

Income inequality is the difference in incomes between high-income individuals or families and low-income individuals or families.

One of the major problems of the Indian economy is the inequality of income and wealth allocation. Although the five-year plan declared the objective of equality in income and wealth distribution, it did not materialize in practice. At present the nature of income inequality in rural and urban India is found in the nature of the monthly per capita expenditure of the rural and urban population. In 2011, the per capita monthly expenditure in rural India was around Rs. 1300 and in urban areas it was around Rs. 2400. This data indicates income inequality in rural and urban areas. According to the Government of India, in 2015, 20.19 per cent of the population in India lived below the poverty line.

### **The cause of income inequality in India**

#### **1. Private ownership of property**

The people of India are divided into two classes on the basis of individual ownership of property. One category includes those who own land, houses, ponds and other properties in rural areas and those who own urban businesses, factories land and houses. The second category includes those who are deprived of land ownership. The main source of income for the first class is property income and the main source of income for the second class is labour power. As a result, huge wealth is naturally acquired in the hands of the first class and very little money comes in the hands of the second class.

#### **2. Inheritance law**

Some people inherit ancestral property and thus with them the economic inequality of other section of people, who do not inherit property, in the society is automatically created .

#### **3. Institutional barriers**

Institutional barriers such as India's private vs. public education system, differences in rural and urban life opportunities, differences between government sector workers and agricultural and other unorganized sector workers have created inequality in India's income distribution. Government law

#### **4. Government Policies**

Many times, government policies such as industrial policy, licensing policy, agreement with multinational corporations, special assistance for loans, etc. have been adopted in favour of large industrialists.

5. Tax structure the tendency to evade taxes in India for such tax structures is very high. So, huge amount of black money comes in the hands of rich persons. As the Indian agricultural sector is free from taxes so the rich peasants of the village do not have to bear the burden of taxes. Thus, the discrimination of income distribution in rural areas has intensified.

#### **6. Unemployment or partial unemployment**

There is lack of employment opportunities in India. There are not so many industries to employ the excess population coming from primary sector and so they become victims of vicious circle of poverty.

7. Inflation- Due to the inflation in India since the Second Five Year Plan (1956-1961) the poor people have become poorer day by day and the income of businessmen and industrialists went on increasing.

#### 8. Developmental strategy

The new technology adopted in agricultural sector in India is capital intensive and so the handful rich farmers of the village can get the advantage of this new policy. On the other hand, the marginal and small farmers become poorer as they cannot bear the expenditure of new policy and so cannot increase their production. This capital-intensive technology has intensified the discrimination of income in urban area also

#### 9. Family and political influence

Despite having equal skills, one may enjoy advantage in business or job market than other because of his family influence.

#### 10. Inequality in regional development

Due to different rate of the economic development in different areas the income inequality arises not only in the different states of a country but even in different areas of a same state. For example, the new industries tend to concentrate in a developed area and so it increases the income inequality with the other areas.

#### 11. Population growth

The population of financially sound and high educated families grows at a lower rate while the population of poor households grows at a faster rate. So the financial condition of poor households worsens and income inequality increases.

### **Government measures taken to eliminate income inequality in India**

#### 1. Redistribution of surplus land through land reform

The Government of India has taken a number of steps to reduce income inequality through land reform. Such as the law on abolition of zamindari system, distribution of surplus land among landless peasants by setting maximum ownership of agricultural land, system of maintaining the interests of sharecroppers, etc.

#### 2. Expansion in the government sector

According to this policy, after independence, many industries were set up in India on the initiative of the government. Large commercial banks were nationalized. All of these measures have reduced the dominance of private ownership in India, but the new economic policy of 1991 calls for a reduction in the dominance of the public sector and a greater emphasis on the private sector, leading many economists to fear that income inequality will increase.

#### 3. Prevention of Monopoly

The Government of India passed the Monopolies and Restrictive Trade Practices Act (MRTP) in 1969 to prevent the continued growth of monopoly capital and centralization of economic power in the socio-economic structure of India.

It was announced to reduce income inequality by preventing centralization of capital but it did not happen in reality. In 1991, as part of a new economic policy, the upper limit of monopolistic assets and the licensing system was removed.

Many economists fear that these measures will increase income inequality.

#### 4. Introduction of Minimum Wage Act

The Minimum Wage Act was introduced to ensure minimum income for the workers of agriculture and industrial sector as a means of reducing income inequality in India. But this law has not been properly enforced in the unorganized sector (small scale industries, agriculture, etc.)

#### 5. Social security measures

A number of Social Security Acts have been passed to reduce the inequality of income distribution. They are

Employees Compensation Act

Employees' State Insurance Act

Employee Provident Fund Act

Employees' Family Pension Act

In Eighth Five Year Plan National Social Assistance Programme was introduced. It included

National Old Age Pension Scheme

National Maternity Benefit Scheme

National Family Welfare Programme

#### 6. To assist women in achieving economic independence

The training and recruitment assistance project was launched in 1947. In addition, a women's committee was formed in 1993 to meet the demand for women's loans in the unorganized sector. The Mahila Samridhi Yojna was also started.

#### 7. Common Minimum Programme

This program was adopted in 1996. The main aim was

To provide clean drinking water for all in rural and urban areas

To provide primary education for all

To provide housing for all the homeless poor by 2000

#### 8. Distribution of wealth in favour of the poor

This programme includes construction of houses for the poor, subsidy for basic necessities, loans on easy terms, provision of fertilizers, seeds, etc., to the poor so that they can become self-sufficient.

#### 9. Imposition of tax to curtail the income of rich people

Taxes are levied to reduce the income of rich people. In India's tax structure, the rich are taxed more. In addition, luxury goods used by the rich are taxed heavily. But this system failed and huge mountain of black money has come into existence.

#### 10. Some Projects

National Rural Employment Guarantee

Swarnajayanti Gramin Swarajgar Yojna

Urban Self Employment Programme

These measures have reduced income inequality to some extent. But the measures are short term and hence some long-term measures are needed to eliminate inequality in income distribution. It is very difficult for any government to deny private ownership of property in a democratic country like India. It is also true income inequality cannot be eliminated if those ownership are not controlled. But we can think about some fiscal policies or various programmes to curtail this inequality.