



DAILY EDITORIAL ANALYSIS

TOPIC

WORRYING TRENDS IN ECONOMIC INEQUALITY IN INDIA

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Context

- Economic inequality has sharply increased across the world, both between and within countries.
- In the **Global South**, as in the **Global North**, growth and inequality now seem to move together, as economic expansion often benefits higher-income groups more.

About Economic Inequality

- It refers to the **unequal distribution of income, wealth, and opportunities** among individuals or groups within and between societies.
 - It manifests in differences in wages, access to resources, education, healthcare, and living standards.
- Some degree of inequality is inevitable in any economy, but excessive inequality can threaten **social cohesion, political stability, and sustainable growth**.

Types of Economic Inequality

- **Income Inequality:** It occurs when earnings from wages, investments, and transfers are distributed unevenly among individuals or households.
 - The **Gini coefficient** is the most widely used measure, where **0 represents perfect equality** and **1 (or 100%) represents extreme inequality**.
 - For example, countries like **Denmark (Gini ≈ 0.25)** show low inequality, while **South Africa (Gini ≈ 0.63)** faces severe inequality.
- **Wealth Inequality:** It deals with disparities in the ownership of assets — such as land, property, stocks, and savings.
 - It is **more extreme** than income inequality because wealth accumulates over generations.
 - According to the **World Inequality Report (2026)**, the **top 10% globally own three-quarters of all wealth**, and **bottom 50% hold just 2%**; and **top 1% control 37% of global wealth, 18 times more than the bottom half** of the world combined.
- **Opportunity Inequality:** It reflects unequal **access to education, healthcare, employment, and social mobility**, and can **reproduce inequality across generations** even if income equality is achieved temporarily.

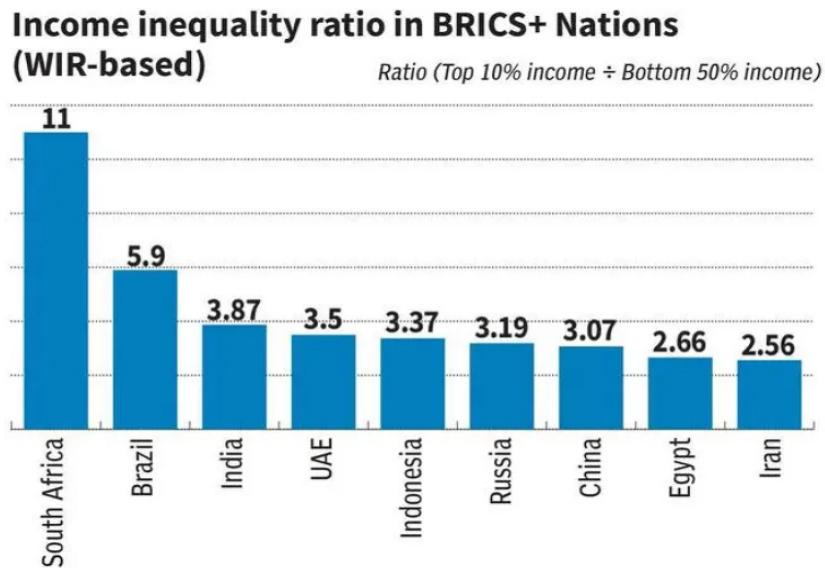
Measuring Income Inequality

- A **common way** to assess inequality is through the **income ratio** between the top 10% and bottom 50%.
 - **In India, the income ratio** stands at **3.87**, meaning the top decile earns nearly **four times** what the bottom half earns.
 - **In India, the top 10%** of earners hold a disproportionately large share of both income and wealth, and the **bottom 50%** hold only about **6% of total wealth**.
 - It is **higher than in China or Russia**, but **lower than in Brazil and South Africa**, where inequality is extreme.

