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Tackling inequality in India
Is the 2019 election campaign up to the challenge?

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Overview

- *Economic growth has been highly unequal in India over the past decades. With the 2019 elections, the focus is being progressively shifted to the question of economic inequality.*
- *The new reservation law recently adopted by Parliament, which seeks to improve reservation with income and wealth inequality measures, may be usurped by the wealthiest. To ensure that this reform serves social justice, new reservation thresholds should be set at a much stricter level.*
- *We analyze alternative scenarios for a minimum income guarantee. We find that a minimum income set at INR 72,000 would cost about 1.3% GDP and benefit the bottom 33% of households. If it was set at INR 100,000, the scheme would benefit the bottom 48% of households and cost 2.6% of GDP. In either case, it would represent a substantial improvement in living standards for the poorest segments of society.*
- *So far, the question of social transfers has been largely neglected from the political campaign. While educational spending has declined since 2012, the volume of spending cannot be ignored.*
- *Debates have also, so far, said little about progressive financing of social measures. Progressive taxes on income and wealth could address extreme inequality at the top, while financing social spending for bottom and middle income groups.*

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Introduction

The Indian 2019 general election campaign has brought the issue of economic inequality into mainstream political debate. This contrasts with previous campaigns, flooded by discussions over economic growth, with almost no interest at all for its repartition. Over the past months, a series of proposals have been formulated by the major political parties in India to address economic inequality. While Congress recently proposed a minimum annual income of INR 100 000 for all Indian households, the current government (BJP) adopted a 10% reservation quota for lower economic classes. The recent budget also introduced an income tax relief to people earning less than INR 500,000.

These new developments echo a recent body of literature on economic inequality in India, which document record-high levels of income and wealth concentration (see for instance Chancel and Piketty, 2019; Bharti, 2018; Anand and Thampi, 2016). Indeed, recent decades have been characterized by relatively high income growth rates in India. Between the early 1990s and the 2010s the number of Indians below the international poverty line was halved . However, such transformations were concomitant with the persistence of relatively low growth rates for Indians at the bottom and at the middle of the distribution, whose income grew at less than 2% per year since 2000, while the top 1% of the population grew at more than 7% per year. This "shining India for the rich" also led certain researchers and commentators to worry about a missing middle class (Economist, 2018).

In this unequal growth context, this Issue brief seeks to discuss the relevance and the potential distributional impact of the flagship measures recently proposed by the BJP and the Congress parties. This document starts by reviewing the recent findings on income and wealth inequality in India, it then discusses and evaluates the wealth-based reservation policy as well as the minimum income proposal. It concludes by replacing these discussions in the broader context of taxation and social spending in India.

What do we know about economic inequality in India?

There has been a lot of debate on the impact of growth on poverty in India over the past decades, but until recently it had been difficult to assess in a systematic way the distributional impacts of growth on different groups of the population. Recent work has made it possible to obtain a better representation of how income growth is distributed across the population, thanks to the combination of several sources of data which had not been systematically combined before (namely household surveys, tax data and national accounts).

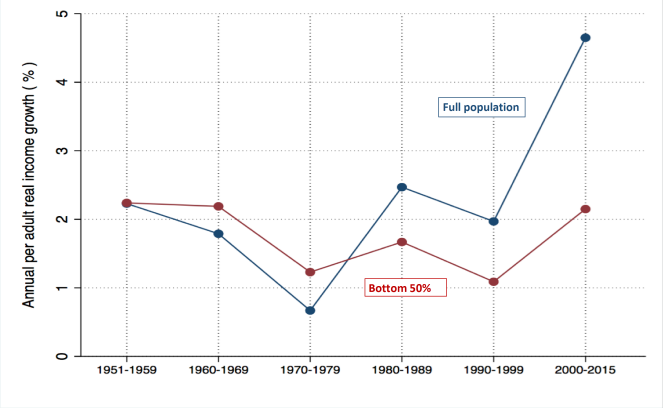
These results show that incomes of the bottom 50% and next 40% of the population grew at about 2% per year (and per adult) since 2000, while the average growth rate was about 4.7% per year (Figure 1a). In fact, a disproportionate share of post-deregulation growth was captured by the economic elite, which resulted in the strong rise of inequality (Figure 1b).

This rise in income inequality has no precedent in recent history. The top 1% of earners captured less than 21% of total income in the late 1930s, before dropping to 6% in the early 1980s and rising to 22% in the recent period. Since 1980, growth has been highly unequal: the top 0.1% of earners captured a higher share of total growth than the entire bottom half of the Indian population (12% vs. 11%), while the top 1% received a higher share of total growth than the middle 40% (29% vs. 23%) of the population.

