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## UNIT 5 ECONOMIC DISPARITIES AND MARGINALISATION

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### 5.1 INTRODUCTION

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National peace and social unit are always in danger if economy is suffering from vast and widespread disparities because it divides the nation in two different extreme classes of a small prosperous top and large bottom class with poverty and marginalisation.

The great visionary Mahatma Gandhi had a major concern for this problem as he once stated that economic equality is a prime issue for India. He believed that economic equality is the master key to non-violent independence. Working for economic equality means abolishing the eternal conflict between capital and labour, it means the leveling down of the few rich in whose hands is concentrated the bunch of nation's wealth on the one hand and the leveling up to the semi-starved naked millions on the other. He made clear that if we cannot tackle the problem of inequality it will lead to conflicts in the society resulting into violent revolution. However, though he could anticipate the violent revolution, he insisted on the non-violent measures to mitigate the inequality-led disparities.

#### *Aims and Objectives*

After reading this unit, you would be able to understand:

- the concept and forms of economic disparities;
- dire consequences and conflicts to be managed with Gandhian perspective; and
- to appreciate Government Policy and programmes to reduce disparities.

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## 5.2 CONCEPT AND MEASUREMENT OF ECONOMIC DISPARITIES

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We need to develop clear understanding of the following terms which are usually used in the discussion of the topic of economic disparities and marginalisation. It should be noted that the breeding ground of economic disparities is the “Economic Inequality” and marginalisation which is the basic and very fundamental economic social consequence of economic disparities.

### 5.2.1 Equality and Inequality

The World Bank in its special study on ‘Inequality in 2008’ has defined the “Equity in terms of disparities in opportunities which translate into different abilities to contribute in inequality of different economic and social inequality” (World Bank, 2008). It further explains that distribution of opportunities matters more than the distribution of incomes.

Inequality is an outcome of inequity at different levels and identified features. The term inequality has many different meanings; we can describe inequality in terms of distribution of economic well-being expressed in terms of income and consumption expenditure amongst countries, states of the nation and among different classes. Relating to cause and consequence of inequality, it is described as structural inequality arising out of the structural distribution factor of production like land and capital social inequality among classes due to unequal holding of the income and sources of income and expenditure. Marginalisation is also a related concept as it lies in the inequality when inequality takes its worst form. Those who are affected at the bottom of pyramid of inequality are totally marginalised in the sense that they are thrown in the margin of main stream economy and deprived of not only development opportunity but also deprivation of sources of subsistence. In India socio-economic structure is such that most backward social classes such as tribals and schedule castes (Dalits) are also economically most backward classes.

### 5.2.2 Measurement of Inequality

There are two most familiar measurement methods of inequality. The ‘Gini’ coefficient is one of the most popular measures of inequality. It ranks from 0 to 10 when expressed in % term with perfect equality which is impossible, in the coefficient would equal to one (100). This measure of inequality is also a broad measure of inequality which quantifies the disparity that allows one individual certain material choice denied to another (Ray - 1998).

The more simplified measures of economic inequality include the economic disparities and distribution of income as follows: (i) The difference between the highest and lowest income in a given population alternatives known as ‘RANGE’ and the (ii) The range of highest and lowest income.

Another useful tool in the measurement and analysis of inequality is the LORANG CURVE. It is a graphic device that depicts the distribution of income and expenditure. Lorang Curve is useful for comparing and ranking inequality across different distributions. It is regarded as powerful and intuitive construct describing the inequality in a given income distribution.

### 5.2.3 Marginalisation

As stated earlier, marginalisation indicates the situation where the particular classes over area get out of the mainstream of economy, mainstream of market and major benefits of

development. This marginalisation could be measured in the indicators of income, education and health, participation of marginalised producer in market and benefits of infrastructural development of their rural areas. Marginalisation itself is a major indicator of social and economic exclusion and social and economically marginalised villages particularly lack, infrastructural benefits and development opportunities like education, health and employment etc.

