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India and its Increasing Income Disparity after New Economic Policy

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Abstract—The introduction of new economic reforms of 1991 brought India economy liberalisation, the fruits of liberalisation were seen with the generation of globalization in the Indian economy and it became a part of the world' economy. Foreign direct investment (FDI) and foreign institutional investment (FII) were attracted to the India when the reductions of quota and tariffs was done after the establishment of world trade organization (WTO), Indian economy also welcomed the foreign currency with open arms to solve its economic troubles like reduce the increasing poverty, to generate more employment opportunity, for technical advancement. The following article will shed some light on the impact of New Economic Reforms (1991) on the distribution of income and regional inequality.

Keywords: Income Disparity in India, Regional Inequality in India, New Economic Reforms.

1. INTRODUCTION

India still has the world's largest number of poor people living in one country, which is because of its high population growth. In their annual report of 2012, Reserve Bank of India stated that the national average poverty rate stands at 21.92%. Nearly 45 per cent of India's children suffer from malnutrition. According to the CIA world fact book Infant mortality rate in India stands total: 43.19 deaths/1,000 live births. Inequality in earnings has doubled in India over the last two decades, making it the worst performer on this count of all emerging economies. The top 10% of wage earners now make 12 times more than the bottom 10%, up from a ratio of six in the 1990s.

Moreover, wages are not smoothly spread out even through the middle of the distribution. The top 10% of earners make almost five times more than the median 10%, but this median 10% makes just 0.4 times more than the bottom 10%. "The main driver has been an increase in wage inequality between regular wage earners—contractual employees hired over a period of time," says the Organisation for Economic Cooperation and Development (OECD) in a new report on inequalityin the developed world and emerging economies. "By contrast, inequality in the casual wage sector—workers employed on a day-to-day basis—has remained more stable," the report said.

South Africa is the only emerging economy with worse earnings inequality, but it has halved this number since the last decade. "The combination of marked spatial divides, persistently high shares of informal sector jobs and disparities in access to education accounts for much of the widespread variation in earnings from work in EES.

Wage inequality has driven more general income inequality in the country. India has got more unequal over the last two decades—India's Gini coefficient, the official measure of income inequality, has gone from 0.32 to 0.38, with 0 being the ideal score. In the early 1990s, income inequality in India was close to that of developed countries; however, its performance on inequality has diverged greatly since then, bringing it closer to China on inequality than the developed world.
There is evidence of growing concentration of wealth among the elite. The consumption of the top 20% of households grew at almost 3% per year in the 2000s as compared to 2% in the 1990s, while the growth in consumption of the bottom 20% of households remained unchanged at 1% per year.

Paper Pattern

The paper has been organized in the following manner-

- Introduction
- Research Methodology
- Reasons for the increasing income disparity.
- Conclusion.

Research Methodology

The following study is majorly descriptive in nature; it mostly depends upon the information published manly in

- Books
- Magazines
- Internet
- Journals
- Newspapers etc…

The study is based on secondary data, which mainly revolves around the area of increasing income inequality in India and why?

Reasons for the increasing income disparity in India

Indian economy experienced an average growth rate of about 4 to 5 per cent in its GDP (Gross Domestic Product) in the pre reform period, 1985 to 1990. The percentage took a jump to 6 per cent in 1990 to 2000, According to Indian Finance Ministry the growth of the Indian economy is projected to accelerate to 7.4%(2014-15) in the current fiscal compared with 6.9%(2013-14) last year. In an annual report, the IMF forecast that Indian Economy would grow by 7.5% percent in the 2015-16 fiscal year that starts on April 1, up from 7.2%(2014-15) percent in the year now ending.

After the introduction of LPG (Liberlisation, Privatisation and Globalisation) in 1991, India started producing billionaires. According to an article in The Times of India- India produced 68 billionaires in 2014 and stood 7th in the rank among different nations after, the USA(515 billionaires), China (184 billionaires), Russia (117 billionaires), UK (81 billionaires), Switzerland (77 billionaires), Gremany (70 billionaires). In this matter, india supperesed Hong kong, Brazil and France. This fasinating picture shows us how is the income incresing in the Indian economy, but this only one side of the coin income inequality has constantly being incereasing post the 1991 reforms. Bhargav (2010) has righty observed, "the farmers, the rural poor, slum dwellers, number of the schedule caste and schedule tribes, and other backward classes who comprises a vast majority and include the 77 per cent, who according to Arjun Sen Gupata, lives on less than Rs.20 day, are relatibely worse off today than what they were when india achieved independence.