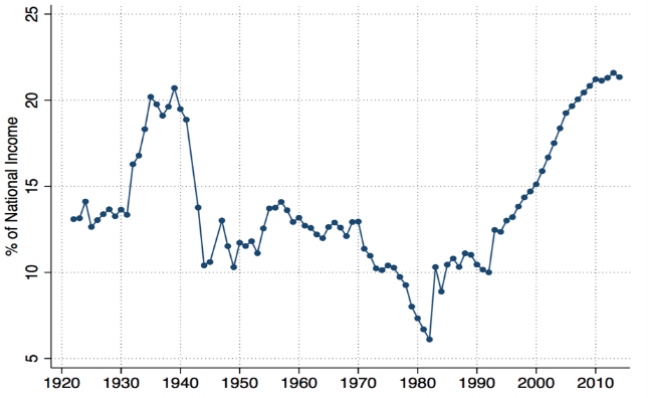
The rise of income inequality was concomitant with the set of deregulation and opening policies implemented in India since the mid-1980s. These policies were accompanied by a strong reduction in tax progressivity and little reinvestment of national income growth in social expenditures, which are key to trigger income growth among bottom and middle income groups of the population. Replacing India's trajectory in a broader international perspective reveals that the increase in income disparities in India was not a mechanical consequence of development but the result of policy choices: other emerging

Figure 1. Income Inequality

(a) Per adult real income growth rates in India, 1951-2015: full population vs. bottom 50%



(b) Top 1% national income share in India, 1922-2015



Key : Bottom 50% population grew at 2.7 pp lower than total population increasing the inequality. Top 1% now owns more than 20% of the total income. *Source*: Chancel and Piketty (2019). Notes: estimates combining survey, fiscal and national accounts data. Distribution of pre-tax per adult national income, benchmark scenario. See wid.world for more details.

countries which went through deregulation processes were able combine high growth rates and a much lower increase of income inequality .

Wealth is highly and increasingly concentrated in India too. The top shares have seen an increasing trend particularly over recent decades. In 2012, the top 10% of the population owned at least 63% of total wealth .[1] There is a high level of concentration even within this top decile population: the top 1% itself captures 30% of total wealth (i.e. about half of the wealth detained by the top 10%). Looking at time series, we observe that the share of the top decile (and percentile) has almost consistently increased with every decade. On the other hand, wealth concentration in India is such that the bottom 50% of the population owns just about 8% of the total(see Figure 2).

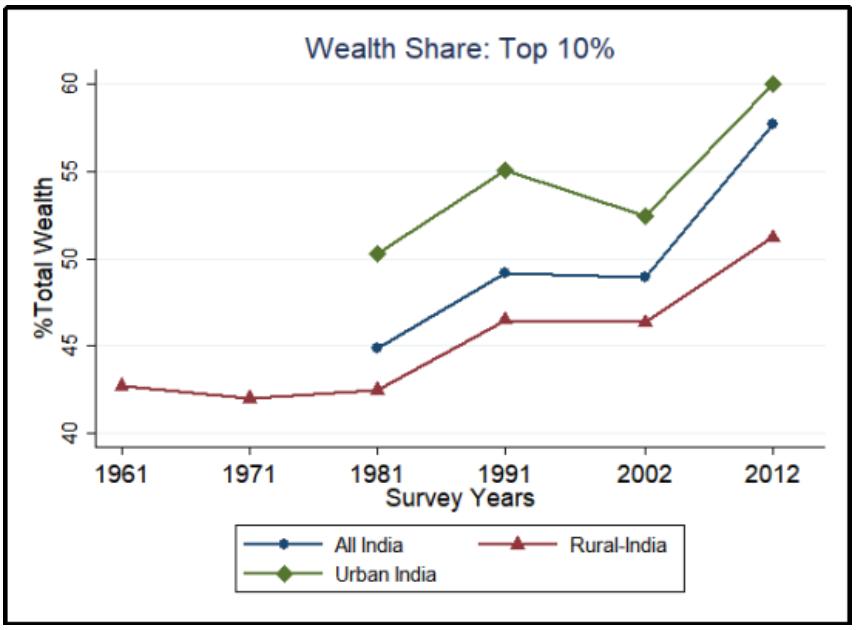
The increase in wealth inequality is partly a result of rising income and savings inequality and partly due to the historical distribution of wealth in the society. Upper castes in most part of the country have historically been endowed with land and the lack of major land reforms has made it possible for large wealth inequalities to persist, in a context where physical assets forms the majority of the wealth (land forms 60% of total household wealth and buildings another 30

Wealth inequality largely intersects with caste inequalities. Indeed, Scheduled Castes (SC), Scheduled Tribes (ST) and Muslims are underrepresented in higher wealth deciles (as well as in the wealth middle class) and over-represented in lower wealth deciles (eg. in the Bottom 50%). Conversely, Forward Castes are over-represented in higher deciles. Other Backward Castes (OBCs) are more or less evenly distributed across all the wealth deciles. Under other socio-economic outcomes (income, consumption and education), lower castes (SC, ST) are also way below the overall averages, while OBC and Muslims are closer to overall average but lower and FC (Brahman and non-Brahman) are at the high-end. A similar trend in educational outcomes across caste groups is observable, showing little prospects for social mobility.

