INCOME INEQUALITY AND ECONOMIC

DEVELOPMENT.

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**SUBJECT: SEC- BASIC COMPUTATIONAL TECHNIQUES FOR DATA ANALYSIS**

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## ABSTRACT

Can GDP of any country actually talk about how much developed a country is? GDP measures the total income of a country within a financial year, but does it actually tell us about whether the poor are getting more poorer or the rich are becoming richer. Income inequality is not a matter of concern for GDP but for growth and development it is important to decline inequality on the scale of wealth. Income inequality is a strong reason why India is still a developing country. Income inequality not only affect the growth but also the life style of people. The bottom ones from the list have to sacrifice their basic labor right in order to earn bread for their family, to provide a basic lifestyle to their family, in this research we observe and analyses between year 1999 to 2019 and discuss how can new financial policies can give a boost to this inequality gap, also suggest some ways to decline the income inequality growth rate.

## INTRODUCTION

"No society can surely be flourishing and happy of which the far greater part of the members is poor and miserable" - Adam Smith. In simpler words if a large part of any state’s population is in the position of distress or poor, that state can never be flourished or developed no matter what's its wealth. Now it is understood that income inequality can directly and adversely affect the economic development of any state. Now the question arises that what is income inequality and how can it affect our economic development. **Income inequality** in India refers to the unequal distribution of wealth and income among its citizens. An **income gap** is a gap in income between one group and another. This income gap is a big threat for any economy. Now let’s discuss how these factors can affect economic development, economic development is not only concern with the problem of money or wealth of any nation but also it keeps a check on human resources, foreign investment, productivity, lifestyles etc., a country like India where only a few percent out of a vast population enjoys a luxury lifestyle and a large part of that country remains poor, uneducated, unemployed and exploited by few all this happens because of the increasing income gaps among that population. No matter how what is the GDP of that country but if a large population is dying due to hunger, exploited due to lack of education, unemployed to loss of powers – the country will still remain undeveloped because of its low economic development.

We all know that India is suffering from a vast population where a large part of Indian population is poor and miserable. Among this increasing poor population this one thing which promotes their poverty is income inequality. Rising inequality in income and wealth is a more crucial topic for India than any religious matter. What if I'll tell you that every year the national income increases but with an increase in income inequality by making poor poorer. According to Oxfam India since 2018 to 2019 the wealth of bottom 50% people of the

Indian population is increased by a dismal 3% and wealth of top 1% people of Indian population has increased by 39%. You will be in shock after knowing that top 10% of Indian population holds 77.4% of the total national wealth and the bottom 60% of Indian population holds 4.8% our national wealth (data based on year 2018-19). It's a matter of concern that a large part of Indian wealth is in the hands of private sector, if they want, they can control a large part of India.

In this research we’ll observe the data of 20 years from 1990 to 2019 that how much our GDP increases and how can increase do we get in Indian income gaps. And see that is privatizing, disinvestments and private contracts for government work is good for development or not. Do govt really have their control on our economy or is it transferring the power in the hands of billionaires.

## REVIEW OF LITERATURE

1. **Adam Smith** in his these ‘The Wealth of Nation’ tried to tell us that the allocation of resource is important for the development of any economy. Economic progress depends upon a trinity of individual prerogatives pursuit of self-interest, division of labor, and freedom of trade. (1776)
2. **Oxfam India, Vineet John Samuel** (2019) talked about the increasing inequality in India, that share of top 10% India population holds a lot more than bottom 50% of Indian population.
3. The effect of growth of income on income inequality is also under debate Pardo-Beltran argued that growth affected income inequality negatively but this effect was nonlinear, which is also indicated in Garcia-Penaluna and Tarkovsky in the context of endogenous growth model (2005)
4. **Dr. B.R. Ambedkar** in his state and minorities -a safeguard for the minorities (1947) argued that the unemployed labors will be ready to sacrifice their basic rights in order to fulfill their basic needs.

