

Understanding the Current Economic Inequalities in India by Analysing Changes in Inequality in India Since Independence

(Talk by **Prof. Vamsi Vakulabharanam** in a memorial meeting of
Comrade Tarimela Nagi Reddy at Vijayawada, July 30th, 2023)

Greetings Everyone!

Today I will be discussing how economic inequalities in India have evolved since independence, and how we can understand those inequalities through a class analysis from a Marxist perspective. This argument in this talk comes from a book about this issue comparing inequalities in China and India. It will be published next year. Today, I will explain some important points from that book.

Discussing today's topic raises a tricky question about the availability of statistics. How have the inequalities changed in the past ten years from 2011-2012? The Government of India has not given us data to give a definitive answer to that. Important data from Consumer Expenditure surveys has not been released by the National Sample Survey Organization after 2011-12, perhaps because the government does not want an informed, active discussion on what is happening in the country. Economists are also struggling to speak without data. But some outside organizations are providing data about the rich. The Hurun Rich List has given some statistics and provided a list of people who amassed more than a thousand crores of wealth. In 2011-12, there were more than 100 people who had more than 1000 crores in our country. Today their numbers are more than 1200. That is, in just 10 years the number of people having more than 1000 crores has increased from 100 to 1200. The wealth of the wealthy is increasing, and a few people at the top are witnessing an increase in their fortunes. What is happening to the poor, working people and farmers? There are four signature policies of the present government based on which we can draw some conclusions in the absence of data.

The first of these is the demonetization policy that was implemented in 2016 – 500 rupees and 1000 rupees notes were withdrawn in 2016. It has especially damaged almost 90 percent of the workers in the unorganized sector, which is primarily based on the cash economy, greatly damaging their jobs, their work, and their financial conditions. When the notes were withdrawn, in those three or four months, everyone lost. But the poor have lost in the long term.

The second policy is GST, a system of taxes on goods and services that may not be bad, but its implementation was very easy for big corporations while it was very difficult for small businesses, like grocery stores. This policy also affected small businesses and therefore, the poor workers worked in these establishments.

The third policy is Covid mitigation. We have seen its horrid effects on TV, and several people have contracted it. When the Prime Minister announced the policy of lockdown, everything was closed, and no one was allowed to come out of their homes in the span of a few hours. No buses, no trains! Migrant workers walked hundreds of miles to go back to their villages. When the delta wave of Covid hit the country, from WHO statistics, we now know that millions died, and several people suffered intensely. While everyone suffered, the poor had a relatively more difficult time accessing even basic things like Oxygen cylinders.

The fourth policy, attempted two years ago - the Farmers' Bill - was brought in the name of agricultural reforms. There was a big movement against it in Delhi. Had those agricultural bills been implemented, the lands of the farmers would have gone into the hands of the corporates. All ordinary farmers would become workers, migrate to cities and towns and stayed there to become migrant labourers. The great farmers' movement led to the withdrawal of those bills.

All these policies planned by this government are in favour of the super-rich, leading to their increase in numbers from 100 to 1200 in these ten years. Policies have been extremely harmful to the poor. The tricky question before thinking, progressive people is how are they winning again? Even though disparities reached these high proportions, they still won with a large majority when elections were held in 2019. Why couldn't they be stopped? We should have a clear understanding of this. Even though those on the left have a good understanding, why are we unable to do anything politically?

How did we end up in this situation? Despite pervasive inequalities in the country, how did governments and ruling classes become seemingly indomitable? Let's start with these questions and discussion how can we bring about a change? So how did these inequalities begin and reach this point? How have they changed since independence? Let me tell you briefly. Inequalities after 1950 can be grouped into four stages:

1. In the first 30 years of 1950-80 : National Inequality decreased.
2. 1980s decade: National Inequality stagnated.
3. After the implementation of market-oriented economic reforms and neo-liberal policies in 1991, inequalities rose very sharply.
4. After 2014, inequalities rose sharply.

Why did inequalities decrease in the first 30 years from 1950 to 1980?

At the time of independence, inequalities were quite high in India. There were inequalities in cities. There are inequalities in the villages. Rural-Urban gap was quite high. There was a class of private capitalists. There are rich farmers and rich landlords in the villages. There was a class-based economic system. All this was written by Mr. Nagireddy and many communist leaders.