While castes remain a strong marker of socioeconomic inequality, there are also strong inequalities within castes. The top 10% within each caste captures more than 45% of total caste wealth. This concentration is lower than at the national level but nevertheless shows a high de-

[1]Wealth inequality data is based on survey sources, which are known to underestimate top wealth levels. See Alvaredo et al. (2018) for a discussion.

Figure 2. Top 10% wealth share in India, 1961-2012



Key : Top 10% wealth share is on increasing trend. Top 10% population took 63% of the total household wealth share in 2012. Source: Bharti (2018) Notes: estimates based on NSS AIDIS surveys combined with Forbes data. Distribution of wealth per adult. See wid.world for more details.

gree of inequality. Within-caste inequality is even higher within forward castes. All in all, recent research on caste and class shows that there hasn't been much reduction of economic-caste inequality over the past decades.

Do the recently proposed policies live up to the Indian inequality challenge?

Economic reservation for (almost) everyone?

On 8-9th January 2019, the Indian Parliament reached a consensus on the 124th Constitutional Amendment Bill (the so-called *10% reservation bill*). The law proposes a **10% reservation** for the economically weaker section (EWS) of society, who till now is not included in any existing reservation. The eligibility criterion are presented in Table 1. The threshold values relate to earning of annual household income and ownership of agricultural land and residential area. A household has to satisfy all the criteria to be eligible for reservation. To our knowledge there doesn't exist any single database containing joint information on income and wealth, which is regularly updated and which the government can use to target potential beneficiaries of reservation. Also, to our knowledge, there doesn't exist any provision in the law to collect such information. We come back to this crucial point later.

Table 1. Thresholds defining Economically Weaker Sections for eligibility of reservation

Category	Threshold
Annual Household Income	< Rs. 800,000
Agricultural Land	< 5 acres
Residential House Area	<1000 sq. ft
Residential Plot	<900 sq. ft. – Notified municipality <1800 sq. ft. – Non-notified municipality

Source: Ministry of Personnel, Public Grievances and Pensions, DoPT

It is key to note that past reservation policies were based

on the idea that social justice between Indian citizens would be progressively achieved by ensuring social mix and hence by the establishment of educational and work quotas. The new reservation policy introduces a material dimension in the reservation debate and acknowledges the principle of within-caste social inequality on economic criteria (income, land, household size), which are better in line with the reality social injustice in India described above. However, as we show below, this policy, as it is currently framed, essentially misses its supposed objective and appears more as a political stunt than a reform genuinely seeking social justice.

Using available all-India household surveys, we estimate the share of the population which will be eligible for reservation under the different thresholds. We feel it is an important exercise which should have been done before the introduction of bill. Our main conclusion is that the set thresholds chosen by the government tends to favor wealthy sections of society, by granting them access to reservation that was not available to them before the law. The definition of stricter thresholds would indeed make it possible to target materially deprived groups.

Before we go deeper into analyzing the thresholds in detail, we should make clear that we are not claiming that reservation is the most appropriate tool to tackle inequality. If properly designed, this policy can contribute to inequality reduction. But it must be reminded at the onset that, since majority of the population is employed outside of the government sector, this policy will only affect small portion of the population. Further, we show below that the current design seriously limits its ability to tackle inequality.

Current income threshold: more than 93% of households eligible

Households with income more than 8lacs are excluded of the reservation. Using available household income data, we find that only 7% of the households are above this threshold, implying 93% are eligible for the reservation. Table 2 shows how eligible population varies with different income thresholds. Indeed, the rural-urban difference is prominent, with a larger fraction of the population under the threshold in rural area India. Targeting bottom 50% households via the income threshold alone can be achieved by setting threshold to around 2 lacs at all-India level. [2]

Table 2. Eligibility by Income Threshold

Within Non Reserved class			
	% of households eligible for reservation		
Income Threshold (in lacs)	All India	Rural	Urban
1	30,2	41,8	14,2
1.5	45	57,4	27,8
2	55,8	67,4	39,8
2.5	63,6	74	49,4
3	69,8	79	57
3.5	74,8	82,8	63,4
4	78,2	85,6	68,2
4.5	82	88,2	73,2
5	84,6	89,8	77,4
5.5	86,6	91,4	80
6	88,6	92,6	82,8
6.5	90	93,6	84,6
7	91	94,4	86,4
7.5	92	95	88
8	93	95,6	89,4

Key: 93% of Indian households earn less than Rs. 8 lacs per year. This is based on 2020 level utilizing the nominal growth rate.
Source: Authors' estimation using IHDS 2011.

