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## Factors influencing income inequality in India

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### Abstract

Average per capita income in India, especially rural areas is quite low and highly unequally distributed across various states. Gap in per capita income between rural and urban areas is not only high but has increased over time. Income disparity, especially in different society of rural areas is quite high mainly due to inequality in resource base and earning opportunity. Since most of the rural people are largely dependent on agriculture as main source of livelihood, agricultural productivity and employment in agricultural sector substantially affect the income level of people. Hence, any policy/programme for rural development or enhancing income of rural people is not possible without adequate focus on managing agricultural sector effectively. This calls for developing adequate infrastructure and policy support for creating conducive atmosphere of promoting agro sector as business enterprises so that enough gainful employment can be created in the rural areas itself. In addition, there is a need to strengthen the entrepreneurial ability of rural households to diversify their farming system and start new ventures for enhancing their income opportunities.

**Keywords:** Rural Prosperity, Level of Income, Income Inequality

### Introduction

Rural India suffers from major problem of low agricultural productivity and lack of gainful employment opportunities resulting low income. To address the issue of low income one needs to have deeper understanding of infrastructure, level of agricultural development, resource structure and complete socioeconomic environment, etc. of any region. Nearly 65 percent of the people reside in the rural area where the population growth is still very high (1.3%). Per capita income in rural areas is not only low but highly unequally distributed as lowest 20 percent of people account for merely 8.1 percent of total income against 20 percent of people in the higher income group account for about 32 percent in the total income of the country. This has serious implications on the society as this inequality might lead to social unrest. Hence, the issue of inequality in income needs to be addressed in a more practical way and economic policies should focus on various measures to enhance income opportunities of rural poor without adversely affecting the society.

### Income

Table 1 shows that per capita average annual income for various states in India in 2012-13 shows a large disparity across the states. Delhi, the capital city of the country has highest per capita income of more than 2 lakhs (Rs 2,01,083), which is over 7 times higher than state of Bihar (Rs 22,890) and 4 times more than 9 other states. Though it might not be a good comparison as Delhi is a Union Territory, even then the difference is too large to take notice. However, the comparison in the growth of income indicates that though per capita income in Bihar was lower than Delhi the growth in income was 23.7% compared to Delhi 15.8%. In fact, the growth in per capita was highest in Bihar. Goa leads the country with per capita income of Rs. 1,92,652/-, while Bihar has the lowest with a per capita income of only Rs. 24,681/-. An average Goan earns 6 times more than an average Bihari! As per latest 2012 figures, Delhi comes in second after Goa with PCI of Rs. 1,75,812 followed by Chandigarh (Rs 1,28,634) & Haryana (Rs 1,09,227) (Table 2). It is also worth mentioning that India's average Per Capita Income is Rs. 60,972 is one of the lowest in the world. Some European Countries have over 50 times per capita income as compared to India! (Eleventh National Development Plan Report, 2012).

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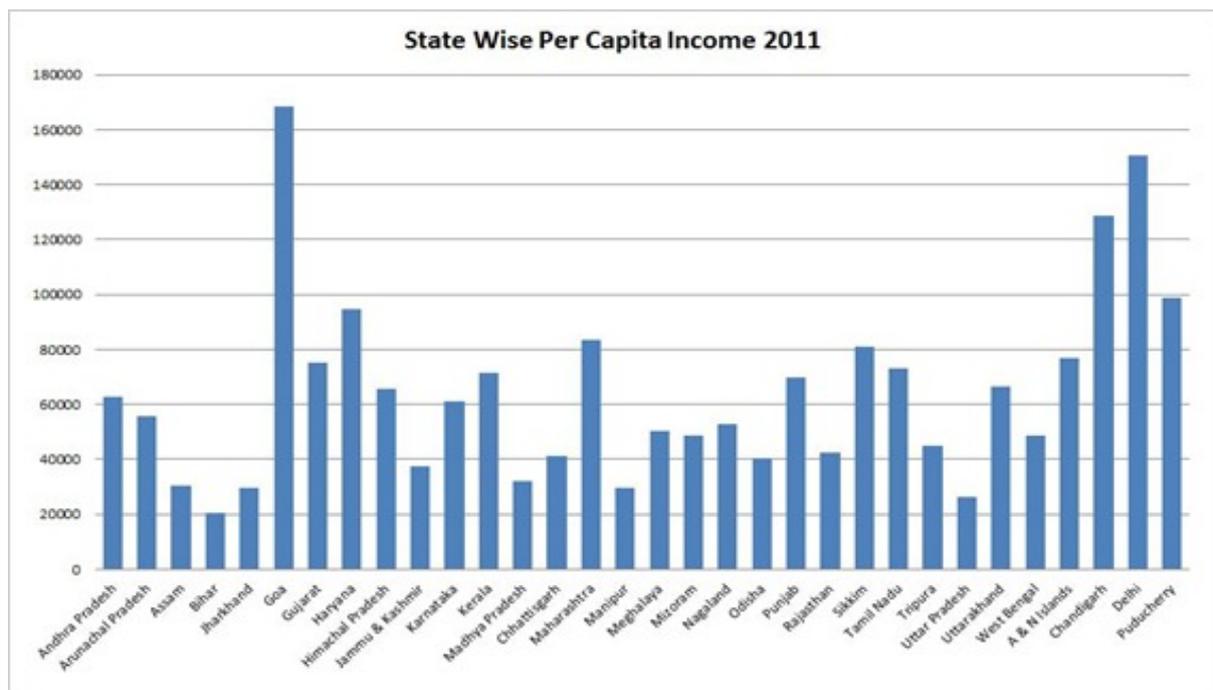
It is also clear from Table 1 that growth in income is quite different in various states varying in the range of 4.4 percent to 23.7 percent. It is worth noting that Bihar where per capita income was lowest only Rs 19205 in 2010-11 increased to Rs 28317 in 2012-13, showing growth of about 24 percent during three year period. While income growth in states with higher per capita income was relatively slow. However, there was great disparity in income level across states. During 2010-11, per capita income in a few states namely Goa,

