

**COMPOSITION AND DISTRIBUTION OF PERSONAL INCOME
IN INDIA**

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This thesis on Composition and Distribution of Personal Income in India has been prepared by me under the supervision of Prof. P.S. Lokanathan.

As far as I am aware no attempt has so far been made by any organisation or individual in India to present a comprehensive study of the distributional aspect of personal income except for some glimpses available in the recent report of the Committee on Distribution of Income and Levels of Living. The results arrived at in this study are new - particularly those relating to rural urban differentials in the personal income earned, recent changes in inequalities in the personal income distribution in the rural and the urban sectors and the results bearing on the average rate of growth of income of the rural and urban sectors each taken as a whole, and the growth in income of specific socio-economic groups within these two sectors. These results, it is hoped, will be useful to both economists and policy makers. In addition, they will also serve as a bench mark for comparisons at a future date when new studies of this type will be undertaken and will thus help advance our knowledge regarding the changes in important distributional aspects of personal income in India.

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P R E F A C E

This dissertation analyses the data on personal incomes in India relating to a recent period. The importance of studies relating to the composition and distribution of personal income needs no special emphasis. This is particularly so in the context of India's Plans for economic development and the need to evaluate at intervals of time the impact of planning on the welfare of the population. In this connection, it may be relevant to study the changes taking place in the composition of aggregate personal income particularly, whether the share of wages (employee compensation) in total personal income has been increasing or decreasing or has remained the same. The present study indicates that the share of labour in aggregate personal income in India is of the order of 37 per cent and there are some indications that this share has been increasing in the recent years. Nearly 42 per cent of aggregate personal income in India in 1964-65 was derived from self-employment in agriculture and allied pursuits, about 17 per cent through self-employment in non-agricultural pursuits (business, profession and services), about 20 per cent from salaries, about 17 per cent from agricultural and non-agricultural wages and the rest from rent,

interest and dividends, and transfers comprising pensions and regular and irregular contributions.

A study of the distribution of personal income by size and by important socio-economic and demographic characteristics of the population is important per se. In addition, the distributional data are useful for examining the factors which contribute to relatively large personal income. This study provides such data. A multiple regression analysis of the data on incomes seems to indicate that the level of education attained (by the head of the household) is overwhelmingly important in the determination of income, followed by the population size of the place at which a household is living, the activity status of the head of the household and the number of earners in a household in that order. A study of rural urban differences in incomes earned seems to indicate that the average income per household for the urban sector is about 100 per cent higher than the average income per household for the rural sector. This is, of course, the situation when the averages for each of these two sectors taken as a whole are considered. When the average incomes for different socio-economic groups of the population within these sectors are considered, the rural urban income differentials show

marked variations. For example, the average income per household for the administrative and the executive occupational group in the urban sector is about 246 per cent higher than the average income of the corresponding occupational group in the rural sector; the average income of the professional and the technical occupational group in the urban sector is 139 per cent higher than the average income of the corresponding occupational group in the rural sector. On the other hand, the average income per household for the households headed by workers engaged in transport and communications in the urban sector is only 8 per cent higher than the average income of the corresponding occupational group in the rural sector.

In addition, a study of the inequalities in the income distribution is of topical interest. The findings arrived at in this study indicate that the concentration coefficient of personal income distribution in India is of the order of 0.41 for the year 1964-65. A comparison of the income distribution in India, the U.K. and the U.S.A. seems to point out that the share in aggregate income of the bottom 20 per cent of households (when arranged on income) in India is not less than the share in income of the bottom 20 per cent population in the U.K. or the U.S.A.

However, the share in income of the top 20 per cent of households in India is significantly higher than the share in income of the corresponding population group in the U.K. or the U.S.A. It would thus appear that the reason for the relatively less favourable income distribution in India in relation to these economically advanced countries is not the low share of income taken by the bottom 20 per cent of households but it is the relatively high share of income enjoyed by the top 20 per cent of the households at the expense of the middle income groups. Since no single measure of equality or inequality has gained exclusive acceptance for assessing the degree of concentration in the income distribution, an attempt is made to compare the degree of concentration of income in these countries by means of five statistical measures; of these, three seem to indicate that the degree of inequality in income distribution in India is relatively greater than in other countries considered.

A brief study has also been made to examine whether the conclusions of this study regarding the degree of concentration of income would be altered, if another unit than a household were taken as the basic unit of analysis. Such a study carried out, within the limitations imposed by the data available,

seems to imply that the degree of concentration of income for the country as a whole remains about the same irrespective of whether a household or a person of a consumption unit is taken as the relevant basic unit for this type of analysis. On the other hand, if an earner is taken as the basic unit of analysis, incomes appear to be relatively more concentrated.

It is suggested in some quarters that the inequality in the income distribution is due to the merging of the incomes of non-homogeneous groups of population thereby implying that the income distribution would be nearly normal if relatively more homogeneous groups of population were considered. The results arrived at in this study do not seem to support this conclusion. The concentration coefficient of the income distribution shows considerable variation when it is evaluated for a number of relatively more homogeneous socio-economic groups of population.

Changes in the inequality of income distribution and changes in the average incomes earned by different groups of population are other aspects of considerable interest in connection with the study of income distribution. As regards the changes in the inequalities, the present study suggests that there was some reduction in the concentration of personal

income in both the urban and rural household sectors during 1960-65. The concentration ratio, which is a summary measure and which indicates how concentrated the incomes are or how widely they are dispersed, declined from 0.49 in 1960 to 0.46 in 1964-65 for the urban household sector; the concentration ratio for the rural income distribution dropped from 0.41 for the year 1962 to 0.35 for the year 1964-65.

Finally, a study of changes which took place in the average real incomes earned by different socio-economic groups of population reveals some differences in the average rate of growth of real income per household per annum. Within the urban sector, over the period 1959-60 to 1964-65, the rate of growth in the real income of the self-employed household group, home-owning group and the group of households headed by illiterate persons has been relatively high; on the other hand, the average real income per household for the sales and the related occupational group has grown at a much lower rate than for the entire urban household sector. In the rural sector the growth in the real income of the renter group of households was very high over the period 1962 to 1964-65; households living in places having a population between 5000 and 10,000 also show some increase in their real incomes but the rate of

growth in real income for this group is only marginal. The rest of the socio-economic groups studied in the rural and urban sectors appear to have been worse off in terms of their real incomes at the end of the period under study than at the beginning.

The findings in this thesis have been arrived at on the basis of household sample survey data which are known to be subject to certain limitations of sample size and reporting accuracy. This aspect should, therefore, be kept in mind in appraising the results.

It is hoped that the results of this thesis may not only throw light on the recent past and the present characteristics of the personal income distribution. This is the first time a study of this type has been made in India and hence the findings here may also serve as a bench-mark for any comparison at a future date when fresh studies of this type will be made.

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