Current agricultural land threshold: more than 95% of the population eligible

Households owning more than 5 acres of agricultural land are excluded from the new reservation policy. There are currently around 4% of the households owning more than 5 acres of agricultural land [3]. Consequently, 96% of households are currently eligible for the reservation under this criteria alone. If we consider only the Indian rural population, 92% of the households are eligible with the current threshold.

[2] This is based on 2020 level utilizing the nominal growth rate.
[3] According to the All India Debt and Investment Survey, 2012

Table 3. Eligibility by Agricultural Land Threshold

Within Non Reserved class		
Agricultural Land Threshold	% of households eligible for reservation	% of households eligible for reservation (Rural)
0	67,4	39,6
0,1	69,8	43,6
0,2	71,6	46,8
0,3	73,2	49,8
0,4	74,8	52,6
0,5	76,6	56,2
0,6	77,8	58,2
0,7	79,2	60,8
0,8	80,2	62,8
0,9	81	64,2
1	82,8	67,8
2	89,8	80,6
3	93	86,8
4	95	90,6
5	96	92,6

Key: 95% of Indian households own less than 5 acres of agricultural land.
Source: Authors' estimation using NSS AIDIS 2012.

Focusing on households working in the Government sector, there are only 1.8% of the households with more than 5 acres of land. If one tinkers the threshold to target precisely the Bottom 50% (based on agricultural land area) of the population for reservation policies, the threshold should be set at 0 acres or households with no agricultural land at all India level (Table 3. In order to target the bottom 50% in rural areas, the threshold should be combined with a residence in **rural areas** criterion and should be set at **0.4 acres**.

Current residential house threshold: more than 80% of households eligible

Households owning more than 1000 sq. ft. of residential house area are excluded from the new reservation policy. There are currently about 20% of the households (within non-reserved class) owning more than 1000 sq. ft. of house area.[4] In other words, 80% of Indian households are eligible for the reservation. Again, taking the stock of households working in the Government sector, there are 32% of households in non-reserved households who own more than 1000 sq. ft. of house area. The threshold of housing area is thus slightly better targeting than agricultural land area but still arguably way to loose in order to tackle those who are most in need. In order to target the Bottom 50% [5] of the population based on a housing criteria, the threshold should be reduced by half and set at **500 sq. ft**. (See Table 3)

Table 4. Eligibility by Housing Area

	Within Non Reserved class		
	%age of HH eligible for reservation		
Housing Area	Total	Rural	Urban
100	23,4	11,4	36
200	30,2	19,8	41,2
300	37,6	29,4	46,4
400	45,6	40	51,8
500	54,4	51	58,2
600	60,6	58,4	62,8
700	66,8	66	67,6
800	71,4	71,6	71,4
900	76,4	77,2	75,4
1000	80,2	81,2	79

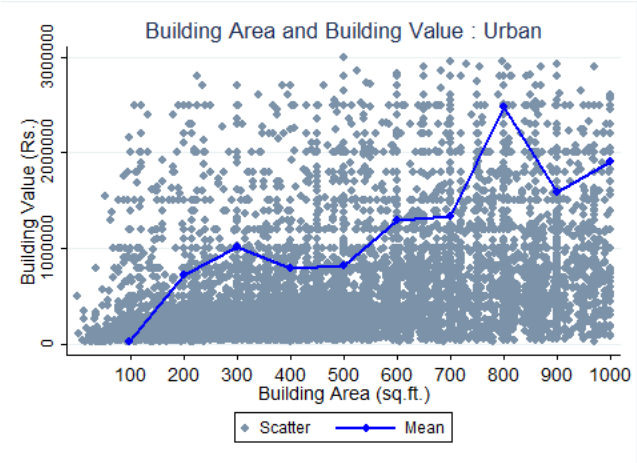
Key: 80% of Indian households own less than 1000 sq.ft. of residential house
Source: Authors' estimation using NSS AIDIS 2012.

How fair is to set a residential house criteria based on area rather than value? Figure 3 shows the mean building value in urban areas. While there is a general increase of value with area, this increase is non-linear. Households may have lower building area but higher building value and vice-versa. One should also note that behind the mean building values per area presented here, there are large heterogeneities shown through scatterplot. For instance, a person with building area less than 400 sq. ft. can easily have more than Rs.15 lacs of building value – which is undoubtedly a huge sum to be qualified as EWS. In other words, building area seems to be a poor proxy of building value – and hence a poor proxy for EWS status.

[4] According to the All India Debt and Investment Survey, 2012

[5] Bottom 50% based on the housing area.

Figure 3. Mean Building Value vs Building Area



Key: The graph shows a poor correlation in Building area and value in urban areas. Residential area of 400 sq.ft area can have 15 lacs as worth which is currently eligible for reservation. *Source*: Authors' estimation using NSS AIDIS 2012.

