“Growth, Reforms and Inequality: Comparing India and China”¹

Lopamudra Banerjee, New School of Social Research, New York
Ashwini Deshpande, Delhi School of Economics, University of Delhi
Yan Ming, Chinese Academy of Social Sciences, Beijing
Sanjay Ruparelia, New School of Social Research, New York
Vamsi Vakulabharanam, University of Hyderabad, Hyderabad
Wei Zhong, Chinese Academy of Social Sciences, Beijing

¹ The authors were fellows of the India China Institute (ICI), New School, New York, during 2008-2010. This collaborative work is a part of the fellowship program entitled “Prosperity and Inequality”, sponsored by the ICI during this period. We would like to thank conference participants at the Institute for Chinese Studies conference in New Delhi, Institute for Development Studies conference in Kolkata, India China Institute conference in New York and the Annual Conference on Development and Change in Johannesburg for useful comments and suggestions. However, we alone are responsible for all remaining errors and omissions.
1. Introduction

The most exciting countries for me today are India and China. We differ, of course, in our political and economic structures, yet the problems we face are essentially the same. The future will show which country and which structure of government yields greater results in every way.

Jawaharlal Nehru, 1954

In many senses, India and China are natural candidates for comparative study. On the one hand, they are large, populous Asian countries with similar historical landmarks\(^3\) that have sought structurally to transform their economies from rural, agrarian economies to fast growing, modern economies. On the other, they represent contrasting political regimes, whose relative merits for social equality and economic development have stoked debate in the post-WWII era. In addition, both countries have experienced historically unprecedented growth rates recently, averaging around 6 percent over 1980-2005 for India and 10 percent post-1978 for China. These high rates of growth co-exist with the fact that at least 38 percent in India and about 10 percent in China continue to live below the national poverty lines, more if we count the number of those living below US$2 a day. This striking combination of accelerated economic growth and persistent social deprivation motivate our investigation into the nature, patterns and causes of prosperity and inequality in India and China over the last two decades. In particular, this paper undertakes a comparative analysis of economic inequality based on changes in the pattern and

---

\(^3\) India achieved independence from British rule in 1947, whereas the Chinese Revolution was in 1949. The reform process began in China in 1978, in India around the mid-1980s, in addition to the other similarities listed in the paper.
distribution of income and expenditure as captured by the Gini coefficient.\textsuperscript{4}

Comparative analyses of growth rates between the two countries have received generous attention in popular media and academic discourse. Systematic comparative analyses of the social, spatial and temporal dimensions of economic inequality have been relatively few in number, however. In particular, this paper seeks to answer two important questions. First, what is the trend in inequality in India and China? Second, what additional information can we gather by decomposing their aggregate trends in terms of (a) regional variations and (b) the urban-rural divide?

1.1 Studies on inequality in India

Until the 1980s, India had fairly low rates of economic inequality by international standards. However, since the process of liberal economic reform began in the mid-1980s, scholars have tracked the impact of these larger macro-economic changes on the incidence of inequality and poverty. The existing literature on estimates of Indian inequality is a varied terrain: individual studies reach different conclusions regarding the trends in inequality as well as its level in various domains. Bhalla (2003) finds that inequality in general declined between 1993/4 and 1999/00. According to his estimates, rural inequality declined in 15 out of 16 major states in India, and urban inequality declined in 8 out of 17 states. Singh et al (2003) finds no strong evidence of greater inequality at an all-India level in the 1990s. Other studies contend that sharp rural-urban differences as well as the regional variation marks the Indian experience. A study by GOI HDR (2001), examining the evidence from the 38\textsuperscript{th}, 50\textsuperscript{th} and 55\textsuperscript{th} rounds of

\textsuperscript{4} This paper is a part of a larger collaborative research agenda that seeks to explain comparative patterns of inequality in India and China. A second paper, titled “Wealth inequality: analysis of India and China”, examines the pattern and distribution of wealth in both countries using the same data generated for this paper from the perspective of social justice. In the future, we hope to extend our project by analyzing other dimensions of inequality, such as education and health, as well as the distribution of power and status and the nature and organization of social structure and political representation in both countries.
National Sample Survey (NSS), corresponding to 1983, 1993-94 and 1999-2000, found that over the 1990s, 7 out of 32 states experienced increased rural inequality while 15 out of 32 states suffered greater urban inequality. Moreover, urban inequality was higher than rural in most states. Jha (2004) reaches a slightly different conclusion. According to his estimates, the rural Gini coefficient increased from 26.33 to 28.5 between 1993 and 2000, but the urban Gini remained virtually unchanged over the same period, increasing from 34.25 to 34.5. Finally, Sen and Himanshu (2005) calculate the adjusted Gini estimates for 50th and 55th rounds (for states as well as for India as a whole) and find that the rural Gini increased from 25.8 to 26.3, while the urban increased to a greater extent, from 31.9 to 34.8.\(^5\) Using alternative data (income tax reports), Banerjee and Piketty (2001) concur with this general picture of rising economic inequality. In the 1990s, they contend, the real incomes of the top one percent of income earners in India increased by 50 percent. Indeed, within this group, the richest one percent increased their real incomes more than threefold over this period.

Comparing regional inequality in India and China is not a straightforward exercise. For one thing, conventional regional groupings in India (North, South, East, West and Northeast) are more ambiguous than in China, where simpler classifications are routinely used (Eastern, Central and Western, or Coastal versus Inland). Both these groupings conceal substantial internal variation, with possibly greater within-group heterogeneity in India compared to China. Secondly, the sources of regional inequality in both countries are deeply embedded in their respective historical trajectories. They are not simply a product of liberal economic reforms since the 1980s. Nevertheless a significant empirical question remains: has the process of economic

\(^5\) Users of NSS data are aware of the well-known problems of comparability between the 55th round and earlier rounds, and the need to adjust the 55th round estimates to ensure compatibility. There are at least three adjustment methods suggested by experts to ensure comparability. Sen and Himanshu (2005) represent one of these methods.
liberalization in either country exacerbated or dampened their previous levels of regional inequality?

Existing studies of regional inequality in India – where the ‘region’ may be variously classified either as a state and Union Territory (UT) or larger geographical area comprising several states and UTs (North, South, East, West and Northeast) and many of which include sectoral analyses as well – provide some evidence of growing divergence. There is evidence of increased regional disparity from Ahluwalia (2002) and Singh et al (2003): the latter found absolute divergence in inter-state per capita consumption expenditure. Jha (2004) found little evidence for inter-state convergence and found that the rank order of states had not changed over the reform period. In short, these studies point to a growing inter-state divergence, rather than to convergence. Deaton and Dreze (2002) find that the rising economic inequality has three aspects. First, there is strong evidence of ‘divergence’ in per capita consumption across states. Two, they find a significant increase in rural-urban inequalities at the all-India level, and in most individual states. Third, their decomposition exercise shows that the rising inequality within states, particularly in the urban sector, has moderated the effects of growth on poverty reduction. The authors argue that the evidence of rising inequality since 1993-94 is a new development for the Indian economy: until this time, the all India Gini coefficients of monthly per-capita consumption expenditure (MPCE) in rural and urban areas were fairly stable. They also suggest that the rate of increase of economic inequality in the 1990s is “far from negligible”. Looking at China’s experience of sustained rise in inequality for over 20 years, the authors fear that this might not be a short term temporary phenomenon for India – there might be further accentuation of economic disparities in India in the near future. In short, Bhalla (2003) notwithstanding, most of the existing literature suggests that economic disparities —sectoral, inter-state and regional—
increased through the 1990s. However, the precise level of economic inequality and relative weight of urban-rural disparities in the larger all-India picture in these sectors remains contested.

1.2 Inequality studies in China

Discussions of economic inequality in China differ from those in India due to its revolutionary past. The Chinese Communist Party (CCP) made concerted efforts after coming to power to create a classless society on the foundations of a deeply unequal social order. However, since economic reforms started in 1978, growing socio-economic inequality has reversed the substantial earlier achievements, stimulating concerns about social stability and the ‘harmonious’ sustainability of the growth path. Lee and Selden (2008) compare inequality in revolutionary (pre-reform) China, vis-à-vis the post-reform era. In the former, inequality was not founded on property ownership or market outcomes, but instead defined by the Party through the *chengfen* (class) categories, which inverted the meaning of pre-revolutionary social categories (e.g. landlords were designated as class enemies and henceforth comprised the lowest echelons of the collective order). Thus, rural areas were characterized by high levels of income equality, but its inhabitants had unequal citizenship and entitlements (determined by the state). In the urban areas, the deepest divide was not within the ranks of workers (as in the countryside) but between workers and party cadres, mediated by a graded pay scale based on the Soviet model.

In an early study, Kmietowicz and Ding (1993) analyze changes in the distribution of household income in rural Jiangsu between 1980 and 1986. Their analysis shows that average household income per head increased considerably after the 1978 reforms, but inequality increased too. Gustafsson and Li Shi (2000), while exploring the gender disparities in urban wages in China, stress the regional dimension of the Chinese reform process. Economic growth
has been much faster in the eastern regions, where they began, than in the inland provinces. This is now well known. Lee and Seldon (2008) extensively discuss Chinese inequality not only in terms of numbers but also in terms of the conceptual frameworks used to analyze contemporary inequality. They argue that the number of empirical studies on Chinese inequality have grown as fast as the inequality itself. Specifically, they find the stratification paradigm that most studies use is unsatisfactory on analytical grounds. First, it does not adequately explain how underlying social structures generate economic inequality. Second, it fails to shed light on the moral and political meanings of economic inequality and their significance in the Chinese context, which has seen a transformation from a revolutionary to a market-driven economy.

