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Inequality in India: drivers and consequences

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16. Inequality in India: drivers and consequences

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Inequalities in India increased following the internal and external economic liberalization measures of the 1980s. Since then, the country's economy has expanded very rapidly, particularly after 2002, reaching an average annual growth of about 6–8 per cent. Yet the benefits of growth remain very unevenly distributed across the population. Existing sociocultural divisions – such as those operating on gender, caste and community lines – have been strengthened through intersections with new economic drivers. Inequality constitutes a real challenge for India's future development.

India is often mistakenly seen as a country with relatively low economic inequality. In fact, the country's inequalities widened after the internal and external economic liberalization measures from the 1980s, which attracted global financial investors and boosted economic growth considerably. The economy had been growing at an average annual rate of about 3 per cent in the years after independence in 1947. It started to expand rapidly, particularly after 2002, reaching an average annual growth of about 6–8 per cent. But the benefits of growth remain very unevenly distributed across the population. Old sociocultural divisions, such as gender and caste, have been strengthened, because the new economic drivers build on them, posing a real challenge for the future.

Economic inequalities

Official survey data indicate that the Gini coefficient increased from 0.31 in 1993–94 to around 0.34 in 2011–12, clearly an underestimate. The only large-scale survey data available in India relate to consumption expenditure, which tends to understate the extent of inequality by underestimating the distribution tails, which exclude the very rich and the very poor. Further, the poor are more likely to consume their income or spend more than they earn, while the rich can save. The first detailed income distribution estimates for India (Desai et al., 2011) reveal rather high income inequality, with a Gini coefficient of 0.54, almost the same as for Brazil (based on survey estimates of gross income). Estimates based on village surveys derive an even higher Gini coefficient of around 0.60 or more (Rawal and Swaminathan, 2011).

Even consumption data suggest increasing consumption inequality, both across regions and states and within regions (Vanneman and Dubey, 2011). Along with the increase in the national Gini coefficient for consumption, the ratio of urban to rural consumption increased from 1.62 to 1.96 between 1993–94 and 2009–10. The largest increases in consumption expenditure were concentrated in the top decile of the urban population. In the same period, the income of the top urban decile increased from 7.14 times to 10.33 times that of the bottom urban decile and from 10.48 times to 14.32 times that of the bottom rural decile. The shift in incomes between classes confirms the tendency towards greater inequality: the wage share of national income fell from 40 per cent at the start of the 1990s to only 34 per cent by 2009–10. In the organized sector (referring to registered enterprises that are subject to various laws), the wage share fell from 69 per cent to 51 per cent in the same period. The unorganized sector's share of the national income fell from 64 per cent to 57 per cent, although it continues to comprise the overwhelming majority of workers in the country, including the self-employed (CSO, 2012).

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A major reason for this decrease is that the economic growth has not generated enough employment. About half of the workforce remains in low-productivity agriculture (which now accounts for less than 15 per cent of GDP), and another quarter in low-paid services. India's recent high economic growth was related to financial deregulation, combined with tax concessions and credit to stimulate consumption by the richest sections of the population, especially in urban areas. This led to a substantial rise in profits and the spread of financial activity. The earlier emphasis was on public spending as the Indian economy's principal growth stimulus – primarily in the form of public investment, but also other spending designed to improve the living standards of the poor. In the past two decades, this engine has been replaced by debt-financed housing investment and private consumption by the elite and the growing middle classes (Ghosh and Chandrasekhar, 2009).

Employment and wages inequalities

The economy's capacity to create jobs has been low even during periods of rapid growth. It has declined further as a result of India's exposure to global competition, which forced enterprises to adopt the latest labour-saving technologies developed in the advanced economies. In addition, a significant portion of the GDP increase was due to services that are not very employment-intensive, such as financial services and telecommunications. Manufacturing's share in both economic output and employment has not moved from rather a low level. Low-paid, low-productivity work continues to dominate employment; on the whole, there is little evidence of labour moving to higher-productivity activities. Interestingly, this is true across all sectors: low-productivity employment coexists with some high value-added activities in all of the major sectors. Further, there are extremely wide variations in productivity across enterprises and even within the same subsector.

Most remarkable of all is that the period of rapid GDP growth has been marked by low and declining workforce participation rates of women. This pattern is unlike that in almost any other rapidly growing economy in any phase of history over the past two centuries. This is significant for the following reasons.

