

Evolution of Income Inequality in India Since Independence – Results from India's Household Income Surveys

Rajesh Shukla

rajesh.shukla@price360.in

JUNE 07, 2024

People Research India's Consumer Economy

www.PRICE360.in

Evolution of Income Inequality in India Since Independence – Results from India's Household Income Surveys

Abstract

This policy report examines the trajectory of income inequality in India from its independence in 1947 to 2023, drawing on household income surveys conducted by the National Council of Applied Economic Research (NCAER) and People Research on India's Consumer Economy (PRICE). The analysis covers data from 1967-68 to 2022-23, revealing a complex landscape shaped by economic policies, demographic shifts, and political changes. While substantial economic growth has been achieved, income inequality has seen periods of both improvement and deterioration. The Gini index improved from 0.463 post-independence to 0.367 in 2015-16 but worsened to 0.506 by 2021 due to disruptions such as the COVID-19 pandemic. However, recent data (2021-2023) shows a positive trend, with the Gini index decreasing to 0.390, suggesting effective post-pandemic recovery measures. Key findings include shifts in income distribution among the top and bottom percentiles and significant changes across income distribution percentiles. The research underscores the need for sustained policy efforts and holistic strategies to promote inclusive growth and reduce income disparities.

Key Words: *Income Inequality, Gini Index, Household Income Surveys, Economic Liberalization, COVID-19 Impact, Income Distribution, Social Safety Nets, Post-Pandemic Recovery.*

Introduction

Income inequality remains a significant socio-economic challenge in India, despite decades of rapid economic growth since the liberalization reforms of the early 1990s. This growth has been accompanied by persistent disparities in income distribution, where the wealthiest segments of society accumulate a disproportionate share of national wealth, while a substantial portion of the population faces barriers to accessing essential services and economic opportunities, particularly in rural and marginalized communities.

Historically, measuring income inequality in India has relied heavily on expenditure-based surveys due to limited official income data. The National Sample Survey (NSS) has been pivotal in estimating income disparities by analyzing consumption patterns and economic well-being as proxies for income distribution (NSSO, various years). However, the reliance on expenditure data underscores the need for more comprehensive and reliable income data sources to accurately assess income inequality dynamics (NSSO, various years).

Household income surveys conducted by institutions like the National Council of Applied Economic Research (NCAER) and more recent initiatives such as People Research on India's Consumer Economy (PRICE) have played a crucial role in enriching our understanding of income dynamics (NCAER, various years; PRICE, various years). PRICE, in particular, has undertaken the ICE 360 surveys, which provide contemporary insights into income and expenditure inequality in India since 2013-14. These surveys, conducted in 2013-14, 2015-16, 2020-21, and 2022-23, have become crucial in estimating income equality and understanding recent socio-economic trends. The availability of data from these surveys in the public domain makes them an invaluable resource for researchers and policymakers.

The ICE 360 surveys by PRICE employ rigorous methodologies to collect data on household income and expenditure, enabling detailed analysis across various demographic and regional dimensions. These surveys have filled a critical gap in the availability of reliable and timely income data in India, providing a comprehensive view of income distribution trends over the past decade. The insights derived from these surveys are essential for formulating effective policy interventions aimed at addressing income inequality and promoting inclusive growth.

This research brief aims to build upon past studies and leverage comprehensive household income survey data from 1967-68 to 2022-23, including the recent PRICE ICE 360 surveys, to deepen our understanding of income inequality trends in India. By examining historical trends, assessing the impact of economic policies, and incorporating insights from recent surveys, this study seeks to provide evidence-based recommendations to address income disparities effectively. Ultimately, this research endeavors to contribute to informed policymaking aimed at promoting inclusive growth and fostering socio-economic equity across India.

Historical Overview of Income Inequality in India

Early Post-Independence Period (1947-1980)

Since gaining independence, India has seen substantial economic growth, yet the benefits of this growth have been unevenly distributed. Initially, in the first 20 years following independence, the Gini index stood at 0.463, indicating significant income inequality.