Khan and Riskin (2005) analyze changes in income distribution and absolute poverty between 1988 and 1995. They find a sharp increase in inequality between coastal and inland provinces and urban and rural areas. Fan, Kanbur and Zhang (2010) study the latest developments in regional inequality in China (which continues to be persistent) and suggest that the global financial crisis has compelled the Chinese government to put in place a stimulus package that is largely geared towards improving the inland economy by building long overdue infrastructure and set up a social safety net in the previously neglected rural and inland regions. They believe that the current crisis might prove to be a turning point in rebalancing China’s regional disparities.

1.3 India-China Comparisons

While there are plenty of single-country studies that examine economic inequality in India and China, comparative studies are relatively few. Barooah, Gustafsson and Li (2005) use micro-data to compare income inequality and poverty in the two countries. They find that in the
mid-1990s income inequality in rural China and rural India was relatively similar. Their results show that differences in mean income across regions are much larger in China than in India, however, and account for a much larger proportion of income inequality in rural China. They also find that economic status in India is more influenced by the educational level of household head than in China, where illiteracy is far lower than that in India, due to its revolutionary past. However, there are some factors common to both countries – such as minority status and land status/ownership – that affect income and poverty significantly.

Chaudhury and Ravallion (2006) argue that fast growth in India and China has resulted in high rates of urbanization and growing demand for skills, both of which have contributed to rising inequalities within these countries. They make a distinction between “good” and “bad” inequalities and argue that while both countries have seen both kinds of inequalities, there is a danger that “bad” inequalities (those that prevent individuals from connecting to markets and from accumulating physical and human capital) might undermine the sustainability of the growth process.

Bardhan (2007) compares the two countries in order to understand whether, and to what extent, global economic integration illuminates their respective experiences in terms of poverty and inequality. He finds evidence to suggest that domestic factors account for poverty reduction to a greater degree in both countries. He also finds that poverty reduction is lower in India as compared to China, not only because growth in India has been lower, but also because an equivalent amount of economic growth (e.g. one percent) in China reduces its poverty level by a larger amount than in India. He underscores the need for rigorous causal analysis to tease out the inter-relationships between growth, inequality and poverty.

2. Statistical analysis: trends in inequality in India and China since the late 1980s
2.1 Consumption inequality in India

The National Sample Survey Organization (NSSO) of India collects data on monthly consumption expenditure of households through large-scale quinquennial surveys and thin annual surveys. Monthly per-capita consumption expenditure (MPCE) is calculated as the monthly household expenditure divided by household size. To maintain comparability with China, where our data points are 1988, 1995 and 2002, we use three quinquennial NSS surveys from three years: 1987-88, 1993-94, 2004-05. To convert nominal to real values, we use Consumer Price Indices (Agricultural Labour) and Consumer Price Indices (Industrial Workers) to deflate the nominal rural and urban figures, respectively. For India, we conduct a regional analysis based on the following grouping of states.

Table 1: Regions of India

<table>
<thead>
<tr>
<th>North</th>
<th>South</th>
<th>East</th>
<th>West</th>
<th>Northeast</th>
</tr>
</thead>
<tbody>
<tr>
<td>UTs⁷: Chandigarh.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

⁶ The states of Chattisgarh, Jharkhand, and Uttarakhand became separate states after the 1993-94 quinquennial survey.
⁷ UT stands for Union Territory.
2.1.1 All-India inequality trends

The overall inequality trends (measured in terms of Gini) in India based on MPCE show a distinct rising trend during the period under consideration (see Table 2). After remaining stagnant during the pre-liberalization period, between 1987-88 and 1993-94 (at 0.33), the level of inequality rose between 1993-94 and 2004-05 (to 0.36).

The trend in rural inequality differs from the overall trend. It decreased mildly between 1988 and 1994, from 0.30 to 0.29, but returned to its earlier level in the later period (1994-2005). In contrast, the rise in rural inequality in China was much greater over a shorter time period (0.29 to 0.38). The increase in urban inequality in India is consonant with the overall inequality trend, although its level in 2004/5 was higher than the all India level. It declined slightly between 1988 and 1994, from 0.35 to 0.34, but thereafter rose substantially to 0.38 between 1994 and 2005. For China, the corresponding figures are 0.30 to 0.33 between 1995 and 2002.
Table 2: Inequality in India

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Andhra Pradesh</td>
<td>0.31</td>
<td>0.36</td>
<td>0.33</td>
<td>0.29</td>
<td>0.32</td>
<td>0.31</td>
<td>0.29</td>
<td>0.32</td>
<td>0.33</td>
<td>0.02</td>
</tr>
<tr>
<td>Assam</td>
<td>0.23</td>
<td>0.31</td>
<td>0.25</td>
<td>0.18</td>
<td>0.29</td>
<td>0.22</td>
<td>0.20</td>
<td>0.32</td>
<td>0.24</td>
<td>-0.01</td>
</tr>
<tr>
<td>Bihar</td>
<td>0.26</td>
<td>0.31</td>
<td>0.27</td>
<td>0.22</td>
<td>0.31</td>
<td>0.25</td>
<td>0.21</td>
<td>0.33</td>
<td>0.24</td>
<td>-0.03</td>
</tr>
<tr>
<td>Gujarat</td>
<td>0.26</td>
<td>0.28</td>
<td>0.28</td>
<td>0.24</td>
<td>0.29</td>
<td>0.28</td>
<td>0.27</td>
<td>0.31</td>
<td>0.33</td>
<td>0.05</td>
</tr>
<tr>
<td>Haryana</td>
<td>0.29</td>
<td>0.29</td>
<td>0.29</td>
<td>0.31</td>
<td>0.28</td>
<td>0.31</td>
<td>0.34</td>
<td>0.37</td>
<td>0.36</td>
<td>0.07</td>
</tr>
<tr>
<td>Himachal Pradesh</td>
<td>0.27</td>
<td>0.29</td>
<td>0.28</td>
<td>0.28</td>
<td>0.46</td>
<td>0.32</td>
<td>0.31</td>
<td>0.32</td>
<td>0.33</td>
<td>0.05</td>
</tr>
<tr>
<td>Jammu &amp; Kashmir</td>
<td>0.30</td>
<td>0.28</td>
<td>0.30</td>
<td>0.24</td>
<td>0.29</td>
<td>0.27</td>
<td>0.25</td>
<td>0.25</td>
<td>0.26</td>
<td>-0.04</td>
</tr>
<tr>
<td>Karnataka</td>
<td>0.30</td>
<td>0.34</td>
<td>0.33</td>
<td>0.27</td>
<td>0.32</td>
<td>0.31</td>
<td>0.27</td>
<td>0.37</td>
<td>0.36</td>
<td>0.03</td>
</tr>
<tr>
<td>Kerala</td>
<td>0.32</td>
<td>0.37</td>
<td>0.33</td>
<td>0.30</td>
<td>0.34</td>
<td>0.32</td>
<td>0.38</td>
<td>0.41</td>
<td>0.39</td>
<td>0.06</td>
</tr>
<tr>
<td>Madhya Pradesh</td>
<td>0.29</td>
<td>0.33</td>
<td>0.32</td>
<td>0.28</td>
<td>0.33</td>
<td>0.32</td>
<td>0.27</td>
<td>0.40</td>
<td>0.35</td>
<td>0.03</td>
</tr>
<tr>
<td>Maharashtr</td>
<td>0.31</td>
<td>0.35</td>
<td>0.36</td>
<td>0.31</td>
<td>0.36</td>
<td>0.38</td>
<td>0.31</td>
<td>0.38</td>
<td>0.39</td>
<td>0.03</td>
</tr>
<tr>
<td>Manipur</td>
<td>0.18</td>
<td>0.17</td>
<td>0.18</td>
<td>0.15</td>
<td>0.16</td>
<td>0.16</td>
<td>0.16</td>
<td>0.18</td>
<td>0.17</td>
<td>-0.01</td>
</tr>
<tr>
<td>Meghalaya</td>
<td>0.27</td>
<td>0.31</td>
<td>0.31</td>
<td>0.28</td>
<td>0.25</td>
<td>0.29</td>
<td>0.16</td>
<td>0.26</td>
<td>0.21</td>
<td>-0.10</td>
</tr>
<tr>
<td>Nagaland</td>
<td>missing</td>
<td>0.16</td>
<td>0.16</td>
<td>0.20</td>
<td>0.18</td>
<td>0.23</td>
<td>0.24</td>
<td>0.26</td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>Orissa</td>
<td>0.27</td>
<td>0.31</td>
<td>0.29</td>
<td>0.25</td>
<td>0.31</td>
<td>0.28</td>
<td>0.29</td>
<td>0.35</td>
<td>0.32</td>
<td>0.03</td>
</tr>
<tr>
<td>Punjab</td>
<td>0.30</td>
<td>0.29</td>
<td>0.30</td>
<td>0.28</td>
<td>0.28</td>
<td>0.29</td>
<td>0.29</td>
<td>0.40</td>
<td>0.35</td>
<td>0.05</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>0.32</td>
<td>0.35</td>
<td>0.33</td>
<td>0.27</td>
<td>0.29</td>
<td>0.28</td>
<td>0.25</td>
<td>0.37</td>
<td>0.30</td>
<td>-0.03</td>
</tr>
<tr>
<td>Sikkim</td>
<td>0.23</td>
<td>0.29</td>
<td>0.28</td>
<td>0.21</td>
<td>0.25</td>
<td>0.23</td>
<td>0.27</td>
<td>0.26</td>
<td>0.29</td>
<td>0.01</td>
</tr>
<tr>
<td>Tamil Nadu</td>
<td>0.33</td>
<td>0.36</td>
<td>0.36</td>
<td>0.31</td>
<td>0.35</td>
<td>0.34</td>
<td>0.32</td>
<td>0.36</td>
<td>0.38</td>
<td>0.02</td>
</tr>
<tr>
<td>Tripura</td>
<td>0.25</td>
<td>0.28</td>
<td>0.26</td>
<td>0.24</td>
<td>0.28</td>
<td>0.26</td>
<td>0.22</td>
<td>0.34</td>
<td>0.28</td>
<td>0.02</td>
</tr>
<tr>
<td>Uttar Pradesh</td>
<td>0.29</td>
<td>0.34</td>
<td>0.31</td>
<td>0.28</td>
<td>0.33</td>
<td>0.30</td>
<td>0.29</td>
<td>0.37</td>
<td>0.33</td>
<td>0.02</td>
</tr>
<tr>
<td>West Bengal</td>
<td>0.26</td>
<td>0.35</td>
<td>0.31</td>
<td>0.25</td>
<td>0.34</td>
<td>0.31</td>
<td>0.27</td>
<td>0.38</td>
<td>0.35</td>
<td>0.04</td>
</tr>
<tr>
<td>A &amp; N Island</td>
<td>0.27</td>
<td>0.31</td>
<td>0.30</td>
<td>0.25</td>
<td>0.40</td>
<td>0.34</td>
<td>0.34</td>
<td>0.38</td>
<td>0.38</td>
<td>0.08</td>
</tr>
<tr>
<td>Arunachal Pradesh</td>
<td>0.33</td>
<td>0.32</td>
<td>0.33</td>
<td>0.31</td>
<td>0.28</td>
<td>0.32</td>
<td>0.28</td>
<td>0.25</td>
<td>0.28</td>
<td>-0.05</td>
</tr>
<tr>
<td>Chandigarh</td>
<td>0.30</td>
<td>0.35</td>
<td>0.36</td>
<td>0.24</td>
<td>0.47</td>
<td>0.47</td>
<td>0.25</td>
<td>0.36</td>
<td>0.37</td>
<td>0.01</td>
</tr>
<tr>
<td>Dadra &amp; Nalwa</td>
<td>0.30</td>
<td>missing</td>
<td>0.30</td>
<td>0.26</td>
<td>0.32</td>
<td>0.32</td>
<td>0.35</td>
<td>0.30</td>
<td>0.39</td>
<td>0.09</td>
</tr>
<tr>
<td>Delhi</td>
<td>0.25</td>
<td>0.40</td>
<td>0.39</td>
<td>0.27</td>
<td>0.41</td>
<td>0.40</td>
<td>0.28</td>
<td>0.34</td>
<td>0.34</td>
<td>-0.05</td>
</tr>
<tr>
<td>Goa</td>
<td>0.25</td>
<td>0.33</td>
<td>0.31</td>
<td>0.28</td>
<td>0.30</td>
<td>0.32</td>
<td>0.42</td>
<td>0.37</td>
<td>0.06</td>
<td></td>
</tr>
<tr>
<td>Lakshadweep</td>
<td>0.33</td>
<td>0.26</td>
<td>0.30</td>
<td>0.25</td>
<td>0.30</td>
<td>0.28</td>
<td>0.31</td>
<td>0.39</td>
<td>0.36</td>
<td>0.06</td>
</tr>
<tr>
<td>Mizoram</td>
<td>0.18</td>
<td>0.20</td>
<td>0.21</td>
<td>0.17</td>
<td>0.18</td>
<td>0.20</td>
<td>0.20</td>
<td>0.25</td>
<td>0.25</td>
<td>0.04</td>
</tr>
<tr>
<td>Pondicherry</td>
<td>0.40</td>
<td>0.31</td>
<td>0.35</td>
<td>0.29</td>
<td>0.30</td>
<td>0.30</td>
<td>0.35</td>
<td>0.32</td>
<td>0.34</td>
<td>-0.01</td>
</tr>
<tr>
<td>Daman &amp; Diu</td>
<td>missing</td>
<td>0.25</td>
<td>0.21</td>
<td>0.24</td>
<td>0.26</td>
<td>0.25</td>
<td>0.26</td>
<td>NA</td>
<td>NA</td>
<td></td>
</tr>
<tr>
<td>Chattisgarh</td>
<td>0.30</td>
<td>0.44</td>
<td>0.37</td>
<td>0.31</td>
<td>0.36</td>
<td>0.37</td>
<td>0.31</td>
<td>0.36</td>
<td>0.36</td>
<td>0.06</td>
</tr>
<tr>
<td>Jharkhand</td>
<td>0.23</td>
<td>0.36</td>
<td>0.31</td>
<td>0.29</td>
<td>0.32</td>
<td>0.31</td>
<td>0.29</td>
<td>0.33</td>
<td>0.36</td>
<td>0.03</td>
</tr>
<tr>
<td>Uttaranchal</td>
<td>0.29</td>
<td>0.33</td>
<td>0.31</td>
<td>0.29</td>
<td>0.32</td>
<td>0.31</td>
<td>0.29</td>
<td>0.33</td>
<td>0.36</td>
<td>0.03</td>
</tr>
</tbody>
</table>

