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Evolution of Income Inequality in India Since Independence:
Results from India's Household Income Surveys

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Abstract

This paper examines the trajectory of income inequality in India since independence, relying on lesser-known but rigorously conducted household income surveys by private research institutions such as the National Council of Applied Economic Research (NCAER) and People Research on India's Consumer Economy (PRICE). The analysis primarily draws on findings from these studies over the past seven decades, revealing a complex landscape shaped by economic policies, demographic shifts, and political changes. While substantial economic growth has been achieved, income inequality has seen periods of both improvement and deterioration. The Gini index improved from 0.463 post-independence to 0.367 in 2015-16 but worsened to 0.506 by 2021 due to disruptions such as the COVID-19 pandemic. However, recent data (2022-23) shows a positive trend, with the Gini index decreasing to 0.410, suggesting effective post-pandemic recovery measures. Key findings include shifts in income distribution among the top and bottom percentiles and significant changes across income distribution percentiles. The paper underscores the need for sustained policy efforts and holistic strategies to promote inclusive growth and reduce income disparities. The analysis also critically evaluates the divergence between these surveys and global inequality estimates, such as those provided by the World Inequality Database (WID), advocating for a more integrated approach to understanding and addressing disparities.

Keywords: Income Inequality, Gini Index, Household Income Surveys, Economic Liberalization, COVID-19 Impact, Income Distribution, Social Safety Nets, Post-Pandemic Recovery.

1. Introduction

Income inequality in India remains one of the most pressing socio-economic challenges, even after decades of rapid economic growth, especially since the liberalization reforms of the early 1990s. While this growth has lifted millions out of poverty, it has also deepened disparities in income distribution. The wealthiest segments of society have continued to accumulate a disproportionate share of national wealth, while large sections of the population, particularly in rural and marginalized communities, struggle with limited access to essential services, education, healthcare, and economic opportunities. The persistence of such inequality highlights the need for accurate measurement of income distribution, which is critical for shaping effective policies aimed at inclusive growth and socio-economic equity.

Historically, India's measurement of income inequality has relied on expenditure-based surveys due to the absence of comprehensive official income data. The National Sample Survey Office (NSSO) has played a key role in estimating inequality by using consumption patterns as a proxy for income distribution. While this method has provided valuable insights into economic well-being, its reliance on expenditure rather than income data has posed limitations. Expenditure-based surveys may not capture the full complexities of income in a country with a large informal economy, where earnings are often unreported or difficult to quantify.

The scientifically conducted household income surveys by institutions like the National Council of Applied Economic Research (NCAER) and People Research on India's Consumer Economy (PRICE) have emerged as critical tools for improving our understanding of income inequality in India. These surveys, such as the ICE 360° surveys conducted by PRICE, offer a more direct and comprehensive measurement of household income and spending patterns. By directly engaging with households and collecting income data across different regions, income groups, and economic sectors, these surveys provide a far more detailed and nuanced view of income distribution than was previously possible through expenditure proxies alone.

Imminent economists have long argued that household surveys are essential for accurately capturing income inequality in developing countries like India. For instance, ***Deaton (1997)*** emphasized that household surveys allow for a more granular understanding of the lived economic experiences of individuals, particularly in economies with large informal sectors. In contrast, model-based synthetic estimates, such as those provided by the World Inequality Database (WID), rely heavily on national accounts, tax records, and capital income data. While WID provides useful macro-level insights into wealth accumulation, it tends to overstate inequality by focusing on top income earners and neglecting the vast informal economy, which plays a significant role in countries like India. Deaton's emphasis on household-level data is echoed by ***Jean Drèze (2017)***, who argues that on-the-ground surveys are essential for capturing the economic realities of the poorest and most marginalized groups in India.

India's informal sector is a critical part of its economy, employing nearly 90% of the workforce. Much of the income generated in this sector goes unreported in tax data or national accounts, making it difficult to measure using synthetic estimates like those from WID. ***Pranab Bardhan (2010)***, highlights how national accounts often fail to capture the earnings of the rural and informal

sectors, which leads to an underrepresentation of the true income distribution in India. Bardhan stresses that survey-based data is vital for reflecting the income earned in these sectors, thus providing a more accurate view of income inequality.

Amartya Sen (1999) has also emphasized that understanding inequality requires more than just looking at capital accumulation or wealth concentration at the top. Instead, inequality should be measured in terms of capabilities and access to opportunities, such as education, healthcare, and jobs. Sen argues that household surveys are indispensable for capturing the full range of factors that contribute to inequality, particularly for those at the lower end of the income spectrum.

The limitations of synthetic estimates like WID's become particularly evident when comparing them with recent household survey data. For example, according to the 2022-23 household income surveys conducted by PRICE, the top 1% of earners in India held 8.8% of disposable income. In contrast, WID estimated that this same group controlled 21% of national income. Similarly, household surveys showed that the bottom 50% of income earners held 21.9% of disposable income, while WID's estimate for this group was only 13%. These significant discrepancies highlight the shortcomings of synthetic estimates, particularly in countries like India, where income from the informal economy is often not captured in national accounts or capital income data. Household income surveys, by engaging directly with households across various sectors and regions, are far better suited to capturing the nuances of income distribution in such a diverse and complex economy.

The ICE 360° surveys by PRICE, for instance, have employed rigorous methodologies to collect data on household income and expenditure, enabling detailed analysis across different demographic and regional dimensions. These surveys have proven invaluable in revealing income patterns that may be missed by more generalized data sources. The granular insights provided by household surveys have important policy implications, as they allow policymakers to design more targeted interventions aimed at addressing specific regional, rural, and urban disparities in income and opportunities.

The advantages of household income surveys over synthetic estimates are particularly relevant for policymaking. Policies based on household survey data are better equipped to address the structural issues that perpetuate inequality. For instance, ***Angus Deaton (1999)*** and ***Pranab Bardhan (2010)*** have argued that focusing on survey-based data allows for more effective targeting of policies that benefit lower- and middle-income groups, rather than disproportionately focusing on wealth redistribution at the top. ***Amartya Sen*** has similarly stressed the importance of using household-level data to inform policies that expand capabilities and opportunities for the poor, such as improving access to education, healthcare, and employment opportunities.

On the other hand, policies based on WID's synthetic estimates risk overemphasizing wealth redistribution through higher taxes on capital and property, without adequately addressing the structural barriers that prevent inclusive growth. By overlooking the informal sector, synthetic estimates can lead to policies that miss the needs of a large portion of the population–particularly those in rural and informal employment–who are most in need of support.

Therefore, while synthetic estimates like those provided by WID offer useful insights into macro-level wealth accumulation, they are less effective in capturing the true scope of income distribution and inequality in a developing country like India. Scientifically conducted household income surveys, such as those carried out by NCAER and PRICE, provide a far more reliable and detailed picture of inequality. As the country continues to navigate its economic growth, household surveys will remain essential for shaping policies that promote inclusive growth and ensure that the benefits of economic development are shared equitably across all segments of society.

In this context, this paper to build upon past studies and leverage comprehensive Indian household income surveys data from 1953-54 to 2022-23, including the recent PRICE's ICE 360° surveys, to deepen our understanding of income inequality trends in India. By examining historical trends, assessing the impact of economic policies, and incorporating insights from recent surveys, this study seeks to provide evidence-based recommendations to address income disparities effectively. Ultimately, this research endeavours to contribute to informed policymaking aimed at promoting inclusive growth and fostering socio-economic equity across India.

2. India's Income Inequality: Historical Analysis and Recent Trends

Tracing the trajectory of income inequality in India since its independence reveals a nuanced landscape shaped by diverse economic policies, demographic changes, and political shifts. To determine whether income inequality has intensified over the past decade, it is crucial to scrutinize data and research from trustworthy data sources. This section aims to illuminate the evolution of income inequality in India over the last five decades, drawing on findings from Indian household income surveys by private institutions such as NCAER and PRICE spanning from 1953-54 to 2022-23. These surveys provide a robust foundation for understanding the long-term trends and recent shifts in income distribution and income inequality within the country.

1950s to 1970s: The Early Years of State-Controlled Economy

(Fluctuating Fortunes: The Impact of State Intervention on Income Distribution)

The initial phase, post-independence until the 1980s, was characterized by a mixed economy with strong state control over critical sectors. This era, often referred to as the "License Raj," saw heavy regulation, protectionist policies, and limited foreign investment ***(Drèze & Sen, 2013)***. Despite efforts to promote industrial growth and

self-reliance, these policies resulted in inefficiencies and stunted economic growth. Research by ***Bhattacharya and Mahalanobis (1967)*** established the early understanding of income distribution in post-independence India, highlighting significant inequalities rooted in pre-independence socioeconomic structures. ***Ahluwalia (1976)*** noted that despite economic planning aimed at reducing disparities, income inequality remained high due to structural issues and unequal access to resources.

The period from the 1950s to the 1970s in India witnessed significant fluctuations in income distribution across different segments of the population. During this time, the top 10% of Indians initially held a substantial share of the national income, starting at 34.0% in 1953-55. However, by the late 1960s, their share had peaked at 36.5% before experiencing a marginal decline to 33.9% by 1975-76. This decline was likely influenced by the heavy state intervention in the economy, as well as policies aimed at reducing inequality, although these measures may have also stifled overall economic growth. The middle 40%, meanwhile, consistently held the largest share of income, though their share gradually decreased from 44.0% in the 1950s to 41.2% in 1967-68, before rebounding slightly to 44.6% in the mid-1970s. The bottom 50% saw a modest increase in their share from 22.0% to 25.5% by the early 1960s, but this share fell to 18.9% by the late 1960s, reflecting the challenges of ensuring equitable growth. The bottom 10% remained at a consistently low share, fluctuating between 3.0% and 1.8% during this period, underscoring the persistent struggle of the poorest segments of society to improve their economic standing despite various state-led initiatives **(Figure 1)**.

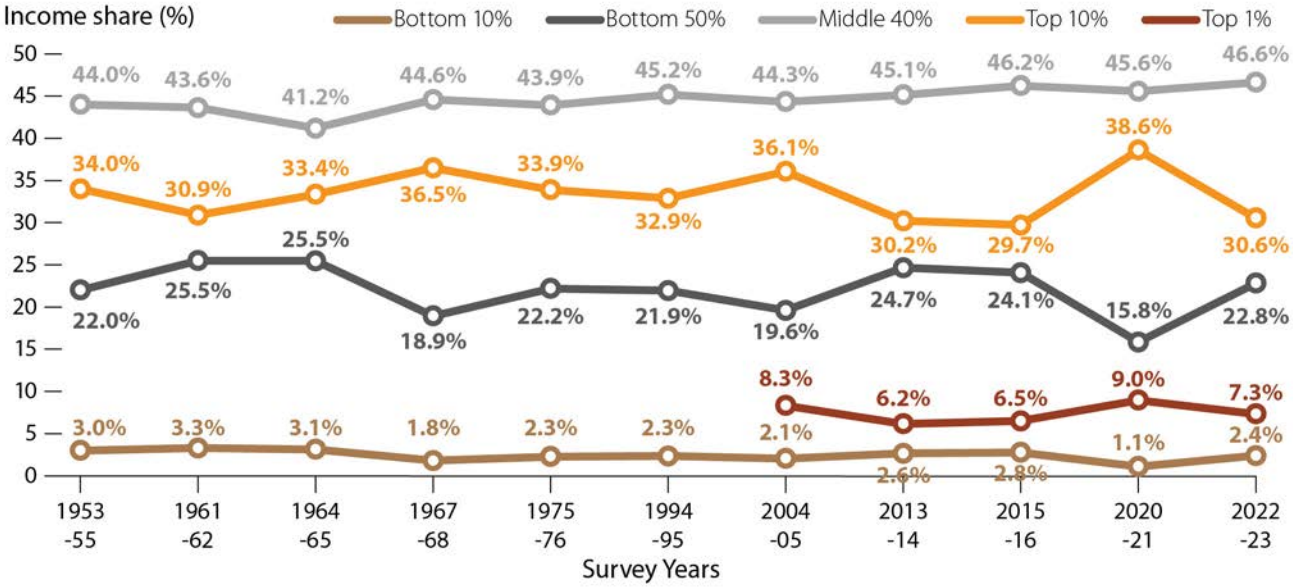
1970s to 1994–95: Pre-Liberalization and Economic Stagnation

(Balancing Act: Economic Challenges and Emerging Inequalities)

Between the mid-1970s and 1994-95, India's income inequality experienced notable shifts, particularly in the shares held by different income groups. A pivotal shift occurred in 1991 when India faced a severe balance of payments crisis. This crisis acted as a catalyst for the government to initiate broad-based economic liberalization ***(Panagariya, 2008)***. The liberalization policies included dismantling the License Raj, reducing tariffs and import duties, deregulating industries, and encouraging foreign direct investment (FDI) ***(Government of India, 2020)***.