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## 5.3 IMPORTANCE OF THE ECONOMIC EQUALITY

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- Economic inequality is a great road block in inclusive development of a nation. Trade off between growth and inequality is a wrong equation of development.
- It is morally most undesirable as non-violent economy cannot be constructed on the foundation of inequality.
- The social inequality can never make possible harmonious social foundation.
- Politically, democratic governance is practically impossible in true sense as the inequality would not provide adequate equal opportunity in political participation of relatively poor people.
- In the Indian context, inequality is against the philosophy of our Constitution. The Preamble to our Constitution states “We, the people of India, solemnly resolve to constitute India into socialist, secular, democratic republic having secured to all its citizens justice, liberty and equality and promoting among them all fraternity.” Equality as defined in Constitution is equal status and of opportunity. Thus, the fundamental philosophy of the Constitution stresses on the “Equality”.

### 5.3.1 Logic of Reducing Inequality

It is a major issue in post-liberalised period in India. However, it is not given much importance as it is understood that growth will take care of inequality via percolation of growth. It is also regarded as trade-off between growth and inequality as efforts of curbing inequality through specific policies like fiscal and land distribution measures would lead to disincentive and ultimately lead to retardant process of growth which would hamper the process of poverty reduction through the growth.

We should note that in the context of the growth, poverty is characterised by absolute deprivation in terms of economic resources while inequality involves relative deprivation which shows where one stands in relation to others in the society.

With reference to abolition of inequality in the Indian context, several arguments have been made on the basis of moral, political, social and economic grounds. We may briefly summarise the major arguments in favour of reduction of inequality.

The moral case for the equality lies in the fair distribution of income and wealth. The widespread moral view is that all citizens are equal and should be fundamentally treated as equal. This is required to promote equality of opportunities. Highly unequal holding of wealth leads to inequalities of opportunities. In equal distribution of sources of factors of production among social classes, in consideration of the distinguished characteristic of our Indian society and economy, we find the very spirit of our Constitution lies in assurance of the equal opportunities for all.

Various forms of economic inequality generate unbearable cost for economy and inefficient

use of resources. Full advantage of people's innate capacity for the productive participation in the economy is likely to be affected. If there are sharp inequalities of wealth, physical resources are likely to be underutilised or inefficiently utilised. If allocation in the productive activities is not being done equally due to unequal ownership of factors of production in general and holding of capital in particular, it is most likely that the well being of poor via poor human development as the nutrition, health and education of the poor will suffer a lot. The class of marginalised will emerge out of this situation. Regional inequality among states will lead to paradox of poverty amidst islands of prosperity.

Political implications of the inequality are very dangerous for democratic political system. Democracy provides an opportunity for all the citizens to reflect their needs and views in governance. Inequality due to the power of money in the elections does not reflect true opinion of all. The democracy in the true sense does not seem to be found working for all the citizens.

Socially divided classes cannot have a character of societal cohesion unequal distribution of wealth among classes leading to us equal income, opportunity always leads to widening the gaps between the haves and have-nots. It results in social tension. It forces deprived groups in a variety of ways to violence. The social cost is paid by all members of the society. The beneficial / relatively class cannot escape the tensions of the society.

Thus we can conclude safely that strong economy, powerful political system, and peaceful and harmonious societies are not possible if there is grave inequality of income and wealth in the nation (Weisskope).

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## 5.4 INEQUALITY IN INDIA

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There are numerous forms of inequality in India. Three of these are particularly important according to a survey of 2004.

- 1) Individual inequalities
- 2) Group/Class inequalities
- 3) Regional inequalities

### 5.4.1 Individual Inequalities

The consumers' expenditure as the variable in measuring inequality is a standard source largely due to the available sources of trend data from National Sample Survey rounds. It is equally known that Gini Coefficient related consumer's expenditure is relatively weaker measure as compared to income based Gini coefficient. Hirway (*EPW*, 2011) has well explained deficiency of consumer expenditure as follow:

'Gini Coefficient' related to consumer's expenditure is relatively a weaker measure as compared to income-based Gini Coefficient as the measure of inequality in the economy. This kind of consumption expenditure does not deal inequality adequately in developing countries. The consumption expenditure of rich class is usually underestimated and consumption of the poor is overestimated. This is purely because of the following reasons related to data based weaknesses:

- 1) The rich tend to hide their consumption expenditure while reporting.
- 2) Use black money for expenditure and do not report this expenditure
- 3) Save a large part of their incomes as against this, the poor sections many a time incur debts to consume. Thus, consumption takes place without income.

Therefore, to measure inequality through income is better (but to get the adequate data is very difficult.)

