Analysing the rising gap in incomes

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Using data from the 2017-18 and 2022-23 rounds of the Periodic Labour Force Survey, this article examines the changes in income inequality amongst all income earners in India, and disaggregates it according to the nature of employment

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Labourers work at a brick kiln during a cold winter day, on the outskirts of Agartala, on January 10. | Photo Credit: PTI

According to a recent report by the State Bank of India (SBI), India has witnessed a significant fall in inequality over the last decade.

Examining taxpayer data, the report claims that the Gini coefficient — a standard measure of inequality that ranges from 0, indicating perfect equality, to 1, indicating perfect inequality — has fallen from 0.472 in 2014-15 to 0.402 in 2022-23. A fall of almost 15% in the Gini coefficient indicates a significant reduction in inequality.

There are, however, some problems. For one, the analysis is conducted on taxpayer data, and a majority of income-earners fall outside the tax net. According to data from the 2022-23 Periodic Labour Force Survey (PLFS), nearly 80% of income-earners earn less than ₹2.5 lakh per annum — the minimum taxable amount.

Using data from the 2017-18 and 2022-23 rounds of the PLFS (comprising the earliest and latest rounds of the survey), this article examines the changes in income inequality amongst all income earners in India, and disaggregates it according to the nature of employment, that is among the self-employed, regular wage and casual wage workers. This analysis reveals that the finding of a reduction in inequality, while broadly true, needs to be qualified in important ways.

The fall in the Gini coefficient is more or less empirically established by the SBI report, but this has been accompanied by a polarisation in incomes. Incomes of the top 10% have grown faster than the bottom 30%, with polarisation largely seen amongst self-employed workers.

Aggregate inequality

Unlike previous surveys, the PLFS records gross incomes of the self-employed, thus allowing for a greater depth of analysis.

To be sure, the analysis presented here is a preliminary one, and does not adjust for possible errors in self-reporting of incomes, for those individuals reporting zero income or no income, or seasonal adjustments (since incomes of the self-employed in agriculture varies over the year).

Only those individuals who earn income from work are considered, excluding those who work as unpaid family helpers (a large proportion of whom are women).

The category of the self-employed includes own-account workers — such as individual farmers, roadside hawkers, etc. — and those who are self-employed but also employ other workers. In this simple analysis, only nominal weekly incomes are considered, without adjusting for inflation.

Table 1: Gini coefficients

	2017-18	2022-23
Overall	0.4297	0.4197
Self-employed	0.37077	0.3765
Regular wage workers	0.43947	0.43198
Casual wage workers	0.27619	0.263

As shown in Table 1, the Gini coefficient has fallen from 0.4297 in 2017-18 to 0.4197 in 2022-23. When comparing the different forms of employment, the Gini coefficient falls for regular wage and casual wage workers, but rises for the self-employed. However, the changes are largely minimal.

The Gini for the self-employed workers rises from 0.37 to 0.3765, an increase of 1.5%.

For regular and casual wage workers, the Gini coefficients register falls of 1.7% and 4.8%, respectively.

Inequality no doubt has fallen, but inequality among the top income earners seems to have fallen far more than when we consider the population as a whole.

The polarisation of incomes

The Gini coefficient is an aggregate measure, which delivers an estimate of inequality considering all incomes in a given sample. It is possible for the Gini coefficient to register a fall in inequality even with a divergence between different classes of income-earners.

Figure 1: The rate of growth of average weekly income of each decile over a five-year period

