

A Systematic Literature Review on the Impact of Monetary and Fiscal Policies on Income Inequality in India

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ABSTRACT:

This article examines the relationship between progressive income tax systems and income inequality, analyzing data from 1981 to 2025 across numerous countries. While progressive taxation reduces observed income inequality, its impact on actual inequality (measured by consumption-based GINIs) is significantly less. The study reveals that the effect of tax progressivity on inequality is more pronounced in nations with weaker legal frameworks and that changes in top and bottom tax rates have varying effects. The research further explores the implications of these findings for flat tax regimes. It then shifts focus to India, highlighting the poor human development indices in states like Bihar and Uttar Pradesh. The article investigates regional disparities in India, focusing on macroeconomic factors, infrastructure, agriculture, industry, and human development. These disparities stem from factors such as occupational structure, historical infrastructure development, funding limitations, and access to education and training. While initiatives exist to address these imbalances, they have limitations, and greater efforts are needed for balanced regional development.

Keywords: Fiscal policy, monetary policy, income inequality, covid 19, regional disparities, industrial development, regional development

I. Introduction

India's role in global inequality is significant, but accurately measuring income inequality within the country is challenging due to data issues, which have been compounded by recent political and economic changes. India has experienced significant political and economic developments in recent years. The right-wing Bharatiya Janata Party (BJP) won a landslide victory in 2014, ending 60 years of nearly uninterrupted control by the left-of-center Indian National Congress (INC). While the BJP was elected on a developmental agenda with a mandate for economic reforms, many observers believe that the transition to an authoritarian government with centralized decision-making power, combined with the prevailing nexus between big business and government (Banaji, 2022), has resulted in a situation that one observer has dubbed "conglomerate capitalism" (Damodaran, 2020) and another a "conclave economy" (Bardhan, 2022). Since 2016, India's economy has shown signs of significant slowdown, with declining growth rates, reduced investment, rising unemployment, and stagnant wages, painting a grim picture for the majority of India's poor. While the government has expanded access to basic infrastructure, the impact on incomes and purchasing power remains uncertain.

The poor and small-to medium-sized businesses in particular are thought to have suffered disproportionately from some policy decisions, such as the severe "demonetization" shock that was delivered to the economy in November 2016, when nearly 86% of the currency in circulation was banned overnight in an effort to combat corruption. According to reliable estimates, short-term GDP fell by 2 percentage points (Chodorow-Reich et al., 2019). A comprehensive assessment of these significant political and economic shifts in India in recent years requires an understanding of how economic progress has been distributed. For the most recent years, 2015–2020, this research aims to close that gap. This further enables me to investigate the patterns of distribution from 2000 to 2020. Implementing progressive tax policies, where higher-income individuals are taxed at a higher rate compared to lower-income individuals, governments can help reduce income inequality (Alesina & Ardagna, 2009). Furthermore, directing government spending towards programs and initiatives that benefit lower-income individuals, such as education and healthcare, can also contribute to reducing income inequality. Additionally, fiscal policy can also influence economic growth and development (Abdon et al., 2014). By implementing policies that promote investment in human capital, such as education and skills training programs, governments can help create more equal opportunities for individuals to succeed and contribute to economic growth. Measuring income equality in India using NSSO surveys is problematic. Firstly, the NSSO focuses on consumption expenditure rather than income, which can underestimate inequality since wealthy individuals spend only a fraction of their income. Secondly, household surveys tend to suffer from under-reporting and non-response issues, making them insufficient for capturing inequality. Banerjee and Piketty (2005) were the first to use annual tax tables provided by the Income Tax authorities in conjunction with national accounts to shed light on long-term inequality dynamics (1922-2000). However, their methodology was limited to calculating just the highest income shares (1%, 0.1%, and 0.01%). Chancel and Piketty (2019) provide the most thorough examination of income inequality in India. Between 1950 and 1980, following independence, the government's broadly socialist policies caused the top 1% and top 10% to lose share value. However, inequality has risen steadily since the 1980s, particularly since the early 2000s. By 2014, the richest 1% had surpassed its Colonial-era peak.

The research has been scarce because to the lack of trustworthy survey data; nonetheless, several attempts have been undertaken to follow income movements utilizing data sources from recent years. The Economic Advisory Council to the Prime Minister commissioned the State of Inequality in India Report (Kapoor and Duggal, 2022), which provides a comprehensive analysis of inequality in India across multiple dimensions such as income, health, education, and household assets. On income inequality, the paper acknowledges the high disparity revealed by Chancel and Piketty (2019), but then presents its own analysis based on data from the Periodic Labour Force Surveys (PLFS). Contradicting previous studies, a report claims the top 1% earns only 6-7% of total income. However, this conclusion is based on an analysis of labor income from employed individuals only, excluding tax data. Despite its methodological flaws, the report still acknowledges the unequal distribution of economic benefits and the growing marginalization of the poor.