Income Gini Index: 1968 to 2023

Survey period	Share in household disposable income (%)		Ratio (D10/D1)	Gini Coefficient
	Bottom 10% population (D1)	Top 10% population (D10)		
1967-68	1.80	36.49	20.3	0.463
1975-76	2.27	33.88	14.9	0.416
1994-95	2.33	32.86	14.1	0.425
2004-05	1.93	35.75	18.5	0.469
2013-14	2.15	30.78	14.3	0.404
2015-16	2.48	27.88	11.2	0.367
2020-21	1.09	38.60	35.4	0.506
2022-23	2.44	30.27	12.4	0.390

Source: NCAER's Income Surveys (1968-2005¹); PRICE's ICE 360⁰ Surveys (2014-2023²)

¹ NCAER: Household Income Survey (1967-68), Household Income and Its Disposition (975-76), The Well Being of Indian Households- MIMAP India Survey Report (1994-95), How India Earns, Spends and Saves: Unmasking Real India, (Rajesh Shukla, 2004-05).

² PRICE's ICE 360 Surveys (2014, 2016, 2021 and 2021): "*Household Survey of India's Consumer Economy and Consumer Environment*", People Research on India's Consumer Economy (PRICE).

Economic Liberalization and Its Impact (1980-2015)

The period of economic liberalization introduced new opportunities and wealth, but it also led to a rise in inequality. The share of total national income held by the top 10% of the population decreased from 36.49% in 1967-68 to 27.88% in 2015-16, suggesting a trend towards greater income equality. Concurrently, the Gini index improved, reaching its lowest point at 0.367 in 2015-16.

Recent Trends in Income Inequality (2016-2023)

Impact of COVID-19 on Household Incomes and Inequality

The pandemic's onset brought unprecedented economic challenges, particularly for the poorest households. The ICE 360° survey data from 2021 reveals that the income of the poorest households (Q1, bottom 20%) dropped by a staggering 52.4% compared to their 2016 levels. The lower middle segment (Q2) experienced a 32.4% decline, and the middle segment (Q3) saw a 8.7% reduction in income. In stark contrast, the upper middle (Q4) and richest households (Q5) managed to increase their incomes by 6.8% and 38.8%, respectively, during the same period. This data highlights the disproportionate impact of the pandemic on different socio-economic groups, with nearly 60% of households experiencing severe income reductions.

How Pandemic made Indian households Poorer and Richer?

Per capita income based population quintile	Annual average household income (Rs. Lakh at 2011-12 prices)			Increase/decrease (%)	
	FY16	FY21	FY23	FY16-FY21	FY21-FY23
Q1 (Bottom 20%)	1.37	0.65	1.14	-52.4%	75.3%
Q2 (Lower middle 20%)	1.85	1.25	1.90	-32.4%	52.3%
Q3 (Middle 20%)	2.25	2.05	2.70	-8.7%	31.6%
Q4 (Upper middle 20%)	3.01	3.22	4.04	6.8%	25.6%
Q5 (Richest 20%)	5.27	7.31	8.01	38.8%	9.6%
Total	2.98	3.22	3.62	8.3%	12.3%

Source: PRICE's ICE 360° Surveys (2016, 2021 and 2023)

The period between 2016 and 2021 saw a sharp reversal of the previous trend, with the Gini index increasing by 32%, moving from 0.367 to 0.506. This spike highlights a significant growth in income disparity, exacerbated by the COVID-19 pandemic. During this period, the share of total national income held by the top 10% surged to 38.60% in 2020-21, the highest level recorded.

Post-Pandemic Recovery

By 2023 (post-Covid), the data indicate a significant rebound in household disposable incomes. The poorest households (Q1) saw their incomes grow by a remarkable 75.3% from their 2021 levels (Covid period). The lower middle group (Q2) experienced a 52.3% increase, and the richest households (Q5) reported a 9.6% rise in income. This broad-based recovery reflects not only the overall economic revival but also a more equitable distribution of income gains.

A noteworthy finding is the narrowing of the income gap between the lowest and highest quintiles in 2022-23. Households in the bottom-most income group (Q1) increased their share of household disposable income from 3.3% in 2020-21 to 6.2% in 2022-23. Conversely, the richest households (Q5) saw their share decrease from 56.3% to 46.4%. This trend marks a significant shift towards reducing income inequality, bringing the shares closer to their 2015-16 levels of 7% and 44.6%, respectively.