Residential plot threshold: more than 70% of households eligible

Households owning plots that are inferior in size to 900 sq. ft. in notified municipalities, as well as households owning plots inferior in size to 1800 sq. ft. [6] in non-notified municipalities are excluded from the policy . Again, there is no condition set on the value of the plot owned which means a plot in a prime location of city is treated in the same way as a plot in the outskirts of a town.

Assuming that a stricter target of less than 900 sq. ft. is set uniformly, about 27% of households own more than this in urban areas. In other words, 73% of the population is eligible in urban areas with this stricter threshold. The share of population will increase if we relax the threshold in non-notified urban areas. In order to target the bottom 50% of non-reserved households, the threshold should be set **200 sq. ft.** in urban areas. (See Table 5)

Table 5. Eligibility by residential plot threshold

Within Non-reserved class	
Urban (Notified area)	
Residential Plot Threshold	**% of households eligible**
100	49
200	51,6
300	54,8
400	57,4
500	61,4
600	64,4
700	67
800	69,2
900	72,6

Key: 73% of Indian households own less than 900 sq.ft. of residential plot in urban areas. *Source*: Authors' estimation using NSS AIDIS 2012.

To what extent would the combination of all thresholds better target weaker groups?

In order to assess the distribution of beneficiaries of the reform, one would have required a single data source

[6] The threshold being proposed is less than 900 sq. ft. / 200 yards in notified municipality and less than 1800 sq. ft. / 100 yards in non-notified municipality. Notified urban areas are those having municipality, municipal corporation etc. Non-notified are those which exhibit urban characteristics but do not have local level urban bodies.

containing information on all income and wealth variables. As discussed above, such information does not exist. Hence we first show how well the wealth related thresholds will work in combination. We now discuss the application of different thresholds jointly.

In Rural areas, applying the threshold of agricultural land area and building residential area simultaneously makes 77% of the rural population eligible for reservation. In urban areas, if a stricter threshold on residential land plot (i.e. less than 900 sq. ft.) was applied, 66% of the urban population would be eligible. This shows that the combined thresholds would not do much in order to better target the socio-economically more deprived groups. The reservation policy would still be largely captured by relatively well-off sections of society as seen in Table 6.

Using the combined distribution of ownership of agricultural land and income in rural area we find that income threshold removes an extra 2% over agricultural land ownership. It is reasonable to assume that (many of) those 2% of the households are already excluded using the residential area threshold.

How to improve targeting? The urgent need for administrative data on income and wealth.

In the above paragraphs we provided the glimpse of thresholds which could be set individually. For these thresholds not to be abused, the government would require a regularly updated ownership and income records. Given the lack of any such records today, the implementation of the reservation policy will at least for some time rely on self-reporting information by the individuals. There is reasonable risk that people under-report their income and wealth to avail the reservation benefits. To contain the misreporting, the best option for the government would be to make the filing of income-tax returns compulsory for all households and include wealth information in these administrative documents. Alternatively, in order to obtain wealth data, government can put together the wealth information available at State level.

In rural areas, since the land and building market are less developed, land or plot area can be a reasonable proxy used. Our proposed thresholds are provided in above paragraphs. The area of building residential targets better than agricultural land area. In urban areas, since the relationship between area and value of different immovable assets is not linear (see Figure 3), the threshold could be set using the value of the assets instead of the area. According to our estimates, the combined asset value (land + building) of around Rs. 7 lacs [7] should be set in order to target the poorest 50% of households. Household above this value of wealth should be automatically excluded from reservation benefits.

Who would benefit from a guaranteed minimum income?

We now turn to the evaluation of the minimum income proposal. On 28 January 2019, Congress leader Rahul Gandhi announced that "every poor person in India, after Congress forms government in 2019, will be guaranteed minimum income". On March 25th, Rahul Gandhi stressed that the plan would benefit the bottom 20% of households with a transfer of up to 72,000.

In this brief, we evaluate three different scenarios, their incidence and their cost. Our scenarios are simple: we assume that the Government would pay the difference between total household income and a given threshold. Using IHDS survey data, we set three minimum income thresholds: INR 100,000 (Scenario A), INR 72,000 (Scenario B) and INR 50,000 (Scenario C). For each of these scenarios, we estimate how many Indian households would benefit from the measure, how much would they gain and how much it would cost central government. These estimates should be read with care as the only criterion to receive minimum income under our three scenarios is the total income of households. A better estimation should take into account the composition of households (ie. number of children).

[7] This price is at 2017 level. It is equal to 1.45 times the 2012 level price using the wholesale price index which is published by RBI. The calculation assumes same increase in wealth across different wealth groups over the period. The reality is likely to be much less favourable to poorer groups.