During this period, the share of national income held by the top 10% of the population marginally decreased from 33.9% in 1975-76 to 32.9% by 1994-95, reflecting a reducing concentration of income the wealthiest segment of society. In contrast, the bottom 50% saw a slight decrease in their share, from 22.2% to 21.9%, indicating that economic growth during this period was not sufficiently inclusive **(Figure 1)**. The middle 40% maintained a relatively stable share, peaking at 45.2% in 1994-95, suggesting that the middle class remained a significant holder of national income despite the rising inequality at the top. The bottom 10% experienced a minimal increase in their income share,

Figure 1: Estimated share in net national income of income groups from Indian income surveys between 1953 to 2023



Sources: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360 surveys (2014-2023)

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remaining stagnant at around 2.3%, highlighting the persistent challenges faced by the poorest in benefiting from the economic changes of the time.

1994–95 to 2000s: The Liberalization Era
(Growth and Disparity: Economic Reforms and Rising Inequality)

The early 2000s marked another wave of reforms aimed at further integrating India into the global economy. Initiatives such as the introduction of the rationalisation of taxes, aimed at creating a unified national market, and policies to boost the information technology and service sectors, significantly enhanced India's economic profile ***(Panagariya, 2008)***. During this period, the share of income for the top 10% surged from 32.9% in 1994-5 to 36.1% in 2004-05, reflecting the rising fortunes of those in urban and high-tech sectors. Meanwhile, the bottom 50% saw a continued decline in their share, reaching 19.6% in 2004-05, indicating that the growth was not inclusive **(Figure 1)**. The bottom 10% saw their share remain low but this still underscored their marginalization in the growing economy.

2000s to 2023: Global Integration and Technological Advancement
(The Digital Divide: Income Inequality in the Age of Globalization)

Recent years have seen a mix of reforms aimed at balancing growth with equity. The implementation of social welfare schemes like the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA), Direct Benefit Transfers (DBT), and various financial inclusion initiatives aimed at uplifting the bottom 50% have had some impact, as indicated by the slight increase in their income share to 22.8% in 2022-23. The middle 40% saw their share peak at 46.6% in the same period, maintaining their dominant position. However, the COVID-19 pandemic in 2020-21 had a profound impact, exacerbating existing inequalities. The top 10% increased their share of income from 29.7% in 2015-16 to 38.6% in 2020-21 due to the digitization of the economy and the boom in sectors like technology and e-commerce during the pandemic, even as the bottom 50% struggled with job losses and economic instability. Despite a slight decrease to 30.6% in 2022-23, the top 10% still hold a significant portion of national income. For the bottom 10%, the pandemic period saw their share drop to 1.1% in 2020-21, the lowest point in the dataset, before a slight recovery to 2.4% in 2022-23. The top 1% saw significant growth in their income share during this period, peaking at 9.0% in 2020-21 before slightly declining to 7.3% in 2022-23, indicating their resilience and benefit from economic shifts **(Figure 1)**.

Microdata available from 2004-05 onward provides a clearer view of income distribution among the top 1%, highlighting striking trends. In 2004-05, the top 1% accounted for 8.3% of the national income. This share dropped notably to 6.5% by 2015-16 but then surged to 9.0% in 2020-21, reflecting their significant gains from economic policies and digitalization, particularly during the COVID-19 pandemic. By 2022-23, the top 1% still commanded a substantial 7.3% of national income, emphasizing the persistence of economic inequality. These figures shed light on wealth concentration at the highest levels, even in the absence of comparable microdata for earlier periods.

The Economic Survey 2023-24 highlights the ongoing need for job creation and sustainable economic development, identifying sectors like agro-processing and the care economy as key for future growth. It also emphasizes the importance of technology adaptation, especially in response to the rise of artificial intelligence, which poses both opportunities and challenges for India's workforce. Furthermore, the survey underscores the significant progress in digitalization, healthcare, and renewable energy initiatives, while also noting the challenges of managing inflationary pressures and ensuring equitable growth.

Thus, the economic reforms in India from 1953 to 2023 reveal a trajectory of initial state control, significant liberalization, and efforts towards inclusive growth. Each phase of reform has left a distinct mark on income distribution, reflecting the complexities and challenges of balancing rapid economic growth with equitable development. The increasing income inequality, especially the persistent low share of the bottom 10% and the rising share of the top 1%, underscores the need for continued and more nuanced policy interventions to ensure that economic growth benefits all segments of society.

2.1 How has income inequality evolved over this period?

The trajectory of income inequality in India since its independence reveals a complex landscape shaped by diverse economic policies, demographic changes, and political shifts. Early post-independence years (1950s-1970s) saw a relatively stable income share ratio of top 10% (Top decile-D10) and bottom 10% (Bottom decile-D1), hovering around 10-11, reflecting the nation's planned economic approach and significant state control over key industries. Despite attempts at land reforms and the Green Revolution, which improved agricultural productivity, income disparities remained significant, particularly in rural areas.

The period of economic liberalization that began in 1991 marked a significant shift. Liberalization policies aimed at opening up the economy led to rapid economic growth, but this growth was unevenly distributed, exacerbating income inequality. The income share ratio and Gini index illustrate these changes. The Gini ratio, which was 0.463 in 1967-68, gradually improved to 0.395 by 2015-16, indicating a more equitable distribution of income. However, between 2016 and 2021, the Gini index surged from 0.395 to 0.528, and the income share ratio spiked to 35.41 in 2020-21, highlighting increased disparities, exacerbated by the COVID-19 pandemic which disproportionately affected lower-income groups **(Table 1)**.

Recent decades have seen a mix of policies aimed at mitigating these disparities. Social welfare programs like MNREGA (2005) and tax reforms such as the Goods and Services Tax (GST, 2017) aimed to create more uniform economic benefits. The income share ratio showed a positive decline to 12.84 by 2022-23, and the Gini index decreased to 0.410, suggesting that post-pandemic recovery measures are beginning to show effects. This recovery reflects efforts to reduce inequality through targeted economic policies and social interventions.

Table 1: Income Share, Ratios and Income Gini Ratios: 1953 to 2023

Survey periods	Share of income (%)			Income share ratio (%)			Income Gini Ratios
	10th percentile (D1)	50th percentile (D5)	90th percentile (D10)	90th to 10th percentile Ratio (D10/D1)	90th to 50th percentile Ratio (D10/D5)	50th to 10th percentile Ratio (D5/D1)	
1953-55	3.00	22.00	34.00	11.33	1.55	7.33	0.371
1961-62	3.29	25.48	30.89	9.39	1.21	7.74	0.367
1964-65	3.14	25.47	33.35	10.62	1.31	8.11	0.390
1967-68	1.80	18.93	36.49	20.27	1.93	10.52	0.463
1975-76	2.27	22.20	33.88	14.93	1.53	9.78	0.416
1994-95	2.33	21.94	32.86	14.10	1.50	9.42	0.425
2004-05	1.93	19.60	35.75	18.52	1.82	10.16	0.475
2013-14	2.15	24.65	30.78	14.32	1.25	11.47	0.399
2015-16	2.48	24.07	27.88	11.24	1.16	9.71	0.395
2020-21	1.09	15.84	38.60	35.41	2.44	14.53	0.528
2022-23	2.38	22.82	30.56	12.84	1.34	9.59	0.410

Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

Overall, the evolution of income inequality in India underscores the importance of continuous and adaptive policy measures. The fluctuations in income distribution highlight the need for targeted social welfare programs, inclusive economic policies, and robust safety nets to ensure that economic growth benefits all segments of society equitably. The recent decrease in the Gini index and the income share ratio offers a hopeful sign, but continued vigilance and policy adjustments are crucial to sustaining and furthering progress towards reducing income inequality in India.

2.2 How has income inequality decreased?

Income inequality can decrease for various reasons, survey findings show annual per capita real net national income growth has increased at the rate of 7.5% from 2021 to 2023. The bottom 50% of households, encompassing labourers, petty traders, small business owners, and small & marginal farmers, have seen a significant recovery, witnessing their share of total household income rise from 15.84% in 2020-21 to 22.82% in 2022-23.

Table 1 illustrates various metrics of income inequality from 1953-55 to 2022-23, focusing on the 90th to 10th Percentile Ratio, 90th to 50th Percentile Ratio, 50th to 10th Percentile Ratio, and the Gini Ratio. Over the years, the 90th to 10th Percentile Ratio indicates a notable surge in income disparity, particularly peaking at 35.41 in 2020-21 before dropping to 12.84 in 2022-23. This sharp rise suggests a significant widening of the income gap between the highest and lowest earners, potentially exacerbated by economic conditions and policies during the COVID-19 pandemic. The 90th to 50th Percentile Ratio and the 50th to 10th Percentile Ratio also show peaks during the same period, although their increases are less pronounced, highlighting that while income inequality grew across different income segments, the most drastic changes occurred between the top and bottom earners. The Gini Ratio, which remained relatively stable from 1953-55 to 2004-05, saw a substantial increase to 0.528 in 2020-21, underscoring the peak in overall income inequality during this period, followed by a decrease to 0.410 in 2022-23.

These trends have significant implications. The dramatic rise in the 90th to 10th Percentile Ratio and the Gini Ratio during 2020-21 implies that economic shocks, such as those induced by the pandemic, disproportionately affected lower-income groups while higher-income groups experienced relative gains or stability. This heightened inequality can lead to social and economic challenges, including reduced social cohesion, increased poverty rates, and potential political instability. The post-2020-21 decline in these metrics indicates some normalization, but the persistent fluctuations suggest underlying structural issues in income distribution that need to be addressed through targeted economic policies and social programs to ensure more equitable growth and stability in the long term.

Addressing income inequality is crucial not only for economic stability but also for fostering social cohesion and enhancing overall well-being. By acknowledging the interconnected nature of inequality across various dimensions such as income, expenditure, education, health, and opportunity, India should adopt a more holistic strategies to promote inclusive growth and reduce disparities.

