2023 income inequality exceeded 1950s levels in India, says report

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India's income inequality in 2023 remained higher than it was in the 1950s, despite improvements seen in the aftermath of the pandemic, according to a working paper released by the People Research on India's Consumer Economy (PRICE) on Sunday.

Using data from household income surveys conducted by the National Council of Applied Economic Research and PRICE, the working paper states that the Gini coefficient — a statistical measure of income inequality in a population — for the country stood at 0.410 in 2023, up from 0.371 in 1955. Earlier, in 2021, due to the adverse impact of the pandemic, the Gini coefficient had risen to 0.528.

The Gini coefficient measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution. A Gini index of 0 represents perfect equality, while a coefficient of 1 implies perfect inequality. The higher the value, the greater the income inequality.

"The entrenched concentration of wealth among the top income earners, coupled with the persistent struggles of the bottom 10 per cent, signals the need for sustained, inclusive economic strategies," the paper observed.

For rural areas, the Gini coefficient stood at 0.405 in 2023, up from 0.341 in 1955, whereas for urban areas, it saw a slight decline to 0.382 from 0.392 during the same time period.

"Investments in education, healthcare, and infrastructure, particularly in rural areas, along with social safety nets and progressive taxation, are pivotal for ensuring that the benefits of growth are equitably distributed," the paper noted.

The share of 'bottom 10 per cent' households, which consist of labourers, traders, small business owners, and small and marginal farmers, saw their share of total household income decline to 2.38 per cent in 2023 from 3 per cent in 1955. Meanwhile, the share of 'bottom 50 per cent' households rose slightly to 22.82 per cent from 22 per cent during the corresponding time period.

"Social welfare schemes like the Mahatma Gandhi National Rural Employment Guarantee Act, direct benefit transfer, and financial inclusion initiatives have led to a slight increase in the income share of the bottom 50 per cent," the paper noted.

Rajesh Shukla, chief executive officer of PRICE, says that India's economic journey reflects a "seesaw" pattern of inequality, with periods of progress often countered by external disruptions or policy shortcomings. The post-pandemic improvements offer a hopeful sign, but sustaining this progress requires vigilance and adaptive policymaking.

The paper also argues that model-based synthetic estimates of income inequality, such as those provided by the World Inequality Database (WID), rely heavily on national accounts, tax records, and capital income data, which results in overstating inequality by focusing on top income earners and neglecting the vast informal economy that plays a major role in countries like India.

For example, according to the WID estimates, the 'top 1 per cent' controlled 22.6 per cent of the national income in 2023, whereas according to the income surveys, they controlled only 7.3 per cent of the national income.