The trends in real MPCE growth in India are clear. While overall annual growth is approximately 0.97 percent, urban consumption grew at 1.21 percent, whereas rural consumption.
grew at 0.65 percent. This suggests a rising urban-rural gap, which the decomposition analysis below confirms, given that the proportion of the population in urban areas is low by international standards and has changed very little over the last two decades (28 percent in the 2001 census).

In terms of decile shares across this period, the bottom eight deciles see a decline in their share of total consumption, while the top decile has gained more than 3 percent during this entire period (see Table 3). The next decile has gained, but marginally. The fifth, sixth and seventh deciles have seen the largest decline in their shares of MPCE, suggesting increasing polarization. For China, the picture is similar. The National Human Development Report reports that the top 20 percent have been increasing their share of national income or consumption, whereas the share of the bottom eight deciles has been declining (UNDP, 2008: 42).

### Table 3: Decile shares in India

<table>
<thead>
<tr>
<th>Deciles</th>
<th>1987-88</th>
<th>1993-94</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>Decile</td>
<td>% of Median Share</td>
<td>Cumulative Decile</td>
</tr>
<tr>
<td>1</td>
<td>79.24</td>
<td>3.65</td>
<td>146.55</td>
</tr>
<tr>
<td>2</td>
<td>95.93</td>
<td>4.96</td>
<td>176.18</td>
</tr>
<tr>
<td>3</td>
<td>109.73</td>
<td>7.04</td>
<td>202.50</td>
</tr>
<tr>
<td>4</td>
<td>123.87</td>
<td>6.58</td>
<td>208.90</td>
</tr>
<tr>
<td>5</td>
<td>138.90</td>
<td>7.40</td>
<td>258.59</td>
</tr>
<tr>
<td>6</td>
<td>159.30</td>
<td>113.44</td>
<td>293.35</td>
</tr>
<tr>
<td>7</td>
<td>185.14</td>
<td>112.34</td>
<td>339.25</td>
</tr>
<tr>
<td>8</td>
<td>224.49</td>
<td>169.47</td>
<td>409.69</td>
</tr>
<tr>
<td>9</td>
<td>301.71</td>
<td>215.66</td>
<td>549.65</td>
</tr>
<tr>
<td>10</td>
<td>27.56</td>
<td>100.00</td>
<td>27.32</td>
</tr>
</tbody>
</table>

#### 2.1.2 Inequality trends at the state level
These national trends become far more uneven at the state level. The outliers comprise two groups. States that have witnessed relatively greater economic inequality include Kerala, West Bengal, Gujarat, Haryana, Himachal Pradesh, Goa, Uttar Pradesh and Mizoram. Among UTs, Dadra and Nagar Haveli, Lakshadweep, Andaman and Nicobar Islands have witnessed higher than national trends in inequality. Conversely, states such as Arunachal Pradesh, Delhi, Jammu and Kashmir, and Bihar have seen fairly significant declines in inequality.

2.1.3 Inequality trends at the regional level

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>North</td>
<td>0.31</td>
<td>0.36</td>
<td>0.34</td>
<td>0.36</td>
<td>0.36</td>
<td>0.36</td>
<td>0.26</td>
<td>0.28</td>
<td>0.27</td>
<td>0.03</td>
</tr>
<tr>
<td>East</td>
<td>0.26</td>
<td>0.34</td>
<td>0.32</td>
<td>0.29</td>
<td>0.29</td>
<td>0.29</td>
<td>0.26</td>
<td>0.26</td>
<td>0.26</td>
<td>0.04</td>
</tr>
<tr>
<td>West</td>
<td>0.33</td>
<td>0.32</td>
<td>0.33</td>
<td>0.31</td>
<td>0.31</td>
<td>0.31</td>
<td>0.36</td>
<td>0.36</td>
<td>0.36</td>
<td>0.03</td>
</tr>
<tr>
<td>South</td>
<td>0.32</td>
<td>0.34</td>
<td>0.34</td>
<td>0.34</td>
<td>0.34</td>
<td>0.34</td>
<td>0.38</td>
<td>0.38</td>
<td>0.38</td>
<td>0.04</td>
</tr>
<tr>
<td>Northeast</td>
<td>0.24</td>
<td>0.29</td>
<td>0.26</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>0.21</td>
<td>-0.01</td>
</tr>
<tr>
<td>Total</td>
<td>0.30</td>
<td>0.35</td>
<td>0.33</td>
<td>0.29</td>
<td>0.34</td>
<td>0.33</td>
<td>0.30</td>
<td>0.38</td>
<td>0.36</td>
<td>0.03</td>
</tr>
</tbody>
</table>

Regionally, as Table 4 demonstrates, economic inequality has risen the most in the East and South (by 4 percentage points). The growth in inequality in the North and West reflects the national trend (by 3 percentage points). Finally, the Northeast has witnessed a mild decline (-0.1). In terms of the levels of inequality, the North and South have the highest Gini levels (0.38 and 0.37 respectively), followed by the West (0.36) in 2004-05. All three regions exceed the national average. In contrast, the East (0.33) and Northeast (0.25) are relatively more equal.