Women largely (although not solely) do the tasks associated with social reproduction and the care economy, which, as in many other societies, are not counted as economic or productive activities. Similarly, many women are engaged in productive work as unpaid household helpers, who are barely seen as workers. As some younger women engage in education, older female workers have shifted from paid or recognized employment to unpaid household-related work.

The general invisibility of women's work is an indication of their status in society. Where women's official work involvement is low, this is usually a sign of their lack of freedom and progress, low status and low empowerment. Where more women are active in the labour market and are employed (especially in formal activities), the share of unpaid work tends to fall and even this work is more likely to be recognized and valued. Female labour participation rates in India have historically been significantly lower than male rates, and are among the lowest rates in the world, even the developing world.

Intersecting inequalities

In India, the power of the state has been used to advance the accumulation project by various means. These include land use changes that displace people from their land, from their livelihood and from access to natural resources, as well as substantial fiscal transfers and indirect subsidies to large capitalists. In addition, Indian capitalism has exploited specific sociocultural features, such as caste, community and gender differences, to enable greater labour exploitation and generate higher surpluses. It has been argued (Harriss-White, 2005) that social institutions stemming from a 'primordial identity', such as gender, caste and community, indirectly regulate or determine most of the modern Indian economy. These institutions interact with political forces, generating forms of patronage, control and clientelism that vary across regions. This leads to unexpected outcomes from government strategies, including those connected with liberalization, privatization and deregulation.

Thus we see that the biggest Indian firms are typically part of diversified family-owned conglomerates extending across different economic sectors.

Even in the globalization phase, caste, region and linguistic community were crucial in shaping these groups, determining their behaviour and influencing their interaction with each other as well as with global capital (Damodaran, 2008). The emergence of such capital often reflects social forces. There are no major business groups in the north and east that are not from 'traditional' business communities. Nationally, there is no significant Dalit (lowest or Scheduled Caste) business group. Corporate behaviour has often reinforced existing practices, such as gender discrimination in property ownership and control. An example of such corporate behaviour is the use of legal methods (such as the Hindu undivided family form of ownership) that deny women a role (Das Gupta, 2012). These practices add to the weight of socially discriminatory practices, and affect how large and medium-sized businesses deal with purely economic forces and their attitudes to investment, employment and output.

These features of the Indian economic landscape have been crucial in generating the recent phase of rapid growth, but they have also allowed backwardness and accentuated inequalities to persist despite that expansion. The ability of employers in India to utilize social characteristics to ensure lower wages for certain categories of workers has greatly assisted the direct and indirect subsidization of the corporate sector's costs. Caste and other forms of social discrimination, which have a long tradition in India, have therefore interacted with capitalist accumulation to generate particular forms of labour market segmentation that are unique to Indian society (Thorat, 2010; Human Rights Watch, 2007).

This suggests that exclusion was a basic feature of the recent economic development process. It involves exclusion from control over assets, exclusion from the benefits of economic growth, exclusion from the impact of physical and social infrastructure expansion, and continued exclusion from education and from income-generating opportunities. This exclusion has been along class or income lines, by means of geographical location, caste and community, and gender. However, exclusion from these benefits has not meant exclusion from the system. Rather, those who are supposedly marginalized or excluded have been affected precisely because they have been incorporated into the market.

Peasants, for example, have been integrated into a system that has made them more dependent on purchased inputs in deregulated markets, which in turn has made them more dependent on unpredictable output markets in which state protection is very poor.

It may not be surprising, then, that private investors find little value in accumulation strategies designed to further structural transformation. Such transformation may even harm investors' short-term interests if it reduces their bargaining power. Capitalism in India, especially in its most recent globally integrated form, has used past and current modes of social discrimination and exclusion to its own benefit, in order to make the obtaining of surpluses easy and ensure employers' greater flexibility and bargaining power when they deal with workers. The ability to benefit from socially segmented labour markets has, in turn, created incentives for surplus extraction by suppressing the wages of some workers, rather than through productivity increases.

Increasingly visible social and political problems accentuate the unsustainable nature of these processes. Extremist movements are powerful, and dominate in 150 backward and undeveloped districts where extractive industries are located. The lack of more productive employment has led to powerful demands for regional autonomy and for the exclusion of 'non-natives' from other states. Various forms of criminality are increasing, and there is widespread public anger at the corruption that has characterized this phase of Indian development as well as the other ways in which state policy has favoured the rich. These forces create potent sources of instability that may harm the growth process in unpredictable ways.

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