Nehru's government expressed an intent to reduce these inequalities. Instead, they actually provided complete security to the capitalist class. This class did not yet have the self-sufficiency to grow, as they themselves expressed in the Bombay plan of 1944. The government, therefore, created a public sector to take this capitalist class forward. In the rural areas, if we take the Chinese case, they implemented land reforms in three years (1952-55). The poorer peasants under the leadership of the communist party completely eliminated the landlords. Land was distributed to all in just three years. By 1956, people were taught collective farming. But in India, land reforms have not been implemented properly in any state, not even in Kerala and Bengal, which had some communist influence, because of the high influence and control possessed by the wealthy landlords and rich farmers in the countryside. They are not only powerful, but many of them were lawmakers in legislative assemblies, so they were able to push back the land reforms. Even in the national parliament, whenever there was a discussion about land reforms, even when people like Nehru would argue in favor, many politicians spoke against it. Due to their class interest, the idea of giving away their existing assets and decreasing economic inequalities in the interest of the people of the country was never strong in their minds. So those kinds of systemic changes were prevented from occurring. Even though the government lacked the ability and will to move towards equality, how did inequalities decrease between 1950 and 1980?

Between 1950 and 1980 there were three important ruling classes. One is the capitalist class in the cities. It was not as developed as it is now. Nevertheless, that group was influencing government policies significantly. The second are the rich farmers and landlords in the rural areas. The third is the educated middle class, who work as IAS and IPS officers or the professionals who work in the government, who also have significant power. The Indian American economist, Pranab Bardhan, made such a formulation. These three ruling classes influenced the state's policies in their favor. Capitalist classes were able to get significant support and protection. Land reforms were not allowed to happen in rural areas. Since there were no land reforms, when there were droughts, we imported food grains like PL-480 from America. After 1965, many changes were brought to the agriculture sector in the name of the green revolution - cultivation using new seeds, wells, bore wells and pesticides. Because of this policy, the richer peasants and middle peasants achieved prosperity in those areas that implemented the Green Revolution. Professionals were able to safeguard their relatively privileged employment prospects.

However, from 1950 to 1980, poverty did not decrease at all. According to the National Statistics Organization, in 1952-53, nearly 40 percent of the country's population was in poverty. When Indira Gandhi's national emergency was over in 1977, the poverty rate was still 40%. Yet inequalities decreased to some extent due to two reasons.

The first reason is that during this period, the increase in employment in the public and private sectors, and the implementation of land reforms in some states resulted in the strengthening of the middle class (this is not a Marxist term). This is the privileged section of the working class - the professional workers like engineers, teachers, doctors, officers etc.

- that is slightly above the poor working class. The growth of the middle class has reduced the disparities between themselves and the rich (explained in the second reason) to some extent, but not poverty. Poor people couldn't come out of poverty in these 30 years.

The second reason is that there were some regions (Princely States) where the British did not rule directly. Hyderabad (under the Nizam), Gwalior, Travancore in Kerala, Mysore, etc., were ruled by kings other than the British. They have many properties in their hands. Most of these rulers occupied the top rich Indian lists before and after independence. After independence, their territories were annexed by the Indian state. But they still held a lot of property—buildings, lands, financial assets, etc. Estate and inheritance taxes were implemented by the Indian national government between 1966 and 1985 and these were effective in reducing wealth and income concentration. That estate tax was in force between 1960s and 1980s but was removed in 1985. During those 20–25 years, some of their assets went to the government. Also, many private banks were nationalized during Indira Gandhi's regime in 1969–70.

The rise of the well-paid skilled workers and the takeover of wealth of the past rulers by the government helped reduce inequalities. These measures didn't touch the capitalist class and the rich landlords so they did not suffer any losses. There was no special set of policies to alleviate poverty that did not go down. The strengthening of the middle class is the important answer to why inequalities have been reduced.

Comparative studies of China and India reveal that China achieved greater equality during this period. In rural areas, there were still income differences between a village with fertile soil and a village without fertile soil. But all the people within any village lived equally. We didn't get that in India. In China, in cities, workers incomes were very equal. In India, after independence, especially the middle class professional workers in the cities gained from employment and increased their income, and that class became very strong. The relatively richer people in villages sold their lands to educate their children and sent them to cities so that they could join the educated middle class, which became a trend. Even after those 30 years, the same process continued. Indian inequalities continued to thrive, but with the consolidation of a middle class. By the 1970s, the middle class was consolidated and was ready to fight for its own class interests. They studied in cities, got jobs through education, and increased not only their wealth and assets but their consumption.

The 1960s and 1970s saw another significant change. With the advent of the Green Revolution, rich and middle-class farmers in the states of Gujarat, Karnataka, Haryana, Punjab, Andhra Pradesh, Telangana, Tamil Nadu and Kerala gradually increased their production and assets and came to small cities. In Andhra Pradesh, they came to small towns like Vijayawada, Guntur, Nellore and Ongole to invest there and built cinema halls and rice mills. The people from the caste 'Rajus' came from the Godavari region; Kamma caste people came from the Krishna river delta; and Reddy caste people came from Nellore region to invest in small cities. These three have formed the large capitalist class in Andhra Pradesh (combined). In this way, a capitalist class with agrarian origins has formed in many

states. During the 1960s and 1970s, many rich from rural areas started moving to small cities with their investments to join the established capitalist classes: Tatas, Birlas, Hindujas, Kiroskars etc.

