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ANALYZING THE IMPACT OF INDIAN GOVERNMENT POLICIES ON INCOME DISPARITY

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Abstract

This study examines the complex effects of government policies on income inequality in India, a country known for its substantial economic variation and social hierarchy. The research seeks to analyze various government interventions, such as tax reforms, social welfare programs, education and employment initiatives, and rural development schemes, in order to understand how effective these policy measures are in addressing income inequality. This study assesses the success or failure of policy interventions in reducing the economic disparity across various segments of the Indian population by thoroughly analyzing the policy frameworks, their execution, and the resulting results. This inquiry aims to gain insights into the dynamics of income disparity in India and the impact of government policies on this issue. It will use a combination of quantitative data analysis and qualitative assessments.

Keywords: Government Policies, Income Inequality, Economic Growth & Development.

Introduction

India's path towards economic growth and development has been characterized by notable accomplishments as well as obstacles. Income disparity is a significant challenge that highlights the unequal distribution of wealth and resources among different sectors of the society. This study seeks to examine the effects of Indian government policies on income inequality, providing insight into the complex connection between government interventions and economic equity in the country.

The Indian government has implemented a range of policies, including tax reforms, social welfare programs, education and job efforts, and rural development plans, in order to address the complex problem of income inequality. These policies are formulated with the aim of improving the economic conditions of the socially and economically disadvantaged segments of society, consequently narrowing the socioeconomic disparity between the affluent and the underprivileged. Nevertheless, the efficacy of these policies in attaining their desired results continues to be a topic of contention among economists, policymakers, and researchers.

This research paper aims to investigate the influence of government policies on income inequality in India. This study analyzes the historical circumstances surrounding income disparity in the country, the development of pertinent governmental measures, and the socio-economic factors that impact the efficacy of these interventions. The study seeks to gain a nuanced understanding of the impact of policy initiatives on income distribution patterns in India, by conducting a thorough examination of existing data and literature. It will examine the effects of these policies on various states and socio-economic categories.

The primary objective of this inquiry is to examine both the present condition of income inequality in India and the impact of government measures in either reducing or intensifying this inequality. This analysis aims to provide insights into the mechanisms by which policies impact income distribution and propose potential pathways for establishing a more fair economic environment in India.

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Review of Literature

Kundu's study conducted in 2022 [2]; Fiscal policies are crucial in restructuring the distribution of income in India. Policy variations exist at the Union, State, & Municipal levels, exerting both individual and collective influence on the nation's quality of life. These policies encompass determinations regarding taxes that are both direct and indirect, subsidies, pensions, and additional forms of direct transfers, in addition to the allocation of public funds towards education and healthcare. The purpose of this Commitment to Equity (CEQ) study is to analyze the separate and combined effects of these policies on poverty & income distribution in India. The paper has utilized household consumption spending data from the 2011-12 National Sample Survey (NSS) as the foundation for its examination of income distribution. In addition, it has utilized other surveys, including the NSS study on household consumption spending for Education and Health in 2014, the Indian Human Development study, and the NSS Employment and Unemployment survey in 2011-12, to estimate the monetary worth of in-kind and cash transfers, as well as direct taxes.

Kanbur (2022) [4] examines the challenges associated with narrowing the disparity between inequality and inclusive economic growth in India. The article examines the various factors which contribute to the inequality in India, including historical effects, the structure of the Indian economy, and social and cultural customs. The author also examines policies and initiatives aimed at reducing inequality in India, highlighting the significance of a comprehensive and integrated approach to achieve inclusive economic development. The Indian Institute of Dalit Studies (2020) found that both the Adivasis and Dalits, who are indigenous peoples in India, are more likely to experience poverty and marginalization. They have lower levels of education, work in lower-paying jobs, and have restricted access to healthcare. Research indicates that prejudice against scheduled tribes remains a significant barrier to their social, economic, as well as upward mobility. In a report published in 2019, the Reserve Bank of India (RBI) identified income disparity as the main factor contributing to financial exclusion in India. The report highlighted that individuals with lower incomes have limited access to formal financial services. The report advocated implementing policy measures that promote financial inclusion, such as enhancing financial literacy and expanding access to formal financial services in underprivileged regions.