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| --- | --- | --- | --- | --- |
|  |  |  |  |  |
|  |  | **PROBLEM OF STUDY**This study is an empirical analysis of share of bottom 50% and top 10% of India population in national income in the scale of their wealth. The only purpose of this research is to observed the impact of this income inequality gap on economic development.**OBJECTIVE OF STUDY**To: -* Observe and analysis the inequality gap in India.
* Evaluate the effect of income inequality on economic development.
* Find out what’s factors giving boost to this income inequality.
* Suggest some ways for improvement in income distribution, unemployment and poverty etc.

**HYPOTHESIS*** For the multiple linear regression analysis, the following hypothesis was considered:

**Null hypothesis:** growth and income inequality does not signification impact on economic development and growth.**Alternative hypothesis:** growth and income inequality signification impact on economic development and growth.**RESEARCH DESIGN** |  |  |
|  | Topic | Income inequality and economic development. |  |
| Area of study | India. |
| Type of data analysis | Secondary data was collected from world inequality database. |
| Statistical analysis design | Multiple linear regression analysis is used to study share of bottom 50% and top 10% of India population in National income on the scale oftheir wealth |
|  |
|  |  |  |  |  |

## DATA ANALYSIS

This study focuses on the effects of income inequalities on economic developments and growth. We studied the share of top 10% and bottom 50% of Indian population in its national income on the basis of their wealth. The GDP of India is growing year by year but with an increase in income gap, which is a major cause of low economic development.

Table: dependent and independent variables

|  |  |  |
| --- | --- | --- |
| Sum of |  | Bottom |
| GDP | Top 10% | 50% | |
| Growth | | share | share |
| years (%) |  |  |
| **1999** | 0.0885 | 0.3949 | 0.207 |
| **2000** | 0.0384 | 0.3987 | 0.206 |
| **2001** | 0.0482 | 0.4095 | 0.2017 |
| **2002** | 0.038 | 0.4206 | 0.1973 |
| **2003** | 0.0786 | 0.4318 | 0.1929 |
| **2004** | 0.0792 | 0.4432 | 0.1884 |
| **2005** | 0.0792 | 0.4548 | 0.1839 |
| **2006** | 0.0806 | 0.4676 | 0.1793 |
| **2007** | 0.0766 | 0.4807 | 0.1746 |
| **2008** | 0.0309 | 0.4941 | 0.1699 |
| **2009** | 0.0786 | 0.5078 | 0.165 |
| **2010** | 0.085 | 0.5217 | 0.1601 |
| **2011** | 0.0524 | 0.5414 | 0.1535 |
| **2012** | 0.0546 | 0.55 | 0.1506 |
| **2013** | 0.0639 | 0.5523 | 0.1498 |
| **2014** | 0.0741 | 0.561 | 0.1469 |
| **2015** | 0.08 | 0.561 | 0.1469 |
| **2016** | 0.0826 | 0.5613 | 0.1468 |
| **2017** | 0.0704 | 0.5613 | 0.1468 |
| **2018** | 0.0612 | 0.5613 | 0.1468 |
| **2019** | 0.0418 | 0.5613 | 0.1468 |

 

GDP/national income

top

10%

bottom

50%

rest

40%

**This data is from world inequality database Sum of GDP growth (in %) is dependent variable**

**Share of top 10% and bottom 50% are independent variable**

top 10%

bottom 50%

Here we can clearly see that the top 10% population holds a lot more than the bottom 50%. This depicts that since 1999 the billionaires of India hold than 70% of our nation’s wealth and the bottom 50% like middle class families and poor people have less than 10% of nation’s wealth in their account. The teal color bars which present top 10% goes up and up year by year. But on the flip side the dark blue bars which present bottom 50% goes down and down. Now we can undoubtedly say that over year the rich people get richer and poor became even more poorer.