I told you that there are three ruling classes - rich farmers in the rural areas, capitalist classes in the cities, and the middle class (bureaucrats in the government i.e. IAS, IPS, IRS and the middle class who got big jobs and have the power to influence the government). These three classes are seen to exist until 1980. But after 80's you will find mainly two classes as ruling class. Because many of the powerful people who left the rural areas still had properties in the rural areas, a new rural elite did not emerge to replace the rural elite that had left. So the ruling classes at the national level have changed from three groups to two. One of these two classes is the capitalist class. The capitalist class from the cities became stronger in the 80s. They were joined by the capitalists with origins in the agrarian context and also by the professionals - like Infosys' Narayanamurthy, Wipro, Dr Reddy's Labs in Hyderabad. Reddy's Labs' Anjireddy, worked in IDPL, a public sector firm before setting up his own company. The second dominant class was the professional middle class. Among the three classes that were dominant until 1980, the rural elites moved to cities in many states, and started showing their influence in the big cities. This is a very important transformation.

If we take the decade of 1980 there are 2-3 important things. One is that poverty did not decrease in the 30 years that preceded it. But in the 1980s, poverty was greatly reduced. There are two reasons for that. First, in the 70's Indira Gandhi started a big program called 'Garib Hatao' for the eradication of poverty. A lot of funds were transferred to rural areas through this scheme. This led to an improvement in welfare schemes and a reduction in poverty.

The more important reasons than the funds that came to the rural areas is that in many states, the communist movement got stronger in the rural areas and they started movements for the landless agricultural workers, for their dignity, and for increasing their wages. There were many movements in rural areas in the 1980s across the country. Because of those movements, there was a significant increase in wages. In the spirit of the farmers' movements, the workers also tried to increase their wages.

I have told you three important things till now. One is that inequalities did not decrease much in the 80s, but poverty did. Second, the rural capital has moved to towns and cities. Thirdly, by the 1980s, the middle class had become very strong and joined the capitalist class, and by the 80s, the three ruling classes had become two. Since the rich exited the rural areas and had no interest in safeguarding agriculture, the main consequence of this is that when the economic reforms came after 1991 (in the third phase), there was no class to stand up and fight for the small farmers for remunerative prices, fertiliser subsidies or, irrigation improvements. After the 1990s, economic reforms and privatization globalization followed.

Wealth and incomes increased very sharply for the people living in the towns and the ruling classes. But there was a big crisis in rural areas after 1995. Economic reforms in agriculture were not implemented in 1991 but were delayed until 1995 because most of the people in the country were in rural areas and the government did not want to see major protests. Manmohan Singh was the Finance Minister then. The first effect of the agricultural reforms was a series of farmer suicides in many states. Suicides did not stop for almost 20 years, from 1998 to 2017-2018, in the Telangana state (in Andhra Pradesh until 2014). The above class analysis explains this. Because the upper class had left rural areas, they had no interest in agriculture, and therefore, there was not even an indirect effect on the improvements of the welfare of small and marginal farmers. All that they wanted was a rise in their land rates, so that they could sell and capitalize on the gains. A class that had a deep interest in rural areas, which had a big say in the parliament and state assemblies, moved to the cities and lost interest in the countryside. This is one of the important factors that deepened the agrarian crisis, although there are several other factors.

Between 1991 and 2004, the income of the people in agriculture, compared to the rest (compared to the earnings in the cities), stagnated. There is a significant disparity between the working people – farmers and workers in the agricultural sector and workers in the non-agricultural sector. Within the non-agricultural workers, after the reforms, the professional class (the second ruling class) gained immensely. Officers, engineers, doctors, and other members of the professional class have improved their conditions a lot. But the crucial aspect is that the rise in their incomes comes along with a very significant improvement in the wealth that they own. However, even for this class, they have created more value than what they have been compensated for. The most benefiting class is the capitalist class that has also gained from the higher productivity of skilled and professional workers. Overall, the two groups of the ruling classes – the capitalist class in the cities and the middle class in the cities and towns – have benefited from economic reforms. Considering the inequalities, since 1991, all other classes – farmers, agricultural laborers, informal workers in the cities in the unorganized sector have lost. Only 8-9% of people work in the organized sector in government or large corporate companies. 90% of the 50 crore working class are in the unorganized sector. They did not witness significant improvements in their incomes. In 30 years after reforms, only 8-10% of the working population has benefited. This is the story from the statistics.