Monetary policy is a crucial tool utilized by governments and central banks to manage the economy, control inflation, and stimulate growth (Immanuel & Yayamo, 2020). However, if monetary policy is not implemented effectively or is mismanaged, it can have negative consequences and potentially worsen the economic situation. For instance, if a government or central bank implements an excessively expansionary monetary policy, such as lowering interest rates too drastically or engaging in excessive money printing, it can result in inflationary pressures. Furthermore, an overly expansionary monetary policy can also lead to asset price bubbles. This occurs when the excess liquidity in the system flows into asset markets, such as stocks or real estate, driving up prices to unsustainable levels. If these bubbles burst, it can have significant negative impacts on the economy, including financial instability and a decrease in consumer and investor confidence. This again would affect the poor, additionally, a mismanaged monetary policy can exacerbate income equality. By fueling asset price bubbles monetary benefit those who hold substantial assets, such as the wealthy and large corporations. This widening wealth gap is hurting individuals, societies and even economies. This study examines the interaction of monetary and fiscal policies, emphasizing the need of policy coordination at two levels: achievement of overall policy objectives and institutional and operational procedures. On the former, the primary interaction between monetary and fiscal policies is the financing of the budget deficit and its implications for monetary policy.

In recent years, India's fiscal policy has prioritized infrastructure development, with increased budget allocations for transportation, energy, and urban planning. The government has also implemented tax reforms, notably the Goods and Services Tax (GST) in 2017, aimed at simplifying the indirect tax system. Efforts have been made to streamline subsidies, leading to more targeted resource distribution, particularly for fuel and food. Managing public debt remains a key concern, requiring a balance between necessary borrowing and fiscal responsibility. To alleviate economic downturns, countercyclical fiscal policies have been implemented, which include increased government expenditure and growth-boosting stimulus measures. Fiscal deficit targets are part of fiscal consolidation efforts, highlighting the persistent problem of balancing economic stimulus with fiscal discipline. India's fiscal policy tendencies demonstrate a dynamic strategy that adapts to changing economic conditions and government goals.

II. Literature Review

Global income inequality can be assessed in multiple ways. One approach is to examine how GDP per capita varied across countries during the COVID-19 pandemic, a concept termed "Concept 1" inequality. Research by Angus Deaton indicates that wealthier nations experienced greater economic downturns than poorer nations in 2020. While this doesn't automatically mean inequality decreased, the actual pattern of income declines led to a reduction in unweighted inequality between countries, as measured by common indices like the Gini coefficient. This decline continues a trend that began around 2000, when global inequality started to lessen, largely due to the rise of China and India. However, Deaton argues that the pandemic may have accelerated this decrease. There are two distinct ways to analyze global income inequality. One method treats each country equally, regardless of population size, essentially giving Luxembourg the same weight as China. Another approach considers the distribution of GDP per capita across countries, but this time weighted by their population. This second method, termed "Concept 2" inequality by Milanovic, effectively assesses income inequality as if it were a distribution of all individuals globally, with each person's income represented by their country's GDP per capita. According to Deaton, when GDP per capita is adjusted for population size, global inequality increased in 2020. This rise is largely due to India's severe economic downturn, which was impacted by both high mortality and economic decline even before the major 2021 wave. While China's strong growth and lower death rates mitigated some of India's losses, China's income level is not high enough above the global average to fully counterbalance India's economic struggles. If India is removed from the calculations, the trend of decreasing population-weighted inequality, which began in the 1990s, continues. In essence, the pandemic reversed India's previous contribution to reducing global inequality.

A combination of fiscal policies, including taxation, subsidies, pensions, and social programs, is essential for addressing income inequality. These policies work together to redistribute resources and improve the living conditions of the poor. Studies from 50 countries confirm the effectiveness of this approach in reducing poverty. Poverty and inequality are two of India's most serious concerns today. Even after the macroeconomic reforms of 1991, the country's economic growth was predominantly concentrated in major cities and their surrounding areas (Chandan & Shankar, 2012). So, while the country receives international recognition for its rising economic development and progress on a variety of other socioeconomic

indices, poverty and inequality remain key concerns. India has made strides in infrastructure development over the last ten years, but the 2020 COVID-19 lockdown revealed a significant gap in addressing the needs of the poor. The lockdown's impact, especially on migrant workers, demonstrated the country's deep-seated inequalities, and rural areas have since experienced increased unemployment, poverty, and hunger.

India has failed to reduce inequality, and multiple studies show it has actually increased. Dang and Lanjouw (2018) found inequality rose from 1983 to 2012, and the World Bank (2020) reported an increase in the Gini coefficient between 2004 and 2012. Looking at past inequality trends in India, economic expansion has not benefited the poor. According to World Bank estimates (2020), economic growth (increase in Gross National Income) in India averaged 6.7% between 2004 and 2012, greatly outperforming the average growth rate in the South Asian area, other lower-middle-income nations, and around the world. During the same period, the country's per capita income (at constant 2015 prices) increased by 1.5 times, from \$898 to \$1348 (World Bank, 2020). This growth can be attributed to expanding and diversifying exports, as well as rising private spending (Sufaira, 2016). Despite the significant growth in overall and personal income, India has been unable to alleviate inequality.

Since 1973, inequality in India has been on the rise. While the urban Gini index has increased faster than the rural Gini index (Himanshu, 2015), public sources confirm that the Gini consumption coefficient increased in both rural and urban areas between 1973 and 2011 (Report of the Expert Group to Review the Poverty Estimation Methodology, Planning Commission, 2014). Furthermore, the labour income Gini coefficient rose between 1993-94 and 2010-11 (Himanshu, 2015). India's extreme wealth concentration, with the top 1% holding over 50%, is compounded by income gaps between states and social inequalities based on caste and religion. This results in limited social mobility and disproportionately high chronic poverty rates for marginalized groups like the Adivasi and Dalits. Another concern is a lack of income statistics. Chancel and Piketty (2019) state: "We repeatedly stress that there are strong limitations to available data sources and that more democratic transparency on income and wealth statistics is highly needed in India." According to the authors' estimates, which include tax returns, national accounts, and survey data, the top 1%'s income share is increasing exponentially between 1992 and 2015. Poverty in India, measured by the Tendulkar method, fell steadily from 1993-94 to 2011-12. The poorest groups, Scheduled Castes and Scheduled Tribes, saw the largest reductions, leading to a convergence in poverty rates. However, similar decline rates in rural and urban areas, combined with a much higher rural poverty rate, suggest limited convergence. Economic growth has contributed to poverty reduction in India, largely due to structural improvements between 1993 and 2012. However, incomes remain close to the poverty line, especially in rural areas, where most of India's poor live and where agriculture is a major employer. Fiscal policies at all levels impact citizens' finances. National and state budgets, being the largest part of public finance, heavily influence India's policy landscape.