Analysis

Equality, akin to equity, is a crucial principle in the majority of nations. Regardless of philosophy, society, or religion, individuals are concerned about inequality. Inequality can serve as an indication of limited income mobility and opportunity, representing ongoing disadvantages for specific groups of society. Increasing inequality also has substantial consequences for economic growth and macroeconomic stability. It can centralize political and decision-making authority among a small group of individuals, result in inefficient utilization of human resources, contribute to economic and political instability that hampers investment, and elevate the risk of crises. The worldwide financial crisis & its impact on the economy and society have increased concerns about the growing income disparity. The government policies in India on income inequality consist of a wide range of programs that aim to tackle inequities in income distribution as well as promote equitable economic growth. These are some of the main policies:

1. Progressive Taxation System

India implements a progressive taxation system, wherein persons with greater incomes are subject to higher tax rates. The objective of this system is to achieve income redistribution by increasing the collection of taxes from the wealthier segments of society and allocating it towards social welfare programs.

In India, the progressive taxation system is designed such that individuals with greater incomes are subject to higher tax rates, while those with lower incomes are subject to lower tax rates or may be completely exempt from taxation. The purpose of this system is to facilitate the redistribution of income, decrease economic disparity, and guarantee that individuals with higher financial means contribute a greater proportion of their earnings towards the funding of public services including social welfare initiatives. Below is an elaborate explanation of the progressive taxation system in India:

a. The progressive taxation system is characterized by a structure that includes several income tax slabs. The Indian income tax system is structured with several tax brackets, where higher income bands are subject to increasingly higher tax rates. The government regularly updates these tax brackets through budget announcements.

b. Tax rates: Individual taxpayers are assigned tax rates based on their annual income, which are divided into different categories or slabs. According to the most recent data (as of January 2022), individuals below the age of 60 are subject to four different tax slabs.

For individuals with an income of up to Rs. 2.5

lakhs, no tax is applicable. However, there may be a possibility of receiving a tax rebate under Section 87A.

The tax rate for income ranging from Rs. 2.5 lakhs to Rs. 5 lakhs is 5%.

The income ranging from Rs. 5 lakhs to Rs. 10 lakhs is subject to a tax rate of 20%.

For income above Rs. 10 lakhs, the tax rate is 30%. In addition, a health care and educational cess of 4% is levied on the entire amount of tax that needs to be paid.

c. Surcharge: Individuals having higher incomes may be subject to an additional fee imposed on their tax liability. The surcharge rate is subject to variation depending on the income level, having larger surcharge rates being applicable to persons who are extremely wealthy.

2 Government Policies

The Indian government has implemented numerous welfare packages aimed at marginalized as well as economically disadvantaged groups. Some examples include:

2.1 MGNREGA

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) ensures that rural households receive a guaranteed wage employment, which in turn increases their income levels and reduces poverty. The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) is a significant social welfare initiative implemented by the Government of India in 2005.

The program ensures a legal entitlement to employment for rural households by offering a minimum of 100 days of paid work per year to every household whose adult members willingly engage in unskilled manual labor. The primary objective of MGNREGA is to improve the economic stability of rural households while reducing poverty by offering them employment opportunities in labor-intensive public projects. The main objective of MGNREGA is to ensure income stability for rural households by offering work possibilities during periods of low agricultural activity or times of hardship.

2.2 The National Social Assistance Programme (NSAP)

This offers monetary aid to marginalized populations, including the elderly, widows, and disabled individuals, to augment their wages. The National Social Assistance Programme (NSAP) is a centrally sponsored plan created by the Government of India in 1995. It is one of the primary social welfare programs aiming at giving financial help to vulnerable as well as economically disadvantaged segments in society. NSAP attempts to ensure a basic degree of social safety and help for persons who are unable to sustain themselves owing to old age, widowhood, disability, as well as other reasons.

2.3 Public Distribution System (PDS)

This guarantees affordable access to necessary goods for low-income households by providing them with subsidized rates. The Public Distribution System (PDS) is a vital element of India's food security strategy, with the objective of guaranteeing the accessibility of critical food commodities to socially and economically disadvantaged segments of the population at reasonable costs. PDS, which was founded in the 1940s, has seen significant changes and growth to become a global leader in food distribution. It currently caters to millions of homes in India.