Significantly, urban inequality is greater in every region in India than its rural counterpart. Moreover, the level of urban inequality is roughly the same across regions except for the Northeast, where it is substantially lower at 0.31, as Table 4 demonstrates. Rural inequality is
lowest in the East and Northeast. This picture is similar to China when inequality is measured in terms of consumption.

However, when measured by income levels, rural inequality is greater than urban inequality in China. This is because in contrast to India, local urban residents with urban Hukou are highly protected by local government. Moreover, given that living costs are relatively high, rural migrants are not able to settle down in urban area unless they get a high paid job, which would be quite rare. Finally, because of the sampling methodology, migrant workers are not included in urban survey in China. Although land is distributed relatively evenly, the importance of agricultural income, relative to non-agricultural income, has decreased in rural areas. In the urban sample, only the non-agricultural sector is included in the survey, whereas in the rural sample, both agricultural and non-agricultural sectors are counted, which for all the reasons mentioned above, results in a picture of higher rural inequality as compared to urban inequality.

In terms of real MPCE, the South and West regions are growing faster than the country as a whole. Significantly, the Southern region is leading the pack in terms of both urban and rural real MPCE growth. Indeed, rural MPCE values are growing very slowly in every region of India, except for the South. Growth in urban real MPCE has outstripped its rural counterpart in every region except for the North and Northeast.

Some of the trends in our figures find support in the broader political economy literature while others raise new questions. First, it has been argued that the growth in income/consumption inequality since the late 1980s seems to have undone the greater social equality achieved in Kerala (more comprehensive equality) and West Bengal (more income based) in previous decades. The compulsion to liberalize, and upper class beneficiaries, of
reform may explain this turnaround. Our results indicate that the annual rate of growth of MPCE in Kerala has been 2.47 percent and in West Bengal 1.20 percent, both greater than the national average, but the Gini coefficients in both the states have risen as well. Second, is it the case that limited economic reform and moderate economic growth account for declines in inequality in Arunachal Pradesh, Jammu and Kashmir and Bihar, and in the Northeast? This is a correlation that lacks obvious causal mechanisms. Third, analyses of the politics of the “second democratic upsurge” provide a complementary explanation about why real MPCE values are lowest in UP, Bihar, MP, Chattisgarh and Jharkhand; less so in Sikkim and Tripura (as opposed to long-run economic, political and geographical factors) (see section 3.1.2.2 below). Fourth, a noteworthy finding is that the South has the highest Gini levels, has witnessed the greatest increase in economic inequality and has the highest rate of growth of real MPCE. This suggests that the pattern of growth and reform in the south post-1991 has undermined earlier decades of social leveling.

2.1.4 Decomposing economic inequality in India

In this section, we seek to decompose the overall inequality figures into their constituent parts in order to understand the relative contributions of the different components.

<table>
<thead>
<tr>
<th>Decomposition of inequality in India</th>
<th>1987-88</th>
<th>1993-94</th>
<th>2004-05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector*</td>
<td>Proportion</td>
<td>Proportion</td>
<td>Proportion</td>
</tr>
<tr>
<td>Within</td>
<td>89.54</td>
<td>86.25</td>
<td>80.15</td>
</tr>
</tbody>
</table>

8 The decomposition of the Gini Coefficient is based on Yitzhaki methodology (Yitzhaki 1994). This decomposition allows us to decompose the Gini into the within-group and between-group components.
The results point to the following trends. First, looking at urban-rural disparities in 1987-88, the between-group (i.e. sectoral) component accounted for approximately 10.46 percent of overall inequality. In 1993-94, it constituted approximately 13.75 percent. By 2004-05, however, the between group component covered almost 20 percent of the total. This is a rapid and significant change. This period coincides with the following broad trend in the Indian economy. Starting in the early 1990s, rural consumption/incomes stagnated significantly while urban consumption/incomes rose rapidly. As a result the rural-urban gap has risen, which explains the rising between-group component in sectoral terms.

Second, the between-state inequality component explained roughly 8.29 percent of overall inequality in 1987-88, whereas it accounted for about 10.54 percent in 1993-94, and 14.04 percent by 2004-05. This is also a case of rising inter-state disparities that get heightened post-economic reforms in India, as much of the existing literature contends.
Third, the between-region component accounted for only 1.56 percent of overall inequality in 1987-88, 2.71 percent in 1993-94, and 3.88 per cent in 2004-05. While there is a rising trend in this component, its relative size is fairly small in comparison to the between-group and between-state dimensions. This suggests that regional groupings in India hide substantial heterogeneity in terms of their constituent states and that the inter-state dimension of inequality should be considered in addition to the regional dimension.

2.2 Income inequality in China

2.2.1 The data

The following tables have been calculated using the CHIP survey (CASS household income project surveys)\(^9\) for different years. Chinese data are available for both consumption and income. The following tables show the rate of growth for both variables. It should be noted that the levels are reported in PPP US dollars, not RMB. PPP is not a perfect methodology for comparing income levels. But it is better than direct RMB-Rs comparisons or adjusting the value of RMB by its nominal exchange rate.

2.2.2 China inequality trends

Table 6: Income and Consumption in China (in 2005 PPP US$)

<table>
<thead>
<tr>
<th>Income</th>
<th>Nationwide</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>803.9</td>
<td>582.4</td>
<td>1427.6</td>
</tr>
<tr>
<td>1995</td>
<td>1047.9</td>
<td>684.1</td>
<td>1932.9</td>
</tr>
<tr>
<td>2002</td>
<td>1732.0</td>
<td>1042.5</td>
<td>2804.3</td>
</tr>
<tr>
<td>Annual Growth Rate (88-95)</td>
<td>3.9</td>
<td>2.3</td>
<td>4.4</td>
</tr>
</tbody>
</table>

\(^9\) The CHIPS sample sizes are between 8000 and 11,000 households in rural China, and between 7000 and 9000 households in urban areas. The survey is implemented by the National Statistical Bureau survey team, and thus, is a subset of the NSB regular survey. The questionnaire is designed by the project team researchers separately, however.
We have already made references to the comparative picture between India and China for the rate of growth of consumption. The table above reiterates well-known features of the Chinese economy – a high rate of growth for income and consumption, with rates of growth being higher after the mid-1990s vis-à-vis the early years of reform.

Table 7: Urban-Rural Divide in China (Urban divided by rural, in current value)

<table>
<thead>
<tr>
<th>Year</th>
<th>Income</th>
<th>Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>2.38</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>2.70</td>
<td>3.10</td>
</tr>
<tr>
<td>2002</td>
<td>2.76</td>
<td>3.12</td>
</tr>
</tbody>
</table>

As Table 7 indicates, urban areas\(^{11}\) show better indicators of material standard of living as compared to the rural areas. However, the gap in consumption is higher than for income. Table 8,

---

\(^{10}\) Not all items of consumption were included in the 1988 survey, thus we do not have estimates for consumption for that year.

\(^{11}\) Urban areas are defined as per the Hukou registration system. Thus, urban households would be those who have an urban hukou. China’s urban area consists of cities and towns. China uses two criteria to define urban, one is the size of inhabitants in a given area and the other is percentage of the non-agricultural population in the given area. Both these criteria are used, but have changed several times since 1949. The most recent change defines a town as a place with 10 percent or more non-agricultural population. A town, as an economic center in the area, with 60,000 or more people and at least 200 million yuan GDP, can be changed to a city (1986). Definitions of what is meant by urban populations have also changed several times. There were years when both agricultural and non-agricultural populations were counted as urban as long as they were in the administrative territory of the town or city. There were also times when agricultural population within the territory of city or town was excluded from urban population. But since 1982, whether the agricultural population was counted as urban would depend on the
however, presents a puzzle. Based on income, urban inequality in China is lower than its rural component (in contrast to India). Based on consumption, however, it is the reverse. In 1995, urban inequality is slightly higher than rural, but in 2002, urban is lower than rural, mirroring the pattern based on income.

The UN HDR figures further substantiate the gravity of the urban-rural gap. They suggest that the urban-rural gaps in income and development are rooted, in part, in the gaps in the provision of public services. In 2007, the ratio of urban to rural per capita incomes was 3.33 to 1, but they cite research that demonstrates that if the distribution in the access to basic public goods like health care and education are taken into account, then the ratio reaches 5-6 to 1 (UNDP 2008: 52).

Table 8: Gini Coefficients\(^\text{12}\) in China (based on current value)

<table>
<thead>
<tr>
<th>Year</th>
<th>Nationwide</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>0.369</td>
<td>0.319</td>
<td>0.233</td>
</tr>
<tr>
<td>1995</td>
<td>0.453</td>
<td>0.388</td>
<td>0.332</td>
</tr>
<tr>
<td>2002</td>
<td>0.450</td>
<td>0.375</td>
<td>0.350</td>
</tr>
</tbody>
</table>

Consumption

<table>
<thead>
<tr>
<th>Year</th>
<th>Nationwide</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>0.424</td>
<td>0.299</td>
<td>0.303</td>
</tr>
<tr>
<td>1995</td>
<td>0.465</td>
<td>0.376</td>
<td>0.331</td>
</tr>
</tbody>
</table>

\(^{12}\) For the purpose of this paper, rural residents’ income in 1995 had to be recalculated for the following reason. The data set has a variable called “average monthly wage for non-agricultural workers” (AMW, for short). Multiplying AMW in this dataset by 12 to calculate yearly wages yielded an income that was much higher than the NSB’s estimate. Thus, we calculated a new variable that indicated the non-agricultural work time of those who work in non-agricultural areas and used this new indicator to calculate the yearly earnings based on AMW. As a result of this recalculation, the rural residents’ income becomes lower as does the Gini coefficient, but the rural-urban divide becomes higher. Hence the nationwide Gini is not affected as much.
2.2.3 Decomposing economic inequality in China

As Tables 9 and 10 indicate, within-group inequality in rural and urban China is rising, whether based on consumption or income. In contrast, between group inequality, although significantly larger than in India, is declining. This seems paradoxical at first sight, but can be explained in two ways. What Table 9 highlights is the change in the contribution of the urban-rural gap to total Gini. Basically, it shows that the total Gini is increasing faster than the urban-rural gap. To understand this better, consider the hypothetical opposite scenario. Suppose the gap between urban and rural areas had decreased and the overall Gini had decreased even faster – in such circumstances the contribution of the “between group” effect would have been smaller. Alternatively, this anomaly could also be a result of some rural areas being reclassified as urban, thus lowering the contribution of the rural-urban inequality to overall inequality.

