

Conundrum of Economic Growth and Persisting Inequality in India: Critical Reflections

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Introduction

India is a large and heterogeneous nation with 1.3 billion inhabitants categorized by language, culture, caste, religion, region, race, and tribes. It is an established and robust democracy and has witnessed steady growth. It is being considered among the fastest-growing economies globally for the past 30 years. The examination of India's developmental history underscores the significance of equality. To what extent has this development been inclusive? Have the benefits of economic prosperity reached the impoverished? Is the present trajectory of development sustainable in the long term? Significant and sustainable growth necessitates the mitigation of inequities. Inequality impedes production, adversely affects the morale of the working class, and diminishes the pool of individuals capable of actively participating in the market and economic growth. There are scholars who have argued that inequality is the outcome of deliberate economic and political policies. In other words, it is due to the obsession with growth/market and the capture of power by economic elites. In today's India, we have ample evidence to substantiate this.

Economic growth and persistent inequality often interact in complex and potentially unsettling ways. A country may have an increase in overall wealth, however, substantial segments of its population may witness negligible improvements in their living standards.

Economic growth means that a country's total production of goods and services has increased, which is usually measured by GDP. It indicates increasing economic activity, elevated average salaries, and possibly improved living conditions. Inequality refers to the disproportionate allocation of income, wealth, and opportunity among individuals or groups. It can persist even amidst increasing average salaries.

This paper will argue that inequality and economic growth may coexist in the short term, but this phenomenon is not sustainable in the long term. One of the main arguments that will be presented in this paper is that although inequality and economic growth may coexist in the short term, this phenomenon cannot be maintained over the long term.

Persisting Inequality in India

Inequality can be multidimensional, i.e. income inequality, inequality of outcome, inequality of opportunity etc. In India, it can be many forms of inequality, gender inequality, urban-rural, regional, social and religious, profession etc.

Economic reforms in India commenced in 1991, characterized by the liberalization of the economy and the integration of the market into the global economy. Over the past three decades, the Indian economy has experienced an average growth rate of approximately 6% (Dreze, Sen 2013). Rapid economic growth resulted in 236,000 millionaires (Asia Pacific Wealth Report 2016) and a substantial middle class of 300 million with enhanced purchasing power. India's narrative of growth has been rife with paradoxes. In spite of the substantial economic progress that has been made over the past three decades, sixty percent of the populace survives on less than two dollars per day (Inclusive Progress and

Development Report 2015, World Economic Forum), and it is home to one-fourth of the world's population that is affected by malnutrition (World Food Programme 2015).

According to recent data from Credit Suisse, the wealthiest 1% in India possess 53% of the nation's total wealth. The wealthiest 5% possess 68.6%, and the top 10% hold 76.3% of the total wealth. The lower half of the pyramid competes for only 4.1% of the national income (Agarwal 2016).

The primary benefactors of economic progress have been the middle class, comprising 20% of the population by income. Their purchasing power has significantly exceeded expectations during the past decades. When compared to the average per capita income in urban regions, which increased at a rate of 2% per year during the same time period, the average per capita income in rural areas increased at a reasonable rate of roughly 1% between 1993-1994 and 2009-2010. In the years following the implementation of reforms, agricultural wages changed from 5% in 1980 to 2% in 1990 and then to nearly nothing in the early 2000s. (Dreze and Sen 2013).

Growth does not automatically reduce inequality

An unequal distribution of opportunities is the result of this. It is not possible to have a balanced distribution of education, healthcare, and skills. The rise of the economy is more beneficial to those who already have access to high-quality resources. A sectoral imbalance is also a consequence of this. It is possible that growth will be concentrated in certain industries, such as technology or finance, which employ a smaller number of highly qualified workers, leaving other industries behind. The result is the formation of entirely distinct categories of income, such as capital income and labor income; those who own assets (such as stocks, real estate, and enterprises) typically benefit more from growth than those who earn wages. In addition, it results in discrepancies between regions. As a result of urban areas' tendency to grow at a higher rate than rural areas, geographic disparity is exacerbated. The phenomena of globalization also brought about certain additional challenging circumstances in relation to technology and the access to and utilization of it. Although they are beneficial to general growth, they have the potential to make low-skilled workers obsolete or to reduce salaries in some industries.

Economic growth of a country raises the total income of that nation, but it does not ensure that that revenue is distributed in an equitable manner. There are several instances in which certain groups derive a disproportionate share of the benefits that expansion brings.

Although economic growth is essential, it is not sufficient on its own to bring about a reduction in level of inequality. Growth can actually widen the gap between the rich and the poor rather than decreasing it if targeted policies are not implemented. Some examples of such policies are investments in education, progressive taxes, and social protection provisions.

Development and Growth trajectory in India

The primary engine of the Indian economy has been the service sector, which accounted for 57% of the total GDP in 2014, whilst agriculture and industry contributed 17.9% and 24.2% respectively during the same period (Planning Commission of India 2014). In 2013, the allocation of labor by sector was as follows: service sector 28.7%, agricultural 49.7%, and industry 21.5%.