Fiscal Policy and Income Redistribution:

Data from 1990 to 2017 reveals a consistent increase in government revenue and expenditure as a percentage of GDP, demonstrating the expansionary nature of fiscal policies. This expansion includes increased spending on social sectors, a responsibility primarily held by state governments. Social sector growth is intimately tied to the development of low-income people and a more equitable income distribution. Bowser et al. (2019), Agarwal and Chakraborty (2017), Mitra (2015), and Ehmke (2016) investigated the progress of social sector spending. Mitra (2015) claims that public spending on higher education in India is regressive. Bowser et al. (2019), utilizing National Sample Survey data on health from 2004, discovered that hospital and delivery services benefit the poor, whereas outpatient visits benefit the wealthy. In general, government investment on health favors the poor, although there is significant disparity in utilisation rates and benefits across states and rural areas versus urban regions. According to certain estimates, India's social sector spending is tiny in comparison to the country's rising economic component. Das (2011), CBGA (2016), and Mitra (2015) have observed that public spending is expanding at a slower rate and that service delivery to the country's large population is below average. Among the several development projects administered by the Union and State governments, PDS is likely the most accessible to the needy due to its direct food and nutrition provision at low and subsidised costs. Radhakrishnan et al. (1997) and Dev (1998) have written about the net welfare gain of PDS and its favorable impact on poverty reduction. MGNREGS offers direct cash transfers through 100 days of guaranteed work. However, research shows unequal job distribution, with the unemployed poor struggling to access it. Studies have also examined the program's impact on rural women in Telangana and Andhra Pradesh. Unnikrishnan and Imai (2020) found that the IGNOAPS pension, aimed at impoverished elderly individuals, improves household welfare by increasing spending and assets. This program is crucial for those who rely on their children due to lack of employment. Research on public spending's impact on income distribution is common, but studies on taxes are lacking. Malhotra and Kundu (2015) found the VAT burden varies by state but is similar for the poor and non-poor. Current studies on fiscal policies lack analytical tools to assess policy impacts, which the CEQ India study aims to rectify.

Research Questions

- How do conventional and unconventional monetary policy instruments (e.g., interest rates, quantitative easing) affect income inequality in India, and through which channels?.

- To what extent have progressive fiscal policies (direct taxation, subsidies, social spending) mitigated income inequality in India compared to regressive fiscal tools (e.g., indirect taxes)?
- How do interactions between monetary and fiscal policies shape income distribution trends in India?

Hypotheses

Hypotheses 1

Expansionary monetary policy in India exacerbates income inequality by disproportionately benefiting wealthier households through financial asset inflation, while adversely affecting lower-income groups via inflationary pressures on essential goods. It is clear from the literature that economic growth and monetary policies often inspire wealthier segments of societies, which in turn, create widening gaps and this statement is thus, proved correct by using these statistics as research methodology for household consumption and monetary policy impact such that expansionary measures can create an inflationary condition without considerable effects on wealth distribution but will definitely affect negatively the lower income households- supporting the statement itself in affirmation of the hypothesis. This theory has empirical support in the literature showing that monetary policy and economic growth lean towards enriching the richer segments of societies, causing further widening gaps. The investigation methodology is concerned with measuring household consumption and its extension to actual monetary policy influences. Thus, expansionary measures can give rise to inflationary conditions of incidence differential across the wealth population, thus upholding the hypothesis.

Hypotheses 2

Progressive fiscal policies—particularly direct cash transfers, education/health spending, and equitable tax enforcement—significantly reduce income inequality, whereas overreliance. The hypothesis has been extensively supported by literature with evidence on the efficacy of progressive taxation along with earmarked social expenditures in reducing inequality. The literature, however, points out existing limitations in the fiscal framework of India. The methodology merges with the hypothesis in the sense that the study looks at the effects of fiscal instruments on income distribution.

III. Methodology

Utilizing the CEQ methodology, this study analyzes the impact of fiscal policies on poverty and inequality through "income concepts" that measure pre- and post-fiscal income. CEQ offers two approaches to pensions: as deferred income (PDI) from savings and as government transfers (PGT). This article focuses exclusively on the PDI approach, treating pensions as savings rather than subsidized government payments. The CEQ study analyzes fiscal policy impacts using household surveys. Due to India's consumption-only data, disposable income is assumed to equal consumption, and market income is calculated backward. Consumable and final incomes are calculated forward. Per capita consumption from the NSS 68th Round survey, using MRP, is used to approximate disposable income, which is also used for poverty measurement.

Disposable Income = Per Capita Consumption.