Delhi, Chandigarh, Sikkim, and Puduchery was 4 to 5 times higher (in the range of one lakh to Rs 1.64 lakhs) compared to some states namely Odisha, Madhya Pradesh, Uttar Pradesh, Assam, Manipur and Bihar (in the range of Rs 19,000 to Rs 38800). This clearly shows that a few of the states with large number of industries, better infrastructure and good agricultural development had higher level of income compared to less developed states (Table 1).

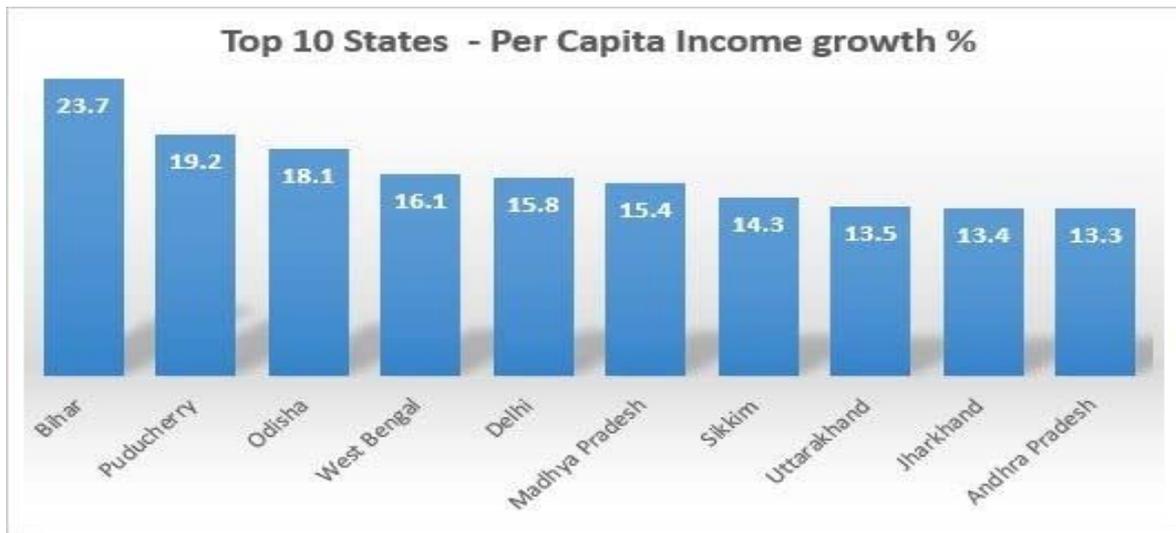
**Table 1:** State-wise Per Capita Income in Major States of India during 2010-11 to 2012-13.

