How the data sets stack up

Measuring inequality is not the same as measuring changes in the level of poverty in India.

In recent years, there has been a lot of discussion on increasing inequality within several countries of the world, including India.

Rising inequality has adverse economic and social consequences. The Gini coefficient or other measures of inequality are being used to examine trends in inequality.

The poverty ratio is equally important as the Gini coefficient in analysing issues relating to growth and distribution.

What is Gini coefficient?

The Gini coefficient, which lies between 0 and 1, is used for measuring inequality within nations or States.

Zero indicates perfect equality and one indicating the perfect inequality.

An increasing trend indicates that income inequality is rising independent of absolute incomes.

There has been a lot of discussion on increasing inequality within several countries of the world, including India, particularly after the publication of Thomas Piketty's book on inequality.

Why is it important?

A general rise in Gini Coefficient indicates that government policies are not inclusive and may be benefiting the rich than the poor.

For instance, a subsidy on diesel prices may entail a big budget outlay and may be targeted at the poor. But its benefit could actually be derived by the non-poor.

A Gini figure below 0.40 is generally considered to be within tolerable limits by economic experts.

Chancel and Piketty's report pegged India's Gini coefficient at 0.41 to 0.49 for 2010.

As government welfare schemes focus on the lower income groups, Gini Coefficient for India will become lower.

The progressive rates that India uses for income tax slabs could also narrow the disparity.

What does Kuznets Curve say about inequality?

It is important that rich-poor divide is kept in check to ensure that a larger section of society reaps benefits from economic growth.
The Kuznets Curve demonstrated that economic growth initially leads to greater inequality, but as economy develops, market forces first increase and then decrease inequality levels.
This happens because the initial phase of economic growth boosts the income of workers and investors who participate in the first wave of innovation.
This inequality, however, tends to be temporary as workers and investors soon catch up, resulting in improvement of their incomes.

What are the trends of Consumption inequality in India?

The Gini coefficient of consumption expenditure for rural areas declined marginally in 80's and early 90's from 0.304 to 0.286 while it recorded a marginal rise during the high growth period of 2004-05 and 2011-12 (from 0.304 to 0.311).
In the case of urban areas, it stayed the same from 1983-84 to 1993-94 (0.344) while it increased modestly from 2004-05 to 2011-12 (0.376 to 0.390).
Using long time series since 1951, a study shows that inequality in rural areas declined while it increased in urban areas in the post-reform period.
In India the consumption expenditure is calculated based on the data from the National Sample Survey Office (NSSO) and national income.
But the two estimates of consumption data from two different source of data National Accounts Statistics, or NAS, and household survey based (NSSO) do not match.
What is alarming in India is that the difference between NAS and NSS is widening over time.

What about the Income and wealth inequality in India?

Income and wealth inequalities are much higher than consumption inequality.
According to some estimates, consumption Gini coefficient was 0.36 in 2011-12 in India. On the other hand, inequality in income was high with a Gini coefficient of 0.55 while wealth Gini coefficient was 0.74 in 2011-12.
Thus, inequality in income and wealth is much higher than that of consumption.
As per the trends in some other countries, the differences should not be more than 5-10 points.
So the reasons for sharp differences between consumption Gini coefficient and income Gini coefficient have to be analysed.
The limiting factors are – the data base for computing income inequality is not as solid as the base for consumption expenditure.
Also, using income tax data for computing income distribution may not give full picture of the income inequality as in India only 3-5% of people come under the income tax net.

What are the Trends in poverty ratio in India?

The perception regarding what constitutes poverty varies over time and across countries.

Generally the approach is to look at it in terms of certain minimum consumption expenditure on food and non-food items. Any household failing to meet this level of consumption expenditure can be treated as a poor household.

As per the NSS Consumer Expenditure data for the period 1983 to 2011-12, in the pre-reform period, overall poverty declined marginally during 1983 to 1993-94. However, the number of persons below the poverty line stayed almost the same.

Poverty declined faster in the post-reform period, particularly in the 2004-2012 periods as compared to 1993-2005. Overall poverty as defined by the Tendulkar Committee declined faster from 45.3% in 1993-94 to 21.9% in 2011-12.

This was the period of highest economic growth since Independence. It is the fastest decline of poverty compared to earlier periods.

Urban growth is the most important contributor to the rapid reduction in poverty even in rural areas in the post-1991 period.

Why does measuring inequality not the same as measuring changes in the level of poverty in India?

The trends in poverty show that the pace of reduction was much higher in the post-reform period particularly during high growth period.

The impact of higher growth on poverty reduction can also be seen from the decile-wise growth in per capita consumption expenditure.

A comparison of the per capita consumption growth rate during the periods 1993-94 to 2004-05 and 2004-05 to 2011-12 shows that the average growth of per capita consumption of the top five deciles is more than that of the bottom five deciles.

However, the expansion of consumption of the lower deciles of the population was more than the upper deciles.

In this context, measuring inequality is not the same as measuring the changes in level of poverty.

The poverty ratio can be declining irrespective of the value of Gini coefficient.

This has been true of India. The decline in poverty is much higher particularly in the period 2004-05 to 2011-12 in spite of rise in inequality.

Thus the changes of the poverty ratio are an equally important indicator to monitor.