Consumable Income is calculated by subtracting indirect taxes (VAT, service tax excise, & entertainment tax) from disposable income and adding household subsidies.

$$\text{Consumable Income} = \text{Disposable Income} - \text{Indirect} + \text{Indirect Taxes Subsidies}$$

$$\text{Disposable Income} = \text{Market Income plus Pensions} - \text{Direct Taxes} + \text{Direct Transfers}$$

$$\text{Net Market Income} = \text{Market Income plus Pensions} - \text{Direct Taxes}$$

Rearranging terms

$$\text{Market Income plus Pensions} = \text{Net Market Income} + \text{Direct Taxes.}$$

Income was estimated using IHDS data due to its absence in the NSS Consumption Survey. A labor income-to-consumption ratio was used to estimate formal worker incomes, followed by income tax calculations using statutory rates shown in Figure 1. NPS contributions were assumed for those under 34, EPF for 34-57, and EPF pensions were based on state averages. Taxes or transfers reduce inequality if the Gini coefficient decreases. A transfer is pro-poor if it benefits the poor disproportionately, with per capita spending decreasing with pre-fiscal income as shown in Fig 2.

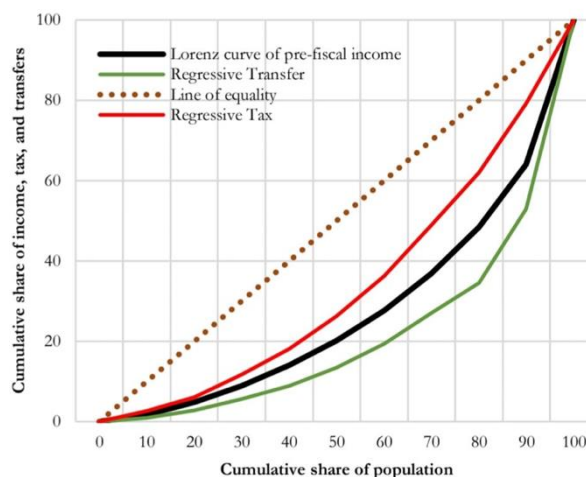
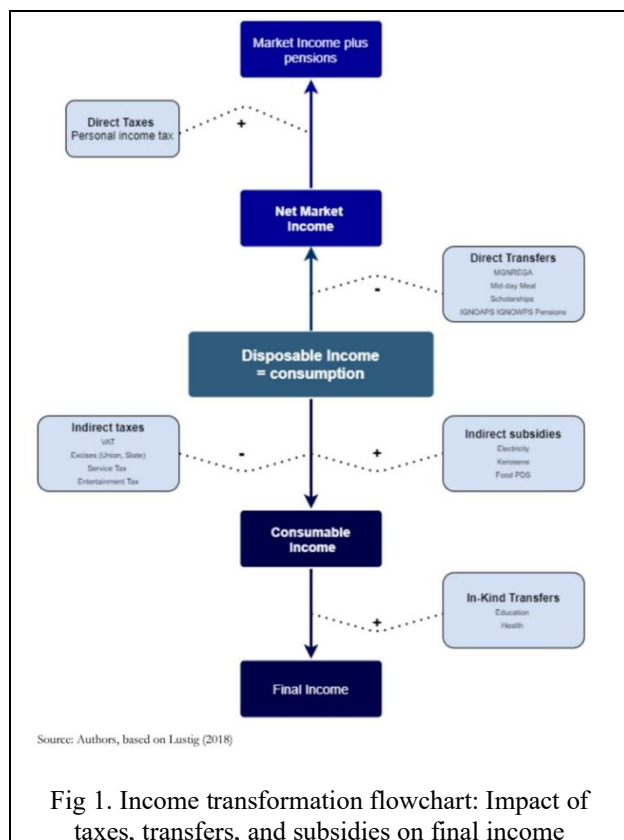


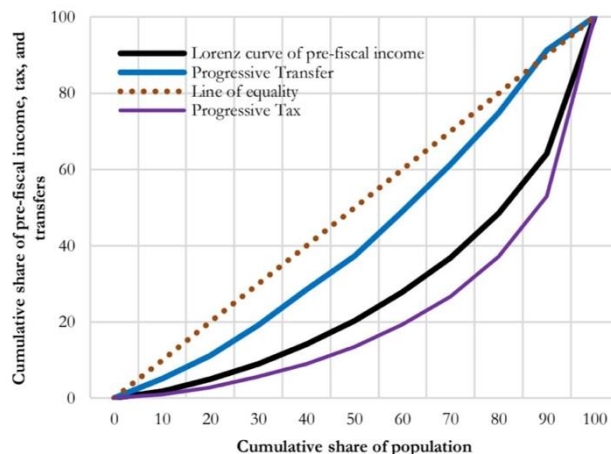
Fig 2. Per Capita Income with Pre Fiscal Rate

INDIA'S FISCAL SCENARIO:

India's national government has a stronger financial position and manages fiscal policies along with state governments. In 2011-2012, total government revenue was 19.2% of GDP, mostly from taxes (88%). This study looks at specific taxes and pensions, which represented 8.7% of GDP and 50% of tax revenue. VAT was the largest source (22.5% of total). The study compares survey and fiscal data.

Direct Taxes: The national government (Union government) controls major direct taxes like income and corporate taxes. These made up about 34% of India's total revenue in 2011-2012, but this fell to 32% by 2017.