There were and still are many reforms running by the government of india to tackel the problem of increasing income inequaity, but after taking into the consideration different facts and figures one can say that the gap between the income of India's rich and poor and India's urban and rural population is constanly incresing.

- ***Rural-Urban Inequality***

In the post-Reforms period, the urban areas experienced faster growth as compared to rural areas. The data of the consumption gap between the urban and the rural areas in India, during the pre-Reforms period, is shown in **Table 1.**

Table 1: Consumption Ratio of Urban and Rural Areas in India (1954-2001)

Years	Urban per capita household consumption (in Rs.)	Rural per capita household consumption (in Rs.)	Ratio of urban to rural consumption expenditure
1957-55	24.7	15	1.65
1956-57	24.1	17	1.48
1959-60	27.5	20	1.38
1961-62	30.9	21.7	1.42
1964-65	36	26.4	1.36
1966-67	41.5	30.9	1.34
1969-70	50.4	34.7	1.45
1986-87	222	140.9	1.46
1987-88	245.7	157.7	1.56
1988-89	266	175.1	1.52
1990-91	326	202	1.62
1991-92	399	247.2	1.61
1993-94	458	281	1.63
1994-95	508.1	309.4	1.64
July 95-June 96	599.2	344.3	1.74
Jan – Dec. 1997	645.2	395.0	1.63
July 99 – June 2000	971.6	486.1	2.01
July 2000 – June 2001	914	494.9	1.85

Source: National sample Survey Organisation, Government of India, "Selected Socio-Economic Statistics, India 2002", cited in Heng Quan, "Income Inequality in China and India : Structural Comparison".

As shown in the table, while the consumption gap between India's urban and rural areas in 1956-57 was 1.38, it 1.34 in 1966 – 67. In 1986 – 87, it increased to 1.46. From 1991 onwards, the extent of urban-rural gap has been increasing and the amount is comparatively higher as compared to the pre-reform period. It appears that the LPG reforms are urban-biased. After integration of the Indian economy to the world economy, the growth rate of the service sector is the highest. It has attracted billions of dollars as FDI. Because of relatively good infrastructure, availability of Semi-skilled and high skilled labour, and the government's supportive policy, the foreign investment was concentrated in only four metros and other important million-plus cities. There was incentive for the development of rural area. Consequently, the income and standard of living of the people in urban areas became much higher as compared to those in the rural areas. The new avenues of jobs, descent life, basic amenities, and conspicuous consumption attracted a large number of migrations from rural to urban areas. The rural areas seem to have been completely neglected. As a result, the inequality between the urban and the rural areas widened.

There is compelling evidence that the move towards liberalisation and the integration into globalisation has exasperated the rural inequality in India. There are so many factors responsible for India's land reforms and there exist mass inequalities in land distribution. From the Indian report on Agriculture Census, we can see that about 62 per cent of those who hold lands have only 17.2 per cent are those who hold 14.8 per cent of the land holdings. But medium and large holdings together cover only about 7.3 per cent of those who hold lands. So, about 92 per cent of the land holdings (marginal, small, and semi-medium) have only less than 60 per cent of the land area.

More importantly with India's integration into the globalisation and implementation of the liberation scheme, the uneven distribution of land has generated more problems for farmers and has increased rural inequality since 1991.After India's entry into the WTO, its agriculture sector could not reap the benefits of globalisation. The prices of agriculture and primary products have decreased in the international market and there is a sharp fluctuation in the prices also. Further, the growth rate of agriculture has been rather frustrating. Consequently, the rate of growth of the farmers' income has slowed down and the overall agricultural growth has been very unstable since 1991.Big landlords and rich farmers extensively use cheap credit facilities. This rich class has wasted this money on conspicuous consumption and unproductive channels. While small and marginal farmers are still beyond the excess of cheap credit. The weakest section of the rural population, comprising bonded labourers, landless agriculture labourers, tribals, schedule castes, and schedule tribes, which form 25 to 30 per cent of the rural population, continues to be exploited by the high-caste money lenders and landlords. The suicide cases in Maharashtra, Andhra Pradesh, and Karnataka are the living examples of such exploitation and indebtedness. The lack of education and poor infrastructure and public services has aggravated the problem of rural inequality in India.