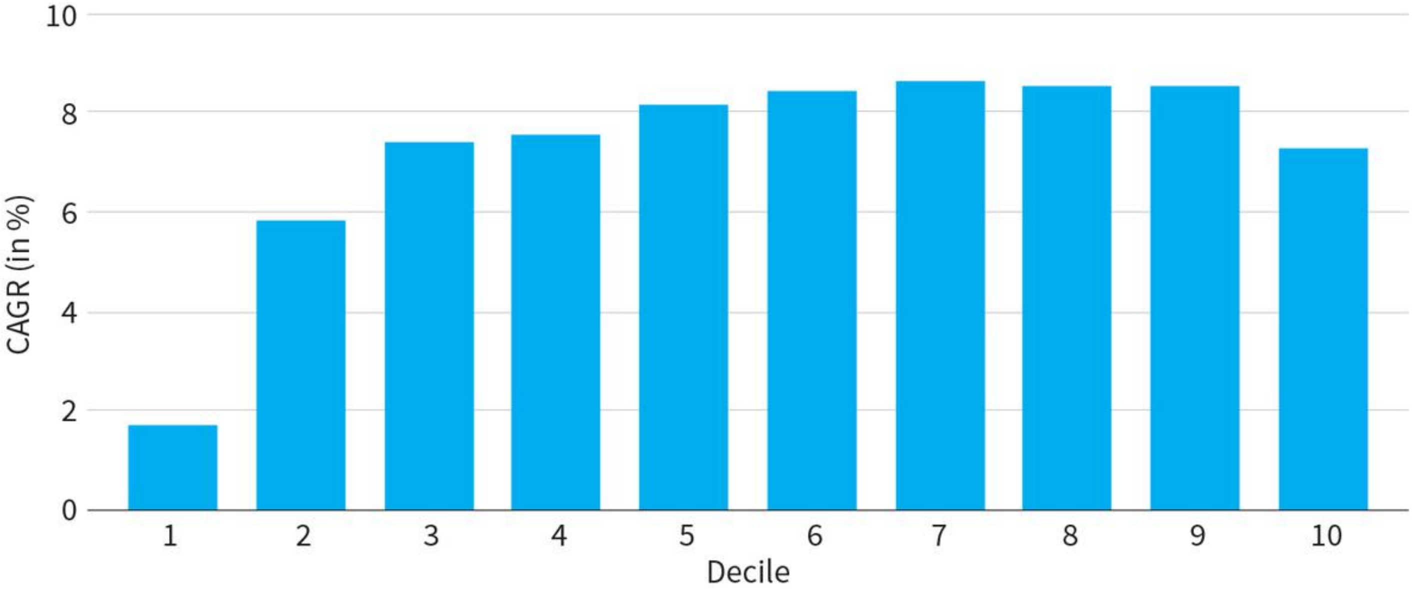

Figure 1 outlines a process of polarisation occurring in the Indian economy. Income-earners in the two PLFS surveys are divided into deciles, and the average weekly income of each decile is estimated for both periods. The yearly rate of growth of average weekly incomes for each decile over a five-year period is then calculated, and charted in Figure 1.

Most deciles enjoy a similar rate of growth of income. The fourth to ninth deciles — which comprise around 60% of the income-earning population — experience an annual rate of growth of roughly 8%-9% in average incomes. What is of interest is the difference in income growth for the top 10% and the bottom 30%. The top decile's average income grew at an annual rate of around 7.23%, greater than the bottom 20% and similar to the third decile. The bottom decile saw the slowest income growth, at only around 1.67%. While a majority of the population saw healthy income growth, there was a divergence in fortunes of those at the bottom and the top of the income scales.

This polarisation can be seen in a measure known as the 90/10 ratio, which computes the ratio of incomes of those at the 90th percentile — or the top 10% — to the 10th percentile — the bottom 10%. As shown in Table 2, the ratio has increased from 6.7 in 2017-18 to 6.9 in 2022-23.

Table 2: The 90/10 ratio

	2017-18	2022-23
Overall	6.667	6.94
Self-employed	6	8.33
Regular wage workers	8.75	7.25
Casual wage workers	4	3.56

What is of interest are the changes in polarisation amongst different forms of work. The 90/10 ratio has fallen for wage earners, with a very significant fall for regular wage workers. In contrast, the 90/10 ratio has increased significantly for the self-employed. The income of the top 10% of self-employed individuals was 8.3 times that of the bottom 10% in 2022-23, a significant increase as compared to 2017-18. The entire polarisation in incomes has come from divergence in incomes of the self-employed.

Accounting for these changes

This is a preliminary analysis of certain broad trends, and more rigorous study is required to fully understand these changes. Nonetheless, we may try to advance an explanation for these contradictory changes occurring in the economy regarding inequality. As has been extensively documented, the rise in women's labour force participation has primarily come about through forms of low-paid, part-time self-employed work. Households may be earning more, and women may be working, but this increase in low-paid self-employed work has led to an increase in the gap between the top and bottom of self-employed incomes. This has increased polarisation amongst income-earners, even though gaps for wage work — both regular and casual — have fallen.

Such polarisation is not seen in taxpayer data since the bottom 10% do not earn enough to be included in the tax net. The pace of reduction of inequality amongst top earners is not reflected by changes amongst the entire population. Reduction in the Gini coefficient hides a process of divergence of incomes. It remains to be seen whether future growth arrests or exacerbates this divergence.

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