Table 6. Eligibility by combined threshold

Within Non Reserved class					
% of households eligible for reservation					
Rural		Urban		Urban	
Agricultural Land Area	Agri Land Area + Building Residential Area	Building Residential Area	Building Residential Area + Land Plot residential (<900 sq.ft)	Building Residential Area	Building Residential Area + Land Plot residential (<1800 sq.ft)
92,6	77	79	66,4	79	73,6

Key: In rural area 77% of households and in urban area 74% of households are eligible.*Source*: Authors' estimation using NSS AIDIS 2012.

Based on 2011 IHDS survey and our projections, we find that, in 2020, 48% of households will earn less than INR 100,000 per year and would thus be eligible the scheme under Scenario A. 33% of households will earn below INR 72,000 and would be eligible to the scheme under scenario B. 21% of households earn below INR 50,000 per year and would be eligible to the scheme under scenario C[8].

We find that guaranteeing a minimum income of Rs. 100,000 (Scenario A) to all these households would cost Rs. 5.8tn, ie. about 2.6% of GDP in 2020. Guaranteeing a minimum income of INR 72,000 to Indian households (Scenario B) would cost Rs. 2.9tn, ie. about 1.3% of GDP in 2020. If the minimum income was set to INR 50,000 (Scenario C), the total cost would be Rs 1.4tn, ie. 0.6% of GDP.

Figure 4 presents the number of households receiving income support by bracket of extra income received under the three scenarios. Under scenario A, 38 million households, earning close to Rs. 100,000 today would receive less than Rs. 25,000 per year, while 5 million households reporting no or negative incomes would receive Rs. 100,000. Under Scenario B, 42 million households would receive less than INR 25,000 and 5 million households would receive INR 72,000. Under Scenario C, 38 million households would receive under INR 25,000 and 5 million would receive INR 50,000.

We should stress here that we assume in this analysis that the minimum income would come in addition of existing spending on expenditure and health. A minimum income scheme that would replace existing social spending can have negative consequences in terms of social justice, as it has been shown in the case of other countries [9].

Financing social transfers via higher tax progressivity

There are several options to finance an increase in social transfers. The best way to do so in order to tackle rising inequality at the top of the distribution is to implement progressive taxes on income and wealth . Under simple assumptions, we find that a 2% tax on total wealth on households owning more than Rs 2.5 crore of wealth (that is the top 0.1% of households), would yield Rs. 2.3 trillion or 1.1% of GDP (Table 7) - 99.9% of households would not be concerned by such a tax. **Indeed, administrative data on the total stock of wealth held by households would need to be collected on an annual basis.**

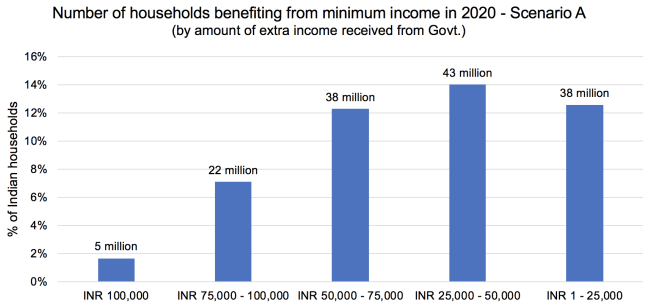
An alternative to a tax on the total stock of wealth could be to implement a tax on land and building only. Again, under simple assumptions, a 2% tax wealth (land and building value only) above Rs 2 crore would yield Rs. 2.6 trillion (1.2% of GDP), impacting the top 1% of the households. Currently housing property income generates a meagre annual tax of around Rs 0.3 billion (or 0.14% of GDP). The main issue however is that such a wealth tax would not be progressive at the top of the distribution since richest individuals tend to own more financial assets than land and buildings (at least in all

[8] According to IHDS survey, 66% households (out of a total of 255 million) reported a household income below INR 100,000 in 2011. Nominal incomes grew since 2011, which implies that the fraction of Indian households below the INR 100,000 threshold decreased since then. We use simple projections, in line with recent work done on the evolution of income inequality in India (Chancel and Piketty, 2019), to estimate the number of households below the thresholds by 2020.

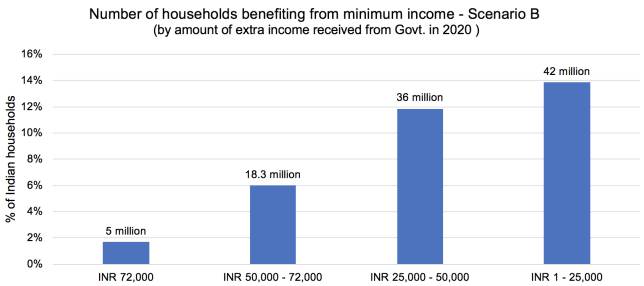
[9] See for instance http://www.oecd.org/els/soc/Basic-Income-Policy-Option-2017-Brackground-Technical-Note.pdf

