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Interrelationship Between Growth and Inequality in India and Tax Policy Implications

Ravindra H. Dholakia, Sitikantha Pattanaik and Shrujan Rajendra Rajdeep[1]

This paper examines the relationship between economic growth and income inequality for India. Empirical findings seriously challenge some popular prevailing notions that higher inequality has been an unintended outcome of higher growth in the post-reform period, and that lower inequality can support higher growth. Based on such notions, tax policy changes have been advocated, to make the income tax structure more progressive, besides exploring imposition of a super tax on the net wealth of the wealthiest. Results of different household surveys, on the contrary, find that inequality may have actually declined in recent years in India. Importantly, the paper finds no statistically significant evidence of either economic growth causing inequality or higher inequality dampening growth. It highlights, therefore, that any suggestion to revamp the tax regime to reduce inequality in India must be backed by robust empirical support.

Inclusive growth – Sabka Sath, Sabka Vikas, Sabka Vishwas (Together with All, Development for All, the Trust of All) – has been highlighted as a Bhartiya model of economic development in the recent years (Virmani, 2023). Bharti *et al* (2024), however, have argued that income and wealth inequality in India has skyrocketed since 2000s, with the share of the top 1% in income and wealth reaching as high as 22.6% and 40.1%, respectively, in 2022-23. Also, the wealth-to-income ratios of over 4600% at the very top of the distribution as against 30%-40% at the lower end of the wealth distribution reveal the enormous magnitude of disparity. Between 2014-15 and 2022-23, the rise of top-end inequality was reported to have been particularly pronounced. Shukla (2025a), using Indian household income surveys conducted by the National Council of Applied Economic Research (NCAER) and People Research on India's Consumer Economy (PRICE) for the period 1953- 54 to 2022-23, also reported sustained increase in inequality up to 2020-21, which moderated in the post-COVID period reflecting the impact of targeted policy stimulus. Urban India consistently

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exhibited higher income inequality than rural India, but the Gini coefficient for both converged in 2023 (Shukla, 2025b).

Recently, the shrinking middle-class has also been highlighted as a risk to growth, based on a Kantar report (Financial Express, 2025). Kumar (2025) claimed that there is really no middle class in India, as per the low levels of average urban and rural consumption in the 40-60% of the fractile classes of consumption distribution. Krishnan (2025) wondered what could explain the fact that in India, consumption at the bottom of the pyramid is expanding at a fast pace while consumption of the super-creamy layer is declining (between 2022-23 and 2023-24), and argued that the proliferation of cash transfer schemes might be boosting consumption at the bottom of the pyramid while credit slowdown, particularly impacting those who use more credit cards for discretionary splurging, may have slowed consumption at the upper income level. The Indian economy, according to Jacob (2025), has gotten even more K-shaped, as evident from rising imports of luxury watches, and almost 90% of urban households spending more on essential items, the highest in a decade. Shukla (2025c), however, argues that PRICE survey data point to the size of middle class in India rising from 26% of the population in 2016 to 40% now. According to him, the demand pattern for fast moving consumer goods (FMCG) may not help in correctly assessing how the size of the middle class is changing over time because, on the one hand, inflation has compelled households to reprioritise essentials like food and fuel, and on the other, middle class households are also spending more on smart phones, credit-funded automobiles and real estates, and also international travel.

Using the recent (2022-23 and 2023-24) household consumption expenditure survey (HCES) findings, however, Ghosh (2024) showed that consumption inequality (based on estimated Gini coefficient of total consumption) declined in rural areas from 0.283 in 2011-12 to 0.266 in 2022-23 and further to 0.237 in 2023-24, and in urban areas from 0.363 in 2011-12 to 0.314 in 2022-23 and further to 0.284 in 2023-24. Rangarajan and Dev (2024), while referring to the decline in inequality reported in other studies between 2011-12 and 2022-23, had cautioned, however, that due to certain changes in the methodologies, HCES 2022-23 may not be comparable with HCES 2011-12. They had also observed that usually consumption inequality is lower than income inequality, but also cautioned that the tax data base used in India for computing income inequality may not be robust, given the low coverage of income tax

