



MAINS iMPACT 2025

15-07-2025

## INEQUALITY IN INDIA

### SYLLABUS:

GS 3 > Economic Development > Indian Economy and issues > Inclusive growth

### REFERENCE NEWS:

- A recent World Bank report highlighted that extreme poverty has drastically reduced in India, and **inequality has decreased** as well.
- **The Gini coefficient**, which measures inequality, was reported to have **fallen from 0.288 in 2011-12 to 0.255 in 2022-23**, suggesting India has one of the lowest levels of inequality globally.
- This data, however, has been contested by several commentators who argue that it **misrepresents the true state of inequality in India**.

### **STATE OF INEQUALITY IN INDIA: A DETAILED OVERVIEW:**

Recent discussions on India's inequality, fuelled by the World Bank's latest report, have sparked debate on the true extent of disparities in the country's economy, particularly when comparing consumption inequality with income and wealth inequality.

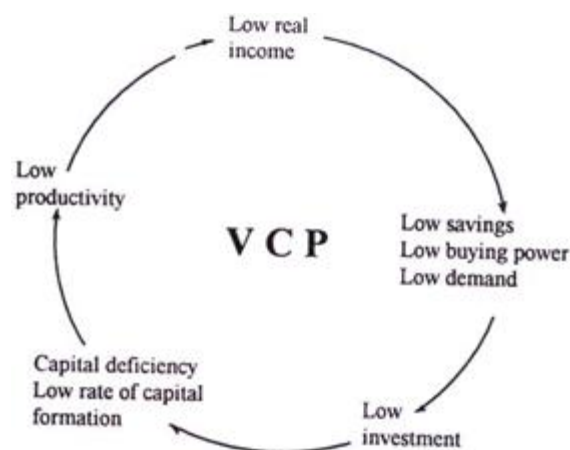
- **Consumption vs. Income and Wealth Inequality:**
  - **Consumption Inequality:** The figures presented by the World Bank primarily reflect consumption inequality, not income or wealth inequality.
    - Consumption inequality is **always lower than income or wealth inequality**, as **poorer households spend most of their income on necessities and save very little**. As incomes rise, the poor's consumption grows at a slower pace than their income, making consumption inequality seem lower than it truly is.
  - **Data Limitations:** The Household Consumption Expenditure Surveys (HCES) of 2011-12 and 2022-23, used to calculate inequality, are not compatible due to significant methodological changes. Furthermore, these surveys often fail to capture extremely high incomes, leading to an underestimation of true inequality.

- **Income and Wealth Inequality in India:**
  - **Income Inequality:** According to researchers from the **World Inequality Database (WID)**, the **Gini coefficient for pre-tax income in India for 2022-23 is 0.61, indicating a high level of inequality.** India ranks among the most unequal economies globally.
  - **Wealth Inequality:** The **Gini coefficient for wealth inequality stands at 0.75**, indicating that wealth is far more concentrated than income or consumption.
    - The high wealth inequality is reflected in the fact that **the top 1% of India's population controls nearly 40%** of the country's net personal wealth (Source: World Inequality Lab). Only four economies — Uruguay, Eswatini, Russia, and South Africa — have a higher concentration of wealth.
- **Trends in Inequality Over Time**
  - **Income Inequality:** The **Gini coefficient for income inequality** in India has **significantly risen from 0.47 in 2000 to 0.61 in 2023**, showing an increase in income inequality over time.
  - **Wealth Inequality:** Similarly, wealth inequality has risen from 0.7 in 2000 to 0.75 in 2023, although at a slower pace due to already high levels of wealth concentration.
- **The Role of the Gini Coefficient**
  - While the Gini coefficient helps in measuring inequality, it **understates the extreme concentration of wealth.** This is because it aggregates the entire population, without providing insights into the disproportionate share of wealth held by a small fraction of the population, particularly the top 1%.
  - While consumption inequality may have decreased, the true picture of inequality in India reveals a starkly different reality. Income and wealth inequality in India remain high and have worsened over time, making India one of the most unequal economies globally.
  - The significant concentration of wealth and income in the hands of the top 1% signals deepening inequality, with major implications for future economic growth and social stability.