3. A Tale of Two Indias: Comparative Income Inequality in Rural and Urban Areas

Studying income inequality through the lens of rural and urban areas is vital because these regions represent distinct economic landscapes, each with its own set of opportunities and challenges. Rural areas, often reliant on agriculture and informal labour, face different income distribution dynamics compared to urban areas, which are driven by industrialization and services. This differentiation is crucial for understanding the unique causes of inequality in each region, such as land ownership patterns in rural areas versus wealth concentration in urban centers. By analysing these differences, we can develop more targeted and effective policies that address the specific needs of both rural and urban populations.

Furthermore, the rural-urban divide in income inequality has significant implications for social cohesion and political stability. Persistent disparities between these regions can lead to issues such as migration, social unrest, and increased crime rates in urban areas, while also impacting the economic viability of rural communities. Addressing income inequality in both contexts is essential not only for promoting economic equity but also for maintaining a stable and cohesive society. A nuanced understanding of these differences enables policymakers to craft solutions that ensure more balanced and inclusive economic growth, benefiting the entire nation.

Therefore, by analysing key metrics such as the income share ratio of the 90th to 10th, 90th to 50th, and 50th to 10th percentiles, alongside the Gini coefficient, this section provides a nuanced understanding of how income distribution has evolved over time (1953-2023) in these distinct areas. These indicators collectively shed light on the disparities within the top, middle-, and bottom-income brackets, offering a comprehensive view of the economic divide that has shaped the nation's rural and urban narratives.

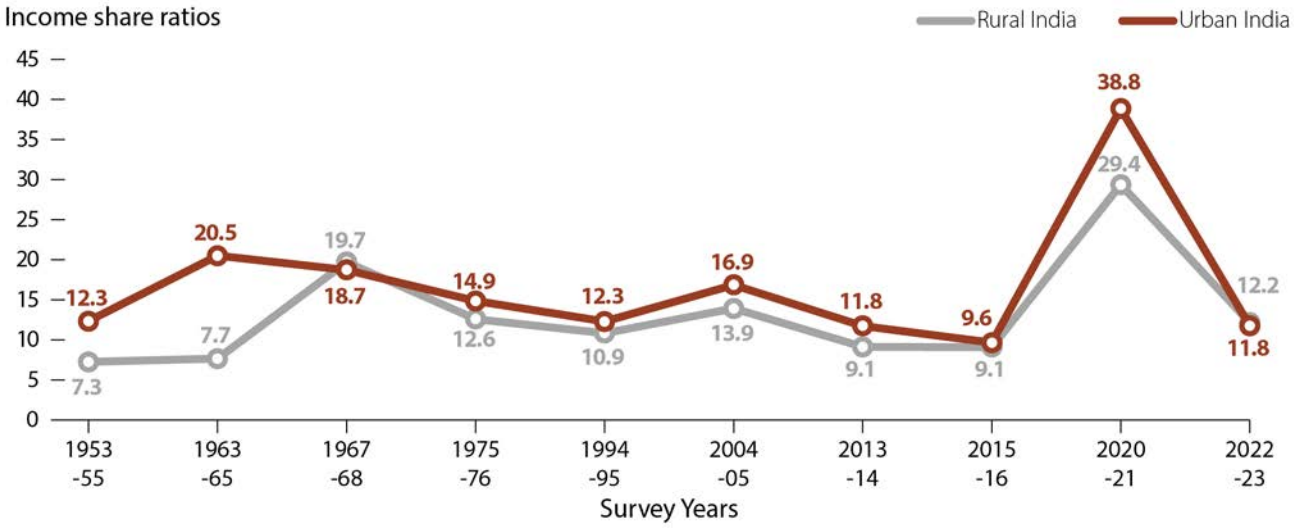
90th to 10th Percentile Ratio: In the early years, urban India consistently exhibited higher income inequality than rural India. For instance, in the 1953-55 period, the urban income share ratio stood at 12.3%, while rural India's ratio was significantly lower at 7.3%. This gap persisted through the 1960s, with urban inequality peaking at 20.5% in 1963-65, whereas rural India reached its own high of 19.7% slightly later in 1967-68 **(Figure 2)**. These figures suggest that economic disparities were more pronounced in urban areas during the post-independence period, possibly due to faster urbanization and industrialization processes.

However, over the next few decades, both rural and urban areas experienced fluctuations in income inequality, though the patterns were somewhat different. Urban India saw a general decline in inequality from its 1960s peak, reaching a low of 11.8% by 2013-14. In contrast, rural India experienced a more gradual decline after its 1967-68 peak, with the ratio falling to as low as 9.1% in the 2013-14 and 2015-16 periods. This period of declining inequality in both regions may reflect the impact of various economic reforms and social welfare programs aimed at reducing poverty and improving income distribution.

The most striking observation comes from the 2020-21 period, where both rural and urban areas witnessed an unprecedented surge in income inequality. Urban India's income share ratio skyrocketed to 38.8%, while rural India also saw a significant spike to 29.4%. This sharp rise in inequality across both sectors is likely attributable to the economic disruptions caused by the COVID-19 pandemic, which exacerbated existing disparities and disproportionately affected lower-income groups.

By 2022-23, the data shows a sharp decline in inequality in both rural and urban areas, with the ratios dropping to 12.2% and 11.8%, respectively. This suggests some level of economic recovery and a reduction in the extreme disparities seen during the pandemic. However, the lingering effects of the pandemic are still evident, as the ratios

Figure 2: Income share ratio of 90th to 10th percentiles: Rural vs. urban



Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

remain higher than some of the pre-pandemic levels.

In summary, urban India has historically experienced higher income inequality than rural India, though both have seen significant fluctuations over time. The 2020-21 period marked a particularly sharp rise in inequality due to the pandemic, but this was followed by a notable reduction in the following years. The comparative trends indicate that while urban areas have been more prone to higher inequality, rural areas are not far behind, and both regions have been affected by broader economic shifts and external shocks.

90th to 50th Percentile Ratio: In the early years, urban India exhibited significantly higher income inequality compared to rural India, with the income share ratio peaking at 7.4% in 1953-55. This high ratio suggests that the top earners in urban areas were earning substantially more than the median income earners. Over the next few decades, the urban income share ratio showed a downward trend, indicating a gradual reduction in income disparity. However, this trend was not consistent, as seen by the fluctuations in recent years, particularly the increase to 7.1% in 2020-21 before dropping sharply to 3.9% in 2022-23. This volatility suggests that despite long-term improvements, income inequality in urban India remains susceptible to economic shifts and external factors.

In contrast, rural India started **(Figure 3)** with a much lower income share ratio of 3.6% in 1953-55, reflecting a relatively more equitable distribution of income compared to urban areas at that time. However, this trend did not persist, as the rural ratio rose significantly to 6.3% by 1967-68, marking a period of growing inequality. The subsequent decades saw a fluctuating pattern similar to urban areas, with the ratio declining to 3.7% by 2013-14, suggesting some improvement in income distribution. Nevertheless, the sharp rise to 6.3% in 2020-21 indicates that rural income inequality worsened during this period, possibly due to economic disruptions, though it later decreased to 4.7% in 2022-23.

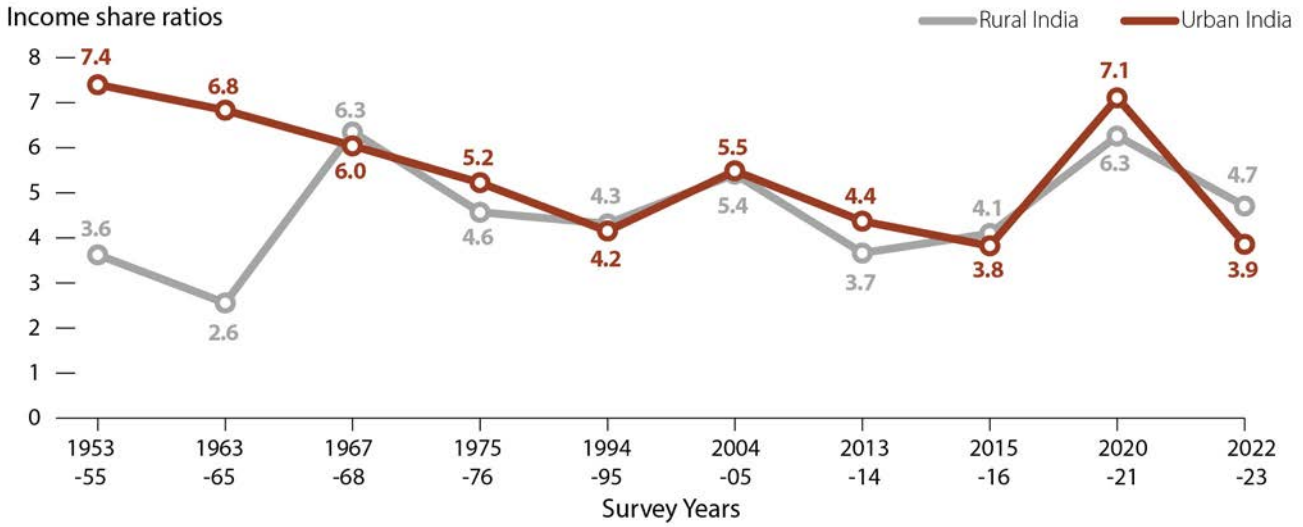
Overall, while both rural and urban India have experienced periods of reduced income inequality, recent trends indicate that income disparities continue to be a challenge. Urban India's income inequality has generally been more pronounced but has shown signs of improvement over time, whereas rural India has seen more volatility, with significant increases in inequality during certain periods. The convergence of rural and urban income share ratios in recent years highlights that income inequality is a pervasive issue across the country, influenced by both regional and broader economic factors.

Historically, urban India showed higher income inequality, which gradually decreased but remained volatile in recent years. Rural India started with lower inequality but saw significant increases over time, particularly in the late 20th century and during the 2020-21 period. Despite some improvements, both rural and urban areas continue to face challenges with income disparity, with recent trends indicating persistent inequality across the country.