However, looking at the decomposition between the three regions, the between group component is much smaller, albeit also rising. Taken together, these two tables suggest that urban-rural disparities are far more acute than inter-regional inequalities in China today.

Table 9: Chinese Gini coefficients decomposed by Urban and Rural

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Within</td>
<td>55.7</td>
<td>56.3</td>
<td>57.5</td>
</tr>
<tr>
<td>Between</td>
<td>44.3</td>
<td>43.8</td>
<td>42.5</td>
</tr>
<tr>
<td>Consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within</td>
<td></td>
<td>44.8</td>
<td>50.9</td>
</tr>
<tr>
<td>Between</td>
<td></td>
<td>55.2</td>
<td>49.1</td>
</tr>
</tbody>
</table>

Table 10: Chinese Gini coefficients decomposed by Region
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within</td>
<td>89.6</td>
<td>88.8</td>
<td>88.6</td>
</tr>
<tr>
<td>Between</td>
<td>10.4</td>
<td>11.2</td>
<td>11.4</td>
</tr>
<tr>
<td>Consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Within</td>
<td></td>
<td>94.5</td>
<td>92.2</td>
</tr>
<tr>
<td>Between</td>
<td>5.6</td>
<td>7.8</td>
<td></td>
</tr>
</tbody>
</table>
3. Discussion and Explanations

3.1 The Indian Story: Inequality Inducing Economic Growth

The increasing disparity between the urban and rural sectors, and rising urban inequality, are the most important aspects of uneven economic growth in India over the last twenty years. Our data shows that inter-state inequality has also risen significantly, corroborating the divergence story that some other analysts have found. Finally, our analysis reveals a significant intertwining of the growth of consumption and increasing economic inequality. By and large, states, regions, and sectors that are growing more rapidly have also witnessed greater inequality. This means that growth and inequality have become intertwined in the Indian story of development over the last twenty years. This is clearly a break from the past, wherein growth and inequality seemed to have different causal determinants, except in the case of the Green Revolution. This makes the recent Indian experience interesting to study as well as somewhat alarming. Rising overall prosperity has arguably caused increasing economic inequality in terms of the distribution of income. How do we explain these trends? We offer three inter-related explanations in terms of rising agrarian distress, increased inter-state inequality and greater class distance during the period of economic reforms.

3.1.1 Agrarian Distress and the lack of Job Creation in Urban High Growth Sectors

Increased agrarian distress has been pointed to as a major source of increased inequality. More than 200,000 farmer suicides have occurred between 1998 and now. Agricultural growth has lagged far behind the growth in other sectors such as services and manufacturing. This has been attributed to policies of economic liberalisation as well as a slowdown caused by a decline
in the returns from Green Revolution technologies. Policies of economic liberalisation have tended to cause a reduction in public investment in agriculture, as well as partial withdrawal of state support to various small farming groups. Now it is well documented that this has led to an increased dependence of the small farmers on informal moneylenders, who also frequently combine other roles (such as that of merchant) with moneylending, causing an increase in their market power vis-à-vis small peasants (Reddy and Mishra 2009). However, more than 60 percent of the population is still dependent on agriculture as the main source of livelihood. When the agrarian sector is in distress, does the rest of the economy provide opportunities for rural migrants?

The rural non-agricultural sector (unlike China) has simply not created enough jobs to offer an outlet for the crisis-prone agricultural population (see Vakulabharanam et. al. 2010). The urban sector has grown more rapidly than the rural sector during this period with the growth path skewed in favor of the organized services sector. However, the fact that the share of informal workers (informal workers in the informal as well as the formal sectors) rose slightly during the first decade of reforms to more than 92 percent of total employment indicates that decent employment opportunities on a large-scale have simply not been forthcoming from the formal high-growth sectors (NSS report on the informal sector in India in 2004-05, Report 519). In other words, high growth with low employment creation in the formal sectors is an important source of rising inequality in India.

3.1.2 Rising Inter-State Inequality

Inter-state divergence has been the second major source of rising economic inequality in India. This has been explained primarily in terms of differential economic growth. States such as
Gujarat, Tamil Nadu, Maharashtra and Kerala have left behind their counterparts in terms of overall growth rates. What is the logic of this divergence? We explain this in terms of two trends: the political economy of federalism after liberalization and the regional variety of state-society relations in India.

3.1.2.1 Political economy of federalism in India

Several contemporary studies help to explain the growing economic disparity between states and regions in India since the late 1980s. Analytically, the most incisive is Jenkins (1999). He argues that the introduction of structural economic reforms by the Centre in 1991 fostered “competition states” in India’s federal parliamentary democracy. On the one hand, fiscal restraint at the Centre led to a decline in public investment, made central economic assistance to the states even harder and raised the cost of commercial borrowing through higher interest rates. On the other, the decision to “liberalize from above” forced states to compete with each other for scarce private investment. As a result state-level governments, regardless of the ideological persuasion of the party in power, were compelled to lure private capital through various pro-business concessions: tax holidays, aggressive labor practices and so on. That said, many claim that Maharashtra and Gujarat in the west, and Karnataka, Andhra Pradesh and Tamil Nadu in the south, have pursued a more aggressive pro-growth strategy compared to other states.

According to Jenkins, the emergence of “competition states” in India’s federal political economy embedded the process of reform in several ways. First, by encouraging rivalry over potential investors, it undermined the possibility of the states mounting coordinated opposition to economic liberalization in New Delhi. Growing economic disparities between states over time
further undercut their likelihood of collective action.\textsuperscript{13} Second, it similarly fragmented potential opposition from organized interests, in particular labor. Finally, it created disunity within parties that ostensibly opposed the reforms, forcing them to play a two-level game of “national opposition, state-level accommodation”. The communist Left Front, which has sought to impede various neoliberal measures in New Delhi since the mid-1990s while pursuing similar reforms in its regional bastion of West Bengal, powerfully illustrates this general pattern.

Several observers of India’s federal system share this general view. Their explanations of its dynamics vary, however, as well as their assessments of its consequences. Rudolph and Rudolph (2001) claim that economic liberalization has created a “federal market economy”, which has led to growing economic disparities amongst India’s states. Liberalization has encouraged New Delhi to adopt a more “regulatory” model of governance, in contrast to its earlier “interventionist” mode. The competition for investment amongst states – private sources now accounted for three-quarters of gross fixed investment – compels the latter to submit to “regulation” by the Centre and domestic and international credit ratings agencies. It also promotes the likelihood of beggar-thy-neighbor policies. Saez (2002) makes a similar point by characterizing the Indian political economy as “federalism without a Centre”. Sinha (2004) provides a slightly different account. She argues that inter-state competition has always characterized India’s federal system. What changed with economic liberalization was a shift from “vertical competition”, where states contended with each other for licenses, permits and

\textsuperscript{13} For example, in August 2000, the TDP chief minister of Andhra Pradesh Chandrababu Naidu challenged the 11\textsuperscript{th} Finance Commission. Naidu charged that its recommendations encouraged fiscal profligacy by awarding high population-low economic growth states like Bihar and Uttar Pradesh and Assam and West Bengal, while penalizing the low population-high economic growth performance of Andhra Pradesh, Karnataka and Tamil Nadu. Naidu had styled himself as the CEO of his state and been hailed as such by the media. His positive self-assessment was only partly true, however. Population growth had declined in Andhra Pradesh, but trend economic growth in the 1990s mirrored the previous decade, and state finances were relatively poor (Manor 2004; Sen and Frankel 2005). Moreover, per capita growth in state domestic product in West Bengal and Kerala, the main bastions of the Left, recorded the fifth and sixth fastest rates of per capita growth in state domestic product in the 1990s (Sen and Dreze 1998). Nonetheless, his protest led to supplementary funds for high growth states, weakening the equalizing basis of previous commission awards.
funds from New Delhi, to a pattern of “horizontal competition”, in which states contend with each other in an international political economy that involves multilateral financial institutions, credit rating agencies and foreign capital. Corbridge (forthcoming) largely agrees with the analytics of the preceding accounts but reaches a more disturbing conclusion regarding the consequences of reform. He notes that not every state has responded to the process of “provincial Darwinism” unleashed by liberalization in the manner expected by Jenkins. Rather, some have failed to implement necessary reforms, be they standard neo-liberal prescriptions or heterodox economic measures. The state of Bihar is a case in point. For much of the last two decades, it has witnessed stagnant – if not negative – per capita economic growth, deteriorating social development and widespread governance failures (see Witsoe 2006). Uttar Pradesh could be described in similar terms. More generally, public underinvestment in social capital, physical infrastructure and labor-intensive production has “locked out” many people out from a burgeoning national market. Thus not every state ‘competes’, or is able to compete, in India’s new political economy.

These conclusions require us to examine the variety of state-society relations, and the political regimes that shape these relations, in different states and regions.

3.1.2.2 Regional variety of state-society relations in India

The divergence of state-level performance regarding economic growth, social inequality and poverty reduction has generated considerable scholarly attention amongst political scientists and sociologists in recent years. Two patterns emerge. (a) First, historically the states of southern India – Andhra Pradesh, Kerala, Tamil Nadu and Karnataka (but to a much lesser extent) – have witnessed more progressive social movements and political change compared to
their counterparts in northern India, particularly the ‘Hindi heartland’ states of Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh. (b) Second, the record of rapid poverty reduction in terms of income over the last three decades has been greatest in Kerala and West Bengal, followed by Tamil Nadu and Andhra Pradesh. We discuss these in turn.