The most recent data from 2021 to 2023 show a notable improvement, with the Gini index decreasing by 23%, from 0.506 to 0.390. This reduction suggests a move towards reversing the previous increase in inequality, potentially influenced by post-pandemic economic recovery measures and interventions aimed at redistributing income more fairly.

Detailed Analysis of Income Distribution

Top 10% Income Share

The share of total national income held by the top 10% of the population was 36.49% in 1967-68. This figure gradually decreased to 32.86% in 1994-95 and further declined to 27.88% in 2015-16, indicating a trend toward greater income equality. However, by 2020-21, the share of the top 10% surged to 38.60%, before dipping slightly to 30.27% in 2022-23.

Bottom 10% Income Share

The bottom 10% of the population has consistently held between 1.8% and 2.7% of total income over this period, except during 2020-21 (the COVID period), when their share plummeted to a mere 1.09%.

Changes Across Income Percentiles

90th to 10th Percentile Ratio

The significant decrease in the ratio from 35.4 in 2021 to 12.4 in 2023 highlights a substantial reduction in income inequality between the top and bottom of the income distribution. The fact that income at the top was 6.9 times higher than income at the bottom in 2023, compared to 35.4 times higher in 2021, signifies a notable improvement in income distribution.

90th to 50th Percentile Ratio

The decrease in this ratio from 2.4 in 2021 to 1.4 in 2023 indicates a significant reduction in income inequality between the top and middle of the income distribution. This suggests that the middle-income group experienced relatively faster income growth compared to the top earners, contributing to a more equitable income distribution.

50th to 10th Percentile Ratio

The notable decrease in this ratio (14.4 in 2021 to 8.3 in 2023) indicates that the bottom earners experienced relatively higher income growth compared to the middle-income group, further emphasizing the improvements at the lower end of the income distribution.

Factors Contributing to Recent Decrease in Income Inequality

Income inequality can decrease for various reasons. Survey findings show real average household income increased by 12.3% to Rs. 3.62 lakh from 2021 to 2023. The bottom 50% of households, encompassing laborers, petty traders, small business owners, and small & marginal farmers, have seen a significant recovery, witnessing their share of total household income rise from 15.84% in 2020-21 to 22.04% in 2022-23.

Policy Recommendations

- 1. Enhance Social Safety Nets:** Strengthen social safety nets to protect the most vulnerable populations during economic disruptions, ensuring a more stable income distribution.
- 2. Promote Inclusive Growth Policies:** Implement policies that promote inclusive growth, such as investments in education, healthcare, and skill development, to provide equal opportunities for all segments of the population.
- 3. Strengthen Labor Market Regulations:** Improve labor market regulations to ensure fair wages and working conditions, particularly for informal sector workers who are often the most vulnerable.
- 4. Tax Reforms:** Introduce progressive tax reforms to ensure that wealthier individuals including rich farmers and corporations contribute a fair share to national revenue, which can then be redistributed to support lower-income households.
- 5. Support Small and Medium Enterprises (SMEs):** Provide targeted support to SMEs, which are crucial for job creation and income generation, particularly in rural and semi-urban areas.
- 6. Monitor and Evaluate Policies:** Establish mechanisms for continuous monitoring and evaluation of policies aimed at reducing income inequality, ensuring they are effective and making necessary adjustments based on data-driven insights.

Conclusion

The trajectory of income inequality in India has seen periods of both improvement and deterioration. The recent decrease in income inequality offers a hopeful sign that efforts to manage and mitigate income disparities are having a positive impact. However, continued vigilance and policy adjustments are necessary to maintain and further this progress. Addressing income inequality is crucial not only for economic stability but also for fostering social cohesion and enhancing overall well-being. By acknowledging the interconnected nature of inequality across various dimensions such as income, expenditure, education, health, and opportunity, India should adopt more holistic strategies to promote inclusive growth and reduce disparities.