Indirect Taxes: The Union government also gets significant revenue from indirect taxes like customs and national excise duties, which accounted for roughly 66% of total tax revenue in 2011-2012 shown in Table 1. India's national government



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TABLE I. India's total revenue in 2011-2012

	Includ ed	Fiscal Accounts		A portion of fiscal accounts analysed			Total in HHD Survey Rs Billion	Ratio between survey total and fiscal accounts analysed (%)
		Rs Billion	% GDP	Rs Billion	% GDP	% Of total		
Total Revenue & Grants		16,770.6	19.2	7,605.2	8.7	45.3	1,774.1	10.6
Taxes		14,678.9	16.8	7,343.1	8.4	50.0	1,707.1	11.6
Direct Taxes		5,014.0	5.7	848.9	1.0	16.2	105.8	2.1
Personal Income Tax	Yes	1,645.3	1.9	848.9	1.0	51.6	105.8	6.4
Others (Corporate Income Tax, Property Tax)	No	3.4	0.0	-	-	-	-	-
Indirect Taxes		9,665.0	11.1	6,494.2	7.4	67.2	1,601.4	16.6
VAT	Yes	3,303.3	3.8	3,303.3	3.8	100.0	747.8	22.6
State Excise	Yes	747.6	0.9	747.6	0.9	100.0	197.3	26.4
Union Excise	Yes	1,449.0	1.7	1,449.0	1.7	100.0	387.1	26.7
Service Tax	Yes	975.1	1.1	975.1	1.1	100.0	264.1	27.1
Entertainment Tax	Yes	19.2	0.0	19.2	0.0	100.0	5.0	26.1
Custom Duties	No	1,493.3	1.7	-	-	-	-	-
Other indirect taxes	No	1.7	0.0	-	-	-	-	-
Social Contributions	Yes	262.1	0.3	262.1	0.3	100.0	67.0	25.6
Non-Tax Revenue	No	1,718.7	2.0	-	-	-	-	-
Grants	No	20.6	0.0	-	-	-	-	-

Source: Indian Public Finance Statistics 2013-2014, Combined Finance and Revenue Accounts, 2011

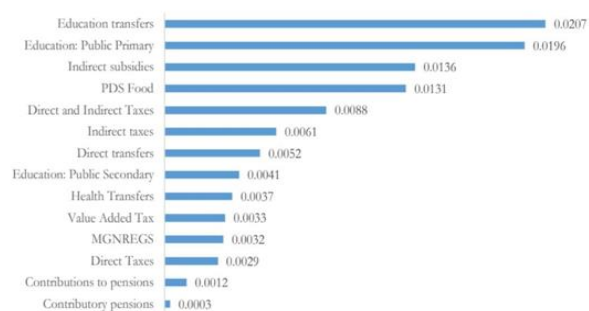
Resource Sharing: The Union government distributes its revenue to the states based on recommendations from the Finance Commission, which are updated every five years. Both the national (Union) and state governments earn non-tax revenue from profits of Public Sector Undertakings (PSUs), the Reserve Bank of India (RBI), and other government-owned entities. The national government also generates capital receipts by selling off (disinvesting) PSUs, and state governments sometimes do the same with their own PSUs. In the fiscal year 2017-18, non-tax revenue made up about 13% of total government revenue. The national and state governments spend roughly 3% of their total expenditure on food subsidies and 12% on social security and welfare programs. The national government primarily funds food subsidies, but state governments contribute additional funds to run their own programs. The Public Distribution System (PDS), which provides subsidized food, is crucial for meeting the food and nutritional needs of the population. MGNREGS is a significant employment program that guarantees 100 days of work for rural residents. It was launched in 2005 to provide employment opportunities for seasonally unemployed agricultural workers. This study looks at the NPS and EPS pension programs. NPS is a voluntary retirement savings plan where contributions are professionally invested and grow based on market performance. Retirees can purchase a life annuity and withdraw a lump sum, with payments made via bank deposit. Governments fund education and healthcare. The Right to Education Act and the 86th Amendment ensure free elementary education (grades 1-7), with secondary education to grade 10. Higher education includes colleges, and technical education includes IITs/NITs. Adult education targets those over 15. States provide free schooling and resources. India has a mixed healthcare system. Private providers are urban-focused, offering specialized care. The public sector handles primary care. In 2011-12, public health spending was 0.7% of GDP, mostly from states. Primary care receives the most funding, and some states offer free drugs and vaccinations

IMPACT ANALYSIS RESULT

A) Net impact of the fiscal system on inequality :

Fiscal policies in India reduce inequality, as shown by a decrease in the Gini coefficient from 0.367 to 0.311. This improvement is due to taxes, subsidies, and transfers, which benefit the poor. Even without education and health benefits, inequality decreases. Direct transfers alone also contribute to a reduction. The PDS best reduces inequality (0.01 point Gini

Figure 6. Marginal contributions to inequality



Source: Kanda & Cabrera, CEQ MIB, June 2020

Fig 4. Marginal contributions to inequality

reduction). MGNREGS, VAT, and income tax also help. Public primary education is more effective than the PDS when considering final income. Public secondary education redistributes better than health transfers, but technical education has unequal impact shown in figure 4.

B) The impact on poverty:

Fiscal policy reduces poverty in India. Poverty rates decreased, and direct transfers, especially MGNREGS, helped. Subsidies prevent increased poverty when moving from disposable to consumable income, unlike in other countries. The PDS food program is the largest contributor to poverty reduction shown in fig 5.