#### **REASONS FOR GROWING INEQUALITY IN INDIA:**

- **Skewed Regional Growth:**
  - Economic expansion remains **highly urban-centric**, with rural areas contributing significantly less to GDP.
  - For instance, the **top 10 cities alone account for over 30% of national GDP**, while rural areas remain trapped in low productivity and poor infrastructure .
  - The **failure of the trickle-down regional development model** has widened inter-regional disparities.
- **Skewed Economic Growth:**

- Services, especially IT and finance, have surged, but sectors like **traditional manufacturing and agriculture lag behind**.
- For instance, **manufacturing's share in GDP has stagnated at 15-17%**, unlike East Asian economies where it exceeded 25% during industrial takeoff.
- **Agriculture**, which still employs over 40% of the population, continues to grow at below 3% annually.
- The **focus on capital-intensive rather than labor-intensive sectors** excludes a majority of the population from economic gains.
- **Stagnating Productivity and Structural Constraints:**
  - **Labor productivity grew at just ~4.6% (2011–2020)**, below the 6–7% needed to sustain inclusive growth (World Bank).
  - Infrastructure gaps—like poor roads, power, and ports—disproportionately affect smaller businesses and rural populations, **raising costs and limiting income mobility**.
  - India ranks lower than China or Vietnam in **Global Competitiveness Index for infrastructure quality** (WEF), reinforcing urban-rural inequality.
- **Flawed Tax Collection System:**
  - **Oxfam India (2023)** highlights that the **wealthiest individuals and corporations are under-taxed**, resulting in lost public revenue that could fund education, health, and safety nets.
- **Predominance of Informal Economy:**
  - Nearly **90% of Indian workers remain in the informal sector**, with **no job security, poor wages, and no access to social protection** (Source: Ministry of Labour and Employment (MoLE) 2023)).
  - Informality leads to **chronic underemployment**, especially in rural and peri-urban areas, perpetuating poverty.



- **Underfunded Public Services:**

- India continues to invest inadequately in health (2.1% of GDP) and education (3% of GDP).
- As a result, **out-of-pocket health expenses** drive **millions into poverty annually**.
- Also, **the poor education outcomes exacerbate inequality**—according to the ASER 2023 report, 43% of 14–18-year-olds are unable to read basic English sentences, and **25% of rural adolescents struggle to read Grade 2-level texts** in their native language.
- **Gender Discriminations:**
  - India ranks **131/148 in the Global Gender Gap Index (2025)**, reflecting severe disparities in economic participation.
  - Women continue to perform unpaid care work and remain **underrepresented in formal employment**.
  - **Underfunded services like crèches, safe transport, and maternal health** deepen this divide.
- **Lack of Entrepreneurship and Employable Skills:**
  - Despite having a **large youth population, formal job creation is low**.
  - The **India Employment Report 2024** shows **youth unemployment tripled from 5.7% (2000) to 17.5% (2019)**, indicating structural joblessness.
  - **Low-quality education** and underfunded skilling programs fail to equip the workforce for higher-paying roles.
- **Regulatory and Governance Issues:**
  - Corruption, **bureaucratic delays**, and unpredictable regulations deter business expansion and productivity.
  - India ranks **93rd in Transparency International's Corruption Perceptions Index (2023)**, signaling systemic governance challenges .
- **Inequality and Inclusive Growth Link:**
  - Inequality curbs overall consumption demand. **The top 10% hold 77% of total wealth** (Oxfam 2020), **shrinking the middle-class market**.
  - This limits **domestic-led growth**, forcing over-reliance on elite consumption and export-driven models.
- **External Economic Shocks and Price Volatility:**
  - **Global disruptions**, like the Russia-Ukraine war, raised energy and commodity prices, disproportionately hurting the poor.
  - For example, the **2022 oil price surge** increased inflation in India, affecting food and fuel access for low-income households.

### IMPLICATIONS OF RISING INEQUALITY IN INDIA:



- **Barriers to Social Mobility:**
  - Economic disparities **hinder access to education and opportunities**, trapping children of impoverished families in **vicious cycles of poverty**.
  - This limits their ability to improve their socioeconomic status, perpetuating inequality across generations. Research suggests that high inequality makes social mobility more difficult by distributing opportunities for economic progress unequally among future generations.
- **Health Disparities:**
  - Rising inequality exacerbates health disparities, with marginalized communities experiencing higher rates of morbidity and mortality.
  - For instance, India accounts for **17% of global maternal deaths and 21% of deaths among children under five**, highlighting the severe health inequities faced by the poor (Source: Oxfam International)
- **Economic Instability:**
  - Concentrated wealth among the top 1% undermines economic stability, as the majority of the population has limited purchasing power. This hampers domestic demand and can lead to economic stagnation. **The richest 1% now own more than 40% of the country's total wealth**, while the bottom 50% hold just 3% . (Source: World Inequality Lab)
- **Educational Inequality:**
  - Educational outcomes remain poor, with significant disparities between urban and rural areas.
  - The ASER 2023 report found that 43% of 14–18-year-olds couldn't read basic English sentences, **and 25% of rural teens couldn't read Grade 2 texts** in their native language. **This educational divide perpetuates cycles of poverty and inequality.**
- **Enhanced Vulnerability to Disasters:**
  - Individuals with limited financial resources are **disproportionately impacted by disasters** like pandemics or natural calamities, lacking savings or assets for recovery. This highlights the need for resilient support systems for the vulnerable. Studies indicate that **income inequality correlates with higher mortality rates during natural disasters**, as marginalized communities often reside in high-risk areas with inadequate infrastructure.
- **Loss of Dignity:**