2.4 Affirmative Action

Affirmative action policies, which include the allocation of reservation quotas in education and government employment, are put into effect with the aim of offering chances to communities that have traditionally been neglected, such as Scheduled Castes (SCs), Scheduled Tribes (STs), & Other Backward Classes (OBCs). These programs are designed to rectify past injustices and foster social integration, ultimately mitigating wealth inequality.

2.5 Skill Development Programs

These programs aim to improve the employability and income-generating capacity of the workforce, with a special focus on youth and disadvantaged individuals. Programs like the Skill India Mission have a primary focus on offering vocational training and promoting entrepreneurship as a means to empower individuals financially.

2.6 Pradhan Mantri Jan Dhan Yojana

The government has made financial inclusion efforts a top priority in order to guarantee that all sectors of society have access to banking and financial services. Programs such as the Pradhan Mantri Jan Dhan Yojana (PMJDY) have the objective of ensuring that everyone has access to banking services, which allows those with low incomes to save money, invest, and borrow money. This helps to generate income and reduce poverty. The Pradhan Mantri Jan Dhan Yojana (PMJDY) is a prominent initiative by the Government of India, introduced on August 28, 2014, to promote financial inclusion. This campaign is among the largest worldwide efforts to promote financial inclusion, with the goal of providing financial services to every household in India, especially those belonging to low-income and marginalized areas. The main goal of PMJDY is to ensure widespread availability of banking services, including as savings accounts, money transfer services, loans, insurance, and retirement plans, to every household in the country.

2.7 Sarva Shiksha Abhiyan (SSA)

This is a prominent initiative of the Government of India that was initiated in 2001 with the objective of ensuring comprehensive availability of primary education to children between the ages of 6 and 14. This is a centrally funded program that is carried out in collaboration with state governments with the aim of achieving universal access to primary education.

2.8 Ayushman Bharat

Ayushman Bharat, introduced in September 2018, is an ambitious healthcare program in India that seeks to offer universal health coverage & financial security to vulnerable as well as economically disadvantaged people. The system consists of two primary elements: Pradhan Mantri Jan Arogya Yojana (PMJAY) as well as Health and Wellness Centers (HWCs). Now, we will examine each individual element thoroughly:

2.9 Pradhan Mantri Gram Sadak Yojana

The Pradhan Mantri Gram Sadak Yojana (PMGSY) is a prominent initiative initiated by the Government of India in 2000 to ensure the provision of durable road connectivity to rural regions, regardless of weather conditions. The main goal of PMGSY is to enhance accessibility to markets, healthcare, education, as well as other vital services by establishing paved road connections to remote settlements.

2.10 National Rural Livelihood Mission

The National Rural Livelihood Mission (NRLM), commonly referred to as Aajeevika, is a prominent initiative implemented by the Government of India in 2011 with the aim of reducing poverty. The objective of NRLM is to diminish poverty and foster sustainable means of living by empowering rural households, with a special focus on women, through the establishment of self-help groups (SHGs) and the implementation of activities that promote livelihood.

Conclusion

The study on the effects of Indian government policies on income inequality has shed light on the intricate and intricate nature of policy interventions and their consequences on the economic situation of the nation. Although the government has made significant efforts to reduce income inequality by implementing various policy measures such as social welfare schemes, tax reforms, and employment generation programs, the results suggest that the impact on reducing income gaps among different socio-economic groups is complex and requires careful analysis.

The analysis shows that although certain initiatives have successfully enhanced the access to resources and opportunities for economically deprived groups, the overall impact on reducing income inequality has been uncertain. The success of these policies has been influenced by factors such as implementation issues, geographical inequities, and the changing dynamics of the global economy. Furthermore, the research emphasizes the crucial importance of implementing sustainable and inclusive economic growth plans, alongside specific interventions, to effectively tackle the underlying factors contributing to income disparity.

Ultimately, although Indian government policies have played a role in reducing income inequality to some extent, there is an urgent want for a more comprehensive and unified strategy. This entails the process of improving and perfecting current policies, guaranteeing efficient execution, and cultivating an all-encompassing economic atmosphere that advocates for fair chances for everyone. The results of this study emphasize the need to prioritize the development of policies that not only target economic growth, but also strive to achieve a fair distribution of wealth. This would help create a more balanced and equal society. In order to address economic disparity more effectively, it is crucial for future policy formulations to prioritize inclusion and sustainability, hence creating a more egalitarian India.

Conflict of Interest

The authors declare no conflict of interest in the conduct of this research.

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