50th to 10th Percentile Ratio:

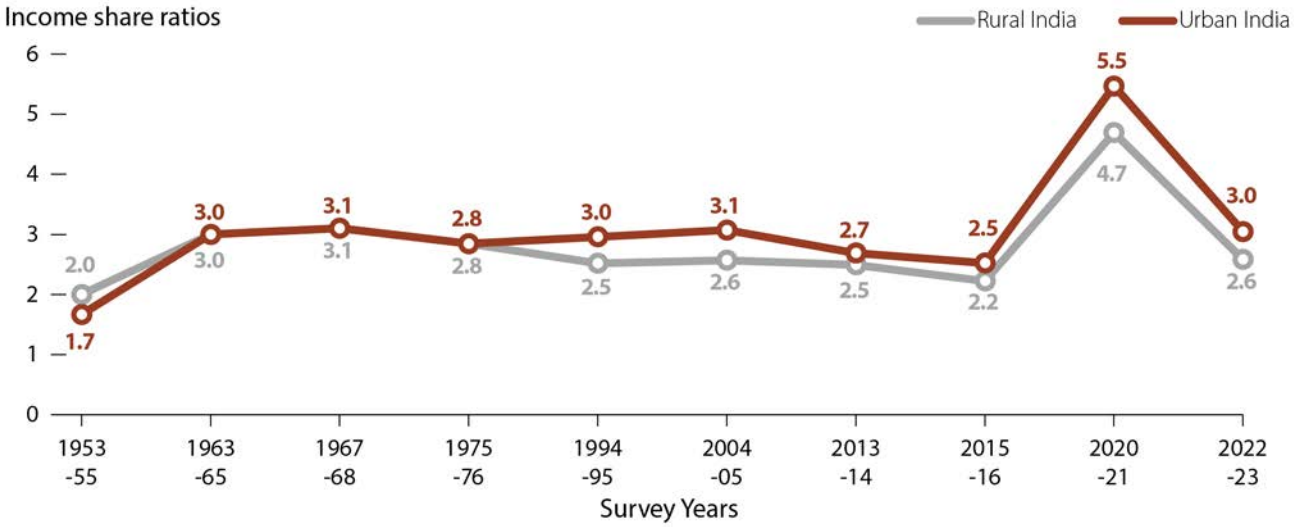
- **1953-55 to 1975-76:** Initially, the income share ratio in rural India was higher (2.0) compared to urban India (1.7), suggesting that rural areas already had greater income inequality in the 1950s. Over the next two decades, both rural and urban areas saw an increase in this ratio, converging to a similar level around 2.8-3.1 by 1975-76 **(Figure 4)**. This period indicates a growing disparity across both regions, but with urban areas consistently showing slightly more inequality than rural areas.
- **1975-76 to 2015-16:** The following decades show a relatively stable trend in income inequality, with the ratios fluctuating within a narrow range. Both rural and urban areas maintained their ratios between 2.5 and 3.1, reflecting a period of stability in income distribution. Throughout these years, urban India consistently exhibited slightly higher income inequality than rural India, though the difference remained modest.
- **2020-21 Spike:** A dramatic spike in the income share ratio occurs in 2020-21, where urban India's ratio surged to 5.5, and rural India's to 4.7. This sharp increase likely corresponds to the economic fallout from the COVID-19

Figure 3: Income share ratio of 90th to 50th percentiles: Rural vs. urban



Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

Figure 4: Income share ratio of 50th to 10th percentiles: Rural vs. urban



Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

pandemic, which disproportionately affected lower-income groups, especially in urban areas. The substantial rise in this ratio indicates a significant widening of the income gap during this period, with urban areas experiencing a more pronounced impact.

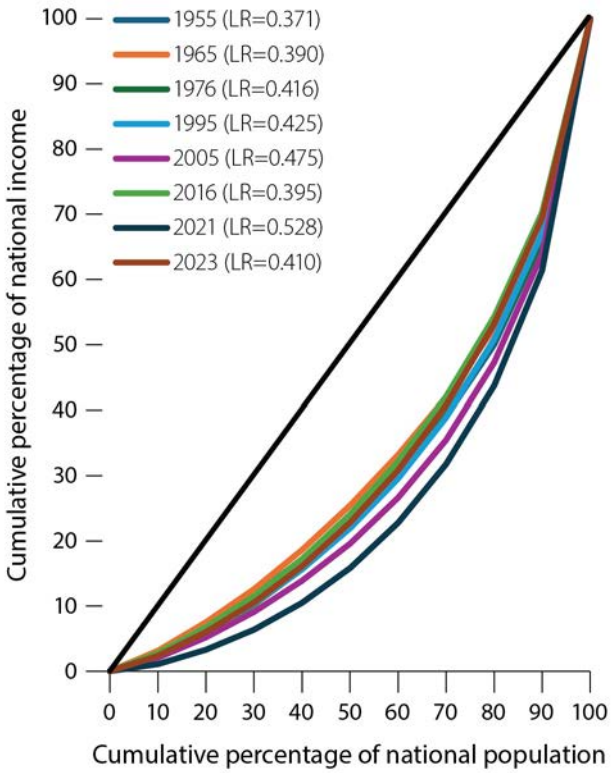
- **2022-23 Adjustment:** Post-pandemic, the income share ratios decreased to 3.0 in urban areas and 2.6 in rural areas by 2022-23. While this marks a reduction from the peak in 2020-21, the ratios remain higher than pre-pandemic levels, suggesting that the recovery has been partial. The lingering higher ratios imply that income inequality has not fully reverted to previous levels, indicating sustained disparities.

Over the decades, income inequality in both rural and urban India has generally increased, with urban areas consistently showing slightly higher levels of inequality. The most significant change occurred during the 2020-21 period, where both rural and urban areas saw a sharp rise in income disparity, likely due to the pandemic's impact. Although there has been some recovery in the years following, income inequality remains elevated compared to earlier periods, highlighting ongoing challenges in addressing economic disparities.

4. The Shifting Curve: Tracking Income Inequality Over Time

The Lorenz Curve displayed in the **Figure 5** provides a visual representation of income distribution across different years (1955-2022). The x-axis of the curve represents the cumulative percentage of the population, starting from the poorest to the richest, while the y-axis represents the cumulative percentage of income earned. The closer the curve is to the diagonal line (which represents perfect equality), the more equally distributed the income is. Conversely, the further the curve deviates from this diagonal, the greater the inequality in income distribution.

Figure 5: Lorenz Curve – All India



Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

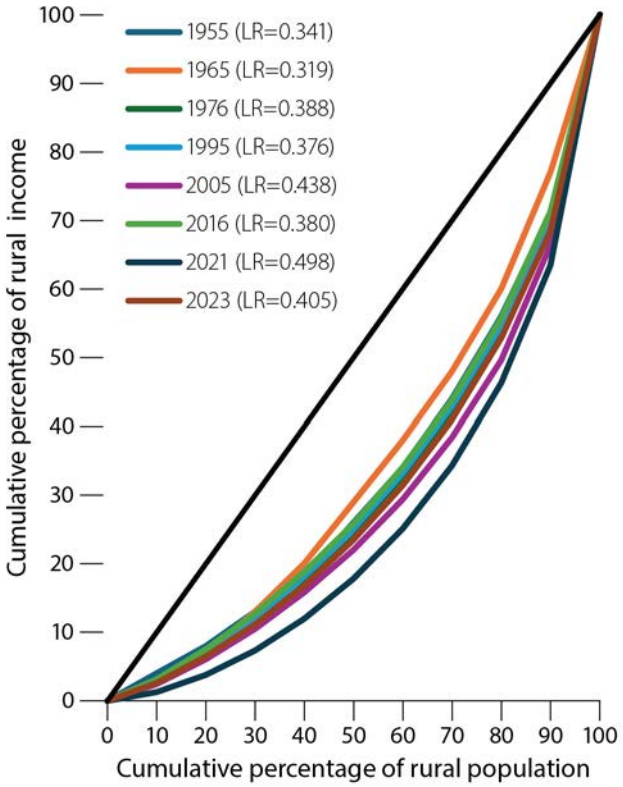
Examining the Lorenz Curves over time reveals a clear trend of increasing income inequality. In 1955, the curve is relatively close to the line of equality, with a Lorenz Ratio (LR) of 0.371, indicating a more equitable distribution of income. However, as time progresses, the curves shift further away from the diagonal, with the Lorenz Ratios increasing steadily. By 2005, the Lorenz Ratio has risen to 0.475, reflecting a significant increase in income inequality. The peak of this trend appears in 2020, where the Lorenz Ratio reaches 0.528, showing the highest level of inequality among the years presented.

Interestingly, the curve for 2022 shows a slight reversal in this trend, with the Lorenz Ratio dropping to 0.410. This suggests a recent decrease in income inequality compared to 2020, which could be attributed to various economic policies or external factors, such as the global pandemic and the corresponding government interventions. These interventions might have included social welfare programs, economic stimulus packages, or other measures aimed at reducing the income gap.

The implications of this chart are significant for policymakers and society at large. The increasing income inequality over the decades signals potential challenges, such as reduced social mobility, increased social unrest, and the potential for economic instability. High levels of inequality can lead to a concentration of income in the hands of a few, while the majority of the population may struggle to maintain their standard of living. This can have long-term negative effects on economic growth and social cohesion.

In summary, the Lorenz Curve chart illustrates the evolution of income inequality from 1955 to 2022. Over these decades, the curve shifts progressively away from the line of equality, indicating a steady increase in income disparity, with the highest inequality observed in 2020. However, a slight decrease in inequality is noted in 2022, suggesting a potential impact of recent economic policies or external factors aimed at reducing income gaps. The analysis highlights the growing concern of income inequality and underscores the importance of effective policy interventions to ensure a more equitable distribution of wealth and a stable, inclusive economy.

Figure 6: Lorenz Curve – Rural India



Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

4.1 A Journey Through Inequality: Rural and Urban Income Trends in India (1955–2022)

4.1.1 The Evolution of Rural Income Inequality in India: 1955 to 2022

Rural income inequality in India has shown significant shifts over the decades, as reflected in the Lorenz Ratio (LR). The trajectory of inequality highlights the impact of key rural policies and socio-economic changes in shaping income distribution. From the early years of post-independence to the modern era, rural policies have influenced the economic opportunities and disparities in rural areas.

Between 1955 and 1975, rural India experienced a moderate increase in income inequality, with the Lorenz Ratio rising from 0.341 in 1955 to 0.388 in 1975. This increase can be attributed to the uneven distribution of land and wealth in rural areas, coupled with the limited reach of government-led agricultural development programs. During this period, the Green Revolution was beginning to take shape, but its benefits were concentrated among wealthy landowners who had access to irrigation, fertilizers, and improved seeds. The rural poor, including landless laborers and small farmers, saw limited gains, leading to rising disparities.

From 1975 to 1995 **(Figure6)**, income inequality in rural areas showed a slight decline, with the Lorenz Ratio reducing to 0.376 by 1995. This period saw the implementation of significant poverty alleviation programs, such as the Integrated Rural Development Program (IRDP) and land reform policies aimed at redistributing land to marginalized communities. Additionally, government initiatives like the Minimum Support Price (MSP) for agricultural products provided some economic stability to small farmers. These policies helped to narrow the income gap, even though their implementation varied widely across states.

The period from 1995 to 2005 marked a substantial increase in rural income inequality, with the Lorenz Ratio rising to 0.438. This increase was driven by structural changes in the rural economy, as liberalization policies of the 1990s began to take effect. While liberalization created new opportunities in agro-industries and rural markets, it also widened the gap between wealthier farmers and the rural poor. Access to credit, technology, and infrastructure was concentrated among affluent groups, leaving marginal farmers and laborers behind. The dismantling of rural subsidies and limited investment in rural infrastructure during this period exacerbated inequalities.

Between 2005 and 2020, rural income inequality continued to rise sharply, peaking at a Lorenz Ratio of 0.498 in 2020. This period was characterized by rapid rural-to-urban migration and the growing dominance of non-farm activities in rural economies. Wealthier rural households benefited from diversification into higher-paying non-agricultural sectors, while poorer households remained reliant on low-paying agricultural work. The advent of digitalization and access to markets further benefited those with resources and education. The COVID-19 pandemic in 2020 further widened the disparities, as rural workers, particularly those in informal sectors, faced job losses and reduced incomes, while wealthier households remained relatively insulated from the economic shocks.

By 2022, rural income inequality showed a noticeable

decline, with the Lorenz Ratio falling to 0.405. This reduction can be attributed to government interventions during and after the COVID-19 pandemic. Programs such as the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) provided wage support to rural households, while free food distribution schemes under the Public Distribution System (PDS) ensured basic sustenance for the poor. Increased government focus on rural housing through the Pradhan Mantri Awas Yojana (PMAY) and financial inclusion programs like Jan Dhan accounts helped stabilize rural incomes. Additionally, direct cash transfers and subsidies during the pandemic mitigated some of the economic disparities.

