The Growing Income Inequality*

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Thomas Piketty and Lucas Chancel have just written a paper as part of their work for the World Inequality Report discussing the movement of income inequality in India. And their conclusion is that the extent of income inequality in India at present is greater than it has ever been at any time in the last one hundred years.

Their estimates go back to 1922 when the Income Tax Act became operational in India. The share of the top 1 percent of the population in total income at that date was around 13 percent. It increased to 21 percent by the late 1930s and then fell to about 6 percent by the early 1980s before rising to 22 percent in 2014, the final year of their study.

What is striking about the paper's finding is the almost exact synchrony between the break in inequality trends and the transition from dirigisme to neo-liberalism. In the period between 1951 and 1980, the bottom 50 percent of the population captured 28 percent of the increase in total income while the top 0.1 percent actually witnessed a decline in their income. In fact the income of the bottom 50 percent increased faster over this period than the overall average. Between 1980 and 2014 however the top 0.1 percent captured a higher share of the increase in income (12 percent) than the entire bottom 50 percent (11 percent).

To be sure, data on income inequality can always be questioned. For a start we have no income surveys in the country; all we have are sample surveys relating to consumption expenditure and getting from the distribution of consumption expenditure to the distribution of income is problematical since we do not know how savings, which constitute the difference between the two, are distributed. Secondly, in all sample surveys, the top percentiles are always insufficiently represented, precisely because they are so few in number. Statisticians therefore make all kinds of assumptions about how income is distributed within the top decile to arrive at the share of the top 1 percent or the top 0.1 percent of the population. And these assumptions can always be questioned.

It is not surprising therefore that the Piketty-Chancel estimates too have been questioned by some commentators. But no matter how one views their absolute figures, the trends revealed by them can scarcely be questioned, since more or less the same method of estimation is employed across time. And this trend is entirely in conformity with what other researchers have been saying, and also with what one would theoretically expect. Credit Suisse for instance provides wealth distribution data. According to these data the top 1 percent of households in India currently owns more than half (57 percent) of the total wealth of all households, and wealth inequality in India has been rising extremely rapidly, indeed more rapidly than even in the United States.

Wealth distribution is invariably more unequal than income distribution, because the working class which has no wealth has nonetheless an income. Hence the Piketty-Chancel figures for the share of the top 1 percent in income are by no means out of sync with the Credit Suisse figures about their share in total wealth. (By the same logic however they seriously negate estimates that put the share of wealth of the top 1 percent at only 28 percent, though even these latter estimates recognize the significant increase in wealth inequality since 1991 when neo-liberal reforms began and when the share of wealth of the top 1 percent was just 17 percent according to them).

A measure of inequality that is often adopted is the Gini coefficient which captures the distance between the actual distribution and an ideal distribution characterized by absolute equality. The problem with the Gini coefficient however is that by looking at the distribution as a whole it misses out on questions like the shares of the top percentiles. For instance even when the share of the top 1 percent may be increasing, the Gini coefficient may show a decline in inequality if some redistribution is occurring say from, say, the 4th decile from below to the bottom decile, i.e. from the "poor" to the "very poor". Piketty and Chancel accordingly do not use the Gini coefficient but look at the shares of the top few percentiles, which is a much more useful measure (especially if we are talking of economic power).

The Piketty-Chancel figures show that 1983-84 was the year of the lowest income-share for the top 1 percent, after which this share started rising. It may be recalled that neo-liberalism first made its appearance around that very time and that the budget presented in 1985 by Vishwanath Pratap Singh, who was then the Finance Minister in the Rajiv Gandhi government, contained significant steps in this direction (against which in fact the Left Parties had organized a Convention in New Delhi at that time). The association between growth in inequality and the pursuit of neo-liberalism is thus strikingly close. And not surprisingly, such a growth in inequality has characterized almost every country in the world in the period of "globalization" which is characterized by the almost universal pursuit of neo-liberal policies under the diktat of international finance capital.

The authors, both in the paper itself and also individually in interviews, give a number of reasons why income inequality has increased in India in this period, reasons having to do with the pursuit of neo-liberalism. The decline in the highest marginal income tax rate from 98 percent to 30 percent, the persisting inequality in landownership, and the lack of access to education and health by the poor, are some of the points raised by the authors.

All these are very important. But there is an additional factor that needs to be mentioned here, namely the attack on petty production, including peasant agriculture, that neo-liberalism has brought in its wake. While an improvement in the conditions of the peasantry does not necessarily benefit the agricultural labourers automatically, a deterioration in their conditions invariably gets "passed on" to the labourers. And what is more, since, in the event of such a deterioration, destitute peasants seek employment in the urban economy, where very few additional jobs are being created, they tend to swell the reserve army of labour which also affects the wages of the urban workers and hence the overall urban income distribution.

In other words, as rural India has on average a lower income than urban India, any widening of the rural-urban difference has the effect, other things being equal, of widening overall income inequality (by the Piketty-Chancel measure). But it also has the additional effect of widening the income inequality within the urban sector itself. It does this via a swelling of the reserve army of labour in the urban economy through the immigration of destitute peasants into it. For both these reasons, the assault on petty production launched by neo-liberalism constitutes an important factor behind the growth of income inequality.

The case of China, where, according to these authors, income inequality was rising rapidly earlier but got reversed in the current century is instructive in this context. To be sure, there are basic differences between the Indian and the Chinese economies; but an important proximate factor behind the reversal of the growing inequality in China was the policy adopted by the Chinese Communist Party under the slogan "Towards a Socialist Countryside". This policy checked and reversed some of the encroachments on peasant agriculture that the attempt to industrialize through a relentless export drive had entailed.

The introduction of a wealth tax (which, amazingly, India does not have), the increase in income tax rates upon the rich, the provision of quality education and health services to all under the aegis of the State, and of course land redistribution, are undoubtedly some of the steps that must be taken to reverse the growing income inequalities; and these entail a jettisoning of neo-liberalism. But even while recognizing this, we must also recognize, which the authors do not do explicitly, that neo-liberalism is not just a policy of choice that can be given up at will. It corresponds to a stage of capitalism where international finance capital has acquired hegemony; overcoming neo-liberalism therefore requires a class struggle against this hegemony through a wide mobilization of workers and peasants.

The authors however rightly take on the apologists of neo-liberalism who argue that such a growth in income inequality is essential for achieving the high GDP growth that has actually occurred in countries like India. This is absurd, since the highest rate of income growth that has ever occurred in world capitalism was experienced in the post-war period, during the so-called "Golden Age of Capitalism", when income inequality actually was declining the world over. This decline in income inequality to be sure was not because of the operation of capitalism but because of the concessions that capitalism had been forced to make in the face of the looming socialist threat; but it shows that the argument that growing income inequality is essential for higher growth is a complete non-sequitur.

∗ This article was originally published in The People's Democracy on October 1, 2017.