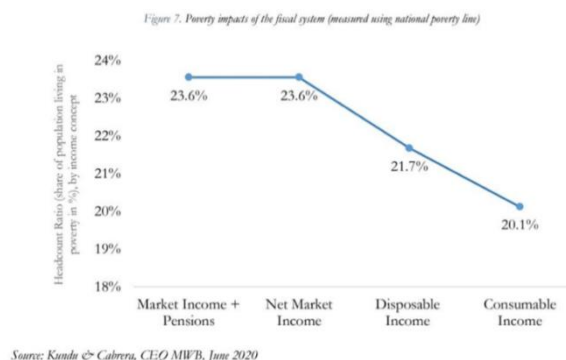


Fig 5. Poverty impacts of the fiscal system (measured using national poverty line)

C) Effect of Taxes

Indirect Taxes and subsidies: Monthly spending data was used as disposable income, including taxes and subsidies. VAT, excise, entertainment, and service taxes were analyzed. VAT, service, and entertainment taxes were found to be progressive, while excise taxes were proportional or neutral. Taxes are progressive if their concentration curves are below the Lorenz income curve. VAT, Entertainment Tax, and Service Tax are progressive (Figure 8). VAT and Service Tax are highly progressive. The poorest pay little Service Tax, likely due to the types of services taxed. Entertainment Tax is similar. The poorest 30% pay 10% of VAT, while the richest 20% pay over half of Entertainment Tax, Service Tax, and VAT. Excise and entertainment taxes are proportional or neutral to income. VAT is progressive due to exemptions for low-income goods and the consumption-based study, which accounts for higher savings by the rich. Poorer groups consume a larger share of their income (Cubero & Vadklova, 2010). Progressive subsidies have concentration curves above the Lorenz income curve; pro-poor subsidies have curves above the line of equality. The PDS distributes food and kerosene subsidies from national and state governments. Two subsidies are pro-poor (above equity line). Electricity subsidies are progressive (below equity line, above Lorenz curve). The PDS gives larger subsidies to the poorest. A distribution curve above the equity line means the poorest get more resources. Food subsidies (PDS) are pro-poor, with the poorest 20% getting 30% and the richest 10% getting 3% (Figure 9). Kerosene distribution is equal across all income levels. The regressive nature of electricity subsidies is shown by its curve falling below the equity line, meaning lower-income people receive fewer subsidies as a percentage of their income. There's a significant disparity, with the poorest 10% receiving 3% and the richest 10% receiving 20% of the subsidies. The combined effect of indirect taxes and subsidies leads to a 0.56 point reduction in poverty and a 0.02 point reduction in inequality.

Direct Taxes: Income tax, contributing around 1.9% of India's GDP in 2011, is heavily concentrated among the top earners. The data shows a significant disparity, with the bottom eight deciles paying no income tax and the ninth decile contributing less than 0.04% of the total. The structure of income taxes makes them progressive. In 2011-12, for example, the Rs 2.5 lakh starting threshold for taxable income excluded a significant portion of the population from paying income tax. India's economy excludes many from income tax. Agriculture (17% of 2011-12 GDP) and the informal sector (9% of GDP) are untaxed. These sectors create over 80% of jobs, and informal wages are not recorded. Salaried employees and formal industry workers make up the majority of India's income taxpayers, with most falling into the top 10% income bracket. Despite some shortcomings, the system is progressive as it doesn't tax the poorest and generates substantial government funds for development.

D) Social Spending

Direct Transfers : Government programs like Mid-Day Meals, non-contributory pensions, primary school scholarships, and MGNREGS are designed to benefit the poor. These programs allocate resources disproportionately to lower-income households, as shown by their distribution curves. For example, 32% of Mid-Day Meal beneficiaries are from the lowest income groups, while only 5% are from the highest, demonstrating their focus on improving the lives of the poor and

elderly. Pensions Favor the poor (30% to bottom 20%, 12% to top 20%). Elementary scholarships are progressive and benefit the poorest. Higher education benefits the rich more. MGNREGS is a key program providing direct income support to the rural poor. It offers 100 days of guaranteed paid work, especially benefiting agricultural labourers during off-seasons. This helps improve their standard of living. The Progressiveness of Direct Transfers with respect to Market income plus Pensions. MGNREGS is a progressive program, demonstrated by its spending distribution favouring lower-income groups. 70% of the program's funds reach the poorest 40% of the population. It primarily assists rural agricultural labourers, particularly the 17% of agricultural households without land, who face unsustainable, low-wage, and seasonal employment. Direct transfers have been shown to reduce poverty by around 2% and Gini inequality by 0.01 points when added to household income. Direct transfers have been shown to reduce poverty by around 2% and Gini inequality by 0.01 points when added to household income.

E) Education

Public education spending in India, according to CEQ data, is linked to a decrease in inequality, with a 0.03 point reduction in the Gini coefficient. Although CEQ didn't assess poverty reduction, other research supports the idea that education is vital for poverty alleviation. School education remains a key focus in reducing inequality because of its widespread coverage. A 2014 survey revealed 273.7 million students in education, with 78% in schools. Primary schooling makes up 64% of enrollment, and secondary 15%. A significant portion of these students are from rural areas shown in table 2.

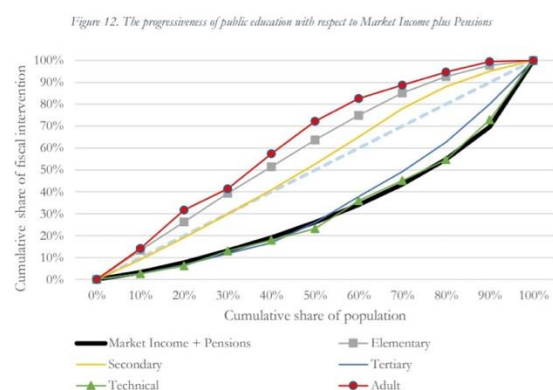
Overall: Public spending on postsecondary and technical education is neutral or proportional to income, meaning it doesn't significantly favor the poor.