The evolution of rural income inequality in India underscores the critical role of rural policies in shaping economic outcomes. While targeted interventions in recent years have helped reduce disparities, structural inequalities in access to resources, education, and infrastructure remain a challenge. Sustained investments in rural development, equitable access to technology, and support for small and marginal farmers are essential to ensure inclusive growth and long-term reduction in rural income inequality.

4.1.2 The Evolution of Urban Income Inequality in India: 1955 to 2022

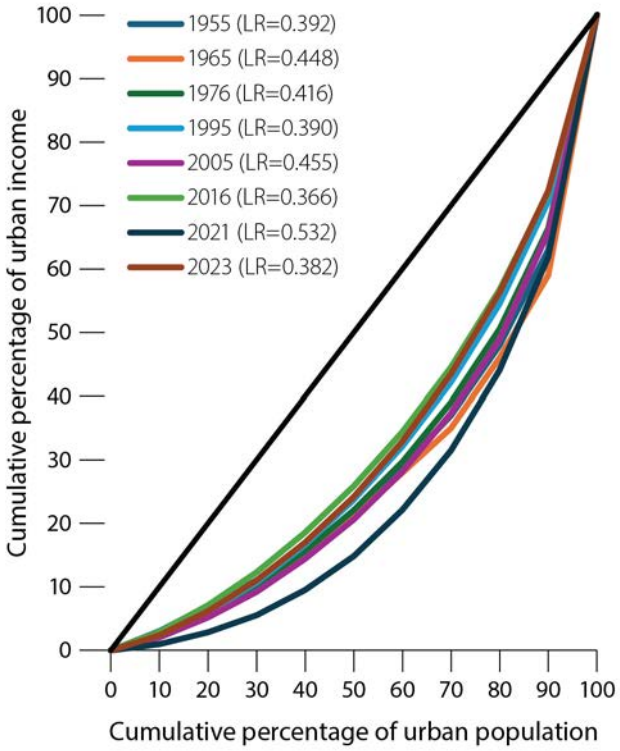
Urban income inequality in India has undergone significant changes over the decades, shaped by industrialization, liberalization, urbanization, and targeted policy interventions. From early industrialization to post-COVID interventions, urban policies have played a pivotal role in influencing income distribution in cities.

Between 1955 and 1975, urban India experienced a gradual rise in income inequality, with the Lorenz Ratio increasing from 0.392 to 0.416. This was a period of early industrialization, where the focus was on building heavy industries under state-led initiatives. Skilled labor and formal employment benefited from these policies, while unskilled workers and rural migrants remained trapped in informal and low-paying jobs. Urban migration surged during this period, leading to the growth of informal settlements, as infrastructure and housing failed to keep up with demand. The absence of targeted welfare policies exacerbated income disparities, leaving the urban poor with limited access to opportunities **(Figure 7)**.

The period from 1975 to 1995 saw a modest decline in urban inequality, with the Lorenz Ratio falling to 0.390. Welfare-oriented policies and programs, such as the Integrated Urban Development Program and the promotion of small-scale industries, contributed to this decline. Labor-focused policies, including the Minimum Wages Act, improved earnings for low-income workers, while urban poverty alleviation schemes provided some economic stability. These measures helped reduce income inequality, though the benefits were unevenly distributed across cities.

The economic liberalization of the 1990s marked a shift, with the Lorenz Ratio rising sharply to 0.455 by 2005. Liberalization policies prioritized rapid economic growth and private sector investment, creating significant opportunities in high-skill sectors like IT and finance. However, these benefits were concentrated among the educated and affluent, while informal and low-skill workers were left behind. Urban infrastructure development during this time disproportionately benefited middle- and upper-income groups, displacing informal settlements and widening the income gap. The lack of affordable housing and labor protections further deepened urban income disparities.

Figure 7: Lorenz Curve – Urban India



Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

From 2005 to 2020, urban inequality continued to rise, with the Lorenz Ratio peaking at 0.532 in 2020. This period was marked by rapid urbanization and economic transformation, which concentrated wealth in sectors like technology, real estate, and services. Digitalization created new economic opportunities for those with access to skills and capital, but left low-income workers marginalized. The COVID-19 pandemic in 2020 exacerbated these disparities, as the urban poor faced widespread job losses and economic insecurity, while wealthier groups benefited from remote work and booming digital sectors. Urban policies during this time largely catered to affluent populations, neglecting the needs of informal workers and low-income groups.

A significant reduction in inequality was observed between 2020 and 2022, with the Lorenz Ratio declining to 0.382. This improvement reflects the impact of targeted government interventions during and after the COVID-19 pandemic. Programs such as Pradhan Mantri Awas Yojana (PMAY) for affordable housing and the PM SVANidhi scheme for street vendors supported low-income urban populations. Direct cash transfers, free food rations, and other relief measures helped stabilize incomes among the urban poor. These policies, combined with efforts to expand urban livelihoods, contributed to a noticeable moderation in income disparities.

The evolution of urban income inequality in India underscores the critical role of urban policies in shaping economic outcomes. While recent interventions have helped reduce disparities, the persistence of inequality highlights the need for sustained and inclusive urban policies. Balancing growth with equity remains a central challenge for policymakers, ensuring that all segments of urban society have equitable access to opportunities and resources.

4.1.3 Comparative Analysis of Income Inequality: Rural vs. Urban India

From 1953-55 to 1967-68, both rural and urban India experienced rising income inequality, as reflected by the increase in their respective Gini ratios. Urban India started with a higher Gini ratio than rural India, indicating greater income disparity from the outset. By 1967-68, rural inequality reached its peak at 0.463, surpassing urban inequality, which stood at 0.448. This shift suggests that rural areas might have faced more severe economic challenges during this period, possibly due to factors like limited access to economic opportunities or the slower pace of development compared to urban areas.

Between 1967-68 and 1994-95 **(Figure 8)**, both regions saw a decline in income inequality. However, the decline was more pronounced in urban India, where the Gini ratio dropped significantly, indicating a narrowing of income disparities. Rural India experienced a more modest decrease, with fluctuations that suggest a less consistent reduction in inequality. This period could reflect the impact of various government policies aimed at rural development and poverty alleviation, which helped reduce income gaps but perhaps not as effectively as urban economic reforms.

In the period from 1994-95 to 2004-05, income inequality increased again in both rural and urban areas. The urban Gini ratio rose to 0.455, slightly higher than the rural Gini ratio of 0.438. This rise in inequality might be attributed to economic liberalization and market-driven growth, which tended to favor the already well-off urban population while leaving behind segments of the rural population. The fact that both regions saw an increase in inequality suggests that the benefits of economic growth were not evenly distributed.

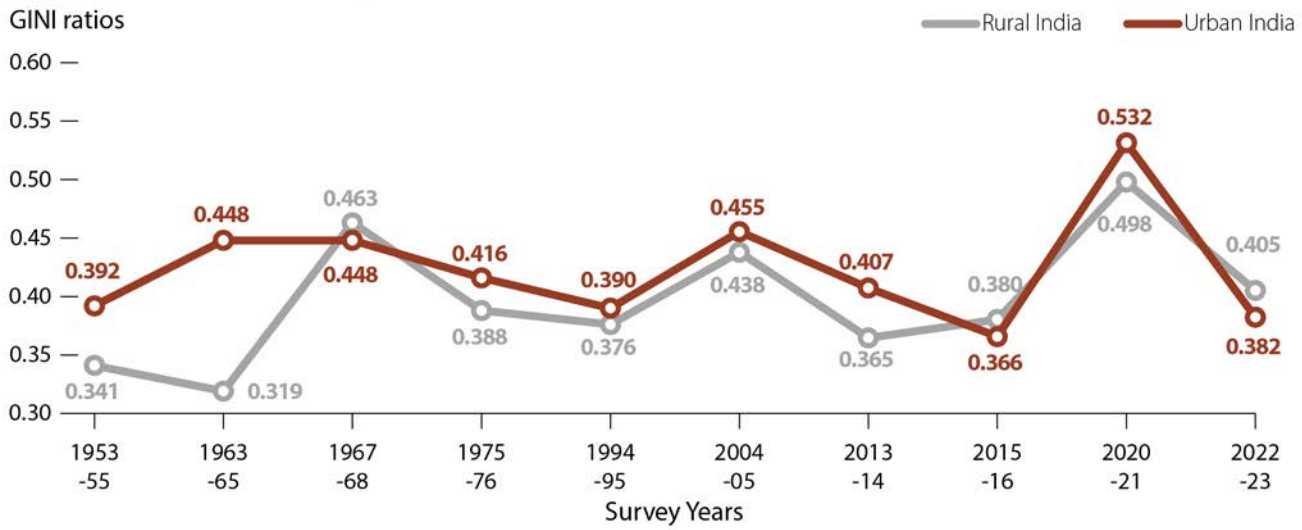
The trend from 2004-05 to 2020-21 shows a mixed picture. Initially, there was a decline in inequality, particularly evident by 2015-16. However, this was followed by a sharp spike in 2020-21, especially in urban areas where the Gini ratio soared to 0.532. The rural Gini ratio also increased but less dramatically, reaching 0.498. This sharp rise, particularly in urban India, could be linked to the economic disruptions caused by the COVID-19 pandemic, which disproportionately affected lower-income groups, exacerbating the divide between the rich and poor.

By 2022-23, both rural and urban Gini ratios declined again, with urban inequality still higher than rural but both showing improvement. This reduction might indicate the initial stages of economic recovery post-pandemic, along with the possible impact of government interventions aimed at mitigating the effects of the economic shock.

In summary, income inequality in India has fluctuated significantly over the decades, with urban areas consistently exhibiting higher disparities than rural areas. Urban India has experienced greater inequality, sharper fluctuations, and a more pronounced increase in disparities during external shocks like the COVID-19 pandemic in 2020-21. In contrast, rural India, while initially more equal, has seen a steady rise in inequality over time, driven by structural changes and widening gaps in access to resources and opportunities.

The slight reduction in inequality by 2022-23 in both regions reflects the potential impact of government interventions, including welfare programs, employment guarantees, and direct cash transfers, which helped mitigate disparities. These trends highlight the complex and persistent nature of income inequality in India, underscoring the need for sustained, targeted policies to ensure balanced and inclusive economic development across rural and urban areas.

Figure 8: Income Gini Ratios by Location



Source: Authors' compilation from publications (1953-2004) and estimates from PRICE's ICE 360° surveys (2014-2023)

5. The Sea-Saw of Inequality: India's Uneven Economic Growth and Its Post-COVID Recovery"

India's economic growth story has been characterized by rapid expansion, often accompanied by increasing income disparities. Over time, the country has experienced a sea-saw pattern of inequality, where the wealthiest benefit disproportionately during periods of economic expansion, while the poorest see limited gains. However, the post-COVID period introduced a unique shift, with a surprising rebound for the bottom 50% and a decline in incomes for the wealthiest. This analysis highlights how India's different income groups have fared, including during the pandemic recovery.

Long-Term Income Trends: The Table 2 illustrating annual per capita real net national income (at 2011-12 prices), reveals significant inequality across different income groups in India. The top 10% saw their income rise from ₹47,285 in the 1953-55 period to ₹3,03,757 by 2022-23, over sixfold increase. This surge reflects the benefits of economic liberalization in the 1990s, which favoured high-income sectors like IT and finance, disproportionately benefiting the richest segments of society. By comparison, the bottom 50% experienced slower income growth, rising from ₹6,119 in 1953-55 to ₹45,361 in 2022-23. While this is a 642% increase, it pales in comparison to the gains made by the top 10%, showcasing the widening gap in income levels.

