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Fruits of reform have failed to reach the poor

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The top 20% of India's population has a more than 50% share of the national income in 2009-10, up from 36.7% in 1993-94, says a study by the National Council for Applied Economic Research, or NCAER. This would seem to confirm the charge that income disparities have increased in the reform years, 1991 onwards, and the rich have got richer as a freer economy has created more opportunities.

According to a study, How India earns, spends and saves, authored by Rajesh Shukla, the bottom three quintile, or 60% of India, has a mere 27.9% share in total income, down from 38.6% at the start of the reforms.

The reforms have thrown up the opportunities that those with resources have been able to exploit better, creating the distortion in income that would suggest that the rich have benefited more from the reforms.

What should worry the policymakers is not the high income inequality per se, but that it continues to widen even today, after two decades of reforms. In the initial years of reforms an increase in income inequality was understandable as those with access to resources or equipped with skills would be in a position to make use of the opportunities better or command a better price. However, over time, a larger share of population should have been able to benefit from the near double-digit growth of the Indian economy.

The problem is not that the rich have got richer but that those at the bottom have not been provided the wherewithal to improve their earning capability. And that continues to be the case even now. Access to meaningful and affordable education, for one, continues to be an issue, and lack of physical infrastructure makes it difficult for the hinterland to be integrated with the market economy.

Incomes have increased because of the ever-increasing support prices for farm produce, and transfers from the government through schemes such as the employment guarantee schemes. But the key issue of enabling the people to command a higher incomes through skilling or education has not progressed much. Even the extra incomes are not deployed in a meaningful way as financial inclusion remains poor and health contingencies continue to eat up savings or land people in debt because of the shoddy state of the public healthcare system.

The problem, clearly, is not that rich have got richer, rather that a vast percentage of population still continues to be deprived of the means that can enable them to take a greater share of the wealth creation happening through the rapid growth. The top 20% of India's population has a more than 50% share of the national income in 2009-10, up from 36.7% in 1993-94, says a study by the National Council for Applied Economic Research, or NCAER. This would seem to confirm the charge that income disparities have increased in the reform years, 1991 onwards, and the rich have got richer as a freer economy has created more opportunities.

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