(a) Kohli (2007) comments that south Indian states have reduced poverty to a greater extent than their northern counterparts. Economic growth rates are partly to explain. But a more important factor, as Besley and his co-authors (2007) argue, is the efficiency of poverty-reducing growth. Put differently, most of these states have a higher growth elasticity of poverty: a given level of economic growth will reduce poverty to a greater extent than in the north (the apparent exception is Punjab). As economists, Besley et al. focus on factors such as farm yields, provision of infrastructure and security of property. Unsurprisingly, political sociologists probe other, more antecedent, factors. Kohli (2007) notes that, in general, a broad political coalition of intermediate and lower castes and classes wrested power in all of these states over a long period, and directed resources to the poor. Harriss (2003) argues that southern Indian states invested in education and health, subsidized public distribution of food and implemented other poverty alleviation programs to a greater extent. Such outcomes can be traced, following Frankel and Rao (1990), to progressive lower-caste movements in these regions in the early twentieth century that weakened the dominance of upper caste groups. Kohli (2007) conjectures that such outcomes may also reflect superior bureaucratic performance in these states – a topic that requires further research.

In contrast, as Jaffrelot (2003) argues, north Indian states failed to witness similar lower-caste movements prior to Independence and experienced a more conservative order under the Congress after 1947. According to Kohli (2007), the presence of a narrow political elite,
constant factional struggles and extensive patron-client networks blocked effective land reform, politicized the bureaucracy and undermined poverty-alleviating initiatives. Since the late 1980s, a number of significant lower-caste parties, which in varying degrees seek to represent the interests of historically subordinate groups including the Other Backward Classes (OBCs), Scheduled Castes (dalits) and Scheduled Tribes (adivasis), and Muslims, have politically arisen in the Hindu heartland. Yadav (1996) christened this transformation as the “second democratic upsurge”: the rising electoral participation and political influence of historically subaltern classes. Many of these parties, particularly the Janata Dal, emerged from India’s socialist tradition.

However, unlike the communists, these parties have a poorer record in reducing economic inequality or absolute poverty in the states where they govern. As Hasan (2000) argues, many lower-caste parties in northern India largely pursued a ‘politics of recognition’ based on caste identity, status inequality and political empowerment. In particular, they have sought to alter the composition of the political and bureaucratic class of the State by protecting and expanding the principle of reservations – strict numerical quotas for weaker social communities on the basis of caste – in elected legislatures, state institutions and higher education. There have also been recent attempts to expand the principle into the private sector. Put differently, they neglected questions of class, material inequality and economic opportunity that define a ‘politics of redistribution’. Chandra (2004) characterizes this strategy as a politics of “ethnic headcounts” that rests on the distribution of “patronage”. The relative dominance of the state in India’s political economy, she argues, accounts for its politics of patronage based on particular social identities.
Kaviraj (2000) concurs with Hasan that full social equality requires a politics of redistribution. Nevertheless, he contends that a deeply hierarchical society such as India requires a politics of recognition as well, something that traditional Left parties ignore. Classic redistributive measures, such as land reform and investment in basic healthcare and primary education, may address structural causes of severe economic oppression. But such reforms do not automatically reduce practices of discrimination and humiliation that violate the dignity, self-esteem and freedom of marginalized social groups. A leading proponent of this view, while acknowledging the autocratic, limited and corrupt records of many lower-caste leaders, is Yadav (1996, 1999). Similarly, Jaffrelot (1998, 2000) describes the transformation of India’s political class in the wake of the ‘second democratic upsurge’ as a “silent revolution”. He agrees with Chandra that many lower-caste parties practice a politics of “quotas” based on “headcounts”. However, he disagrees that such parties are largely based on single “ethnic” groups, by showing their capacity to accommodate various communities within their political organizations and to aggregate larger electoral collectivities.

(b) According to Kohli (1987), a variety of factors explain rapid poverty reduction in West Bengal since the 1970s. The presence of a coherent ideological vision, strong political leadership committed to constructive class compromise, and a powerful cadre-based party of the Left with extensive links to the peripheries enabled successive state-level administrations to implement land reform, bolster sharecroppers’ rights and introduce local self-government at the village-level, or panchayati raj. These reforms decreased income poverty, empowered local communities to determine their collective welfare and redrew the balance of power in the countryside. Ostensibly, his explanation applies to Kerala to some extent as well, although he does not examine the state in detail. Heller (1999) claims that more dynamic organizations in
civil society, consolidating the power of the Left but also holding it accountable, explain the so-called ‘Kerala model’ of high social development despite average economic growth and limited industrial diversification.14

That said, Harriss (2003) observes that regions governed by competitive populist regimes have also shown the possibility of reducing income poverty, albeit to a lesser extent. The key to success in these states has been intense electoral rivalry between well-institutionalized parties or blocs in which one of the main protagonists has challenged the Congress’ traditional structures of dominance in their respective state. Competitive populism in Tamil Nadu and (to a lesser extent) Andhra Pradesh – respectively between the Dravida Munnetra Kazagham (DMK) and Telugu Desam Party (TDP), which represent the interests of middle and lower caste-class groups, vis-à-vis the more privileged votaries of the Congress party – has led to improvements in targeted social expenditure and a lowering of the head count ratio regarding income poverty in both states. Compared to the Left Front regimes in West Bengal and Kerala, neither Andhra Pradesh nor Tamil Nadu accomplished significant land reform, which threatened the interests of the ruling middle castes of the DMK and TDP. Moreover, the fiscal strains imposed by competitive populism eventually forced both states to reconsider their strategies. Nevertheless, the experience of Tamil Nadu and Andhra Pradesh also demonstrates how competitive institutionalized populism may reduce poverty levels to a greater extent than traditional clientelistic regimes, which continue to dominate politics in many other Indian states. Indeed, despite better initial conditions, greater economic resources and higher agricultural investment,

14 Important differences mark the regime in Kerala, however. First, the Left Front has dominated electoral politics for over three decades in West Bengal by capturing governmental power and controlling many institutions and spaces in civil society. In contrast, Kerala has seen an alternation in power between the Left and the Congress-led United Democratic Front (UDF). Moreover, Kerala exhibits a more active civil society, in which social movements hold political parties accountable to a greater degree (see Heller 1999, 2000). Second, despite its poorer economic base, social development indicators in Kerala are far higher than West Bengal, whose performance on this score is middling or sub-par in all-India terms.
the latter display less progress in diminishing poverty levels due to persistent upper caste-class dominance in the political realm, which skews economic growth and social opportunities towards more privileged groups.

The cumulative findings of these comparative regional analyses of state-society relations, however, suggest the importance of more focused enquiries regarding class dynamics in the contemporary Indian society.

3.1.3 Increasing Inter-Class Distance

Two of the authors of the present paper have attempted in another exercise (Vakulabhanan, Wei Zhong and Xue Jinjun, 2010) to analyze the consumption inequality picture in China and India via the apparatus of class structure. For India, they find that the bulk of the rise in inequality can be accounted for by a rise in inequality between classes. They find the urban elites (owners, managers and professionals) at the top, and marginal farmers and agricultural workers at the bottom, show a tendency towards greater stratification.

A major theme in much recent scholarship on class structures in India has been the growing economic power, if not hegemony, of capital in India’s political economy. Kohli (2006) dates its rise to the governments of Indira and Rajiv Gandhi in the 1980s. He argues that Indira Gandhi adopted a more “pro-business” rhetoric, in contrast to her anti-poverty slogans and policies of the 1970s, to regain the trust of industrial capital and big business. She also enabled these groups to expand their activities into hitherto government-dominated economic sectors by loosening restrictions, easing financial credit and particularistic subsidies, and providing tax concessions. Finally, Mrs. Gandhi curtailed the ability of organized labor to strike, and insulated key economic decisions from popular pressures. The result was a new ruling alliance between
State and capital that sought to achieve rapid economic growth. Since then, redistributive measures such as land redistribution and tenancy reforms in the countryside have not been considered seriously. Investments and reforms in primary education and basic healthcare remain severely limited in comparative perspective.

In comparison, Chatterjee (2008) focuses on the ascendance of capital following the reforms in 1991, altering the “framework of class dominance” that has operated in postcolonial India. In particular, the dismantling of the permit-license regime, liberalization of trade and investment and entry of private capital into many economic sectors has deepened “primitive accumulation”: a process in which peasants, artisans and petty manufacturers lose their means of production. It has also created a new breed of capitalists, beyond the traditional monopoly houses that flourished under India’s planned economy, which have greater mobility and ambition. Baru (2000) supports this view by analyzing the emergence of various regional capitalists, whose rise has supported the growth of regional political parties, over the last two decades. Rudolph and Rudolph (2001) argue that economic liberalization and political regionalization, formerly independent phenomena, have thus become mutually reinforcing processes.

This has several political consequences according to Chatterjee. First, it has led to the ascendance of a “corporate capitalist class”, whose relative power vis-à-vis landed elites and bureaucratic-managerial class of the state is much greater today than in the past. Second, its “moral-political sway” over the urban middle classes – groups previously committed to the developmental state apparatus – has become triumphant in the domain of civil society. The principal desire of the latter is to enjoy the benefits of modern urban life associated with rapid economic growth. Finally, the corporate capitalist class has become ascendant in a variety of
forums: “through the bureaucratic-managerial class, the increasingly influential print and visual media, and the judiciary and other independent regulatory bodies”. The poorest of the poor, in contrast, inhabit “political society”: a space of informality and illegality outside the confines of modern civil society. In order to maintain political stability, the state must address some of the basic daily needs of these subaltern classes for electricity, water and employment, an attempt to “reverse the effects of primitive accumulation”. However, these transactions are by nature provisional, negotiated and partial. They constitute a form of “poverty management”.