State	2010-11	2011-12	2012-13	Growth %
Goa	164962	167838	NA	NA
Delhi	148608	173686	201083	15.8
Sikkim	108972	124791	142625	14.3
Puducherry	101072	102859	122652	19.2
Haryana	94798	108345	122660	13.2
Maharashtra	83395	95339	107670	12.9
Andaman & Nicobar	80588	85984	89748	4.4
Tamil Nadu	78473	88697	98550	11.1
Uttarakhand	73815	81595	92607	13.5
Punjab	69580	78633	88783	12.9
Kerala	69465	80924	NA	NA
Karnataka	62251	68423	77015	12.6
Arunachal Pradesh	61002	72091	77647	7.7
Andhra Pradesh	60703	68970	78177	13.3
Nagaland	53635	56461	59535	5.4
Meghalaya	48690	53542	60156	12.4
Mizoram	48591	54689	NA	NA
West Bengal	47389	54125	62831	16.1
Tripura	45087	50175	55004	9.6
Rajasthan	44709	53735	NA	NA
Chhattisgarh	40166	46743	52689	12.7
Odisha	38878	41896	49489	18.1
Assam	33348	37250	42036	12.8
Madhya Pradesh	32223	37994	43864	15.4
Manipur	29281	32865	36290	10.4
Uttar Pradesh	26692	29785	33269	11.7
Bihar	19205		28317	23.7

**Source:** Eleventh National Development Plan Report, 2012.



**Source:** Eleventh National Development Plan Report, 2012.



Source: Eleventh National Development Plan Report, 2012.

### Income Inequality

The level of income affects people in different ways. Adequate income fulfils their physical necessities and provides them happiness and mental peace. Hence, it is utmost important to check increasing inequality while promoting income enhancement policies and programmes. Evidence shows that the income inequality has considerably increased around the world since early 1990s despite strong economic growth that created millions of new jobs (Raymond Torres, Director, International Institute for Labour Studies of International Labour Organisation). It has been estimated that about ninety million people could be lifted out of extreme poverty by 2019 if only the country manages to prevent a rise in income inequality (Report by an International Development Organization). The gap in income

shared between the richest 10 per cent and poorest 40 per cent of the population in India has been on a constant increase from 1995 and the benefits of growth have increasingly accrued to the richest members of society.

Contrary to common belief, during last decade, income inequality has increased in rural and urban areas. Per capita income inequality measured as Gini coefficient indicates that it has increased from 0.38 in 1995-96 to 0.41 in 2004-05. This has been further adversely affected by jobless growth (World Economic Forum, November 7, 2014). In India, income inequality has almost doubled over the last two decades. The top 10 percent of wage earners now makes 12 times more than the bottom 10 percent, up from a ratio of six in the 1990s.

**Table 2:** Gini Coefficient of Distribution in Rural Consumption during 1973-74 to 2004-05

State	1973-74	1977-78	1983	1993-94	1999-2000	2004-2005*
Andhra Pradesh	0.288	0.298	0.292	0.285	0.235	0.289
Assam	0.200	0.179	0.192	0.176	0.201	0.195
Bihar	0.273	0.258	0.255	0.222	0.207	0.205
Gujarat	0.234	0.285	0.252	0.236	0.234	0.269
Haryana	0.291	0.288	0.271	0.301	0.239	0.322
Himachal Pradesh	0.243	0.255	0.266	0.276	0.235	0.296
Jammu & Kashmir	0.224	0.222	0.221	0.234	0.173	0.237
Karnaka	0.277	0.321	0.299	0.266	0.241	0.263
Kerala	0.314	0.353	0.33	0.288	0.270	0.341
Madhya Pradesh	0.286	0.331	0.292	0.277	0.242	0.265
Maharashtra	0.264	0.462	0.283	0.302	0.258	0.308
Odisha	0.262	0.301	0.266	0.243	0.244	0.281
Punjab	0.270	0.303	0.279	0.265	0.239	0.279
Rajasthan	0.276	0.464	0.340	0.260	0.209	0.246
Tamil Nadu	0.269	0.319	0.324	0.307	0.279	0.316
Uttar Pradesh	0.236	0.299	0.290	0.278	0.246	0.286
West Bengal	0.296	0.292	0.284	0.251	0.224	0.270
India	0.281	0.336	0.297	0.282	0.260	0.300

\*Based on Uniform Reference Period

Source: Planning Commission & NSSO data, various rounds.

It is clear from Table 2 that not only poverty is quite high in a few of the states but inequality in the distribution of rural consumption is also quite high. For example, inequality in the distribution of consumption, measured as Gini Ratio, during a period of more than 30 years (1973-74 to 2004-05) declined marginally from 0.200 to 0.195 in Bihar and 0.286 to 0.265 in Madhya Pradesh. While in other two poorest

states namely Odissa and Uttar Pradesh it increased. Moreover, inequality in consumption increased in most of the states where decline in poverty was impressive. This shows that though number of poor has declined in many states but access to food has not been same to all and a large number of people are able to get adequate food (Table 2).