- The economic divide forces the poor into relentless **work with insufficient access to basic needs, undermining their dignity.**
- This is contrary to the fundamental rights enshrined in the Constitution, emphasizing the disparity between different societal segments. Additionally, caste-based discrimination continues to affect marginalized communities, limiting their access to healthcare and education .
- **Increased Crime Rates:**
  - Inequality **erodes social trust and may lead to higher crime rates** as a form of survival or protest among those marginalized. Addressing wealth disparities is crucial for fostering social cohesion and reducing crime.
  - Studies have shown a **positive relationship between income inequality and crime rates**, suggesting that higher inequality can lead to increased crime .

### GOVERNMENT INITIATIVES:

#### **Fiscal Measures:**

- **Taxation:**  
India follows a **progressive taxation system**, where higher tax rates apply to higher incomes.
- **Subsidies:**  
Subsidies are provided for **food grains, fuel, and agriculture** to support vulnerable sections of society.
- **Anti-Corruption**  
Laws like the **Prevention of Money Laundering Act** and the **Benami Transactions (Prohibition) Act** aim to prevent the illegal accumulation of wealth.

#### **Laws:**

#### **Social Services:**

- **Reservation System:** The **Indian Constitution** mandates reservations in **education and jobs** for **Scheduled Castes, Scheduled Tribes, and Other Backward Classes** to promote social justice.
- **Insurance Schemes:** Programs like **Ayushman Bharat** and **Pradhan Mantri Jeevan Jyoti Bima Yojana** provide health and life insurance to underserved populations.

- **Public Healthcare and Education:** Government-run hospitals and schools offer services at **nominal or no cost**. Programs such as the **National Health Policy** and **Sarva Shiksha Abhiyan** aim to improve accessibility.
- **Public Distribution System (PDS):** The **Public Distribution System** delivers **subsidized food grains** to economically disadvantaged groups.

#### Human Capital Development:

- **Skill India Mission:** Aimed at training **40 crore people** by 2022, with initiatives like **Pradhan Mantri Kaushal Vikas Yojana** and **Skill Loan Scheme**.
- **Startup India:** Encourages **entrepreneurship** by providing **self-certification schemes** and **financial support** for start-ups.
- **Make in India:** Seeks to transform India into a **global manufacturing hub** by focusing on **job creation** and **skill enhancement**.
- **Subhadra Yojana (2024):** Provides **₹50,000** over five years to economically weaker women to promote **financial empowerment**.
- **Union Budget 2024-25:** Allocates **₹2 lakh crore** for **employment** and **skill development** initiatives.
- **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):** Offers **loan guarantees** for micro and small enterprises to foster **entrepreneurship**.

#### WAY FORWARD:

- **Inclusive Growth Policies:** The government should implement policies that target balanced economic growth across sectors and regions. More investment in rural infrastructure and manufacturing can reduce urban-rural disparities.
- **Expanding Social Protection:** Expanding the reach of **public healthcare, education, and insurance schemes** will ensure that marginalized groups have access to essential services and reduce economic vulnerability.
- **Progressive Taxation and Wealth Redistribution:** Strengthening the **taxation system** to ensure that the wealthiest contribute proportionately more could provide additional funds for public welfare programs.
- **Focus on Human Capital Development:** Greater emphasis on **education** and **skills training** through initiatives like **Skill India** can

equip youth with the necessary tools to thrive in the formal economy, reducing **youth unemployment** and skill gaps.

- **Gender Equality and Empowerment:** Strengthening gender-sensitive policies and increasing the representation of women in both economic and political spheres will help bridge the gender inequality gap.
- **Enhanced Governance:** Tackling corruption and bureaucratic inefficiencies will improve the business environment, promote fair economic practices, and ensure that resources are allocated effectively to reduce inequality.

