Inequality may not mean Poverty

What is the issue?

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- Increasing inequality in recent years has become an issue of concern in several countries of the world.
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- However, it need not necessarily mean that poverty is also increasing.
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- The trends in poverty reduction in India prove this point.
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What is Gini coefficient?

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- Gini coefficient measures inequality of a distribution (income or wealth) within nations or States.
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- Its value varies anywhere from zero to 1.
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- Zero indicates perfect equality, and 1 indicates perfect inequality.
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- The poverty ratio is equally important as the Gini coefficient, in analysing issues relating to growth and distribution.
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How is the inequality trend?

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- Consumption expenditure is a measure of economic wellbeing and is thus reflective of equality or inequality patterns.
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- The Gini coefficient of **consumption expenditure** for **rural areas** declined

marginally between 1983-84 to 1993-94.
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- But it recorded a marginal rise during the high growth period of 2004-05 and 2011-12.
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- In the case of **urban areas**, it stayed the same from 1983-84 to 1993-94, and increased modestly from 2004-05 to 2011-12.
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- In general, **inequality** in **rural** areas declined.
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- But **inequality** increased in **urban** areas in the post-reform period (2004-05 to 2011-12).
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- The trend is particularly more pronounced in the high growth period.
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What are the concerns with inequality measurements?

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- **Consumption inequality** - Income and wealth inequalities are much higher than consumption inequality.
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- The consumption Gini coefficient was 0.36 in 2011-12 in India.
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- On the other hand, inequality in income was high with a Gini coefficient of 0.55.
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- Also, the wealth Gini coefficient was 0.74 in 2011-12.
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- Thus, income Gini was about 20 points higher than consumption Gini.
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- While the wealth Gini was nearly almost 40 points higher than consumption Gini.
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- **Data base** - The data base for computing income inequality is not as solid as the base for consumption expenditure.
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- Using income tax data for computing income distribution has many problems.
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- In India, only 3-5% of people come under the income tax net.
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- How real do the data reflect the true picture of inequality is highly uncertain.
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- The differences between consumption Gini coefficient and income Gini coefficient, etc prove this point.
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What are the trends in poverty decline?

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- Measure of poverty based on Consumer Expenditure data for the period 1983 to 2011-12 highlights a declining trend.
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- **Pre-reform** - In the pre-reform period (before 1991), overall poverty declined only marginally during 1983 to 1993-94.
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- In fact, the number of persons below the poverty line stayed almost the same at 320 million during this period.
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- **Post-reform** - Poverty declined faster in the post-reform period.
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- The decline was more evident in the 2004-2012 period as compared to 1993-2005.
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- 2004-2012 was the period of highest economic growth since Independence.
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- This timeframe witnessed the fastest decline of poverty compared to earlier periods.
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What do the trends in poverty suggest?

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- Clearly the post-reform period recorded a considerable decline in poverty when compared to the pre-1991 period.
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- A World Bank study shows that among other things, urban growth was the most important contributor to this rapid decline.
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- The contribution is true even for poverty reduction in rural areas in the post-1991 period.

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- There is a concern that the Tendulkar cut-off line for determining poverty ratio is low and needs to be raised.
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- But even if the poverty cut-off is raised to 1.5 times the Tendulkar cut-off, the reduction in poverty ratio is evident.
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What does this imply?

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- Generally, in the early period of economic growth, distribution of income tends to worsen.
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- Only after reaching a certain level of economic development, an improvement in the distribution of income occurs.
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- Undoubtedly, inequality in itself has several undesirable economic and social consequences.
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- But, even if the indicators on inequality remain the same, the poverty ratio can be declining.
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- Thus, measuring inequality is not the same as measuring the changes in the level of poverty.
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- This has been particularly true of India, where poverty has declined in spite of rise in inequality.
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Source: The Hindu

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