Distribution: The distribution of benefits is similar to the distribution of market income and pensions, suggesting it's not targeted towards lower- income groups

TABLE 2. Distribution of scholarshio beneficiaries per Market Income plus Pensions decile

Decile	Elementary	Secondary	Technical	University
1	21.4	16.2	2.5	3.2
2	16.6	13.8	2.7	4.6
3	16.1	15.5	8.0	7.7
4	13.9	13.4	5.8	6.9
5	10.8	11.2	5.0	7.1
6	7.7	9.8	11.5	14.3
7	6.1	8.2	10.6	13.9
8	4.3	6.1	11.9	13.4
9	2.3	3.8	11.4	16.8
10	0.9	2.2	30.9	12.0
Total	100.0	100.0	100.0	100.0

Source: Authors' estimation using CEQ Methodology



Source: Kandu & Cabrera, CEQ MWB, June 2020

Fig 6. The Progressiveness of public education with respect to Market income plus Pensions

Concentration: Benefits are concentrated in the top 10% income bracket, with over 20% of the benefits going to this group. Impact: Tertiary and technical education benefits the poorest members of society the least.

Regressivity: This funding is regressive, meaning it disproportionately benefits higher-income households.

Technical Education: Only 20% of government-aided private school expenditure for technical education reaches 60% of households, indicating a skewed distribution.

Higher Education: The poorest 30% of households receive approximately 30% of the total expenditure for higher education, suggesting it's not heavily targeted towards them shown in fig 6.

F) Health

Along with school education, the availability of public healthcare is strongly associated with poverty levels. Government hospitals continue to serve as a lifeline for the underprivileged, providing free medical care. Government financing allows hospitals and doctors to provide free services. In addition to government hospitals, India has a wide network of primary health centres (PHCs) spread throughout the country. Health sub-Centres (HCs) are beneficial to the poor since they serve rural and underserved communities. They provide services to those in lower economic brackets. Figure 14 shows that the concentration curve for HCs is higher than that of PHCs during the first two deciles. Our findings indicate that spending on public hospitals is rising. These hospitals are typically located in sub-district and district capitals, with several hospital beds, doctors, and other infrastructure services. These hospitals provide free services to residents of the entire district. We discovered that persons in the 7 to 10 deciles receive the most advantages, almost 54% of the total benefits. People with lesser incomes receive fewer benefits from public healthcare services. The idea of ultimate income describes the overall impact of government spending on education and healthcare. The progressiveness of school education and PHC services has a good impact on income distribution. The Gini coefficient of inequality has decreased by 0.05 points as a result of increased public investment on education and health, from 0.36 at the disposable income stage. In India, inter-state/regional disparities have been a significant concern for planners and policymakers. Despite numerous development programs, regional inequity persists throughout time. During the pre-independence period, there was a significant disparity in facility availability between the active and dynamic regions and the hinterland. This in itself demonstrates different levels of development. Regional disparities have increased over the course of succeeding five-year plan periods. In India, there has been little theoretical research on regional disparities. However, many empirical studies have been done by researchers on development concerns. Professor Mathur (1987) addresses regional disparities in terms of regional growth. The majority of empirical studies on regional disparities in income and consumption suggest an increasing trend of inequality. According to Dan and Barua (1996), the Indian economy continues to rise while regional inequality widens. According to Dreze and Sen (1995), regional development has varied greatly, resulting in noteworthy internal diversities. Dutt and Ravallion shared their belief that long-term progress in improving rural living has varied between Indian states. Similarly, the National Human Development Report, 2001, demonstrates significant disparities in human development across Indian states from 1981-2001. According to the survey, the human development index in states such as Bihar, Uttar Pradesh, Madhya Pradesh, Rajasthan, and Orissa is severely poor. This section investigates regional disparities in India. We will discuss regional disparities in macroeconomic aggregates, infrastructure development, agricultural development, industrial development, and human development.

INDUSTRIAL DEVELOPMENT OF REGIONAL DISPARITY

Industrial concentration can be seen in various areas of India, as it is in other emerging countries. Keeping this in mind, the Government of India has implemented a slew of policies to promote balanced regional development. The policies are led by industrialization and heavily regulated policies, with several industries reserved for the public sector. Following the opening up of the economy with the state playing a minimal role in industrial growth and development, it has been stated that industries have concentrated in economically advanced states due to comparative advantages in social and economic infrastructure. Other research at the country level have validated this argument shown in table 2.

Table 2. Socio Economic Growth

Major States	1980-81	1990-91	2000-01	2008-09
1. Andhra Pradesh	39.26	41.71	46.54	51.25
2. Bihar (+)	28.02	31.95	39.6(43.39)	45.41(51.28)
3. Gujarat*	33.22	37.34	44.18	44.38
4. Haryana**	25.39	29.81	40.18	46.43
5. Karnataka	31.59	39.17	46.13	54.53
6. Kerala*	40.92	50.35	56.09	60.73
7. Madhya Pradesh (+)	27.99	33.36	39.82(40.55)	38.22(39.71)
8. Maharashtra*	39.94	43.86	53.36	57.20
9. Orissa	27.16	34.76	43.38	45.07
10. Punjab	36.18	33.48	36.92	41.27
11. Rajasthan	33.94	35.12	41.15	41.90
12. Tamil Nadu	36.73	39.98	47.93	57.10
13. Uttar Pradesh (+)	33.94	37.90	40.30(40.34)	42.00(42.44)
14. West Bengal*	40.38	43.38	49.35	53.50
India	36.60	40.60	46.90	59.30

Source: www.mospi.gov.in as quoted in Papola et.al (2011).