Inequality Trend in India is best brought out by studies of Thomas E Weisskope who provides a very brief summary of the various studies conducted in India in the area of inequality by different schools in the last fifty years. However, in view of economic reforms, the inequality scenario is shown more vividly in the period of 1990 – 2004. The major observations of these studies are as follows:

- 1) There is clear evidence that in the post-reform period disproportionate shares of consumption level have gone to better off urban residents.
- 2) The top 1% of consumers in India is estimated to have enjoyed on an average 25 times per person than the bottom 1%.
- 3) The income share of the richest 1% declined from above 10% in the early 1990s and then rose again to roughly 10% by 2000.
- 4) One most extensive study has estimated that in both the early 1990s and early 2000s the wealthiest 10% of wealth holders held at least 50% of total assets while least wealthy 10% held just 0.4% of total assets and 0.21 net worth.
- 5) The ownership of financial assets is even more concentrated as almost all financial assets are held by well below 1% of the population.

**Table 5.1: Gini Coefficient of per capita consumption expenditure**

	Year				
	1957	1983-84	1993-94	1997-98	2004-05
<b>Rural India</b>					
Jha (2005)	33.7	30.1	28.5	30.1	
Dreze and Sen (2002)		30.1	28.6	30.6	
Himansu (2007)		30.4	28.6		30.5
Dev and Ravi (2007)		30.8	28.6		30.5
Topalova (2008)		31.21	28.5		29.8
<b>Urban India</b>					
Jha (2005)	35.9	33.4	34.5	36.1	
Dreze and Sen		34.1	34.3	36.5	
Himansu (2007)		33.9	34.4		37.6
Topalova (2008)		34.0	34.3		37.8
Sarkar & Mehta (2010)		36.7	35.7	-	38.9
<b>All India</b>					
Ravallion (2000)		32.6	31.52	37.83	
Topalova (2008)		31.9	30,3		32.5
Sarkar and Mehta (2010)		33.7	34.7		37.6
Vakulabharanam (2010)			32.6		36.3

Source: Thomas. E. W., *EPW*, Nov. 19, 2011

The above tabulated trend shows clearly that Gini Coefficient – has clearly increased during the post reforms in India around 36.37 in 2004 from the level of 30.31 in 1991-92. This consumption related inequality is relatively sharper in urban India as compared to rural India. In rural India, there is slight decline in the Gini coefficient ratios but in urban India it has constantly increased.

#### 5.4.2 Inequality among Groups

An excellent study (Presidential Address of Sukhdev Thorat, *Indian Journal of Agricultural Economics*. Vol. 66 No.1 Jan-March 2011) brings out the inequality in consumer expenditure among various socio-economic groups in rural and urban India during the period i.e. 1983 – 1993 and 2004 for which NSS rounds of consumer expenditure are available. The data converted into Gini Coefficients and related measures are given in the following Table:

**Table 5.2: Gini Coefficient Ratios from NSS CES Data at Constant**

Category	1983		1993		2004	
	Rural	Total	Rural	Total	Rural	Total
All	0.31	0.34	0.30	0.35	0.30	0.35
ST	0.28	0.30	0.28	0.30	0.27	0.30
SC	0.29	0.30	0.26	0.30	0.26	0.29
Others	0.31	0.34	0.30	0.35	0.30	0.36
Hindus	0.31	0.34	0.29	0.35	0.29	0.35
Muslims	0.29	0.30	0.29	0.32	0.29	0.31
Others	0.34	0.36	0.33	0.38	0.35	0.38

Source: Sukhdev Thorat, 2011

The table shows clearly that (a) while Gini Coefficient ratio increased marginally from 0.34 in 1983 to 0.35 in 1993. It has remained the same in 2004 for all the population of India as a whole, (b) the sectoral break up of people by class place or religion shows that between 1983 and 1993, Gini Coefficient declined from 0.31 to 0.30 and in 2004-05 remained at the same level for the rural sector. According to Thorat, “It appears that growth in consumption during 1993 to 2004 tend to be distributed neutral (Thorat 2011)”.

The inequality records for various socio-religious groups follow a similar pattern observed at aggregated level as well as for the rural sector.