The middle 40% experienced more steady income growth. Their income increased from ₹15,298 in 1953-55 to ₹1,15,869 in 2022-23. This reflects moderate, long-term growth but highlights that the middle category has not experienced the same level of prosperity as the top 10%. The stability of the middle category, while consistent, does not translate into significant upward mobility compared to the explosive gains seen by the wealthiest.

Income Ratios and Relative Inequality: The Figure 9, depicting income as a ratio to the average per capita net national income, further illustrates the widening gap. The top 10% consistently earned between 297% and 386% of the national average income over the decades, peaking in the mid-2010s, when liberalization policies fully took hold. This reflects the increasing concentration of wealth among the richest during periods of economic growth.

Meanwhile, the bottom 50% consistently earned well below the national average, with their ratio declining from 44% in the 1950s to just 46% in 2022-23. This decline underscores how the poorest half of the population has failed to share equitably in the benefits of economic growth. Even as the national economy expanded, the relative income of the bottom 50% fell, highlighting increasing marginalization. The middle 40%, in contrast, earned slightly above the national average, between 110-117%, signalling some stability but limited upward mobility.

Income Growth Rates and Volatility: The Table 3, showing annual per capita real net national income growth, reveals considerable volatility for the bottom 50%. This group experienced sharp declines, such as a -10.2% contraction during the 1965-68 period, and significant upswings, like the 29.0% increase from 2021-23. This post-COVID recovery for the bottom 50% is particularly noteworthy, driven by government stimulus measures, including the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA).

In contrast, the top 10% saw sustained growth until the post-COVID period, when their income contracted by 4.4% from 2021-23. This rare decline can be attributed to volatility in financial markets, where much of their wealth is concentrated, and slower recovery in sectors like real estate and luxury goods. The middle 40% experienced steady, moderate growth over the years, reflecting the relatively stable nature of their income but without the volatility of the bottom 50% or the dramatic growth of the top 10%.

Policy Implications and the Path Forward: While the post-COVID recovery temporarily narrowed the income gap, long-term inequality trends remain concerning. The top 10% have consistently captured the largest share of economic growth, while the bottom 50% have struggled to keep pace. The recent recovery for the poorest half, driven by government support, highlights the potential for policy interventions to make a meaningful difference. However, sustaining these gains will require continued, targeted policies aimed at addressing structural inequalities.

To achieve more equitable growth, future policies must prioritize investments in education, healthcare, and rural infrastructure, enabling greater economic mobility for the bottom 50%. Expanding MGNREGA and other social safety nets can provide income security during times of crisis. Structural reforms, such as progressive taxation and stronger labor protections, could also help reduce the wealth gap and ensure that future economic growth benefits all segments of the population.

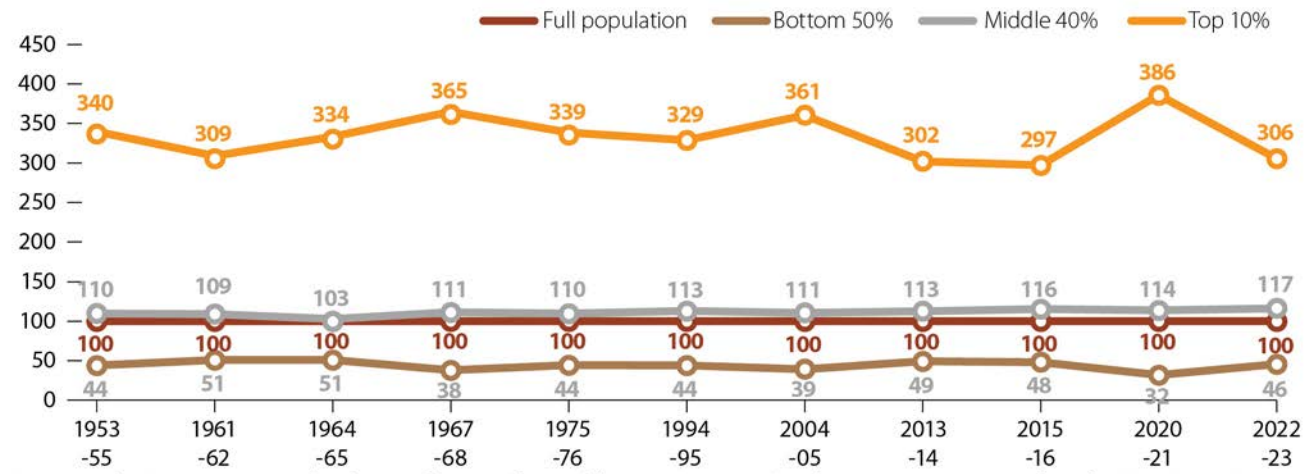
In conclusion, India's economic journey has been one of rapid growth, often accompanied by widening inequality. The sea-saw of inequality, reflected in both income levels

Table 2: Annual per capita real net national income (Rs, at 2011-12 prices)

Income group	1953-55	1961-62	1964-65	1967-68	1975-76	1994-95	2004-05	2013-14	2015-16	2020-21	2022-23
Bottom 50%	6,119	8,268	9,051	6,560	8,516	13,135	17,882	33,806	37,392	27,254	45,361
Middle 40%	15,298	17,697	18,292	19,310	21,060	33,817	50,551	77,386	89,732	98,004	1,15,869
Top 10%	47,285	50,117	59,256	63,222	64,982	98,391	1,64,499	2,07,148	2,30,706	3,32,055	3,03,757
Full population	13,907	16,224	17,768	17,326	19,180	29,933	45,611	68,572	77,660	86,034	99,404

Source: Authors' estimates using distribution of income from publications (1953-2004) and estimates using micro-data of PRICE's ICE 360° surveys (2014-2023); adjusted for under reporting with net national income reported in Statistical Appendix 1 of Economic Survey 2023-24.

Figure 9: Ratio to average annual per capita net national income (Full population = 100)



Source: Authors' estimates using distribution of income from publications (1953-2004) and estimates using micro-data of PRICE's ICE 360° surveys (2014-2023); adjusted for under reporting with net national income reported in Statistical Appendix 1 of Economic Survey 2023-24.

Table 3: Annual per capita real net national income growth (%)

Income group	1955 -1962	1962 -1965	1965 -1968	1968 -1976	1976 -1995	1995 -2005	2005 -2014	2014 -2016	2016 -2021	2021 -2023
Bottom 50%	4.4%	3.1%	-10.2%	3.3%	2.3%	3.1%	7.3%	5.2%	-6.1%	29.0%
Middle 40%	2.1%	1.1%	1.8%	1.1%	2.5%	4.1%	4.8%	7.7%	1.8%	8.7%
Top 10%	0.8%	5.7%	2.2%	0.3%	2.2%	5.3%	2.6%	5.5%	7.6%	-4.4%
Full population	2.2%	3.1%	-0.8%	1.3%	2.4%	4.3%	4.6%	6.4%	2.1%	7.5%

Source: Authors' estimates using distribution of income from publications (1953-2004) and estimates using micro-data of PRICE's ICE 360° surveys (2014-2023); adjusted for under reporting with net national income reported in Statistical Appendix 1 of Economic Survey 2023-24.

and growth rates, underscores the ongoing challenge of creating a more inclusive economy. The post-COVID recovery, which saw significant gains for the bottom 50%, offers hope that with the right measures, income inequality can be addressed. However, to ensure sustained progress, India must focus on policies that promote broad-based, inclusive growth that benefits not just the wealthiest, but all its citizens.

6. How the World Inequality Database Misrepresents India's Income Inequality: Why Household Surveys Provide the Real Picture

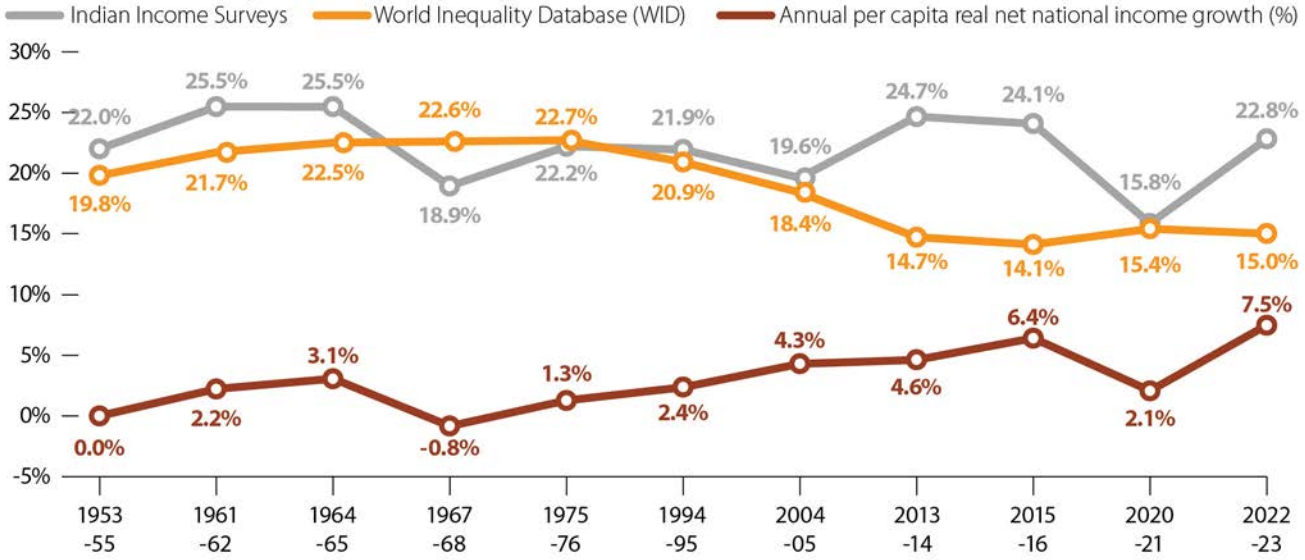
Income inequality remains a critical concern in India, a country with a highly diverse economy where formal and informal sectors coexist. Accurately measuring inequality is crucial for formulating policies that promote equitable growth. Two widely used approaches to assess income distribution are Indian household income surveys and estimates produced by the World Inequality Database (WID). Each has distinct methodologies and strengths, but their results often diverge significantly. This section highlights the comparative advantages of Indian household surveys, examines the limitations of WID estimates, and provides policy recommendations to improve inequality measurement.

6.1 Stark Discrepancies in Income Inequality Trends

Household income surveys are widely regarded as the gold standard for measuring inequality, especially in developing nations like India, where informal employment is widespread. Leading economists such as ***Thomas Piketty (2014)*** and ***Branko Milanovic (2016)*** have long argued that these surveys provide the most accurate and representative data on income distribution. The comparative analysis highlights the divergence between the two methods –the Indian household income surveys and the World Inequality Database (WID) estimates–provide insights into income distribution but differ significantly in their approach and outcomes which underscores the strengths of household surveys in capturing a fuller picture of income distribution.

- **Share of Bottom 50% in Net National Income:** The bottom 50% of the population shows significantly dif-

Figure 10: Share of bottom 50% in net national income of India: Indian Income Surveys Vs. World Inequality Database (WID)



Source: Authors' estimates using distribution of income from publications (1953-2004) and estimates using micro-data of PRICE's ICE 360° surveys (2014-2023); WID data pertains to per-adult pre-tax national income shares (%) published as Table B.1 of Nitin et al. (2024) 'Income and Wealth Inequality in India, 1922-2023: The Rise of the Billionaire Raj', Working Paper No-2024/09, World Inequality Lab.

