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EDITORIAL ANALYSIS

Understanding Inequality in India's Growth Story — Why High GDP Coexists with Rising Disparity

 **THE HINDU**

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ECONOMY**SOCIAL ISSUES****GS3****GS2**

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INTERVIEW ANGLE

"India is often cited as one of the fastest-growing major economies, yet inequality is widening. How do you reconcile high GDP growth with rising disparity? What structural reforms would you prioritise?"

WHY IN NEWS

Despite India recording 7%+ GDP growth in recent years, **income and wealth inequality** continues to widen. The **World Inequality Lab** and **CMIE data** point to a K-shaped recovery — where the top of the income distribution has recovered strongly post-COVID, while the bottom half faces stagnant real wages, informal employment, and limited access to social protection. This editorial examines the structural architecture of India's inequality challenge.

THE NUMBERS: INDIA'S INEQUALITY SNAPSHOT

Wealth Distribution

METRIC	DATA
Top 1% share of national wealth	~ 40.1% (World Inequality Lab, 2024)
Top 10% share of national wealth	~ 65%
Bottom 50% share of national wealth	< 3%
Gini coefficient (income)	~35–38 (moderate by global standards, but rising)
Gini coefficient (wealth)	~80+ (extremely high — one of world's most unequal)

Income Trends

GROUP	REAL INCOME CHANGE (2017–2024)
Top 1%	+40%
Top 10%	+25%
Middle 40%	+8%
Bottom 50%	+2–3% (near stagnant in real terms)

WHY DOES GROWTH NOT REDUCE INEQUALITY?

1. K-Shaped Recovery (Post-COVID)

- **Formal sector / corporate profits** recovered sharply (BSE Sensex: 30,000 → 80,000+)
- **Informal sector** (90% of workforce) had prolonged distress — wage cuts, job losses, no safety net
- Asset prices (equity, real estate) rose → wealth holders benefited disproportionately

2. Capital vs. Labour Income Split

- India's **corporate profit share of GDP** has risen from ~8% (2012) to ~12%+ (2024)
- **Wages' share of GDP** has declined — productivity gains not passed to workers
- Productivity growth in manufacturing and services benefits capital owners (shareholders) more than workers

3. Informal Economy Exclusion

- **90%+ of workers** in informal sector: no minimum wage enforcement, no social security, no collective bargaining
- Formalisation (GST, demonetisation) pushed some informal units out of business without creating equivalent formal jobs
- **PLFS 2024:** Regular wage/salaried employees = only ~23% of workforce

4. Education-Skills Gap

- Returns to education are highly unequal: college graduates earn 5–7x more than primary-educated workers
- Quality of government school education remains poor → **intergenerational transmission of poverty**
- **ASER 2024:** Only 67.5% of Class 8 students can read a Class 2 text (meaning 32.5% still cannot — a critical learning deficit)

5. Regional Divergence

REGION	PER CAPITA INCOME (APPROX.)
Goa / Delhi / Haryana	₹3,00,000–4,00,000+
Bihar / Uttar Pradesh	₹40,000–70,000
Inter-state ratio	~6:1 (widening over time)

POLICY INTERVENTIONS: WHAT WORKS, WHAT DOESN'T

Social Spending

SCHEME	COVERAGE	GAP
PM-KISAN	11+ crore farmers	Excludes landless, tenant farmers
MGNREGS	15–17 crore households	100-day limit; wage below market; delayed payments
Ayushman Bharat	55 crore beneficiaries	Tertiary care only; primary healthcare weak
PDS / NFSA	80 crore beneficiaries	Covers food security; does nothing for asset building

Gap: India's **social protection expenditure as % of GDP** (~1.5%) is far below the global average for countries at similar income levels (~4–6%).

Progressive Taxation

- India's **top income tax rate: 30%** (with surcharge, effective ~42% for ultra-high earners)
- But **capital gains tax** is lower than income tax — rewards asset holders
- **Inheritance tax:** abolished in 1985; no wealth tax (abolished 2015)
- **GST is regressive** — poor households spend higher share of income on taxed goods

Labour Reforms (4 Labour Codes)

- Consolidate 44+ laws into 4 codes (Wages, IR, OSH, SS)
- **Not yet notified** by most states — implementation stalled
- Risk: may reduce worker protections in flexibility push → worsen labour's income share

INTERNATIONAL COMPARISONS

COUNTRY	SOCIAL SPENDING (% GDP)	GINI (INCOME)	POLICY TOOL
India	~1.5%	35–38	Low social spending
Brazil	~14%	48	Bolsa Família cash transfers
South Korea	~12%	32	Heavy education investment
Germany	~25%	31	Universal social insurance

Key lesson: Countries that reduced inequality invested heavily in **education quality, social insurance, and progressive fiscal policy** — not just GDP growth.

UPSC RELEVANCE

PAPER	ANGLE
GS3 — Economy	Income distribution, Gini coefficient, K-shaped recovery, labour codes, social spending
GS2 — Governance	Social protection schemes, MGNREGS, Ayushman Bharat, welfare state
GS3 — Economy	Progressive taxation, capital gains, inheritance tax, fiscal policy

Mains Keywords: Wealth inequality, Gini coefficient, K-shaped recovery, World Inequality Lab, PLFS, MGNREGS, Ayushman Bharat, informal economy, labour codes, capital-labour split, progressive taxation, social protection spending, intergenerational poverty, regional divergence

Prelims Facts Corner

ITEM	FACT
Top 1% wealth share (India, 2024)	~ 40.1% (World Inequality Lab)
Bottom 50% wealth share	<3%
Workers in informal sector	90%+
Regular salaried workers (PLFS 2024)	~ 23% of workforce
Corporate profit share of GDP (2024)	~ 12%+ (up from ~8% in 2012)
India social spending (% GDP)	~ 1.5% (global average for peer countries: 4–6%)
India wealth tax	Abolished 2015
India inheritance tax	Abolished 1985
GST nature	Regressive — higher share of income for poor
ASER 2024	67.5% of Class 8 students can read Class 2 text (32.5% still cannot)

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