One of the reasons for inequality is that Indian economy is driven by service sector like finance, banking, business consulting, IT, education and BPOs etc. which employs very small number of people. The dependence of such a large number of people on agriculture where the growth rate was so low and most of the labours are illiterate, or semi-skilled and underpaid, is a cause of concern. For mechanisation of agriculture sector farmers need money and 90% Indian farmers are small, hence they can't afford money required for this. The agricultural sector's contribution to GDP is diminishing daily; yet, around 600 million individuals rely on farming and other enterprises. Individuals cannot be transitioned into high-skilled positions in metropolitan areas without appropriate education and skills, which is a significant challenge (Tiwari 2015). It is notable that public investment in education and health is markedly inadequate, undermining the stability of its development paradigm. It is important to acknowledge that India's public health system is severely deficient, characterized by a meager public

investment of only 0.5% of GDP, in stark contrast to China's expenditure of nearly 3%, which is six times greater than that of India. India must augment its expenditure on education as well.

Unemployment amid Economic Expansion

India's growth has been creating large number of jobs. Every year, 12 million young people enter the workforce; however, there is an insufficient number of employment opportunities provided. Job creation in 2015 has been the lowest in 7 years with only 1.35 lakh new jobs (Mukherjee 2016) which has led to the phenomenon of jobless growth.

I would argue that one of major strength of India is its young population which can contribute in its growth story and demographic dividends are only possible when the government educate them and provide them skills at the same time strengthening those sectors which can create millions of jobs where the large population can be employed. Without this Indian economic growth will be limited for the top 30% population income wise, and India would not be able to use its full potential.

To enhance and make India's development more inclusive, officials need to ensure that the country's service sector is evenly distributed with big-scale manufacturing and industry. This will ensure that there are sufficient employment possibilities for the country's enormous workforce. During this time, the government is required to take action in order to educate and train the workers in order to prepare them for advanced positions that offer improved employment prospects and income. Growth should also be based on labor-intensive industrialization, so that enough jobs are created.

India was being seen as a country which bypassed a very important principle/trajectory of economic growth from agriculture to service sector directly without getting in manufacturing sector. If we look at the kind of abject poverty, underemployment and hunger, one can argue that probably this was not in India's interest to not have manufacturing sector which could have absorbed its large population like China.

Inequality in the short run acceptable?

Last 3 decades of economic growth has helped a large number of people in coming out of poverty, and in the same period, the establishment of a middle class in India, comprising around 300 million individuals, has been seen, characterized by enhanced financial conditions and elevated living standards. Although the Indian middle class is now limited in number, it can be expanded by prioritizing equitable economic growth. This clearly indicates that decades of progress have enhanced the conditions of millions in India, and growth has not been confined solely to the affluent urban population and economic sectors. However, one can't deny that India's growth has not been very inclusive and broad-based but certain level of inequality is also inevitable. The global economy pertains to the market, since corporations and investors will gravitate towards lucrative opportunities. The middle class is the backbone of any economy. The size of India's middle class would significantly expand over the next decade if India maintains its remarkable growth rate of 6-7%. It would enhance India's revenue generation and consolidate its economy. India's economic growth has been accompanied by a degree of inequality, still it has been effective for the nation. It can be contended that up to a specific level, economic development and inequality may coexist. However, the threshold remains ambiguous. Nonetheless, economists and policymakers may ultimately analyse and consider the amount to which inequality is deemed acceptable.

Renowned economist Arvind Panagariya contends that inequality is not a significant issue and can be addressed through economic growth. He asserts that India's economic growth has the potential to elevate a substantial portion of its population out of poverty. He further argues that excessive emphasis on inequality will impede economic progress, hence adversely impacting poverty alleviation. Moreover, he contends that "in the initial three decades following independence, the focal point of our economic growth policy has been equality, resulting in an average growth rate of 3%, which subsequently exacerbated poverty" (Panagariya 2008).

Conversely, Amartya Sen contends that although economic growth is essential, it must be founded on equity. If it is not founded on equity, it results in significant inequality issues. Unlike, Panagariya, he emphasizes that inequality is a significant issue requiring substantial and more public interventions. He associates poverty with liberty and honor. His notion of poverty involves the enhancement of human potential, encompassing education, health, sanitation, and other factors. Education, in his view, is the essential factor that enables the impoverished to make choices and discern good from wrong based on their learning. As he/she possesses the ability to read, he/she can discern what is beneficial or detrimental to his/her health. He rightly contends that inequality cannot be addressed without proactive governmental policy involvement, which includes providing employment, education, and enhancing living conditions for the impoverished and laborers.

Examining the cases of China and Bangladesh reveals that China has been the fastest-growing economy; although disparity and inequality exists, the plight of the impoverished is comparatively less severe. Their status in fundamental health sector and education systems is significantly improved. China's expenditure on health and education is twice that of India's expenditure. Consequently, we observe that China's workforce is highly educated, sufficiently trained, and exhibits greater efficiency. Bangladesh serves as an intriguing case where it continues to be one of the most impoverished nations, with its economic growth significantly lagging behind that of India. Notwithstanding numerous constraints, significant advancements are observable in key social sectors such as health and education. Ninety percent of households in Bangladesh possess toilets, whereas just forty-nine percent of households in India have toilets in 2011 (Dreze and Sen 2013).

