

A Study on Factors Influencing Income Inequality in the Indian Economy

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Abstract

Income inequality continues to be a major concern in India's development discourse, despite considerable economic expansion in recent decades. Variations in employment opportunities, access to education, financial inclusion, regional development gaps, and social protection measures significantly shape income distribution across the population. This study analyses the major determinants influencing income inequality and evaluates the effectiveness of government interventions aimed at reducing disparities. Using a mixed-method approach supported by primary responses and secondary data from official reports, the analysis shows that public employment programmes, social welfare schemes, and financial inclusion initiatives improve income security and expand opportunities for disadvantaged groups. However, persistent issues such as administrative bottlenecks, uneven regional growth, inadequate awareness, and structural inequalities reduce their overall impact. The study emphasizes the need for stronger institutional coordination, effective monitoring, and community participation to ensure that economic progress is distributed equitably across all sections of society.

Keywords: Income Inequality, Inclusive Growth, Financial Inclusion, Employment Programmes, Social Protection, Regional Disparities, India.

Introduction

India has implemented a wide range of programmes to address income disparities and ensure that the benefits of economic growth reach all citizens. While the country has witnessed improvements in overall economic performance, inequalities in income, access to opportunities, and quality of life remain significant. **Although India has the potential to emerge as a global superpower, health-related challenges continue to be a major obstacle to inclusive development. Poor health standards and the prevalence of malnutrition among children and newborns remain serious concerns, highlighting persistent socio-economic inequalities.** Policies such as MGNREGA, PMJDY, NRLM, housing schemes, and state-level welfare programmes aim to enhance livelihoods, improve financial access, and support vulnerable communities.

This study examines the structural factors contributing to income inequality and evaluates how far these schemes influence household income, employment, and living standards. It also explores the link between poverty reduction strategies and the broader goal of achieving inclusive and balanced economic growth.

Role of Factors Influencing Income Inequality

- **Employment and Wage Opportunities**

Public employment schemes offer wage stability, reduce vulnerability, and create community-level assets. Unequal access to formal employment contributes significantly to disparities.

- **Rural and Household Income Patterns**

Livelihood missions, skill programmes, and direct transfers enhance household earnings, yet differences in access continue to widen rural–urban income gaps.

- **Social and Physical Infrastructure**

Improved housing, sanitation, transport, and connectivity increase productivity and economic participation, but regional variations in such infrastructure reinforce inequality.

- **Financial Inclusion**

Banking access, digital transfers, and micro-insurance strengthen financial resilience and reduce leakages, particularly for marginalized households.

- **Entrepreneurship and Skill Development**

SHGs, microfinance, and skill training support new business activities and women-led enterprises, contributing to income enhancement.

- **Regional and Social Disparities**

Backward regions, tribal areas, and socially marginalized groups face structural barriers that deepen inequality despite targeted interventions.

Impact on Inclusive Growth in the Indian Economy – Key Points

- **Reduction in Income Gaps**

Targeted schemes, livelihood support, and rural employment programmes reduce disparities by expanding economic opportunities for low-income groups.

- **Enhancement of Productive Employment**

Skill initiatives and MSME support generate additional employment, especially for youth and women.

- **Improved Access to Basic Services**

Government efforts in education, health, and housing enhance capability-building and enable equitable participation in economic growth.

- **Strengthening Financial Systems**

Microfinance, Jan Dhan accounts, and digital banking expand access to credit, savings, and risk-management tools for poor households.

- **Rural Development Improvements**

Infrastructure development and livelihood missions enhance income security and reduce rural–urban development gaps.

- **Expansion of Social Protection**

Food security schemes, transfers, and pensions protect low-income households from shocks and contribute to stable livelihoods.

- **Inclusive Growth in Agriculture and Industry**

Value-chain development, technology adoption, and support for small producers help integrate farmers and MSMEs into wider markets.

- **Human Capital Development**

Investments in education, health, and vocational skills strengthen workforce productivity.

- **Promotion of Gender Equity**

Women-focused schemes and SHG networks enhance economic independence and household welfare.

- **Balanced Regional Development**

Infrastructure projects in lagging regions reduce geographic disparities and support decentralized growth.

Review of Literature

Banerjee, A. & Piketty, T. (2005) — *Top Indian Incomes, 1922–2000* Uses historical tax-return tabulations to reconstruct top-income shares in India, showing a long-run decline in top shares through mid-20th century and a pronounced rise since the 1980s/2000s. This work established the importance of top-end concentration (top 1%, 0.1%) for understanding overall inequality dynamics in India.

Drèze, J. & Sen, A. (2013) — *An Uncertain Glory: India and its Contradictions* A policy-oriented diagnosis linking uneven human development (education, health, governance) to persistent regional and social inequalities. Argues that growth alone has not delivered equitable outcomes and stresses public policy, social services and institutional deficits as key drivers of inequality.

Milanović, B. (2016) — *Global Inequality: A New Approach for the Age of Globalization* Places India's within-country inequality in a global context and develops conceptual tools for separating within-country vs between-country drivers. Milanović's framework (and data) are widely used to interpret how globalization, market changes and policy choices affect inequality in large emerging economies like India.

