The dangers of India's Billionaire Raj

Speaking from the ramparts of Red Fort in New Delhi last month, Prime Minister Narendra Modi was at pains to put fairness at the heart of his political agenda. He promised "a New India, where there is equal opportunity for all" by 2022, the 75th anniversary of independence. But on the most important indicator of this agenda—income inequality itself—the country is slipping dangerously backwards.

This conclusion is inescapable from a paper published last week by the celebrated French economist Thomas Piketty, along with his co-author Lucas Chancel. Its conclusion is striking. The share of national income taken by the top 1% of Indian income earners is now at its highest level since records began, when the British Raj began collecting income tax records in 1922.

Piketty's new Indian data suggests a pattern that is worryingly familiar from his opus *Capital*, which warned of galloping inequality in the industrialized world. In the West, the relative wealth of the ultra-rich dipped in the mid-20th century before bouncing back in the last two decades. India now shows the same trend, albeit mostly for different reasons.

Piketty and Chancel's evidence is comprehensive, but far from unique. International Monetary Fund (IMF) research last year showed India, alongside China, to be the most unequal major economy in Asia. A recent study by Credit Suisse, the investment bank, suggested that India's 1% now own a staggering 58% of national wealth—one of the world's highest rates, and akin to notoriously stratified nations like South Africa and Brazil.

The same is true at the very, very top. Harvard's Michael Walton has shown that India has an unusually high proportion of national wealth held by its swelling ranks of billionaires. Piketty's paper broadly supports this view, showing that the share of income held by the "0.001%" has also increased rapidly. The paper's subtitle poses a question: Is India becoming a "Billionaire Raj?" In truth, the evidence for this is now overwhelming. The question should be: why does it matter, and what can be done about it?

Over recent decades India laboured under the misapprehension that it was an oddly egalitarian nation. This was partly a hangover from the socialist era, when the rich still lived modestly by global standards. There were no Indians on *Forbes* annual billionaire rankings until the mid-1990s (now there are well over 100, more than in any other country bar America, China and Russia). There were methodological issues too, namely that research often focused on consumption rather than income or wealth, giving a false picture of inequality.

Beneath this there lay a peculiar intellectual consensus. On the right, thinkers like economist Jagdish Bhagwati argued that rapid growth mattered more than its distribution. But even on the left, Bhagwati's rival Amartya Sen focused more on conditions at the bottom, and the fact that economic expansion had failed to boost indicators of human development. For both, the gap between rich and poor was a secondary concern.

There was a logic to Sen's argument. Almost all successful economies in East Asia have grown rich by investing heavily in basic health and education, which helps poorer workers to move from farms to factories. Modern India more often looks like a Latin American economy, with a weak social safety net but yawning inequality.

There are good reasons to be worried about this gap too. Mainstream economists often used to be relaxed about inequality, arguing that it at least did little to harm growth. But more recent research, much of it again from the IMF, has overturned this consensus, showing that unequal nations tend

to grow more slowly and are more prone to financial instability. Unequal countries also find it harder to form the kind of social consensus needed for structural economic reforms, a point made by Harvard's Dani Rodrik.

The reasons for Indian inequality are complicated. Some of it stems from positive factors linked to liberalization, like entrepreneurs building large companies linked to global markets. Factors such as rising urbanization and increasing returns to education also play a role. Many countries become less equal as they industrialize, only to reverse that trend later.

Still, India appears to be growing unequal more quickly and more starkly than most, a trend that will be hard to reverse later. It is also hard not to conclude that poor public policy, along with problems of corruption and cronyism, are partly to blame.

It also leaves a dilemma. The gap between rich and poor is likely to grow if Modi ever succeeds in his ambition of hitting double-digit growth rates. Certainly, this was what happened during the 2007 boom, a period when India's billionaire wealth rivalled Russia, and Reliance Industries' chairman Mukesh Ambani was briefly thought to be the richest man in the world.

Fixing this problem, so growth is more broadly shared, will be complicated. But there are obvious places to start, not least tax collection, in a country where an improbably tiny 48,000 people admitted to earning more than Rs1 crore in 2015. Beyond this a far more radical agenda is needed, to improve basic social services at the bottom, while using competition policy and regulation to stamp out crony capitalism and entrenched corporate power at the top.

For all of his talk of fairness, Modi is doing little of this. If he does not change course, the Billionaire Raj is only going to grow stronger.

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