About PRICE

www.price360.in

- People Research on India’s Consumer Economy (*PRICE branded as ICE 360°*) established in 2012 as an independent, *not-for-profit*, ‘fact tank’ and ‘think tank’ registered U/S 8 Companies Act. The vision of PRICE is to be the premier research institute offering unparalleled insights into India’s household economy. Its mission includes conducting high-quality research, providing data-driven insights, and fostering a deeper understanding of India’s economic landscape. The institute conducts large-scale surveys to gather data on household well-being, which it then analyzes to identify trends and develop policy recommendations. As an independent organization, PRICE is committed to producing unbiased and objective analysis, contributing to the socio-economic development of India.
- Largely supported by grants and contract research, PRICE’s strengths lie in its access to comprehensive data sets, experienced team of researchers, and strong collaborations with academic institutions, government bodies, and industry players.

About PRICE’s ICE 360°

PRICE’s ICE 360° surveys called as **“Household Survey of India’s Consumer Economy and Consumer Environment”** aimed to generate integrated longitudinal data (Interconnected, consistent and up to date) to provide a 360° view of “household’s & people’s” progress on financial conditions (income, expenditure, saving and borrowings), living conditions, access to public goods, amenities, state welfare, health, education, occupational conditions, social and occupational mobility and inclusion in the household economy.

In recent times, it has been the only regular source of data on income, expenditure and saving in India. And among household surveys of its kind across the world, ICE 360° surveys hold a unique position on account of scientific and robust measurement of income, its massive sample size, range, and the depth of information it uncovers. Over the years, the survey has become the most credible source of information on Indian consumer market structures for decision makers in top marketing concerns, in public enterprises and Indian household economy in government.

These surveys (2014, 2016, 2021 and 2023) are mammoth and complex exercise, for instance, the Wave 2.0 covered about 300,000+ households through a household listing exercise, followed by a more detailed survey of 61,000 households - 25,000 in rural India and 36,000 in urban India deploying probability sample design. Geographically, the sample has been drawn from across 216 districts, 1217 villages and 487 towns spread across 25 major states.

PRICE’s ICE 360° survey - Features

Feature	ICE 360° survey (2014)	ICE 360° survey (2016)	ICE 360° survey (2021)	ICE 360° survey (2023)
Survey type	Best mix of Baseline-Panel-Longitudinal -Cross-sectional			
Sample design	Probability Sample: Three stage stratified random sample design			
Coverage	21 states & UTs (Rural &Urban)	25 states & UTs (Rural &Urban)	23 states & UTs (Rural &Urban);	25 states & UTs (Rural &Urban)
Sampling frame	100,000 households	300,000 households	200,000 households	200,000 households
Sample size	20,000 households	61,000 households	40,000 households	43,000 households
Data collection	Face-to-face interview		Face-to-face interview - CAPI	
Respondents	Chief Wage Earner (CWE)/Head, Housewife and other earning members of households			
Reference period	Financial Year - 2014	Financial Year - 2016	Financial year - 2021	Financial year - 2023

The findings in the form of actionable insights, presentations, and reports including the household level data are shared with various stakeholders ranging from policymakers in government, policy advisors, business strategists, media, academic & research institutions including national and international individual researchers.

©2024, People Research on India's Consumer Economy (PRICE), New Delhi, India. All rights reserved.

Developed and published in India: The contents of this publication are free for use as reference or distributed but commercial use is strictly prohibited. Reproduction or distribution in whole or in part in any media, including electronic media, is permissible upon due acknowledgment of the complete source as follows - **Source: Rajesh Shuka (2024) 'Evolution of Income Inequality in India Since Independence – Results from India's Household Income Surveys, Policy Brief, June 2024, PRICE.** Any unauthorised reproduction or distribution or translation of this publication after modification of the original content (in full or in part) is unlawful under Indian law and may result in either or both a civil claim for damages and criminal prosecution. PRICE does not provide any indemnification to any party if a claim for damages is made by a third party against the data contained herein.

Disclaimer: The information contained herein is derived from analysis and modelling using longitudinal primary data collected through PRICE's ICE 360° Surveys (2014, 2016, 2021 & 2023) and other data sources in the public domain. PRICE has no financial liability whatsoever in connection with any decision, observation or conclusion that may be made by a buyer or subscriber or any other person or entity on the basis of the contents of this publication.

For further information, please contact: rajesh.shukla@price360.in