

[Home](#) » [Opinion](#)


## **Inequality has fallen this decade** PREMIUM

Updated - October 08, 2011 at 05:12 PM.

The gap between the per-capita incomes of rich and poor districts narrowed in the first half of this decade. This is likely to continue.

BY NILANJAN BANIK, ANURAG BANERJEE

 COMMENTS   [SHARE](#) 

 READ LATER

It is believed that during the post-reform period, especially the early part of this decade, there was an increase in income inequality. How true is this perception?

When one compares district-level per-capita income data (from the Planning Commission) for 1999-2000, and 2004-05, one finds that income distribution has not changed for the worse. The perception that economic reforms have benefited just the rich is not necessarily true.

An income distribution basically tells us how an entire population is distributed on an income scale — starting with very low incomes to the billionaires. A change in the income distribution indicates how the proportion of population falling in the low, middle and high-income categories has changed between two time periods.

### **REDUCED INEQUALITY**

We have compared the per capita income of 536 districts during two periods, 1999-2000 and 2004-05, to arrive at our conclusions. We have looked at the 'distance' or the extent of skew from the mode income during the two periods. We find that the skew has lessened with time (indicating a flattening of the curve), while the income of all categories of the population has increased. We arrive at a similar conclusion while comparing the income distribution functions for 2001-02, and 2004-05, underscoring the point that the choice of the years has not determined the result.

Figure indicates that between 1999-00 and 2004-05 the gap between the per capita incomes of the richer and the poorer districts has narrowed. As income distribution function follows a log-normal distribution, we transform the income data series into a logarithmic scale. Such transformation also enables a better comparison.

The graph suggests that between 1999-00 and 2004-05, there has been an increase in both the mode income, and the per capita incomes peppered across the distribution function, with the entire graph shifting to the right. Growth across districts has been uniform across India.

## DATA GATHERING

Our data points cover 536 districts out of 622 districts in India. We consider the time period between 1999-00 and 2004-05. Data for the years after 2004-05 are not available for all the districts, resulting in a significant drop in the number of observations. Also, many districts are newly formed, and for them, information about per capita income is not available for earlier years. For instance, in 2000 there were 585 districts, and today there are 627 districts. Many of these districts are newly formed, and for some of them, information about income is not available. A case in point is Delhi. The Census 2001 contains information about many variables related to north, north-east, north-west, south, south-west, west, east, and central Delhi.

However during 2001, when it comes to per-capita income, we find information only relating to Delhi as a whole, and not its constituent districts.

Therefore, to maintain uniformity, and to get a more robust result, we consider the aforementioned time period.

## PRE-NREGA DEVELOPMENT

In fact, active labour, and capital market interventions (such as Mahatma Gandhi National Rural Employment Guarantee Act and microfinance) had not started in 2004-05.

So, if there has been a fall in inter-district income inequality before these schemes got underway, there is a likelihood that this inequality will fall further with these schemes in place.

Categorising India into high, medium, and low-income regions, we find that some of the districts from Madhya Pradesh, Orissa, and Rajasthan have moved from being low-income to middle-income categories. This supports our previous claim that there has been a reduction in absolute poverty level at a pan-India level.

More importantly, government policies were successful in reducing poverty even before income distribution schemes such as MGNREGA, were enacted in 2005. The perception about economic reforms only benefiting the rich might have been one of the factors responsible for the ouster of the National Democratic Alliance (NDA) government, paving the way for United Progressive Alliance (UPA) government initially during 2004, and subsequent re-election in 2009. The slogan about “India Shinning” completely backfired for the NDA government.

To address this perception about increase in inequity — with the rich getting more opportunities to participate in the market than the poor — the winner, the UPA government, started market intervention. In addition to MGNREGA, there were a plethora of schemes such as the mid-day meal scheme, Indira Awas Yojana (housing), Pradhan Mantri Gram Sadak Yojana (rural roads), and others.

## **GAP WILL FALL**

On account of reforms, the growth process has been uniform across India. The private sector (without depending too much on the government) is taking the lead in moving capital and labour to areas with lesser input costs (that is, investing more in backward districts, or second and third-tier cities), contributing to uniform growth across India.

If Planning Commission data are any indication, there has been a reduction in poverty during the first half of this decade. As active labour

and capital market intervention started only post-2005, this inter-district income disparity is likely to fall further — more than we have seen between 1999-00 and 2004-05.

Nilanjan Banik is Associate Professor, Institute for Financial Management and Research, Chennai, and Anurag Banerjee is Reader, Durham Business School, UK. [blfeedback@thehindu.co.in](mailto:blfeedback@thehindu.co.in) )