Share of income and wealth

	Top 10% income	Bottom 50% income	Top 10% wealth	Bottom 50% wealth
South Africa	66%	6%	—	—
Brazil	59%	20%	—	—
India	58%	15%	65%	6.40%
Russia	51%	16%	75%	—
Egypt	47.90%	18%	61.60%	4.20%
Indonesia	46.20%	13.70%	59.40%	2.50%
Iran	45.90%	17.90%	63.10%	3.90%
China	43%	14%	68%	—

Source: WIR 2026



Gini Coefficient: Diverging Trends

- **Income vs. Consumption Gini:** India's **consumption Gini coefficient** (a measure of inequality based on household spending) fell to **0.255 in 2022–23**, suggesting relatively equal consumption patterns.
 - ◆ However, it **understates true inequality**, as it excludes income saved or invested and overlooks the wealth of the very rich.
- **Income and Wealth Gini:** According to the **World Inequality Database**, India's **income Gini** rose sharply from **0.47 in 2000** to **0.61 in 2023**, signaling deepening inequality.
 - ◆ The **top 1%** of earners now capture a much larger share of national income and own around **40% of the nation's total wealth**.

Reasons of Inequality

- **Declining Social Spending:** The **public spending on social sectors** has not kept pace despite clear evidence of rising inequality.
 - ◆ The **social-sector spending** has **stagnated or declined**, falling to **17% in 2024–25** and projected to reach **only 19% in 2025–26**.
 - ◆ **Social-sector spending** includes health and education allocations, public health expenditure, and education spending.
- **Uneven growth** favoring high-skill and urban sectors.
- **Jobless growth** and rise of the **gig economy**, leading to precarious employment.
- **Persistent inequality in access** to education, healthcare, and credit.
- **Wealth-income feedback**, where high-income households accumulate more assets, further amplifying inequality.

Recent Policy Loophole

- **Viksit Bharat – Guarantee for Rozgar and Ajeevika Mission (VB-GRAM) (Gramin):** It replaces the **MGNREGS**, a demand-driven program providing guaranteed rural employment.
 - ◆ **VB-GRAM** is **supply-driven** and depends heavily on **state government funding**, despite their limited fiscal capacity, unlike MGNREGS.
 - ◆ The shift from **MGNREGS to VB-GRAM** risks worsening inequality by reducing income security for the rural poor.
- Reinstating a **demand-based employment guarantee** would be an essential first step in restoring economic balance.

Policy Responses and Fiscal Priorities

- **Economic Survey (2024-25):** It shows that India's fiscal and structural policies have helped **Gini coefficient decline in both rural and urban areas**, indicating reduced inequality over recent years.
- **Social Sector Spending:** Government budgets have progressively increased social sector expenditure.
 - **Health:** Government health expenditure increased from 29% to 48% of total health spending (reducing out-of-pocket burdens).
 - **Poverty & Healthcare:** AB-PMJAY significantly reduced out-of-pocket healthcare expenditure for many households.
- **Financial Inclusion & Welfare Transfers:** Government programs explicitly designed to bring economically disadvantaged populations into *formal financial and welfare networks*:
 - **Pradhan Mantri Jan Dhan Yojana (PMJDY):** Created bank accounts for millions, giving access to formal financial services and welfare benefits.
 - **Direct Benefit Transfer (DBT):** Improved targeting and reduced 'leakage' in welfare delivery.
 - **Stand-Up India and PM Vishwakarma:** Provide credit and support to Scheduled Castes / Scheduled Tribes / women entrepreneurs, enabling *inclusive entrepreneurship*.
 - **PM Garib Kalyan Anna Yojana (PMGKAY):** Food security support to vulnerable households remains a key redistributive instrument.
 - **PM-KISAN:** Income support to small and marginal farmers.
- **Access & Digital Inclusion:** India's fiscal policy places priority on **digital infrastructure and identity systems**, e.g., Aadhaar linking for welfare delivery and market access.
- Linking to SDGs: India tracks representation and access metrics including gender and caste representation in governance under SDG 10 ('Reduce inequality within and among countries').

Way Forward: Towards Inclusive Growth

- India's **low household purchasing power** constrains domestic demand and limits job creation. To achieve **inclusive and sustainable growth**, policies need to:
 - Strengthen **public employment programs**.
 - Expand **social protection and welfare schemes**.
 - Increase **wages** and **support to labor-intensive industries**.
 - Prioritize **education, health, and rural infrastructure**.
- A demand-driven approach that **raises incomes of the bottom and middle classes** is vital to sustain economic growth and reduce inequality.

Daily Mains Practice Question

[Q] Examine the recent trends in economic inequality in India. What are the key drivers behind this inequality, and how effective have government policies been in addressing it?

Source: BL