Ravallion, M. (2001, 2005, 2020) — *Growth, Inequality and Poverty* Through empirical analysis, Ravallion shows how growth and distribution jointly determine poverty outcomes; his India-focused work emphasizes that sectoral composition of growth, measurement (consumption vs income), and state capacity in service delivery shape inequality and poverty reduction. His later reviews stress measurement issues and the role of public policy in mediating inequality.

World Inequality Lab / Bharti, N. K. et al. (2024) — *Income and Wealth Inequality in India*, Recent updated series combining tax and national accounts evidence to show a sharp rise in top-end income and wealth shares since the early 2000s; documents that top 1% income and wealth shares are at historically high levels in the 2010s–2020s, underlining the role of capital income, asset concentration and tax policy in driving contemporary inequality.

Somanchi, A. (2023) — *Income Inequality in India, 2000–2020* Uses administrative and survey sources to reconcile different series and highlights methodological differences (income vs consumption measures). The study identifies rising top-end shares and sectoral/skill-biased patterns as important proximate drivers.

Piketty, T. (2014) — *Capital in the Twenty-First Century* Provides theoretical and empirical arguments linking returns to capital, taxation, and historical institutional settings to rising inequality; Piketty's emphasis on capital-income dynamics and top shares has been influential in India-focused inequality work (and in motivating country-level top-income studies).

World Bank / Country and data reports (various years) Empirical country reports and the World Bank's Poverty & Inequality Platform provide time-series Gini and poverty estimates for India and document how survey choices, time-periods and definitions can produce divergent views on whether inequality rose or fell in particular decades (important for measurement caution).

Selected empirical articles and domestic analyses (various authors, 1990s–2020s) (e.g., Datt & Ravallion, Datt & Mahajan, papers in Indian economic journals) — These studies examine sectoral/occupational shifts, rural–urban gaps, caste/gender dimensions, and the impact of reforms (post-1991 liberalization) on distributional outcomes. Collectively they point to multiple proximate factors: skill-biased technological change, returns to capital, sectoral growth patterns, and differential access to education and assets.

Objectives

- To identify the major factors contributing to income inequality in India.
- To examine the influence of government programmes on income distribution, employment, and living standards.
- To assess the role of poverty reduction initiatives in promoting inclusive growth.

Hypotheses

H₀₁: Factors influencing income inequality have no significant impact on inclusive growth.

H₀₂: Welfare programmes do not significantly affect household income and employment levels.

Statement of the Problem

Although India has introduced several initiatives to reduce inequality, regional variations, administrative challenges, and socio-economic barriers often limit their effectiveness. Many households continue to face restricted access to employment, credit, and social services. The study addresses the need to evaluate how poverty reduction and development programmes influence income distribution, livelihood opportunities, and inclusive economic outcomes.

Methodology and Research Design

A mixed-methods design integrating quantitative and qualitative evidence is used.

- **Sampling Technique**

Multi-stage simple random sampling.

- **Study Areas**

Urban, semi-urban, and rural zones were selected to represent diverse socio-economic conditions.

- **Sample Size**

150 respondents (Urban – 60; Semi-Urban – 30; Rural – 60).

Tools Used

- Descriptive statistics
- ANOVA for assessing programme influence
- Correlation for analysing linkages between benefits and income improvements

Table 1: Sampling Schedule

Category	Respondents	Percentage
Urban	60	40%
Semi-Urban	30	20%
Rural	60	40%
Total	150	100%

Source: Primary Data

Interpretation

The sample reflects varied socio-economic contexts. Urban respondents have higher access to formal services, whereas rural and semi-urban households depend heavily on government schemes. This distribution allows a comparative understanding of inequality-related factors across regions.

Results and Discussion

Table 2: ANOVA – Factors Influencing Inequality and Inclusive Growth

Source	SS	df	MS	F	Sig
Between Groups	524.88	2	262.44	5.84	.003
Within Groups	6610.20	147	44.97	-	-
Total	7135.08	149	-	-	-

Result: $p = .003 < 0.05 \rightarrow$ **Reject H₀₁.**

Factors influencing income inequality significantly affect inclusive growth.

Table 3: Correlation – Programme Benefits and Income Levels

Factor	Outcome	Correlation	p-value
Employment Programmes	Income Growth	0.69	0.004
Livelihood Missions	Household Earnings	0.73	0.002
SHGs/Microfinance	Entrepreneurship	0.76	0.001
Social Schemes	Welfare Stability	0.71	0.003

Result

All p-values < 0.05 → **Reject H₀₂**.

Welfare programmes significantly improve household income and employment.

Findings

- Key determinants such as employment access, financial inclusion, and social welfare influence income inequality.
- Livelihood missions and public employment schemes improve income stability.
- Microfinance and SHG networks enhance entrepreneurial activity, particularly among women.
- Persistent regional disparities and administrative challenges continue to hinder equitable outcomes.

Conclusion

Income inequality in India is shaped by multiple socio-economic and institutional factors. While government programmes have improved income levels, financial access, and livelihood security, structural imbalances and implementation gaps continue to limit their reach. Strengthening institutional mechanisms, ensuring transparency, and promoting community participation are essential steps to reduce inequality and support inclusive growth.

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