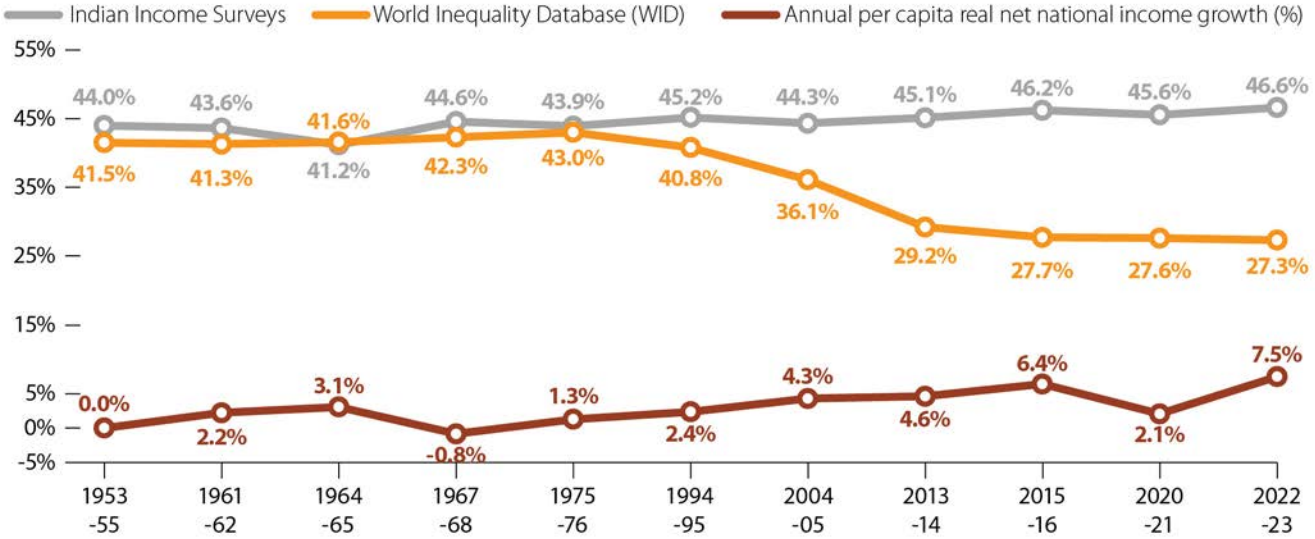
ferent income shares between household surveys and WID estimates. According to household surveys, the income share fluctuates between 18.9% and 25.5% over time, with a notable recovery to 22.8% in 2022-23. This reflects the surveys' ability to capture the dynamic effects of economic policies and changes. In contrast, WID estimates consistently report a much lower and static income share, around 15% since 2004-05, indicating an underrepresentation of informal and lower-income earners **(Figure 10)**. The divergence underscores the strength of household surveys in reflecting trends and a more realistic representation of the economic contributions of the bottom half of the population.

- **Share of Middle 40% in Net National Income:** The middle 40% of the population also exhibits stark differences in representation between the two methodologies. Household surveys report a stable income share for this group, ranging from 43.9% to 46.6% over the years, suggesting economic stability for this segment. On the other hand, WID estimates show a significant decline in the middle 40%'s share, dropping from 40.8% in 2004-05 to just 27.3% in 2022-23 **(Figure 11)**. This discrepancy highlights the failure of WID estimates to account for non-taxed middle-income households, a major contributor to India's economy. Household surveys clearly offer a more accurate and consistent portrayal of the middle-income population.
- **Share of Top 10% in Net National Income:** The top 10% income share reveals another area of divergence. Household surveys indicate relatively stable trends, with the share varying between 30.2% and 38.6% over the years, showing gradual increases in recent years. In contrast, WID estimates report a sharp and significant rise in the income share of the top 10%, from 38.3% in 1994-95 to 57.7% in 2022-23 **(Figure 12)**. This substantial difference reflects WID's strong reliance on tax data, which overrepresents high-income groups. While WID estimates emphasize growing income concentration among the wealthy, household surveys present a more balanced and gradual perspective on the income share of the top decile.
- **Share of Top 1% in Net National Income:** The disparity is most pronounced in the top 1% income share. Household surveys consistently report a modest share for this group, fluctuating between 6.2% and 9.0% over the years, indicating limited changes in top-end income concentration. Conversely, WID estimates show a much larger and steadily rising share, from 19.3% in 2004-05 to 22.6% in 2022-23 **(Figure 13)**. This reflects WID's emphasis on the concentration of wealth, which is heavily informed by tax data and excludes other forms of income distribution. Household surveys provide a more moderate and comprehensive view of income inequality, particularly at the top end.

6.2 Strengths and Weaknesses of Two Approaches: Household Income Surveys vs. WID

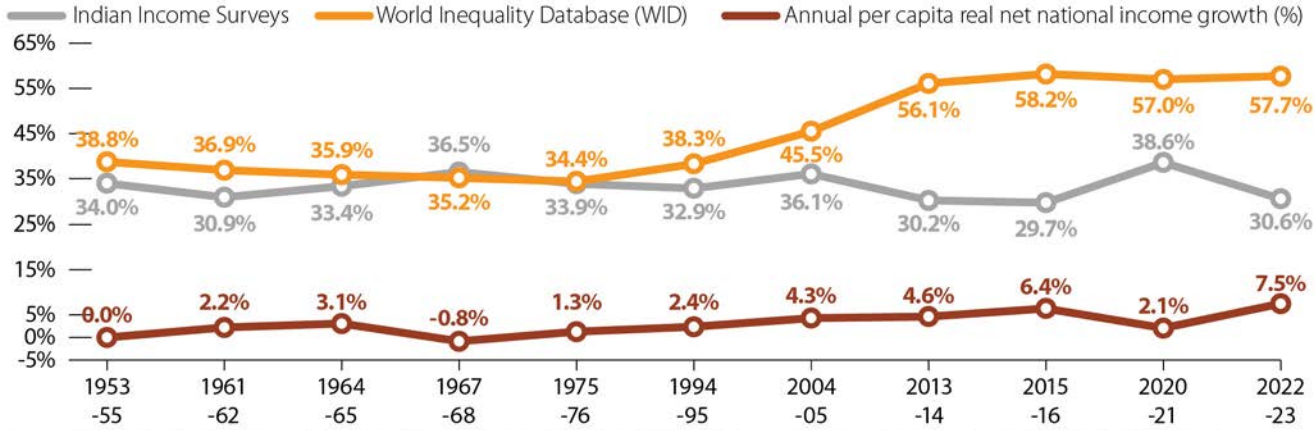
- **Inclusive Coverage of the Informal Sector:** One of the most significant strengths of household surveys is their ability to capture income data from the informal sector, which constitutes a large portion of India's workforce. Unlike WID, which primarily relies on tax data and national accounts, household surveys include earnings from informal sources, providing a more comprehensive view of income distribution. This is reflected in the higher shares of income attributed to the bottom 50% and middle 40% in the survey data **(Figures 10 and 11)**. WID, by excluding these groups, underestimates their economic contribution and skews the income distribution.
- **Representativeness and Granularity:** Household surveys are designed to represent the diverse demographics of India, including variations across rural and urban populations and different social strata. This enables a detailed understanding of income distribution, which is evident in the consistent trends observed over decades

Figure 11: Share of middle 40% in net national income of India: Indian Income Surveys Vs. World Inequality Database (WID)



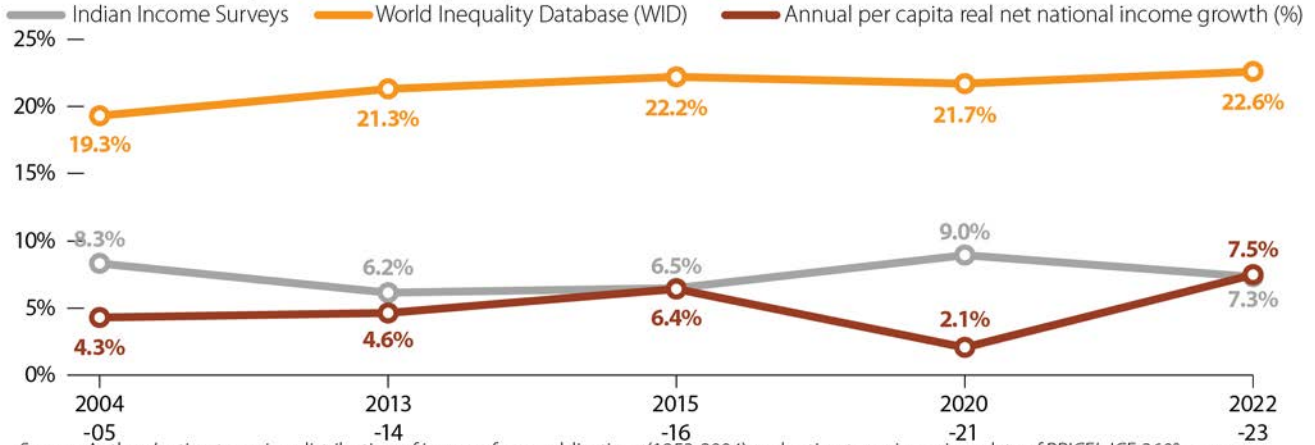
Source: Authors' estimates using distribution of income from publications (1953-2004) and estimates using micro-data of PRICE's ICE 360° surveys (2014-2023); WID data pertains to per-adult pre-tax national income shares (%) published as Table B.1 of Nitin et al. (2024) 'Income and Wealth Inequality in India, 1922-2023: The Rise of the Billionaire Raj', Working Paper No-2024/09, World Inequality Lab.

Figure 12: Share of top 10% in net national income of India: Indian Income Surveys Vs. World Inequality Database (WID)



Source: Authors' estimates using distribution of income from publications (1953-2004) and estimates using micro-data of PRICE's ICE 360° surveys (2014-2023); WID data pertains to per-adult pre-tax national income shares (%) published as Table B.1 of Nitin et al. (2024) 'Income and Wealth Inequality in India, 1922-2023: The Rise of the Billionaire Raj', Working Paper No-2024/09, World Inequality Lab.

Figure 13: Share of top 1% in net national income of India: Indian Income Surveys Vs. World Inequality Database (WID)



Source: Authors' estimates using distribution of income from publications (1953-2004) and estimates using micro-data of PRICE's ICE 360° surveys (2014-2023); WID data pertains to per-adult pre-tax national income shares (%) published as Table B.1 of Nitin et al. (2024) 'Income and Wealth Inequality in India, 1922-2023: The Rise of the Billionaire Raj', Working Paper No-2024/09, World Inequality Lab.

in Figures 10–12. By contrast, WID estimates, which aggregate data at a macro level, fail to capture such granular variations and are less effective at portraying regional and temporal dynamics.

- **Temporal Trends and Policy Relevance:** The longitudinal data provided by household surveys are invaluable for tracking changes in income distribution over time. For instance, the recovery of the bottom 50%'s income share in recent years, as shown in Figure 10, underscores the effectiveness of certain economic policies. WID's static estimates for the same group fail to reflect these temporal shifts, limiting their applicability for timely and targeted policy-making.
- **Balanced Representation of Income Groups:** Although household surveys may underrepresent the very wealthy due to limitations in self-reported data, they offer a more balanced picture of income distribution. The disparity in income shares between the top 10% and top 1%, as shown in Figures 12 and 13, is less pronounced in survey data compared to WID estimates. This indicates that household surveys capture a broader and more equitable distribution of income across various population segments.

