Gini Coefficient and India

What is the issue?

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- The prevalent trend indicates that income inequality in India is rising independent of absolute incomes.
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- The Gini Coefficient for the country is estimated to be close to 0.50, which would be an all-time high.
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What is Gini coefficient?

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- Gini Coefficient is a statistical measure to gauge the rich-poor income or wealth divide.
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- It measures inequality of a distribution be it of income or wealth within nations or States.
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- Gini Coefficients can be used to compare income distribution of a country over time as well.
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- Its value varies anywhere from zero to 1, zero indicating perfect equality and one indicating the perfect inequality.
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- A Gini figure below 0.40 is generally considered to be within tolerable limits by economic experts.
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- There are many ways to measure itTwo popular ways are those based on pre-tax (or market) income and disposable income.
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- The latter considers taxes as well as social spend before arriving at the figure.
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- The difference between the two kinds of measures indicates the efficacy of a

country's fiscal policy in reducing the rich-poor divide through taxation and social spends.
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Why is the coefficient significant?

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- A general rise in Gini Coefficient indicates that government policies are not inclusive and may be benefiting the rich as much as (or even more than) the poor.
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- For instance, a subsidy on passenger train tickets may entail a big budget outlay and may be targeted at the poor,but its benefit could actually be derived by the non-poor.
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- It is important that rich-poor divide is kept in check to ensure that a larger section of society reaps benefits from economic growth.
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- A higher Gini Coefficient also could mean temptation for an incumbent government to splurge more on welfare schemes and tax the rich more.
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What is the way forward?

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- This inequality, however, tends to be temporary as workers and investors soon catch up, resulting in improvement of their incomes.
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- However, it is quite possible that the post-tax Gini Coefficient for India is lower, as government welfare schemes are focussed on the lower income groups.
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- Also the progressive rates that India uses for income tax slabs could also narrow the disparity.
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Source: Business Line

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