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Impact of Globalisation on Income Inequality in India: A Review

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Abstract

Income inequality in India refers to the unequal distribution of wealth and income among its citizens.India witnessed a widening of income inequality duringthe phase of globalisation. This paper presents the importance of income inequality by correlation it with other important aspects such as access to healthcare and life expectancy. Along with it, the paper analyses the historical trend and the reasons for the growing income inequality.

Keywords: *globalisation, inequality, poverty, Gini, India*

Introduction

Economists frequently cite economic growth as the surest way out of poverty for the developing world. In this context, China is an often-mentioned example, where double digit growth has brought over 300 million people out of extreme poverty over the past few decades. But closely tied to growth is the question of equality - of growing the pie, as opposed to distributing it.

In discussions of equality, India usually does better in comparison to China. Proponents of India's path to development often point out that income inequality in India has historically been relatively low. The UN Human Development Report 2009 estimated the Gini Index - an indicator of income inequality for India to be 32.5 in 2006. This compares favorably with much of the world, including the USA and OECD countries(Sweden: 25; Norway: 25.8; USA: 40.8; China: 44.7; Brazil: 58- low numbers are better). Inequality is rising - fast. Below is the plot of several countries for Gini Index illustrates growing inequality in both India and China. To further prove this point, all the data is drawn from the World Income Inequality (WIID) and prior UN Human Development Reports for India. The plot below shows the Gini Index from 1951-2000 (note: not all years are available, only figures from the National Sample Survey for consumption were used).

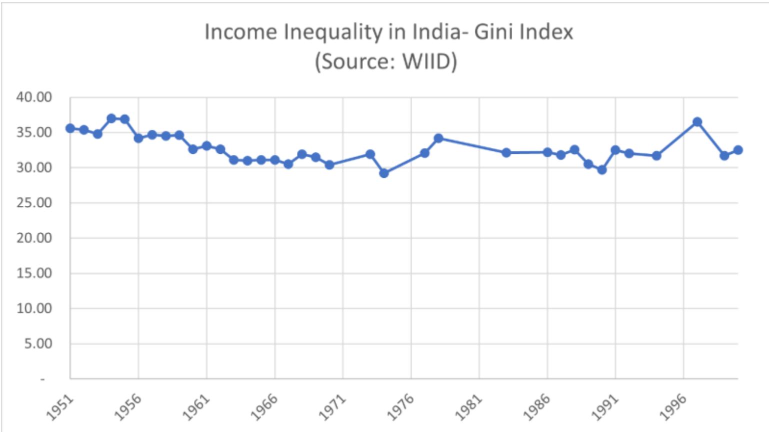

Fig. 1 Income Inequality in India.

For observers of the India-China debate, indeed for observers of economic growth, this plot is illustrative because income inequality has exacerbated considerably, rising froma historic low of 29.6 in 1990 to 32.5 in 2000 (a rise of 9.7%).

Why Income Inequality is Important

The obvious question to ask, of course, is if income inequality is even important? After all, if absolute poverty is dropping, relative inequality may be acceptable? Not so, because relative inequality manifests itself in many ways - most of all by reinforcing patterns of social exclusion. One example of this is healthcare. It is worth noted that the rate at which India achieved improvements in life expectancy slowed considerably in the post-reform era. A similar trend was evident in China. I suggested two reasons for this inverse correlation with economic growth:

1. As GNP rises, the resulting income inequality may be negatively impacting overall life expectancy. As fewer people earn more the GNP rises, but the large majority that gets relatively poorer are worse off.
2. Another ugly truth may well be that a market-oriented India and China provide far less for their people than did socialist India and China. Under the guise of reform, governments in both countries are not only withdrawing from the market but also from public services.

The correlation between GNP growth and income inequality seems to support both these reasons. But there is one final reason to believe income inequality negatively impacts health. A study of seven African countries, published by the W. H. O. in 2000 concluded that it is the wealthier citizens- not the poorest- that benefit most from public healthcare, because health facilities are better in rich, urban areas. In Ghana the richest quintile directed almost 60% of its health spending to the public sector. In all countries, except South Africa, the best-off groups mainly used publicly subsidized health care, while the poor less likely to seek medical help anyway-generally turned to the private sector simply because it was more accessible, though also more expensive. Firstly, an increase in the Gini coefficient from 29% to 33% is not "an increase in inequality by 9%". It just means an increase in the Gini coefficient from 29% to 33%, which hardly means anything statistically.

Secondly and more importantly, why on earth are you expecting increase in life expectancy to be linear? Keeping a 50 year old person alive for 10 years is much easier than keeping a 60 year old person alive for 10 years. The resources required are an order of magnitude higher. Even if everyone in India got richer at the same rate, life expectancy would not increase linearly.

Finally, there is a very important reason why life expectancy will not show linear growth- Child mortality. In 1960, 250 children out of every 1000 used to die before they were five. Now the figure is 83. One point's decrease in Child mortality at 83 will give a much lower percentage increase in life expectancy than one point's decrease at 250. If you looked at the same place for Child mortality figures where you looked for life expectancy figures, you will find that the rate of reduction of child mortality actually improved in the late 70s and has stayed steady since.

Reasons for Inequality:

This is partly because the growth in India has been based on only a few sectors, so it is unavoidable to have some sectors that are booming while many others are suffering. This is certainly a problem. The multiplier effect should lead to high-growth sectors carrying the rest of the economy and the production of a better balance, but there is no assurance of that.

There is high growth in India, which is very much associated with its opening of trade with the rest of the world. However, despite this sudden increase in the rate of growth after liberalisation, you find a correlation between the growth in India and the growth in the USA. India needs any help because it is in this process of catching up. But certainly the growth will be much slower if the rest of the world does not grow. Something that more developed countries can do for a country like India is to help the country in getting enough liquidity and short-term finance. However, India is in a very strong position because it has a high stock of international reserve.

Conclusion

A correlation between growth and inequality does not by itself disprove the need for economic growth. Growth may well be a necessary condition for reducing poverty, and in India it has indeed brought millions out of poverty. But surely, bringing people out of absolute poverty cannot be the ultimate goal and the only barometer of development. What India must strive for is to improve the quality of life of people - which means providing better health, education, and other services to the poor and the rich.In this objective, income inequality matters in very tangible ways, and insofar as economic growth increases inequality it may make many worse off. Now if only the economists could come up with a solution for that conundrum.

References

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