6.3 Limitations of World Inequality Database Estimates

- **Exclusion of Informal Sector Earnings:** The WID's reliance on tax data and national accounts inherently excludes the informal sector, leading to significant underrepresentation of the income shares of the bottom 50% and middle 40%. This is evident in the stark differences between WID and household survey estimates in Figures 10 and 11, where WID data consistently show lower shares for these groups. Such exclusions distort the overall picture of inequality, particularly in a country like India.
- **Overemphasis on Wealth Concentration:** WID's focus on the top 1% and 10% income brackets, as seen in Figures 12 and 13, amplifies perceptions of wealth concentration. While understanding top-end income distribution is important, this focus often overshadows the economic realities of lower-income groups and misrepresents the broader inequality landscape. For example, WID estimates suggest a disproportionately high share of income for the top 1%, which is not corroborated by household survey data.
- **Incompatibility with Mixed Economies:** In economies like India, where informal earnings constitute a substantial part of the GDP, WID's aggregated datasets struggle to provide a complete picture of income distribution. The heavy reliance on formal tax data makes their estimates less relevant for understanding the economic conditions of a majority of the population, thereby limiting their utility for policy-making.

6.4 Policy Implications and Recommendations

- **Integrating Data Sources:** To provide a more accurate and holistic view of income inequality, it is essential to integrate the strengths of household surveys with WID's macro-level data. Combining granular survey data with broader national estimates can help bridge the gaps in each approach and offer a more comprehensive understanding of income distribution.
- **Improving Representation of the Informal Sector:** Given the prominence of informal employment in India, WID must refine its methodologies to account for informal sector incomes. Incorporating such data would not only enhance the accuracy of inequality estimates but also make them more relevant for countries with similar economic structures.
- **Strengthening Household Survey Systems:** To keep pace with evolving economic realities, Indian household income surveys should be conducted more frequently and with expanded coverage. Regular updates would ensure the availability of timely data, especially in the aftermath of economic shocks such as the COVID-19 pandemic. This would enable policymakers to design and implement targeted interventions to reduce inequality.

The comparative analysis of Indian household income surveys and World Inequality Database (WID) estimates underscores the strengths and limitations of both approaches in measuring income inequality. Household surveys excel in capturing the complexities of a diverse economy like India, where informal sector earnings play a significant role. By providing more granular and representative data, they offer a more comprehensive picture of the income distribution, particularly for the bottom 50% and middle 40%. This strength is evident in their ability to track dynamic changes over time and across regions, reflecting the economic realities of a broader population.

On the other hand, WID estimates highlight the concentration of income among the top 10% and 1%, providing critical insights into wealth inequality. However, their reliance on tax data and national accounts excludes large segments of the population, particularly those in the informal sector and non-tax-paying middle-income groups. This results in significant underrepresentation of the economic contributions of the lower and middle-income groups and an overemphasis on top-end income shares.

The divergence between the two approaches reveals the importance of integrating their strengths. Household surveys bring depth and inclusivity, while WID estimates offer a macroscopic view of wealth concentration. Together, they can provide a more balanced and nuanced understanding of income inequality. Policymakers and researchers must work to harmonize these methodologies, ensuring that informal sector contributions are adequately represented in macro-level analyses.

This integrated approach is critical for crafting policies that not only address wealth concentration but also promote equitable economic growth across all segments of society. As India continues to evolve economically, improving the frequency, coverage, and methodological alignment of income data will be essential to accurately measure and address inequality. Such efforts will pave the way for more effective interventions and a more equitable economic landscape.

7. Rethinking Income Inequality Measures in India: Scope for Future Research and the Role of Household Income Surveys

Future research on income inequality in India offers significant scope for innovation and refinement, especially in leveraging household income surveys to develop actionable policy solutions. Current measurement approaches often fail to capture the complex and multi-dimensional nature of inequality in a country marked by vast regional, demographic, and socio-economic diversity. Exploring the full potential of household income surveys presents an opportunity to bridge these gaps and provide a comprehensive foundation for evidence-based policymaking.

One critical avenue for future research is enhancing the granularity of inequality metrics through household-level data. Unlike aggregate indicators such as GDP or the Gini coefficient, household income surveys provide detailed insights into income distribution, consumption patterns, and asset ownership. Researchers can use this data to analyze disparities at the regional and local levels, uncovering hidden dimensions of inequality, such as urban-rural divides and inter-state differences. This localized understanding can inform targeted interventions, such as state-specific welfare programs or rural development initiatives.

Another promising area is the integration of multidimensional measures into the analysis of inequality. Future studies can extend beyond income to examine wealth distribution, access to essential services like education and healthcare, and social mobility. Household income surveys, with their detailed demographic and expenditure data, offer the tools needed for such comprehensive analyses. For instance, researchers could investigate how disparities in digital access and technological adoption exacerbate income gaps in India's rapidly digitizing economy, paving the way for inclusive technological policies.

Historical and structural factors like caste, gender, and cultural inequities require deeper exploration through the lens of household surveys. Future research can focus on uncovering the long-term impacts of systemic discrimination on income inequality. For example, examining intergenerational mobility among marginalized communities such as Scheduled Castes and Scheduled Tribes could shed light on the effectiveness of affirmative action policies. Similarly, gender-focused studies using household data can provide valuable insights into wage gaps, labor force participation, and the economic empowerment of women.

Temporal analysis is another area ripe for research. Tracking changes in inequality over time using household surveys enables a dynamic understanding of policy impacts and emerging challenges. For instance, longitudinal studies could explore how urbanization and globalization have shifted the income distribution landscape in India. Such research would help policymakers design adaptive strategies that address the evolving dimensions of inequality while fostering sustainable and inclusive growth.

Lastly, the methodological refinement of household income surveys themselves represents a significant research opportunity. Ensuring the consistent collection of high-quality, representative data across India's vast and diverse population is a challenge that future studies can address. Innovations in data collection methods, such as leveraging digital tools or integrating survey data with administrative records, could enhance the accuracy and timeliness of inequality metrics.

By focusing on these areas, future research can deepen our understanding of income inequality in India and provide the empirical foundation for more effective policy responses. Household income surveys, with their rich and detailed datasets, will be central to this effort, offering researchers the tools to unravel the complexities of inequality and contribute to a more equitable economic future.

8. Conclusion

The trajectory of income inequality in India, as meticulously detailed through comprehensive household income surveys from 1953 to 2023, reveals a complex and evolving narrative. From the early post-independence years of state-controlled economic policies to the liberalization era of the 1990s and the recent challenges posed by the COVID-19 pandemic, income inequality has fluctuated in response to economic reforms, demographic shifts, and external shocks. While periods of economic growth have lifted millions out of poverty, they have also deepened disparities, particularly for the bottom-income groups.

Key insights from this analysis underscore the critical role of scientifically conducted household income surveys, such as those by NCAER and PRICE, in presenting a nuanced understanding of inequality. Unlike synthetic estimates, these surveys capture the granular realities of income distribution, particularly in India's vast informal economy, offering a more representative picture of the nation's socio-economic landscape.

Recent trends highlight both challenges and opportunities. The post-pandemic recovery, characterized by a decline in the Gini index from 0.506 in 2020-21 to 0.410 in 2022-23, suggests that targeted policy interventions can effectively address income disparities. However, the entrenched concentration of wealth among the top income earners, coupled with the persistent struggles of the bottom 10%, signals the need for sustained, inclusive economic strategies.

This research underscores the importance of adopting holistic policy frameworks that balance economic growth with equity. Investments in education, healthcare, and infrastructure, particularly in rural areas, alongside robust social safety nets and progressive taxation, are pivotal for ensuring that the benefits of growth are equitably

distributed. Moreover, leveraging accurate, survey-based data for policymaking can enhance the precision and effectiveness of interventions, addressing structural barriers to inclusive growth.

India's economic journey reflects a "sea-saw" pattern of inequality, with periods of progress often countered by external disruptions or policy shortcomings. The post-pandemic improvements offer a hopeful sign, but sustaining this progress requires vigilance, adaptive policymaking, and a commitment to reducing disparities across all segments of society. By fostering a more equitable distribution of income and opportunities, India can pave the way for a more stable, cohesive, and prosperous future for all its citizens.

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About PRICE

(www.price360.in)

- People Research on India's Consumer Economy (PRICE branded as ICE 360°) established in 2012 as an independent, not-for-profit, 'fact tank' and 'think tank' registered U/S 8 Companies Act. The vision of PRICE is to be the premier research institute offering unparalleled insights into India's household economy. Its mission includes conducting high-quality research, providing data-driven insights, and fostering a deeper understanding of India's economic landscape. The institute conducts large-scale surveys to gather data on household well-being, which it then analyzes to identify trends and develop policy recommendations. As an independent organization, PRICE is committed to producing unbiased and objective analysis, contributing to the socio-economic development of India.
- Largely supported by grants and contract research, PRICE's strengths lie in its access to comprehensive data sets, experienced team of researchers, and strong collaborations with academic institutions, government bodies, and industry players.

About PRICE's ICE 360° Survey

PRICE's ICE 360° surveys called as "Household Survey of India's Consumer Economy and Consumer Environment" aimed to generate integrated longitudinal data (Interconnected, consistent and up to date) to provide a 360° view of "household's & people's" progress on financial conditions (income, expenditure, saving and borrowings), living conditions, access to public goods, amenities, state welfare, health, education, occupational conditions, social and occupational mobility and inclusion in the household economy.

In recent times, it has been the only regular source of data on income, expenditure and saving in India. And among household surveys of its kind across the world, ICE 360° surveys hold a unique position on account of scientific and robust measurement of income, its massive sample size, range, and the depth of information it uncovers. Over the years, the survey has become the most credible source of information on Indian consumer market structures for decision makers in top marketing concerns, in public enterprises and Indian household economy in government.

Details about the PRICE's ICE 360 Surveys are available at
https://www.price360.in/ice-360-surveys.php
https://www.price360.in/uploads/A_brief_about_ICE360_Surveys.pdf

These surveys (2014, 2016, 2021 and 2023) are mammoth and complex exercise, for instance, the Wave 2.0 (2016) covered about 300,000+ households through a household listing exercise, followed by a more detailed survey of 61,000 households - 25,000 in rural India and 36,000 in urban India deploying probability sample design. Geographically, the sample has been drawn from across 216 districts, 1217 villages and 487 towns spread across 25 major states.

The findings in the form of actionable insights, presentations, and reports including the household level data are shared with various stakeholders ranging from policymakers in government, policy advisors, business strategists, media, academic & research institutions including national and international individual researchers.

PRICE's ICE 360° survey — Features

Feature	ICE 360° survey (2014)	ICE 360° survey (2016)	ICE 360° survey (2021)	ICE 360° survey (2023)
Survey type	Best mix of Baseline-Panel-Longitudinal -Cross-sectional			
Sample design	**Probability Sample:** Three stage stratified random sample design			
Coverage	21 states & UTs (Rural &Urban)	25 states & UTs (Rural &Urban)	23 states & UTs (Rural &Urban);	25 states & UTs (Rural &Urban)
Sampling frame	100,000 households	300,000 households	200,000 households	200,000 households
Sample size	20,000 households	61,000 households	40,000 households	43,000 households
Data collection	Face-to-face interview		Face-to-face interview - CAPI	
Respondents	Chief Wage Earner (CWE)/Head, Housewife and other earning members of households			
Reference period	Financial Year - 2014	Financial Year - 2016	Financial year - 2021	Financial year - 2023

Developed and published in India:

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