#### 5.4.3 Regional Inequalities

On the basis of NSS data for monthly per capita consumption (NPC), the Gini index has been worked out from major states of India and all India. It includes 20 states on the basis of the availability of the data for all the three different periods 1983 – 1993 and 2004. The Gini Index is shown in the table below:

**Table 5.3: Regional Inequality in India**

State	1983			1993-94			2004		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
Andhra Pradesh	0.31	0.36	0.33	0.29	0.31	0.32	0.29	0.38	0.33
Assam	0.23	0.31	0.25	0.18	0.22	0.29	0.29	0.32	0.24
Chhattisgarh	-	-	-	-	-	-	0.30	0.44	0.37
Gujarat	0.26	0.28	0.28	0.24	0.28	0.29	0.27	0.31	0.33
Haryana	0.29	0.29	0.29	0.31	0.31	0.28	0.34	0.37	0.36
Himachal Pradesh	0.27	0.29	0.28	0.24	0.27	0.29	0.31	0.32	0.33
Jammu and Kashmir	0.30	0.28	0.30	0.24	0.37	0.29	0.25	0.25	0.26
Jharkhand	-	-	-	-	-	-	0.23	0.36	0.31
Karnataka	0.30	0.34	0.33	0.27	0.31	0.32	0.27	0.37	0.36
Kerala	0.32	0.37	0.33	0.30	0.32	0.34	0.38	0.41	0.39
Madhya Pradesh	0.29	0.33	0.32	0.28	0.32	0.33	0.27	0.40	0.35
Maharashtra	0.31	0.35	0.36	0.31	0.32	0.36	0.31	0.38	0.39
Odisha	0.27	0.31	0.29	0.31	0.29	0.28	0.29	0.35	0.32
Punjab	0.39	0.29	0.30	0.28	0.29	0.28	0.29	0.40	0.35
Rajasthan	0.30	0.35	0.33	0.27	0.29	0.28	-	-	-
Tamil Nadu	0.33	0.36	0.36	0.31	0.35	0.34	-	-	-
Uttar Pradesh	0.29	0.34	0.31	0.28	0.30	0.33	0.29	0.37	0.33
West Bengal	0.26	0.35	0.31	0.34	0.27	0.32	0.27	0.38	0.35
All India	0.30	0.35	0.33	0.29	0.32	0.34	0.30	0.38	0.36

*Source:* Sripad Motiram and Vamsi Vakulabharanam, *Poverty and Inequality in the age of Economic Liberalisation, India Development Report, 2012.*

There are at least three clear observations we could offer on the basis of the above table:

- 1) For most of the states, inequality was decreasing between 1983 and 1993-94 although decrease was slight.
- 2) However, this trend was reversed between 1993-2004 and 2004-2005 or there was perceptible increase in Gini index.
- 3) This upward trend of inequality in the post-reform was drawn out of relatively higher urban inequality in this period (2004).

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## 5.5 POLICY ALTERNATIVES

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Policy alternatives are addressed to limiting the factors contributing to inequality and positive factors progressively promoting equality in the society. The factors contributing to inequality many a time become the cause and consequence simultaneously. The linkage of poverty and inequality more or less illustrates this situation. Therefore, progressive policy should be on alleviation of poverty. Poverty is concentrated mostly among small and

marginalised producers and landless wage earning class. Hence the powerful revival of agricultural development inclusive of these classes is the direct means of removing poverty and reduction of inequality. There are several measures such as public investment in agriculture; subsidised, credit flows; input subsidies, land development, water management and subsidising modern drip irrigation etc. A second agricultural revolution in the Indian agricultural promoting, producing and cutting cost with appropriate technology and power cooperative institutional allotment for value addition, preservation and access to market for the plentiful production are very essential. Role of agro-based industries and allied industries are very vital for supplementary income. In view of 56% national poverty among the people, Food Security Act is vital to ensure the food consumption for all individuals.

The inequality cannot be reduced by only liberalised policies unless very important measures are taken specifically keeping weaker sections as target groups. Such measures include the following.

- 1) We need to create new opportunities of employment at the doors of the rural people as they have lost their employment and income from traditional economic activities like cottage industry and handicraft largely due to heavy market competition in liberalised economic policy period.
- 2) New job opportunities in economic activities of production and services need very powerful programmes of up-gradation of skill and new skill development without which these classes will not be able to take advantage of new employment.
- 3) The powerful social development including education, health and anti-poverty programmes are very essential to improve the capabilities of the masses to reduce their marginality.
- 4) Inclusive growth is very essential to reduce both poverty and inequality. But there will be much less space to substantial changes as present mode of production is capital-intensive. However, there is a great scope in the service sector: agro-based industries and retail trade sector. In these, there is a great potential for employment for labour employment with better Skill Development.
- 5) There will be need to ensure the reasonable share of labour class by way of the wages in production of the productivity contribution of labour class. The limited profits and depressed wages cannot help reduce inequalities within the present set up of liberalised economy.