Table 3 shows that there is large disparity in the incidence of poverty and income across various states in India. There is no definite pattern in the level of income and incidence of poverty. In many states where average per capita income is quite high the extent of poverty is also high while in a few

states both poverty and per capita income is low. This indicates that income is not equitably distributed. Average income alone may not explain the extent of poverty unless its distribution is also examined.

**Table 3:** Relative Ranking of Per Capita Income (Rs) and Rural Poverty in Major States of India

State	Rural Poverty in (%)	Rank	Per capita Income (Rs)	Rank
	2004-05*		2009-10	
Haryana	13.6	12	78781	1
Maharashtra	29.6	5	74027	2
Gujarat	19.1	10	63961	3
Tamil Nadu	22.8	8	63547	4
Punjab	9.1	16	60746	5
Kerala	13.2	13	59179	6
Karnataka	20.8	9	52097	7
Andhra Pradesh	11.2	14	51025	8
Himachal Pradesh	10.7	15	50365	9
West Bengal	28.6	6	41219	10
Rajasthan	18.7	11	34042	11
Odisha	46.8	1	33226	12
Jammu and Kashmir	4.6	17	30582	13
Madhya Pradesh	36.9	3	27250	14
Assam	22.3	7	27197	15
Uttar Pradesh	33.4	4	23395	16
Bihar	42.1	2	16715	17

Table 3 also indicates that the poorest state like Bihar with average per capita income of Rs 16715 had slightly less number of poor (42.1%) compared to Odisha with an average annual income of Rs 33226 has highest poverty (46.8%). Similarly, Madhya Pradesh and Assam has almost equal income i.e. about Rs 27,000 but extent of poverty is quite different as poverty in Madhya Pradesh was 36.9 percent while in Assam poverty was only 22.3 percent. In contrast, Haryana with highest average annual income of Rs 78781 had poverty to the extent of 13.6 percent while the Maharashtra, with second highest average per capita annual income of Rs 74027 had more poor (29.6 %). This suggests that the size of state and distribution of income is more important in describing the extent of poverty. However, this difference might be possible mainly due to differences in the level of agricultural development, infrastructure development, and level of productivity as well as agro-industrial development, etc.

### Conclusion and Suggestions

The problem of rural poverty has been addressed at different levels for a long time but it seems that it has remained concentrated around symptoms of poverty rather than real causes of poverty. Moreover, poverty needs to be examined not only in terms of number of people below a specified income level or consumption expenditure but also other aspects of poverty as multidimensional issues related to poverty such as health, education and living standards. Besides, depth of poverty (severity of poverty) should be addressed rather than only width (number of poor) of poverty. Issue of poverty also requires to be addressed in a dynamic sense considering transient poverty rather than in a static sense. Since poverty is closely associated with inequality in access to basic minimum facilities, infrastructure development and level of agricultural development (Singh, Amarendra P. 2005a) [4]. There is a need to examine poverty in the context of agricultural

development. In fact, problem of inequality is more serious than the problem of poverty. The universal concept and definition of poverty for such a big country like India with so much diversity in climate, culture and development of infrastructure, etc. also need careful thinking (Singh 2000). Though, there has been constant decline in rural poverty but still a large number of rural people dependent on agriculture are unable to get adequate nutritive food. Moreover, nutritional insecurity is another major problem, especially among the children, pregnant as well as lactating women and old people.

Agriculture is the major sector of economy and most of rural people largely depend upon agriculture for their livelihood. Development of agriculture sector largely depend on use of various inputs such as improved seeds, soil health, favourable monsoon, technology development and dissemination system, development of infrastructure, and more importantly remunerative prices of agricultural products (Singh, Amarendra P. 2005b) [5]. Evidences indicate that agriculture is the main determinants of the poverty. The size of state, initial level of infrastructure development and economic condition, level of general as well as agricultural development, extent of urbanization, level of productivity as well as agro-industrial development and distribution of income are important factors in describing the extent of poverty (Vishwanathan, K.U. 1999) [9]. During last five decades, agriculture, especially food grains production has made an impressive growth and greatly reduced the poverty (Singh, Amarendra P. 2005c) [6]. The income of rural people and consumption of food has increased but despite increased buffer stock still poverty exists amidst plenty. Moreover, there are sharp regional variation in the level of agricultural growth and extent of poverty. It has also been observed that average level of income and poverty is not necessarily correlated but inequality in the distribution of income and other resources are more important.

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