Gini Co-efficients on the consumption pattern, for the years 1980-81 to 2000-01, are shown in **Table 2.**

Table 2: India's Gini Co-efficient by Per Capita GDP

Years	Gini Coefficients
1980-81	0.209
1981-82	0.202
1982-83	0.211
1983-84	0.200
1984-85	0.205
1985-86	0.211
1986-87	0.214
1987-88	0.217
1988-89	0.216
1989-90	0.220
1990-91	0.224
1991-92	0.228
1992-93	0.244
1993-94	0.239
1994-95	0.248
1995-96	0.250
1996-97	0.262
1997-98	0.264
1998-99	0.276
1999-2000	0.278
2000-01	0.292

Source: India's Gini Co-efficient measured by State per capita GDP, data from EPW Research Foundation (India) Domestic Product of States of India, 1960-61 to 2000-01, cited in Heng Quan, op cit,

As shown in the table, the Gini Co-efficient has increased considerably after 1991, which supports the hypothesis of growing inequality in the post-Reforms period in India.

- ***Influence of Globalisation on the Development of Service Sector***

The World Commission states: "The current path of globalisation must change. Too few share its benefits, too many have no voice in its design, and no one has influence over its course." (ILO, 2004, p. 2). The share of the tertiary sector improved from 28.0 percent on FDP in 1950-51 to 36.6 in 1980-81. Further, its share in the GDP; vas 54 percent and 57.2 percent in 2004-05 and 2009-10, respectively. On the other hand, the primary sector has gone down in the contribution from 57.7 percent of the GDP in 1950-57, to 19.7 percent in 2005-06, and 14.6 percent in 2009-10. The share of the industrial sector is stagnant at 24 to 28 percent in the post-Reforms period.

The growth rate of the service sector is the highest among all the three sectors. Moreover, the entry of multinational corporations (MNCs) has replaced the state monopoly with the private monopoly.

In the service sector, the salaries, allowances, and perks are exceptionally high as compared to the other sectors. Even Prime Minister, Dr. Manmohan Sing, advised the private sector not to increase the salaries and perks of its CEOs. This is a major cause of increase in the urban inequality.

Officially, Indian policymakers have always been concerned with the reduction of poverty and inequality. However, between the first five year plan after independence in 1947 and the turn of the century, Indian economic policy making went through a sea of change. After independence and for a period of about forty years, India followed a development strategy based on central planning. As Chakravarty (1987) pointed out, one of the reasons for adopting an interventionist economic policy was the apprehension that total reliance on the market mechanism would result in excessive consumption by upper-income groups, along with relative under-investment in sectors essential to the development of the economy. According to Chakravarty (1987: 10), policymakers in India adopted a middle path, in which “there was a tolerance towards income inequality, provided it was not excessive and could be seen to result in a higher rate of growth than would be possible otherwise.” In this context however, the macroeconomic sensitivity to inflation as fallout from growth reflected government concerns regarding the redistributive effects of inflation, which typically affected workers, peasants and unorganized sectors more.

From the mid-1980s, the Indian government gradually adopted market-oriented economic reform policies. In the early phase, these were associated with an expansionist fiscal strategy that involved additional fiscal allocations to the rural areas, and thus counterbalanced the redistributive effects of the early liberalisation. The pace of policy change accelerated during the early 1990s, when the explicit adoption of neo-liberal reform programs marked the beginning of a period of intensive economic liberalization and changed attitudes towards state intervention in the economy. The focus of economic policies during this period shifted away from state intervention for more equitable distribution towards liberalization, privatization and globalization. This study focuses on the period when these neo-liberal and market-oriented economic policies were being implemented in India. However, it should be noted that the Indian experience with such policies over this period was more limited, gradual and nuanced than in many other developing countries, with correspondingly different economic effects. This paper gives an overview of the nature and causes of inequality trends since the mid-1990s and tries to explain the observed trends.

- ***Growth of the Indian Middle Class***.