Figure 4. Beneficiaries of Minimum Income under different scenarios

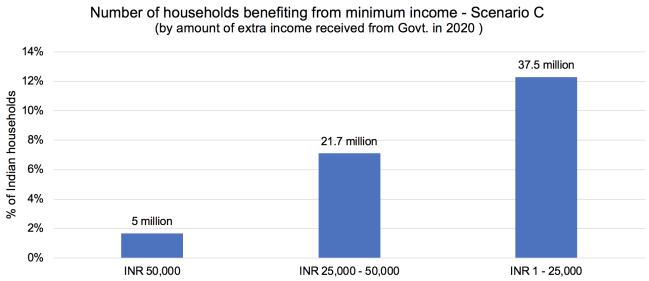
(a) Scenario A - INR 100,000 minimum



(b) Scenario B - INR 72,000 minimum



(c) Scenario C - INR 50,000 minimum



Key : in January 2020, 5 million Indian households (1.7% of the total number of households) would receive INR 100,000 thanks to a minimum income scheme set at INR 100,000 (Scenario A). *Source*: Authors' computations based on IHDS 2011-12 data, extrapolated using nominal income growth rates.

Table 7. Wealth Tax and Potential tax revenue on Total Wealth

	Wealth tax on total tax								
	>75 lacs			>1 crore			>2.5 crore		
Tax rate	Potential Tax revenue (trillion Rs.)	% of GDP	% of Population Affected	Potential Tax revenue (trillion Rs.)	% of GDP	% of Population Affected	Potential Tax revenue (trillion Rs.)	% of GDP	% of Population Affected
1	1,98	0,87	1	1,64	0,72	0,5	1,16	0,54	0,1
1,25	2,48	1,09	1	2,05	0,88	0,5	1,46	0,63	0,1
1,5	2,97	1,31	1	2,45	1,12	0,5	1,75	0,81	0,1
1,75	3,47	1,53	1	2,86	1,28	0,5	2,04	0,9	0,1
2	3,96	1,74	1	3,27	1,44	0,5	2,33	1,08	0,1

Key: 2% tax on households owning above 2.5 crore of wealth generates Rs. 2.3 tn (1.1% of GDP). *Source*: Authors' calculation using Bharti (2018) total wealth estimates (Survey+Forbes top correction). The wealth tax here is suggestive. The figures are at 2018 level using wholesale price index.

countries for which we have detailed information [10]).

Another complementary way to finance such re-distributive schemes is through the implementation of new income tax brackets on top income groups. There are, again many solid economic arguments to tax top income in a highly progressive manner. Top income tax rates reduce post-tax income inequality levels but also limit the rising concentration of capital, and hence pretax income inequality which is largely due to rising capital incomes at the top. Perhaps more fundamentally, top income (and wealth) tax rates protect democracy from being captured by the wealthiest.

Income tax progressivity has been largely reduced in India since the 1970s, as it has also been the case in many rich countries. Based on WID.world and Indian Tax Department data and under very simple assumptions, we find that increasing the top marginal income tax on the top 0.1% of the population by 20 p.p. could generate to Rs 1.36 trillion (0.6% of GDP). This implies adding a 50% top marginal income tax bracket, from the current level of 30%, for individuals earning more than 50 lacs

[10] See wir2018.wir.world, part IV

per annum. [11] A 70% tax rate (which is roughly equal to the top tax rate set in the US as well as in India in the 1970s, and which is significantly lower than the historical highs observed in the US in the or the the UK in the 20th Century) could generate up to 1.2% of GDP. We should stress once again that these estimates are based on rough calculations due to the lack of transparent, official data on income and wealth in India.

More transparency is needed about income and wealth inequality in India

Economic inequality in India is real and it needs serious efforts from all the parties and future governments to control and reverse the trend of increasing economic inequality. In this endeavor it is very important that the data on income, wealth, employment etc. is released by governments for independent scrutiny from different stakeholders – civil society, researchers, the media or business communities. Lack of transparency or release of cherry-picked data is one of the most pressing issues facing Indian democracy today. Right to Information Act is one of the revolutionary laws passed by Indian Parliament which has to be strengthened in India.

Addressing the recent decline in Social Spending

In order to reduce inequalities and raise living standards of the lower and middle classes, other important policies cannot be neglected. Social spending, which include public investments in education and health are proven ways to lift incomes at the bottom of the distribution. Yet, public spending on education has been declining since 2012, from 3.1% of GDP to 2.7% of GDP, according to government statistics (Table 8). By comparison, educational spending in rich countries is about 5-7%, 6% in Brazil and 3.6% in Indonesia. Public health expenditures have been rising in 2016 as compared to 2015, but were only marginally higher in 2018 than in 2012 (1.4% vs. 1.3% of GDP). By comparison, total public expenditures on health in OECD countries average 5.3% GDP, 4 times higher than in India.