Despite several measures aimed at addressing regional inequities in industrial growth, the issue of balanced regional industrial development persists in India. Manufacturing's contribution of the Gross State Domestic Product (GSDP) varies greatly throughout Indian states. The manufacturing industry's share in India climbed from 15.4% in 2004-05 to 16.1% in 2009-10. Manufacturing's percentage of total GSDP in key states ranged from 5.6% in Bihar to 33.7% in Jharkhand in 2004-05. Industrially developed states, like as Gujarat and Maharashtra, also have a higher manufacturing contribution to their total GSDP. In 2009-10, the contribution of manufacturing to GSDP in Jharkhand was reduced to 19.2%. Bihar and Gujarat once again made the smallest and largest contributions among India's main states. The industrial activity among states is determined by the registered and unregistered status of the manufacturing status of industry. The registered-to-unregistered manufacturing ratio was 67.7:32.3 across India. The registered sector's proportion of overall manufacturing climbed somewhat, from 64.5% to 67.7%. When we analyze the share of registered sectors across states, we see that registered sectors contribute more in the majority of states. In places such as Bihar (39.4 percent), Jammu and Kashmir (37.4 percent), and Kerala (44.1 percent), registered manufacturing contributes less than unregistered manufacturing. Between 2004-05 and 2009-10, the share of unregistered parts in India fell from 35.5 percent to 32.3 percent. In 2009-10, the three newly constituted states of Chattisgarh, Uttarakhand, and Jharkhand contributed more than the other states. Orissa has also contributed little to unregistered manufacturing. Between 2004-05 and 2009-10, the industry grew at a pace of 10.3%. Bihar and Uttarakhand had the greatest growth rates (15.1% and 15.9%, respectively). Jharkhand (-1.1%) and Assam (0.5%) have lower growth rates. The same findings are drawn when we examine the trend in the share of the service sector in the GSDP of different states.

IV. Conclusion and Future Scope

Macroeconomic policy's primary goal is to produce long-term economic development while maintaining price stability and viable external accounts. To achieve this goal, this article has demonstrated that close cooperation between the monetary and fiscal authorities is required. Policymakers can only ensure that they will achieve their stated objectives efficiently if they achieve good policy coordination. Efficient coordination of monetary and fiscal policies is only possible if policy sustainability and credibility are considered. The overall policy framework, as well as each individual policy area, must be established on a sustainable and credible path. Overburdening one policy area as a result of a poor attitude in the other will inevitably jeopardize the fulfilment of macroeconomic policy objectives. At the same time, the coordination process must take into consideration that the adjustments in monetary and fiscal policy operate in distinct time frames: it generally takes a considerable time to adjust the fiscal position through policy action, whereas monetary policy can be "fine-tuned" faster. The paper's study reveals that the trend toward financial sector deregulation and increased market integration has led in a more diverse approach to monetary frameworks, including inflation targeting. Although these developments have no bearing on the soundness of quantitative monetary frameworks (as opposed to more subjective approaches), particularly in countries with low levels of financial liberalization, they do complicate policy implementation and coordination. However, the necessity for long-term monetary and fiscal strategies persists. The monetary frameworks, by relying more on pricing and market mechanisms for policy coordination, encourage the adoption of long-term policies.

Finally, at the micro-level, coordinating monetary and fiscal policy necessitates the development of a suitable framework for liquidity forecasting and management. This includes, in particular, the central bank's monitoring of the system's liquidity conditions, of which government cash holdings play a significant role. Coordination will entail sharing information and establishing mechanisms that allow the central bank to maintain complete control over overall liquidity developments in the system through its ability to impact them through its discretionary monetary operations. Fiscal policies have a significant impact on income distribution in India. Different policies exist at the Union, State, and Municipal or City levels, each with an impact on the country's standard of living. These policies encompass decisions about direct and indirect taxes, subsidies, pensions, and other direct transfers, as well as public spending on education and health. This study examines the individual and combined effects of these measures on poverty and income distribution in India. The report's income-distribution analysis is based on household consumption spending data from the National Sample Survey (NSS), which was conducted in 2011-12. It has also used other surveys, like as the NSS survey of household consumer expenditure on education and health, performed in 2014, the Indian Human Development Survey, and the NSS Employment and Unemployment survey in 2011-12, to estimate the value of cash and in-kind transfers, as well as direct taxes. Following a thorough review of all programs, we discovered that government interventions have a major impact on changing income distribution by lowering poverty and inequality. India's taxation laws are progressive, with the majority of taxes collected from the top ten percent of the population. Similarly, measures such as the Public Distribution System (PDS) subsidy, education and health investment, and direct cash transfers via the MGNREGS rural employment initiative all contribute to income distribution equality. According to our calculations, Personal Income Tax is concentrated in the tenth decile, scarcely paid in the eighth and ninth deciles, and not paid at all in the first through seventh deciles. There is also a need to give appropriate resources to public education, health, and MGNREGS, which directly address the poor's problems. India must step up its efforts to achieve the SDG objective of eradicating poverty and reducing inequality to a minimum by 2030. SDG objective of eradicating poverty and reducing inequality to a minimum by 2030.

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