Indeed, the condition of workers and the urban and rural poor has attracted the attention of a number of scholars. According to Harriss (forthcoming), their circumstances have grown worse for three reasons. First, levels of employment in the formal organized sector of the economy fell through much of the 1990s, below its rate of growth in the 1980s. In the last decade, this has changed in both urban and rural settings. But average daily wages have declined; “temporary, casual and contract employment”, creating greater vulnerability for workers, has grown; and businesses and firms have used a variety of means to retrench workers.

Second, Harriss recognizes the introduction of new government programs in recent years, such as the National Rural Employment Guarantee Scheme, National Rural Health Mission and Jawaharlal Nehru National Urban Renewal Mission, designed to provide social security. However, few of these central schemes have been “adequately resourced”. Indeed, Dev and Mooij (2002) chart a decline in social sector spending through the 1990s. Social expenditure as a share of GDP was lower in the 1990s than in the 1980s. Public expenditure on health and education remain well below international norms. And there has been a shift away from rural development and wage employment programmes. Dev and Mooij attribute these trends to the

---

15 The historical failure to invest in primary education provision, Weiner (1991) argued, owed much to the exclusionary mindset of India’s upper caste policy elites.
‘social background and urban lifestyle’ of India’s policy elite, which has largely withdrawn from public institutions of education and health. Finally, notes Harriss, civil society organizations have spearheaded a number of campaigns in recent years to make certain basic needs ‘justiciable’: for example, the Right to Education, Right to Information, and Right to Food and Right to Work. On the one hand, these are innovative public interventions from below, supported by left-of-centre parties in New Delhi. On the other, however, the middle class leadership of these movements, their reliance on the Supreme Court to push national legislation, and the reluctance of these groups to support collective labor rights indicates their limits.

A number of scholars reach similar conclusions; others are decidedly more negative. In general terms, Harriss-White (2003) argues that capitalist development in contemporary India has led to a “shadow state” that mirrors the informalization of the economy and allows its social elites to pursue capital accumulation through coercion, clientelism and corruption. Breman (2003) characterizes the increasing urban informality as “a regime of exploitation and exclusion”, driven by growing middle class intolerance and a desire to discipline the poor. Benjamin (2000) depicts an equally harsh reality: a local ‘informal’ economy with exploitative labor conditions, poor credit arrangements and limited economic opportunities that services a ‘corporate’ economy of finance, information technology and big capital.

Others focus on the cities. Fernandes (2006) argues that recent urban developments – such as the growth of retail shopping malls and luxury apartment complexes – cater to the material interests and desires of consumption that mark the urban middle classes of the new India. Gooptu (forthcoming) reasons that these transformations reflect an element of “revanchism, or revenge against the poor”, amongst the urban middle classes. According to her, revanchism takes three particular forms: a “righteous civic opposition to the supposed
‘lawlessness of the poor’; perceptions of the poor as a threat due to their growing electoral influence; and opposition to collective mobilization by the working classes. These attitudes inform a growing elite consensus on the desire to create “entrepreneurial cities”: ‘world-class’ urban spaces that celebrate a culture of capitalism; foster public-private partnerships to achieve urban capital accumulation, investment and growth; and seek to manage cities as private firms. The key actors in these developments, according to Mahadevia (2006), are business, IT and real estate firms, which seek to create new urban geographies. Baviskar (2006) claims that urban middle classes engage in civic activism to ‘sanitize’ the city on grounds on environment, safety and livability. Yet in practice this frequently involves slum demolition, the removal of street vendors and social displacement of the poor (see also Chatterjee 2004). Moreover, the judiciary often sides with the socially better off in these battles (Ghertner 2008). Gooptu shows that such processes of gentrification reduce the voice of local municipal councils in urban planning. It coincides with the propensity of urban middle classes to favor technocratic solutions to social problems (Fernandes and Heller 2006). Their attitude reflects a larger “elite revolt” in which India’s socially privileged exit from various public institutions – regarding schooling, healthcare and security – as well as representative democratic processes (Corbridge and Harriss 2000).

Gooptu observes some new practices. Many poor city-dwellers increasingly engage in small entrepreneurial activities that seem to emulate the new capitalist ethos of self-reliance, hard work and risk-taking. Yet she concludes that such individuals are “reluctant entrepreneurs”, driven into such economic activities through “distress”, with little scope for upward social mobility. Moreover, there are few opportunities for collective action that might address the deep structural inequality underlying their life chances. They remain, thus, “socially excluded”.

The above evidence buttresses the understanding that there is a consolidation of a new class structure in India. After 1991, the dominant classes are the urban elites. Urban elites have incorporated the professionals (some may use the term ‘upper income middle classes’) from among the working people as well as the state in pushing through the agenda of economic liberalisation. The state has consequently reduced its own accumulation role quite significantly. The rural intermediate classes are not quite as important in this new scheme, although their interests are usually protected, directly or indirectly. The working groups (the rural poor - small and marginal farmers, agricultural workers; as well as the urban poor - unskilled urban workers) are no longer among the main foci of the state. They have lost their relative status, although their interests are periodically addressed through mainly a populist mode in order to enlist their support during elections.16

3.2 The Chinese Story: Inequality inducing rapid economic growth

Regarding China, our analysis confirms the findings of other studies. It underscores the dramatic historical transformation of China since the early 1980s from a relatively poor but equal country in comparative historical terms to a strikingly dynamic yet progressively inequitable society in the early twenty-first century. Indeed, the unprecedented economic prosperity of China over the last three decades has simultaneously unleashed powerful new asymmetries in the social order.

3.2.1 Increased Rural-Urban Divide and Rising Intra-Urban Inequality

16 Chatterjee (2008) calls this phenomenon as the reversal of the primitive accumulation wherein the state counteracts the dispossession of the poor by throwing certain benefits in their direction.
For China, a process of rapid urbanization and consequently rural-urban migration – driven by distress in the countryside, as in India – can explain the rise in intra-urban inequality (whose contribution to overall inequality increased over the period). Social elites, especially urban service sector professionals, seem to have been the big gainers from the liberalization of the economy. In China, the biggest losers are the farmers, the unemployed and informal sector workers (Vakulabharanam et. al. 2010).

These conclusions are supported by other studies as well. Gustafsson and Li (2000) point to widening skill differentials across sectors as well as within sectors as an important factor in explaining earnings gaps. They argue that the wage-setting process in the post-reform era relies more on productivity differences: skill differentials matter much more now than in the pre-reform period. This is an important factor even within SOEs as they have much greater freedom to decide on wages. Bussolo et al (2008)’s simulation exercise forecasts a rise in the skill premium in both India and China by 2030 that will widen wage gaps, possibly leading to an increase in inequality, unless there are countervailing factors such as a lowering of rural-urban wage gaps, a lowering of gender differentials and changing returns to other worker characteristics. Only very drastic socio-economic changes could enable such reversals, however. Thus, their prediction of increasing inequalities seems more likely to materialize.

Lee and Selden (2008) discuss a specific state institution that has shaped inequality in China – the *Hukou* – by erecting a wall between the urban and rural areas and cutting off all transactions between rural and urban areas that were not state sanctioned. They also discuss how the reform of the hukou system has resulted in a vast migrant population (rural-to-urban migration occurred despite the hukou system which has remained largely unchanged), highlighting the mix of old and new (post-reform) patterns of inequality. They suggest that in the
post reform period, inequalities based on property and shaped by domestic and global capital have increased. Transformations in citizenship rights have become more complex. On the one hand, social benefits have been drastically curtailed for all. On the other, certain civil rights, including right to possess property, geographical mobility and recourse to legal justice, have all increased. In their discussion, they point to the growth of TVEs; rural entrepreneurship; regional patterns of differentiation within rural China; privatisation of SOEs – all of which have simultaneously produced the urban poor and the new rich, while transforming the character of the cadre elite.

Many have commented on the large domestic markets of India and China. The middle classes of both countries comprise the bulk of the internal market. The Indian middle class is relatively easy to define; the definition of the Chinese middle class is less straightforward (for a comparison, see Jafferlot and van der Veer, 2008). Zhou (2008) argues that we could use the 2004 National Bureau of Statistics definition of the middle class: annual income ranging from 60,000 to 500,000 yuan per household. However, he notes skepticism about definitions of the middle class or middle spectrum in China due to two factors. First, the middle class is translated as zhongchan jieji, meaning middle property class, which overemphasizes property owners. Second, there is a tendency to confuse the ‘middle class’ with ‘middle class society’. For China, five standards of middle class society have been proposed by Niu Wenyuan, leader of a research team for sustainable development strategy studies at CASS. These include: (i) rate of urbanisation over 70 percent; (ii) white collar work force as large as, if not larger, than a white (?) collar one; (iii) an Engel coefficient lower than 0.3 on an average; (iv) maintenance of the Gini coefficient between 0.25 and 0.30; and (v) an average of more than 12 years of education for an individual. Juxtaposing these attributes with other characteristics of the economy, Zhou argues
that the Chinese middle class has taken shape and is rapidly growing, but China is still not a middle class society. He suggests that the earlier pyramid structure is now gradually giving way to an onion shaped one, with a slightly expanded middle part and an even larger base.

3.2.2 Increased Inter-Regional Inequality

As the preceding decompositions show, inter-regional inequality in China has risen substantially in the post-reform era. This was the result of a deliberate policy of encouraging coastal regions to grow faster than other regions in the first couple of decades of reform and accentuated by the open-door policy that China followed to encourage international trade and foreign direct investment (Riskin 1987). The economic distance between the eastern, central and western regions began to widen as reflected in the decomposition results.

In addition, like in India, there is also competition among local provinces for more investors, bigger projects and so forth. There is an interesting centre-local dynamic too in China, whereby the central government proclaims national targets for maintaining food security and ensuring political stability and social harmony while the provincial and local governments assume responsibility for economic growth. This dynamic would clearly set in motion a process of uneven development/growth as the better positioned states (in terms of infrastructure, location and so forth) can garner better investments in a process of escalating competition with other states (Lei, 2010). This has also tended to increase the inter-regional inequality, although in the recent years, the Chinese central state has been encouraging a more balanced regional development.