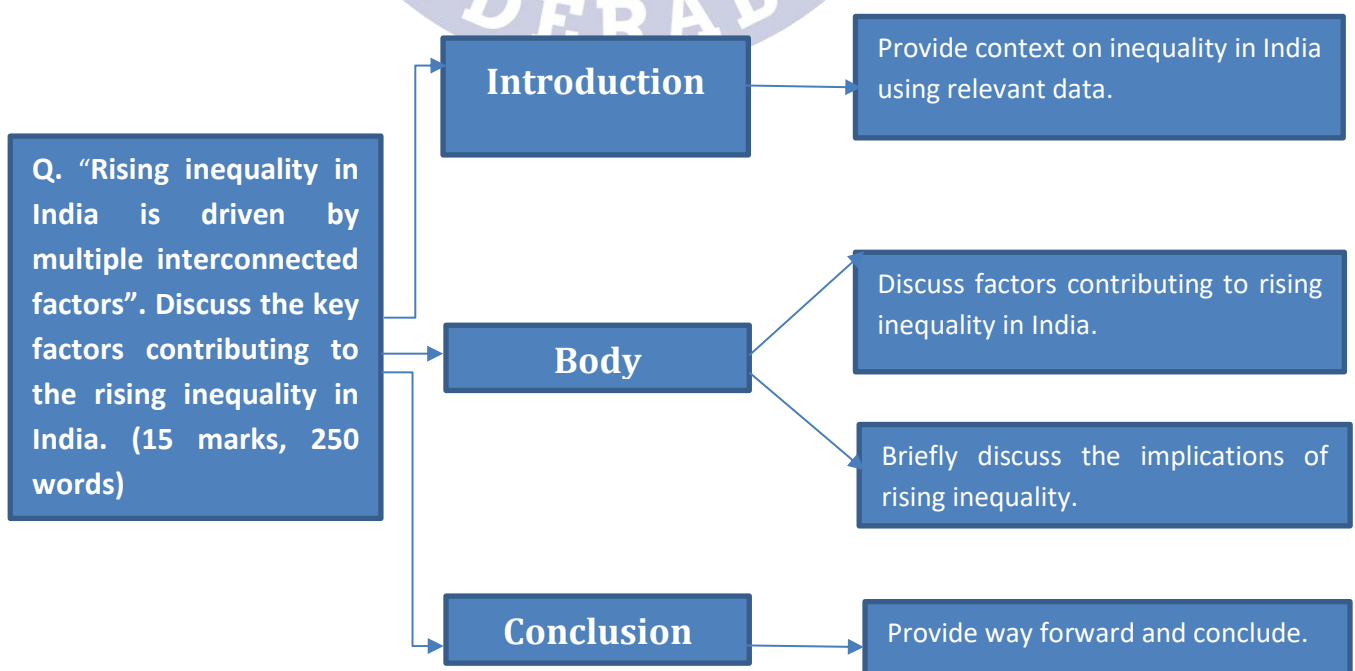
### CONCLUSION:

- Rising inequality in India poses significant challenges to social cohesion, economic stability, and sustainable growth. While government initiatives like **progressive taxation**, **social services**, and **human capital development** aim to combat these issues, there is a need for a more integrated approach to ensure that growth is inclusive and equitable. By prioritizing **inclusive policies**, **access to quality services**, and **strong governance**, India can reduce inequality and move toward more balanced and sustainable economic development.

### PRACTICE QUESTION:

**Q. "Rising inequality in India is driven by multiple interconnected factors". Discuss the key factors contributing to the rising inequality in India. (15 marks, 250 words)**

### APPROACH:





**MODEL ANSWER:**

Rising inequality in India remains a significant issue despite reductions in extreme poverty. A **World Bank report** shows the **Gini coefficient** fell from **0.288 in 2011-12** to **0.255 in 2022-23**, suggesting lower inequality. However, experts argue this misrepresents the true inequality, as it primarily reflects **consumption inequality**, which is always lower than **income** or **wealth inequality**. The top 1% controls nearly **40% of India's wealth**, highlighting stark disparities in wealth distribution (Source: World Inequality Lab).

**Key Factors Contributing to Rising Inequality in India:****1. Skewed Regional Growth**

- **Urban-Centric Growth:** Economic expansion in India has been highly urban-centric, with **top 10 cities** alone accounting for over **30%** of national GDP, leaving rural areas significantly behind in terms of productivity and infrastructure.
- **Failure of Trickle-Down Development:** The trickle-down model of regional development has largely failed, exacerbating the income gap between urban and rural regions, which are often left with inadequate resources for growth.

