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WHAT 2020 DID TO INDIA'S INEQUALITY

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

BENGALURU : Even before covid-19, India was already a highly unequal country. As per the World Inequality Database, the share of the top 10% in India's national income was about 56%, much higher than comparable countries like Indonesia (41%), Vietnam (42%), and even China (41%). India's pandemic-induced economic hit is expected to be much worse than any of these comparable Asian nations.

Early news reports about the hardship endured by migrant workers and the urban poor, as well as numerous surveys, painted a grim picture of the economic fallouts of 2020—the sweep of which is only beginning to be understood. In a survey of vulnerable households done by Azim Premji University, sample earnings fell by around 40-50% in April and May. A larger survey by Dalberg found that the average monthly household income declined by 65%. The lower quintiles were the hardest hit.

But these surveys were immediate and purposive and couldn't be generalised to cover the whole population. Now, our analysis of a nationally representative household survey by the Centre for Monitoring Indian Economy (CMIE) throws up some sobering facts. An average Indian household lost about 25,000 in income (equivalent to slightly more than a month's earnings) in the first six months of the pandemic, as compared to the previous year.

Further, losses were disproportionately borne by the poorest—the bottom 10% of India's households lost 30 percentage points more of their income than the top 10%. Even individuals with secure, salaried jobs—the cream of India's workforce—saw their income decline by about 12% in 2020.

The economic upheaval unleashed in 2020 could leave behind inter-generational disparities. Studying the long-term impact of past pandemics on inequality, researchers at the International Monetary Fund have shown that five years after a pandemic, income inequality increases significantly and individuals with low education were impacted the most.

Researchers at the World Bank have documented that pandemic-linked crises, including covid-19, have a larger short-term impact on the poor. The recovery for poorer households is also slower as they are forced to sell productive assets and reduce education and food expenses in order to survive the crisis.

In the shadow of an upcoming Union Budget, these facts acquire even more resonance. Until now, the burden of this once-in-a-century crisis has been borne unequally, and mostly by the poor. This needs to change and the burden needs to be shared more equally across society. This might mean that, if needed, the government should consider raising funds through a covid cess on the rich in order to partly fund direct support to the poor.

Recovery is partial

The pandemic's potential to have long-term impacts makes it imperative to understand and quantify what Indians have gone through in order to design more effective policy support. But no public data is available on what happened to employment or incomes over the past year. In the absence of such data, most attention has been focused on the Consumer Pyramids Household Survey (CPHS) data from CMIE.

CPHS is a nationally representative, high-frequency panel survey of 174,405 households, with each household being interviewed thrice a year. The latest income data available from this survey is for August 2020, which was released in early January.

The data show that, as expected, the lockdown had a far larger impact on urban incomes (see Chart 1). Rural incomes declined too—by about 35%—but urban earnings fell by 53%. By August 2020, incomes had started to recover, but still remained 13% below August 2019. Things haven't changed dramatically since then and the recovery remains partial.

But more important is the aggregate loss in annual income in the months leading up to August, which is unlikely to be recovered. Between March and August 2020, an average Indian household's total income—compared to the same months in the previous year—dropped by 17%. Or, about 24,949. This money has been erased from a household's annual budget.

While the loss, on average, is steep, households with lower incomes saw a larger share of their usual earnings disappear than households with higher incomes. We arranged the households from the lowest to highest incomes and divided them into ten equal groups (deciles) to understand the differential impact of the pandemic.

The bottom deciles experienced a sharper decline in April on top of an already declining trend (see Chart 2). The bottom two deciles of households, in both rural and urban areas, experienced a more than 90% decline in incomes in April and May. In August, the bottom two deciles were about 20% below their incomes as compared to a year ago. The top decile, meanwhile, saw their incomes decline the least—the maximum decline for them was 25%.

Differential impact

The differential impact is understood most clearly when we look at the cumulative loss in incomes over the entire covid period. In Chart 3, we show the year-on-year change in aggregate per capita income in constant prices for each decile between pre-covid and the covid period (March-August 2019 compared to March-August 2020). The bottom rural decile lost 54% of their incomes in the covid months, while the richest decile experienced a loss of 16% in rural areas. In urban areas, the corresponding numbers are 39% and 21%, respectively. While the overall impact is larger in urban areas, the differential impact across deciles is starker in rural areas. In effect, the poorest rural dwellers and middle-income urban dwellers were perhaps the hardest hit.

In absolute terms, households in the bottom decile lost 17,585, on average. This is equivalent to losing three months of income for an average bottom 10% household. It is important to note that this absolute loss is on a very low base to begin with, and thus implies a severe reduction in welfare during the covid period.

As a result of this differential impact, inequality increased substantially. The share of the bottom 10% in total household income decreased from an already low 2.7% to 1.6% in rural areas (and 2.8% to 2.2% in urban areas).

It is important to note here that household surveys cannot reach the rich (mean monthly household income of the top 5% in the CMIE survey is only about 101,790) due to the higher non-response rates among these households and the low probability of them being selected in the sample. This means that the inequality estimates presented here are lower bounds and, in reality, would be far higher.

Interestingly, even within relatively protected sub-segments like salaried employees— what the

CPHS terms “permanent salaried workers"—the bottom rung was hit harder than the top rung.

The bottom 20% of salaried workers experienced a wage loss of as much as 57% in April (compared to April 2019 levels). In contrast, the top 20% saw their income decline by 15% in April. By August, salaried workers across all segments of income had recovered. But what happened when the purse strings tightened in the middle of a pandemic, and who suffered the most, is perhaps a good indicator of how India does business—not just in small, informal enterprises but even in formal firms that employ regular, salaried workers.

The way forward

It’s an undisputable fact that household incomes experienced enormous shocks during 2020 due to the pandemic and the subsequent containment measures. These large shocks can also result in pushing households into long-term poverty traps if the recovery is slow. Already, as per World Bank estimates, South Asia (mainly India) will see the number of poor increase by about 70 million in 2020. In the absence of substantial public support, households have incurred debts and resorted to asset sales in order to survive. In the Dalberg survey of low-income households, the median debt accumulated as of late-May was 67% of pre-lockdown monthly household income, with that figure reaching 100% for the poorest households.

Government relief measures—such as a direct cash transfer of 1500, free food grain rations, additional allocations to MGNREGA as well as state-level schemes—were all important and necessary, but have been vastly inadequate. The direct cash transfer of 1500 provided by the government, for instance, was a tiny fraction of the income loss of 17,585 that a household in the bottom 10% experienced.

India’s direct cash support is also small compared to other low-middle income countries. The Centre’s cash transfer amounted to 4% of GDP per capita per month over three months. In contrast, as per World Bank data, cash support provided by other lower middle-income countries was ten times larger—at 40% of GDP per capita for three months.

Thus far, the burden of the crisis has clearly been borne unequally, and mostly by the poor. This needs to change. A larger direct cash transfer to the poorest, continuation of the PDS rations (which expired in November), expansion of MGNREGA in rural areas, the introduction of a new urban employment guarantee scheme, and added investments in education should all be part of the recovery package. These measures would help households get back on their feet, partly make up for the losses experienced till now, and reduce the long-term impacts.

While revenue-generating measures to finance this support should be considered, such measures notwithstanding, the fiscal deficit and the debt to GDP ratio are certain to rise. Holding back on public support for this reason alone risks prolonging the hardship of average Indians and delaying recovery. The unintended effect could be a reversal of the hard-earned gains in poverty reduction which have accrued over the past two decades.

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