3.2.3 Changing Social Structure and Stratification Processes in China
The growing inequality in China can be broadly understood in terms of the dynamics of changing social structure and stratification processes. It is well known that Mao’s egalitarianism reduced socioeconomic inequalities, making China one of the most equalized societies among developing countries of the time (Parish 1981, 1984; Whyte & Parish 1984). Yet, as several commentators have observed, a distinctive status hierarchy did exist. Four structural and behavioral dimensions classified the Chinese into different status groups: (a) a rural-urban divide, institutionalized through hukou, or household registration; (b) a state-collective enterprise dualism; (c) a cadre-worker dichotomy; and (d) a “revolution-antirevolution” split (Lee and Selden, 2008, Bian 2002, Li & Wang 1992, Wang & Zhang 1993).

An essential component of the reforms was to break the focus on egalitarianism and to promote economic productivity (Li 2008:145). The inter-class component now explains more than 50 percent of the total Chinese inequality (Vakulabharanam et. al. 2010). During the post-reform era, introduction of market mechanisms and open door policy, along with the restructuring of state sector, have brought about dramatic mobility, creating five categories of social differentiation:

1. The working class: Descendant of the working class from the “leading class” under extensive social protection to proletarian labor with minimum job security and welfare (Lee 2007, Feng 2002).

2. Differentiation of peasants into eight strata including rural cadres (or political elite), private entrepreneurs, managers of township and village enterprises, household business owners and individual industrialists and commercialist, professionals, peasant laborers, migrant workers, and wage labor in local private sector (Lu 2002).
3. Middle Class in the making: This is a lively research area that has generated large amount of work. Issues discussed include the scale, occupational characteristics, status attainment, attitudes and roles in society of the emerging middle class (Zhang 2002, 2004, Li 2001, Zhou 2006).

4. Private Entrepreneurs: The amendment of the Constitution in 1988 allowed the supplementary function of private enterprises to socialist economy, legitimizing private entrepreneurs in China. This new and expansive group contributes to half of the GDP and provides considerable employment (Zhang Houyi 2008).

5. The Poor: Poverty reduction has been considered a significant achievement since reform in the sense that the number of individuals in absolute poverty has dramatically fallen (World Bank 2001; UNDP 2008). However, emergence of the new urban poor is becoming a noticeable problem. In urban areas, this reflects the consequence of unemployment caused by enterprise privatization. In terms of the scale, although various calculation criteria can yield different percentages, there are approximately 22.73 million people in urban areas who receive minimum living allowance (Zhang & Tang 2008). In addition, the “floating population” of migrant workers working and living in the city are subject to low wages, lack of access to subsidized public services and social discrimination (Wu Fulong 2004).

The statistical distribution of the social stratification is pyramidically formed (Li Peilin et al 2008:186). A highly active area of sociological scholarship has been guided by an interest in changing mechanisms of income distribution. This is based on the earlier works of Djilas (1957) and Szelényi (1978), which question the social structure of power and inequality in state
socialism to a changing system of social stratification under the reform. As a leading figure, Nee (1989, 1991, 1992, 1996) proposed a theory of market transition, which has generated a heated debate about the social consequences of economic transformation (Nee & Matthews 1996; Szelenyi & Kostello 1996, Nee & Cao 1999). He defines the socialist command economy as a “redistributive economy” and the post-reform era as a “market economy”. His thesis is that the transformation to be found in the shift of resource allocation from state redistribution to market domination leads to the decline of political power and the rise of human capital and entrepreneurial abilities. While there is generally a consensus that income returns for human capital and entrepreneurship increase, many studies show that it is a result of dual transformation of economic and political institutions in which both human capital and political power are rewarded (Bian & Logan 1996, Parish & Michelson 1996, Zhou 2000). Some argue that ultimately a process of property rights rearrangements will have clear implications on income distribution (Walder 1994, 1996, Walder & Oi 1999). Still others show that the type of danwei, work unit, affects income returns markedly (Wu 2002).

In addition to the numerous empirical studies, systematic interpretations, or theories of inequality, have gradually emerged that have focused on the social consequences of inequality. Four major ones are reviewed here:

1. Social Cleavage Theory (Sun 2003) argues that the early period of Reform, i.e. the 1980s, witnessed “social dispersion” of resources. Nevertheless, since the 1990s, the tendency of wealth concentration in the hands of the minority has become apparent. Overall, the disadvantaged groups have been “left outside of the structure” and are barely capable of status attainment. The fruits of growth have not be widely shared by the majority. Hence the emergence of a society of cleavages—two drastically different groups of the upper
class and underclass, or the advantaged and disadvantaged. Social resources and economic wealth have increasingly been concentrated in the upper class or the elite. The gap between the two groups is increasing. As for the elite, it consists of three sections, an alliance of the economic, political and cultural elite groups. Together they monopolize resource allocation, which leads to the confrontation between the elite and ordinary people. The conditions of the underclass are deteriorating, and their chances for life improvement or upward social mobility are fewer and fewer. This social polarization may potentially lead to severe social conflict.

2. Growth of the Middle Class (Lu Xueyi, 2002): By focusing on education and occupation, scholars of this stance contend that marketization results in gradual social differentiation/stratification. In addition, rapid industrialization and urbanization have been accompanied with improvements in educational attainment and expansion of white-collar occupations, which has in turn provided increasingly amount of opportunities for upward mobility. Consequently, there has been an expansion of the middle class, and thus a decrease of the “top” and the “bottom”. The shape of the social structure has gradually been changing from a “pyramid” to an “oval” shape.

3. Theory of Structuration and Reproduction (Li Lulu, 2003): The term “structuration” was coined by Anthony Giddens (1973), which is used to refer to the sustainability and stability of the socio-economic differences between social groups, which would lead to the emergence of a stratified social structure. It stresses how economic status shapes every aspect of social life, such as social mobility, lifestyles, and attitude and behavioral orientation. “Reproduction” was coined by Bourdieu (Bourdieu et al 1984), which also stresses the sustained effects of the social class. Adopting these concepts, Li argues that
advantaged groups are able to sustain their status via financial, social and human capital accumulation and exchange despite the drastic transformation of the Chinese society.

4. Theory of Fragmentation (Li Peilin et al 2004, Li Peilin 2008) argues that social stratification in China can be characterized as “pluralistic”. There seems to be no absolute, clear-cut boundaries concerning class or strata, and at most, we have the emergence of a number of interest groups. Positions of these groups can change according to where they are placed on different axes of reference points. Differences within classes/strata can be larger than differences between classes/strata. The social classes in conventional terms, i.e. workers, peasants and intellectuals have dissolved into small “fragments”. In particular, social attitudes and behavior are not dependent on their social class or status; indeed, they are detached from these markers.

4. Conclusion

This paper has provided detailed inequality estimates for India and China, and decomposed these measures along several dimensions. In doing so, we have presented a precise analysis of the social, spatial and temporal dimensions and trends of income-based inequality in both countries. We believe that a better understanding of the causes and consequences of the story of prosperity and inequality in India and China must take account of its multidimensional nature. The main explanations of rising inequality in both countries are remarkably similar. The increasing rural-urban divide, growing inter-state divergence and rising intra-urban inequality present similar trends. Indeed, we believe our results have important policy implications for India and China: in both countries the state needs to devise special, comprehensive and urgent measures to improve agricultural incomes and generate decent employment. This will not only
reduce the pace of distress migration, but will also create an impetus to provide “good” urban jobs when migrants arrive in urban areas, thus addressing two of the major sources of inequality: the growing rural-urban divide and rising intra-urban inequality. These are the lessons to learn from several East Asian economies during their high growth phases. Appropriate policies adopted in these economies helped them tackle various dimensions of inequality and spur equalizing growth. China and India will have to learn from the past experiences of their neighbors, while also advocating a balanced regional development, if they have to reverse the current trends of growing inequality.
References


Barooah V. Gustafson B. and Li S. (2005) “China and India: Income Inequality and Poverty North and South of the Himalayas,” presented at an International conference on "Liberalization Experiences in Asia: a Comparative Appraisal”, jointly organized by Centre de Sciences Humaines (CSH,) in Delhi, the Indian Statistical Institute, Kolkata and the Indian Council of Social Science Research ICSSR, Delhi.


Bussolo, Maurizio, Rafael E. De Hoyos, Denis Medvedev, and Dominique van der Mensbrugghe (2008): “Global growth and distribution: are India and China reshaping the world”, UNU-WIDER discussion paper, 2008/29.


Fernandes, Leela. 2006. *India’s New Middle Class: Democratic Politics in an Era of Economic Reform*. Minneapolis: University of Minnesota Press.


Jafferlot, Christophe and Peter van der Veer (2008), editors: “Patterns of middle class consumption in India and China”, Sage, New Delhi.


Zhang WL. 2002. Dui xianjieduan zhongguo zhongjian jieceng de chubu yanjiu. Jiangsu shehuikexue. 4


陈婴婴：职业结构与流动，东方出版社，1995。
戴建中：中国私营经济的社会状况与“市场过渡”，《战略与管理》1995年第4期。
李春玲：中国城镇社会流动，社会科学文献出版社，1997。
李路路：再生产的延续--制度转型与城市社会分层结构，中国人民大学出版社，2003。
李培林、李强、孙立平等：中国社会分层，社会科学文献出版社，2004。

李强：
陆学艺：当代中国社会阶层研究报告，社会科学文献出版社，2002。
陆学艺：当代中国社会流动，社会科学文献出版社，2004。
孙立平：断裂：20世纪90年代以来的中国社会，社会科学文献出版社，2003。
许欣欣：当代中国社会结构变迁与流动，社会科学文献出版社，2000。