**CHART TITLE**

0.6

0.5

0.4

0.3

Top 10% | share

0.2

Bottom 50% | share

0.1

0

0.207

0.206

0.2017

0.1973

0.1929

0.1884

0.1839

0.1793

0.1746

0.1699

0.165

0.1601

0.1535

0.1506

0.1498

0.1469

0.1469

0.1468

0.1468

0.1468

0.1468

**Regression analysis**

|  |  |
| --- | --- |
| SUMMARYOUTPUT |  |
|  *Regression Statistics*  |
| Multiple R | 0.311929 |
| R Square | 0.0973 |
| Adjusted RSquare | -0.003 |
| StandardError | 0.017968 |

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Observation s  | 21  |  |  |  |  |  |  |  |
|  ANOVA  |  |  |  |
|  | *df* | *SS* | *MS* | *F* | *Significanc e F* |  |  |  |
| Regression | 2 | 0.000626 | 0.000313 | 0.970089 | 0.398008 |  |  |  |
| Residual | 18 | 0.005811 | 0.000323 |  |  |  |  |  |
| Total | 20 | 0.006437 |  |  |  |  |  |  |
|  |  |  |  |  |  |  |  |  |
|  | *Coefficient s* | *Standar d Error* | *t Stat* | *P-value* | *Lower 95%* | *Upper 95%* | *Lower 95.0%* | *Upper 95.0%* |
| Intercept | 3.329982 | 2.425792 | 1.37274 | 0.186696 | -1.76642 | 8.426382 | - 1.76642 | 8.426382 |
| Top 10% | share | -3.361 | 2.506409 | -1.34096 | 0.19661 | -8.62678 | 1.904766 | - 8.62678 | 1.904766 |
| Bottom 50%| share | -9.39915 | 6.961018 | -1.35025 | 0.193669 | -24.0237 | 5.225409 | - 24.0237 | 5.225409 |

0.7

0.6

0.5

0.4

0.3

0.2

0.1

0

**Chart Title**

y = 0.0097x + 0.3902 R² = 0.9437

Sum of GDP Growth (%)

Top 10% | share

y = -0.0035x + 0.2079

R² = 0.939

Bottom 50% | share

Linear (

Top 10% | share

)

**AXIS TITLE**

1999

2000

2001

2002

2003

2004

2005

2006

2007

2008

2009

2010

2011

2012

2013

2014

2015

2016

2017

2018

2019

**CONCLUSION**

By observing all data, we came to a conclusion that GDP of any country cannot depicts its real state, we cannot judge any country by its wealth may be a large part of its population is still poor, uneducated and unemployed. In India a big part of its nation’s wealth is in the hands of private sector or billionaires, they can exploit labor laws if they want to, they will consider their growth over countries growth. Even after mixed economy system, Indian economy is in the hand of private sector which is definitely not good for a developing or underdeveloped country. Because as we all know that profit maximization is the main motive of private enterprises and sometimes to attain their goals, they exploit their labors/employees. In a state of increasing population with an increasing unemployment rate everyone is willing to get a job in any condition. May be one day people will sacrifice their labor rights to get a job just to fulfill their needs. Dr. B. R. Ambedkar once said in his speech that if person who is unemployed is offered a choice between a job of some sort, with some sort of wages, with no fixed hours of labor and his right to freedom of speech, association, labor rights, etc., the fear of starvation, losing house, losing saving, being a burden on public charity are the factor too strong to choose a job over his fundamental and labor rights. In light of this I want to add another quote by Adam Smith "if you oppose labor laws and promotes the hoarding of resources, your hypocrite or just greedy, and greed causes poverty and economic instability".

This means no one can save us from being dependent on and being slaves of private sector. Accept our government. According to article 38(2) of Indian constitution the state shall, in particular, strive to minimize the inequality in income, and endeavor to eliminate inequalities in status, facilities, and opportunities, not only amongst individual but also amongst group of people residing in different areas or engaged in different vocations. I think in this condition the government stop privatization and starts creating new employments in government sector. Privatization is good but till a limit sometime increasing privatization can be harmful for under development countries however it may boost up the GDP but can increasing income and wealth inequalities and lower down economic development.

## References

1. Inequality in India- what is inequality | Oxfam India | Vineet john Samuel | 07 feb,2019
2. State and minorities- memorandum on safeguard for minorities | article 2, section 2 | Dr. B. R. Ambedkar

| 1947

1. World inequality database | <https://wid.world/country/india/>
2. The wealth of nation | Adam Smith | 7 march,1776.