Economic Mobility and Inequality

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The article is based on **"India's economic mobility and its impact on inequality"** published in Livemint on 12th August which talks about economic mobility and inequality in India.

Context

- There has been a phenomenal rise in economic **inequality in India,** especially in the post-1991 liberalization period. However, widening income inequality has raised questions over economic mobility in an inclusive way.
- According to the **Annual Wealth Check report 2019 of Oxfam**, the top 1% of India's richest lot got richer by 39% as against just 3% increase in the wealth for the bottom half of the population.
- According to ***Global Wealth Report (GWR)* 2018,** India's top 10% of the population now holds 77.4% of the national wealth. The bottom 60%, the majority of the population, owns 4.7%. The richest 1% own 51.5%.
- **Gini wealth coefficient** in India has gone up from 81.2% in 2008 to 85.4% in 2018, which shows inequality has risen.
- According to the ***Global Wealth Report (GWR) 2017,*** put out by the Credit Suisse Research Institute, between 2002 and 2012, the share of the bottom 50% of the population in total wealth declined from 8.1% to only 4.2%. In contrast, over the same time period, the share of the top 1% in total wealth increased from 15.7% to 25.7%. Among the countries for which the GWR gives the share of wealth held by the top 1%, only Indonesia and the US have higher shares than India.

What is Economic Mobility?

- Economic mobility reflects the number of people moving up and down the economic ladder over time. It is the ability of an individual or family to improve their income, and social status, in an individual lifetime or between generations.
- Mobility may be between generations ("intergenerational") or within a person's or group's lifetime ("intragenerational"). It may be "absolute" or "relative".

- Recent research from economists at the World Bank, Dartmouth University and the Massachusetts Institute of Technology show that, by and large, **intergenerational mobility has remained stagnant for Indians since the economy was liberalised in 1991.**

Impact of Economic Mobility on Inequality

- The long-term welfare effects of rising inequality depend crucially on the level of economic mobility.
- Economic mobility (or a lack thereof) **can attenuate** (or accentuate) **the adverse effects of inequality.**
- Holding other factors fixed, an economy with much economic mobility—one in which households move more freely throughout the income/consumption distribution—will result in a more equal distribution of lifetime incomes and consumption than an economy with low mobility.

Hurdles in Economic Mobility in India

- **Poverty:** Studies find that for the population as a whole, the mobility rate is remarkably low. This is due to the large number of poor.
- **Inequality in Wealth and Income:** Widening inequality in income level has lowered the pace of economic mobility in India in real terms.
- **Rural Population:** Around 70% of Indians live in rural areas with very limits and uncertain economic opportunity. This limits the scope of their economic mobility.
- **Low Level of Education:** Education is widely regarded as the most effective means of upward mobility. High illiteracy and low quality of education among masses in India is a major hurdle in their upward mobility.
- **Social Factor-Caste and Religion:** Lower castes have lower economic mobility due to limited access of opportunity. Similarly, Muslims have the lowest economic mobility due to prevalent orthodoxy in the community as well as limited access to opportunity.

Way Forward

- Inequality in India can be characterized as chronic, since households belonging to the lower rungs of the economic ladder are likely to find themselves caught in a poverty trap.
- The conventional wisdom that marginalized groups in India are catching up with the rest on average is being challenged with revelations on economic mobility. This casts doubts over the efficacy of existing affirmative action and social programmes that have been put in place to help improve the economic status of marginalized groups in the country.
- Poverty reduction efforts should focus on ways to improve the permanent economic status of households, possibly through acquisition of assets and capabilities, rather than on ways to deal with temporary volatility.

- Efforts in the direction of inclusive growth will bridge the common divides on the lines of caste, religion, gender, rural-urban, etc and help in achieving faster economic mobility and thus reduced income inequality.

Drishti Input

“Critically examine the pace of economic mobility in India in the light of widening inequality in the post-liberalised period.”