These kinds of measures have proved rewarding as seen in the case of China and Brazil where poverty (China) and inequality (Brazil) has been reduced. On the side of equality promoting factors the top 10% and 10% salaried class needs to be controlled without creating disincentives and discouraging the business climate. We need to undertake the measures to limiting the economic inequality. These could be as follows:

- a) Fiscal Measures of taxation and subsidies: The progressive income tax within the limits of reasonable space of incentives is very essential to increase equality. In the similar manner there is a need to catch hold of new wealth generated out of the surplus income i.e. savings and the wealth and strong tax net to cover corporate sector.

There is also case for subsidy for the productive investment of surplus fund in backward areas, rural industries, agriculture and other labour intensive employment generating sectors so that the growth effects could be percolated down to rural areas and spread efforts help that is generating large scale of labour employment.

- b) Taxation of business profit also could be targeted to generate sources for the development of deprived classes in the area of health and education. However, disincentive effects on business enterprise could also be kept in mind. The present policy of corporate social responsibility and public private partnership programmers could be very vital if the specific 2% of the profit meant for corporate social responsibility are assigned to work for area development and development of PURA in the rural sector via public private partnership programmes and provide base for development of rural economy.
- c) Redistribution of land: The neo-liberalised economic policy has almost outdated the land reforms. At the same time the market forces have so operated that medium farmers have become small and small become landless and reduced to wage labour class. Under these circumstances, there is a need for stricter land ceiling acts for the redistribution of land and the surplus land must be made available through proper process with encouragement for the co-operatives of those new beneficiaries.
- d) Anti Trust: Acts could be used to reduce the restrictive trade policy and monopoly power. The marketisation policy should not mean creation of monopolies. In fact market friendly operation also should cover the respective trade and monopolies under the present laws of monopoly act and competition act etc. This will reduce price, present laws resources of improper allocation and get positive incentive for the productive investment.
- e) Specific measures to protect and promote the development of marginalised class: exclusive economic growth and historically marginalised groups of SC/ST etc. are subject to over discrimination; hence, all the possible measures should be taken to target their progress. Some of the major actions needed to be undertaken quickly continually and adequately.
  - i) Powerful implementation of developing rural economy and agriculture as most of the marginalised class still live in the villages.
  - ii) The specific policy like Sarva Shiksha Abhiyan, Right to Education, Health for all under Rural Health Mission, Food Security Act, NREGA etc. are steps in the right direction as it will help the marginalised class.
  - iii) Anti-poverty programmes, tribal development sub-plan, dalit development plan etc. are also equally important for the development of marginalisation and socially excluded classes whose development will also ensure a step towards progressive equality.

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## 5.6 SUMMARY

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Economic Disparities and Marginalisation in market to develop understanding of the problem of economic disparity and possible policy actions are needed to resolve the issue. It provides adequate conceptual foundation of relevant concepts and also describes the measurement of the economic disparities. Then, it explains the significance of the

economic equality in the context of India. Policy alternatives for progressive reduction of inequality are suggested. These measures include variety of measures such as development programmes and fiscal policy actions. Total inequality cannot be eliminated but progressive reduction of inequality is possible in the long term.

‘Inequality’ is a basic source of breeding poverty and deprivation of development to every section of the people in India. It also generates social tensions, disincentives and unrest against the development process among deprived and disadvantaged people. The only way out is to ensure “inclusive growth” with well designed policy actions providing greater access to participate in development process in a beneficial manner. Removal of total inequality is perhaps not possible but progressive reduction of inequality is possible in the long run with appropriate strategies.

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## 5.7 TERMINAL QUESTIONS

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- 1) Explain the significance of the problem of Economic Disparities.
- 2) Explain the different forms of Inequality.
- 3) Explain the conceptual difference between equity and equality.
- 4) What is Gini Coefficient? What is Lorange Curve?
- 5) Describe five specific measures to mitigate economic disparity.

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