inequality among people. Refer to Exhibit 27 and Exhibit 28 which depict the future forecast for global income projections for the bottom 50%, top 1% and average income from 1980-2050. Exhibit 29 depicts a few suggestions by the World Bank Inequality report 2018 to reduce global income inequality.

Exhibit 29: Global income projections for the bottom 50% and top 1% from 1980-2050



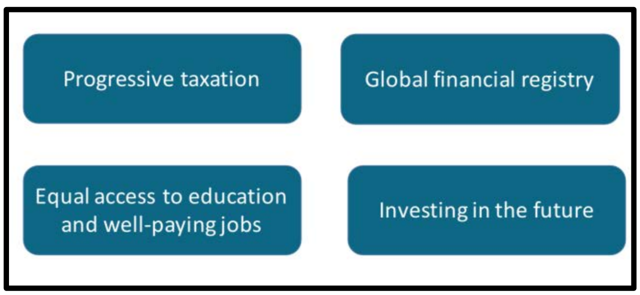
Source: World Inequality Report 2018

Exhibit 30: Global projections for average income from1980-2050



Source: World Inequality Report 2018

Exhibit 31: Suggestions to reduce global income inequality



Source: World Inequality Report 2018

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