Comparing the first 4 years of UPA 2 rule (2009-10 to 2012-13) to the current government (2014-15 to 2017-18), we observe that expenditure on social services has declined both as a share of GDP and of total expenditures under the current government (Table 9). India had spent on average 24.3% of total expenditure in social services in first 4 years of UPA II compared to 24% in first 4 years of BJP led government. There is a decline of 1.2 pp in education and 0.3 pp increase in health spending (as % of total expenditure).

Table 9. Comparison in Social Spending during first 4 years of UPA 2 and BJP government

	2009-10 to 2012-13	2014-15 to 2017-18
	As % of GDP	
Total Expenditure	27,7	26,1
Expenditure on Social Services	6,8	6,3
i) EDUCATION	3,1	2,6
ii) HEALTH	1,3	1,3
iii) OTHERS	2,3	2,3
	As % of Total Expenditure	
Expenditure on social services	24,3	24,0
i) EDUCATION	11,3	10,1
ii) HEALTH	4,7	5,0
iii) OTHERS	8,4	9,0
	As % of Social Services	
i) EDUCATION	46,4	42,1
ii) HEALTH	19,2	20,5
iii) OTHERS	34,4	37,5

Key: The decline in public education spending is worrying. There is 1.2 pp decline in average education spending as a % of total expenditure in India under BJP led central government. *Source: Economic Survey 2014-15 and 2017-18.*

These figures suggest that social spending has been neglected in recent years as compared to investments in infrastructure. Increasing social spending is important to utilize the opportunity of demographic dividend. India has already achieved cent percent primary education. Now the focus should be more on controlling the school dropouts, increasing female enrolment in higher education, improving the quality of education, quality of school teachers etc. It is simultaneously important to create

[11] This figure is based on fiscal income declared by richest Indians to tax authorities in 2015. In order to estimate 2020 revenues based on the most recent tax tabulations published by the Indian Tax Department, we assume that Indian macro income growth between 2015 and 2020 is distribution neutral. In that sense, our estimate is conservative.

Table 8. Trends in Social Spending in recent years

Trends in Social Services Expenditure by General Government (Centre+State)										
Items	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17 (RE)	2017-18 (BE)
Total Expenditure	28,4	28,6	27,5	27,4	27,1	26,7	26,4	24,7	26,7	26,4
	As % of GDP									
Expenditure on Social Services	6,8	6,9	6,8	6,69	6.6	6.6	6.2	5,8	6,5	6,6
i) EDUCATION	2,9	3	3,1	3,1	3,1	3,1	2,8	2,4	2,6	2,7
ii) HEALTH	1,3	1,4	1,9	1,2	1,3	1,2	1,2	1,1	1,5	1,4
iii) OTHERS	2,6	2,5	2,4	2,2	2,2	2,3	2,1	2,2	2,4	2,6

Source: Source: Chapter 10, Economic Survey 2017-18. In past few years the expenditure on education as a percentage of GDP is declining.

enough jobs to absorb the educated mass. [12]

Conclusion

Current electoral debates in India show interesting developments. While a minimum income proposal appears as a progressive measure benefiting the bottom 21 to 48% of households in our different scenarios, for a relatively contained cost (from 0.6% to 2.6% of GDP), economic reservation stands out more as a political stunt than an inequality reduction policy: under many of the thresholds that have been proposed, most of the population would benefit from the policy, which makes it difficult to call it an economic reservation policy at all.

Given the level of economic inequality, and the complex interplay between caste and class, the evolution of reservation rules towards money-based criterions is nevertheless welcome. Governments seeking to reinforce social justice can do by targeting economic reservation to benefit of the most socially and economically deprived groups of society with stricter thresholds.

So far, electoral debates have largely neglected the importance of social transfers and progressive taxation. Social spending in India is low and decreased with the current government. Following the example of other emerging countries, it seems urgent for India to raise public budget on education and health. Financing increases in social spending can be achieved with a combination of progressive taxes. A top wealth tax set at 2% could yield 1.2% GDP for instance.

Finally, we stress the need for more transparency on income and wealth in India. We stress again that our estimates here should be interpreted with care given the lack of transparent data on income and wealth. More information is a condition for sound democratic debates to take place, as much as it is for the efficacy of government actions.

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[12] Currently there are mixed opinions on job creation in past few years but unfortunately no concrete data. The NSS Employment survey result should be released before election to fuel the debate on employment with facts

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The World Inequality Lab aims to promote research on global inequality dynamics. Its core mission is to maintain and expand the World Inequality Database. It also produces inequality reports and working papers addressing substantive and methodological issues. The Lab regroups about twenty research fellows, research assistants and project officers based at the Paris School of Economics. It is supervised by the same executive committee as the WID.world database. The World Inequality Lab works in close coordination with the large international network (over one hundred researchers covering nearly seventy countries) contributing to the database.

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