**2. Skewed Economic Growth**

- **Service Sector Dominance:** India's rapid growth in sectors like **IT** and **finance** has outpaced traditional sectors like **manufacturing** and **agriculture**. Manufacturing's share in GDP remains stagnant at **15-17%**, while agriculture, employing over **40%** of the population, continues to grow at less than **3%** annually.
- **Capital-Intensive Growth:** The focus on **capital-intensive** industries, instead of **labor-intensive** sectors, excludes a large portion of the population from benefiting from economic growth.

**3. Stagnating Productivity and Structural Constraints**

- **Low Labor Productivity:** From 2011 to 2020, India's **labor productivity** grew at just **4.6%**, below the **6-7%** required for inclusive growth.
- **Infrastructure Gaps:** Poor infrastructure, especially in rural areas, raises costs for businesses and disproportionately affects the rural population, reinforcing income inequalities. India ranks **lower than China and Vietnam** on the **Global Competitiveness Index** for infrastructure quality.

**4. Informal Economy**

- **Large Informal Sector:** Around **90%** of Indian workers are in the informal sector, facing **low wages**, **job insecurity**, and **lack of social**

**protection.** This informal nature of employment leads to chronic underemployment, particularly in rural areas, and perpetuates poverty.

#### 5. Underfunded Public Services

- **Inadequate Investment:** India continues to invest inadequately in **healthcare** (2.1% of GDP) and **education** (3% of GDP). This results in high **out-of-pocket health expenses** that push millions into poverty. Additionally, poor educational outcomes exacerbate inequality, with **43% of 14–18-year-olds** unable to read basic English sentences, and **25% of rural adolescents** struggling with Grade 2-level reading.

#### 6. Gender Discrimination

- **Gender Participation Gaps:** India ranks **131st out of 148 countries** in the **Global Gender Gap Index (2025)**, reflecting significant gender-based economic disparities. Women are underrepresented in the formal workforce and continue to bear the burden of unpaid care work, which limits their participation in economic growth.

#### 7. Regulatory and Governance Challenges

- **Corruption and Inefficiency:** Corruption, bureaucratic delays, and unpredictable regulations reduce the ability of businesses to expand and grow, especially small and medium-sized enterprises. India ranks **93rd in the Corruption Perceptions Index (2023)**, indicating deep-rooted governance challenges.

<b>Implications of Rising Inequality:</b>
---

1. **Barriers to Social Mobility:** Inequality limits access to **education** and **economic opportunities**, trapping generations in poverty and hindering social mobility.
2. **Health Disparities:** Marginalized communities face disproportionately high health risks, with **India accounting for 17% of global maternal deaths** and 21% of child deaths, exacerbated by economic inequality.
3. **Economic Instability:** High levels of wealth concentration among the top 1% undermine **economic stability** and reduce overall **purchasing power**, leading to stagnation in domestic consumption and growth.
4. **Educational Inequality:** Educational outcomes remain poor, especially in rural areas, with large gaps in literacy and access to quality education, perpetuating cycles of poverty.
5. **Increased Vulnerability to Disasters:** Poorer populations are more vulnerable to **natural disasters** and **economic shocks** due to their limited assets and lack of insurance.

#### Way Forward:

- **Inclusive Growth Policies:** The government should promote policies that target **balanced economic growth**, focusing on rural development, **manufacturing**, and reducing the urban-rural divide.
- **Expanding Public Services:** **Increased investment in healthcare and education** should be prioritized to ensure equal access to services and reduce the economic vulnerability of marginalized groups.
- **Strengthening Tax Systems:** The tax system should be reformed to ensure **progressive taxation**, ensuring that the wealthiest individuals and corporations contribute more to fund **social welfare** programs.
- **Focusing on Human Capital:** **Skill development** initiatives like **Skill India** should be expanded, enabling the youth to access better job opportunities and reducing **unemployment**.
- **Addressing Gender Inequality:** Implementing policies to increase **women's economic participation** and closing **gender gaps** in education and employment can significantly reduce inequality.
- **Improved Governance:** Tackling **corruption** and **bureaucratic inefficiency** will foster a more favorable business environment, promote fair economic practices, and ensure equitable resource distribution.

Rising inequality in India is driven by factors like skewed growth, poor public services, and gender discrimination. Key initiatives such as **progressive taxation**, **Skill India**, **Ayushman Bharat**, and the **Public Distribution System** are important steps, but more efforts are needed to address the gaps. Strengthening **education**, **healthcare**, and **gender equality** will help create a more equitable society and sustainable growth, ultimately reducing inequality in India.