In 2004, the Vajpayee government lost in the elections. Manmohan Singh became Prime Minister. Earlier, during the PV Narasimha Rao regime and Vajpayee regimes, many social movements erupted against their policies. Many left parties participated in the movements, including the movement against increases in electricity tariffs in Andhra Pradesh. Movements like this and later the MKSS movement for rural employment in Rajasthan forced the government to come up with the National Advisory Council, headed by Mrs Sonia Gandhi, which suggested the implementation of the Mahatma Gandhi National Rural Employment Guarantee Scheme. Some progressive change came in the form of welfare schemes. Such welfare schemes increased between 2004 and 2014, although neo-liberal

economic policies also continued. As a result of 10 years of welfare schemes and communist and other social movements, the poor benefitted to some extent from 2004 to 2014.

In 2014, a new government came. It had a single aim: making the rich richer. Some of my MBA classmates before I switched to Marxian Economics (who are now CEOs and Vice Presidents) after a recent silver jubilee gathering told me that the Modi government had given a guarantee to the corporate owners and managers that their assets would increase. No government has given such a guarantee previously. We are hearing two names all the time: Adani and Ambani, who have increased their wealth by over 300% in the last 10 years. Not just these two, the wealthy, who possess more than 1000 crores rose from 100 to 1200. Billionaires come not only from the big metropolises - Delhi, Calcutta, Bombay, Chennai, Bengaluru and Hyderabad but also from cities like Pune and Surat. At the same time, 90% of the country's labour force that is in the unorganized sector has seen significant deterioration. The way demonetization, GST were implemented, the way migrant workers were treated during the Corona time, the intent of the farm bills are just four examples of their policies. They completely weakened the unorganized sector and that is their objective. These changes that took place in these ten years have heightened inequalities very sharply. But the government is not giving us statistics. Earlier, there was serious statistical data, although it had some limitations. Nothing has come from the government for the past ten years. This is the nature of this government. We don't even understand what is happening, and you are putting society in the hands of the ruling classes. The first of these two ruling classes is the capitalists and propertied class and the second is the professional class. These are the two classes that have consolidated since independence, from Nehru all the way to the present government. These two groups provide solid support to the government, and the government also works for them.

We are left with a difficult question. How does this government win elections? Both the ruling classes together do not add up to more than 10%. But how does the ruling party get 37% of the vote, and the ruling coalition - 45% of the vote? Why are the left parties unable to move forward even with such increasing inequalities? Today, we must ask this question seriously and reflectively. If we do class analysis, we do understand what is happening in society, in the country, and there is no mistake in class analysis. The method that Marx gave us has been further developed by later Marxists. Similarly, the perspective given by Tarimela Nagi Reddy using these methods to understand the changes going on in society is also helpful to do a careful class analysis. But why don't we properly understand the electoral outcomes and move forward with our movements? The time has come to think about it. Today, we must ask ourselves why a large number of people are still voting for the same classes that are heightening the inequalities in society. If we don't ask that question now, we will be making a big mistake. We may be looking at an even larger attack on progressive minded people in the coming five years, should they win another term in office. I'm not saying that there are easy answers or that I have an answer.

Let me conclude by saying two things. One thing is we learned a lot from class analysis. That means a lot of things. We also need to understand social cleavages besides class with equal interest. What is the caste system? Where is caste going? What are the changes coming about in caste relations? What is the relationship between caste and class? With our class analysis, we are able to understand the economic changes in the country. 90 percent working class is in the unorganized sector. But why don't these groups join us in overwhelming numbers? They are being destroyed because these 90 percent are not coming forward together. One must understand religions, how religion works, and how religion divides people. Most importantly, we have to understand how religion is being used for political purposes. We must understand how gender and the relations among men, women, and others are changing? How are all these social cleavages being used? We have to understand all these things and combine it with the rich class analysis that we are already doing. Then we will have a better understanding than what we have now. I say that class analysis alone is not enough. I am not saying that this effort of looking at class along with other social cleavages is not being done. Both the left and intellectuals are trying to do it. We have to try even harder.

The second is that some where in this effort, in the struggles against the ruling class, we were once all united as a single communist party until the 1960s. Later, we broke up. Then there were many splits. We are separated in many ways. Can we move together again? Can we take along with us people who are not working with class as their main category but who resist oppression? Can we all walk together again and think about revolution and social change?

Both of these are important. We must think deeper and harder. In order to move forward, these forces that are using religion for political purposes to create an exclusionary nationalism should be stopped, and the nation (and the world) should be taken forward in another direction. Both of these efforts must be made to advance towards the eventual social and class-based revolution. Through class analysis, we understand how inequalities are changing. That analysis alone is not enough. How can we politically change and come up with a revolutionary strategy by understanding the different types of conflicts in our country (be it class, caste, religion or gender) and then build unity?

Thank you!