Over a period of time, India has witnessed a significant rise in inequality. This is harmful to long-term growth and compromises the sustainability of economic expansion and growth. It aggravates the issue of disparities. Consequently, it is imperative for the State to undertake substantial measures to mitigate this.

Inequality and economic growth: unsustainable phenomenon over the long term

Sadly, the increase in inequality as a phenomenon has hardly received any adequate focus thus far. Economic growth in India and extensive inequality are fundamentally incompatible. There are several causes for this. It will impede economic growth in the long run. No nation can progress if a significant portion of its population endures extreme poverty, malnutrition, hunger, illiteracy, and lacks access to sanitation facilities. When individuals are not healthy, it adversely impacts their production and efficiency. To attain comprehensive development, a country must include its entire population in this process. To facilitate comprehensive growth, the government must invest in human capital, which will, in turn, contribute to overall progress. Furthermore, a robust and affirmative correlation exists between investing in the impoverished and achieving progress as a result.

Unfortunately, we are observing economic growth that emphasizes diminished government intervention and increased market liberalization. This form of economic growth contradicts public investments in education, nutrition, and health, as well as progressive taxation. It exacerbates the erosion of labor protection laws and facilitates the appropriation of individuals' lands, forests, and resources, ultimately resulting in increased inequality. This type of economic growth also necessitates a significant reduction in public allocations and expenditures in the social sector. That's what we have observed recently.

In contrast to the prevalent belief that reducing inequality impedes economic growth, I contend that the existence of extreme poverty and inequality is detrimental and obstructive to growth. Consequently, substantial and sustainable growth necessitates the mitigation of inequities.

Various methods exist to mitigate inequality. It is imperative to implement measures to enhance and secure statutory wages, institute progressive taxation for the affluent, augment public funding for education, healthcare, and small-scale agriculture, expand social protection for the elderly, infirm, and disabled, improve maternity and child care/allowance/benefits, protect indigenous populations and marginalized groups, ensure access to water, sanitation, and essential utilities for the rural impoverished and urban slums, and uphold workers' rights. But, unfortunately in India, economic growth is least concerned about such issues and it has been dictated on the principle of free market and the interests of

economic elites. The state must prioritize these challenges and endeavor to create a more equitable world. This can be achieved through an agenda of inclusive growth that addresses the aforementioned difficulties and concerns. There is a necessity to allocate substantial resources for the social sector investments and public services. This specific form of policy approach has the capacity to empower the entire population to profit from growth and can further guarantee sustainable development for India. Rising inequality can engender social dissatisfaction and political instability, perhaps resulting in movements, protests, and a surge in criminal activity. During a crisis, ordinary individuals may struggle to identify with the working middle or upper class due to disparities in inequality. Anna Hazare movement of 2011 can be taken as an example. The points raised by Anna Hazare and his team could resonate in the hearts and minds of common people because they were not getting jobs, corruption at the upper level was rampant. One of the major promises Prime Minister Modi made during his campaigns in 2014 elections was that; he will bring jobs, he knew fully well that youngsters are disenchanted and this class overwhelmingly voted for him.

Conclusion

The liberalization of the economy undeniably generated substantial wealth and resulted in the emergence of multi-millionaires and billionaires in India. Simultaneously, despite India's impressive economic development rates, we have observed an expansion of the disparity between the affluent and the impoverished within the wealth distribution. We must be aware about the consequences of persistent inequality and how it can lead to social tension and unrest, reduced social mobility, weaker long-term growth (because large populations cannot fully participate), and political instability.

While implementing policies to stimulate economy is essential, attention must also be directed against the escalating disparity. Although economic growth has achieved numerous successes, including poverty reduction, a significant segment of the Indian population has not reaped the benefits of this prosperity.

The rising inequality in India is a cause of concern for India. Government must implement policies that would reduce inequality; apart from other measures, progressive taxation and increased social spending is needed. There is a need to take inequality more seriously today than before. While growth is important, pervasive inequality must be a cause of concern for academic and policy makers today. To make growth more inclusive, governments must focus on education and skill development, progressive taxation, social safety nets (subsidies, cash transfers), healthcare access, long pending labor market reforms, as well as rural and regional development.

Social expenditures, particularly in education and health, are crucial elements in promoting equitable growth. We have recognized that growth is a necessary yet insufficient prerequisite for mitigating inequality. We concur that elevated growth would result in augmented government income, potentially allowing the Government to dedicate greater expenditure and resources to social sectors, which is essential for mitigating inequality.

Practically speaking, countries such as India have had significant economic progress in recent decades; nonetheless, inequality persists due to gaps in education, the urban-rural divide, and informal employment. At the end, it can be argued that economic growth is essential, however, it is insufficient in itself. In the absence of intentional and grounded policies and inclusive institutions, economic growth may intensify wealth concentration rather than promote equitable distribution, and ultimately leading to perpetuation of and/or even worsening of inequality.

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