The National Council of Applied Economic research (NCAER) has classified the Indian middle class on the basis of income ranging from Rs. 2 lakh to Rs. 5 lakh kper annum in three categories:

1. The bottom category (Rs. 2 lakh to Rs. 5 lakh) has been defined as 'seekers'. This group has grown by 15 per cent annually from 1995-96 to 2001-02.
2. The second category (Rs. 5 lakh to Rs. 10 lakh), called 'strivers', has registered an annual higher growth of 18 per cent.
3. The third category, with an annual income of over Rs. 10 lakh (about 8 lakh households), accounted for an annual growth rate of 21.4 per cent.

There is a new emerging middle-class, which is confined to four metros and other million-plus cities. This clearly shows an uneven distribution of income and prosperity brought about by the New Economic Reforms.

- ***Migration***

Migration from the rural area to the urban area is one of the important factors responsible for the growing inequality. Since the cities serve as the center of employment opportunities, education, and health care, there is heavy migration from the rural to the urban areas, which creates the heavy pressure on the government to provide the basic necessities and civic amenities. Failing to do so, results in the transformation of the landscape of the urban area and slums sprout out. More than 40 million of the Indian people live in slums, which are congested, unhygienic, and suffocating. The urban inequality is intensified by the growth of slums in the urban areas, which is a by-product of the rural-to-urban migration. It often creates some ethnic problems also.

- ***Black Money***

Black money also plays a very important role in the urban inequality. India's black money was estimated to be about 40 percent of the GDP in 1999-2000 (Arun Kumar, 2002). According to Arun Kumar (2002), if one looks at the white economy alone, the ratio of per capita income between the bottom 40 percent and the top 3 percent would be 1:11.5. However, if we include the black income, this ratio would increase to 1:57.

- ***Inter-state Disparity***

The era of 1991 onwards is also a witness to the growing disparity among the various States of India. The gap between India's 'Top Five' and the 'Bottom Six' States, as shown in **Table 3**, has substantially widened.

As shown in the table, the Top Five States have a share of 34.6 per cent of all the States' Gross State Domestic Product (GSDP) during the early 1980s. This share increased to 38.2 per cent during the end of the 1990s. On the other hand, the Bottom Six States have suffered a decrease in their GSDP share from 35.3 per cent to 26.9 per cent, during the two periods.

Table 3: Gap between India's Top Five and Bottom Six States
A. The Top Five States

States	Percentage share of GSDP at 1980-81 prices, annual average for 1980-81 to 1982-83	Percentage share of GSDP at 1980-81 prices, annual average for 1990-91 to 1992-93	Percentage share of GSDP at 1980-81 prices, annual average for 1993-94 to 1996	Percentage share of GSDP at 1980-81 prices, annual average for 1998-99 to 2000-01
Maharashtra	14.0	15.3	15.3	15.6
Tamil Nadu	6.9	7.1	8.1	8.3
Gujarat	6.4	6.4	7.2	7.4
Punjab	4.4	4.3	4.0	3.9
Haryana	2.9	3.1	3.0	3.0
Total	34.6	36.2	37.5	38.2

B. The Bottom Six States

States	Percentage share of GSDP at 1980-81 prices, annual average for 1980-81 to 1982-83	Percentage share of GSDP at 1980-81 prices, annual average for 1990-91 to 1992-93	Percentage share of GSDP at 1980-81 prices, annual average for 1993-94 to 1996	Percentage share of GSDP at 1980-81 prices, annual average for 1998-99 to 2000-01
Uttar Pradesh	13.3	12.6	10.8	10.9
Madhya Pradesh	6.6	6.2	5.1	5.1
Bihar	6.2	4.6	4.8	4.8
Rajasthan	4.0	3.0	3.0	2.8
Orissa	3	2.4	2.4	2.2
Assam	2.2	2.0	2.0	1.7
Total	35.3	33.4	28.1	26.9

Source: EPW Research Foundation (India), *Domestic Product of states of India*, for 1960-61 to 2000-01, Mumbai (India) Sameeksha Trust, 2003, cited in Heng Quan, op cit.

2. CONCLUSION

The New Economic Reforms have substantially improved the growth rate of GDP in India. However, these reforms have failed to provide inclusive growth. Consequently, the income inequality has further increase in the post-Reforms period.

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