(in terms of percentage of population paying income tax) and the small sample tax data that was available for 2011-12 (assessment year 2012-13), not adequate to undertake any solid inequality analysis (Rangarajan and Dev, 2020). Before the release of HCES data, Ghatak *et al* (2022) and Gupta *et al* (2021) had used the Consumer Pyramids Household Survey (CPHS) data of CMIE to also show moderation in inequality in India. Bharti *et al* (2024), however, have argued that consumption is not a good proxy of income for estimating inequality because the rich section of the population generally consumes a small fraction of their income, and therefore, any assessment based on consumption data would understate inequality. Moreover, survey-based data usually have the limitation of underreporting of income and wealth by the rich and wealthy. This argument appears to be valid because: (a) as per HCES data, the average monthly per-capita expenditure in 2023-24 for the upper 95-100 % fractile class in rural and urban areas as estimated at Rs. 10, 137 and Rs. 20,310, respectively, seem very low, and importantly, (b) the levels in 2023-24 have declined from Rs. 10, 501 and Rs. 20, 824, respectively, in 2022-23. To avoid this potential scope for underestimation, Bharti *et al* (2024) used survey data for the bottom 90% and tax data for the top 10%. Shukla (2025a), however, highlighted the relevance of household surveys on the ground that a survey can capture income and expenditure data from the informal sector, unlike tax data. It may be appropriate, therefore, to explore other survey data.

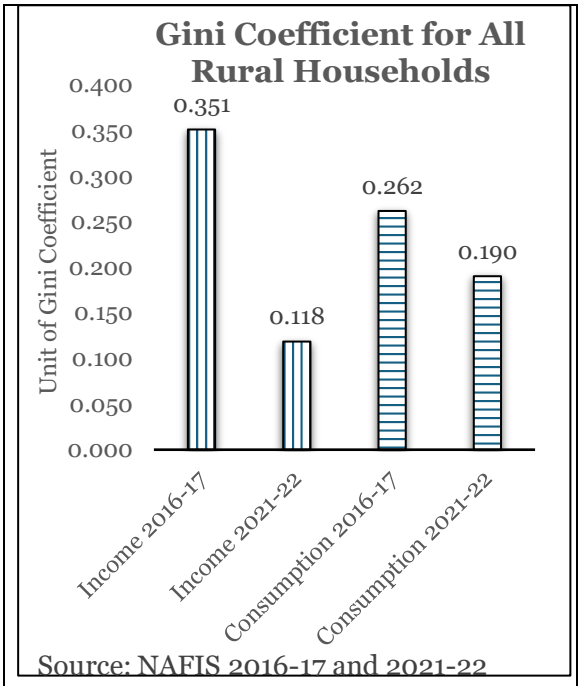
NABARD's All India Rural Financial Inclusion Survey (NAFIS)

NAFIS, which has detailed information on consumption, income and assets of the rural households, can also help in assessing how inequality has changed in the post-COVID period. An analysis of NAFIS data suggests that in the rural areas, both consumption and income inequality have declined, with income inequality declining much more than consumption inequality, as evident from the estimated values of the Gini coefficients (Figure 1).

It may be noted that while reporting income and consumption in a survey, households often don't account for subsidies/transfers from the central government and state governments, that are given in the form of both kind and cash. NABARD's bi-monthly rural economic conditions and sentiments survey (RECSS) collects the share of subsidies/transfers explicitly as a percentage of monthly household income, which shows that in January 2025 (round 3 of the survey) subsidies and transfers were

equivalent to about 10.3 per cent of income (on an average), which rose modestly over September 2024 (round 1) and November 2024 (round 2). For certain sections of the households (presumably at the lower end of the income bracket), such transfers account for more than 20 per cent of monthly income, whereas close to 13% of the rural households (presumably upper income category) reported receiving no transfers (Figure 2). Hence, if one accounts for transfers and subsidies, the decline in inequality in income may be much more than what NAFIS data alone would suggest. Even in the HCES, the amount reported by the households against free provision of goods and services by the central government and state governments under different schemes may be low (with their imputed values amounting to just 2.3% in rural areas and 0.93% in urban areas) (Rangarajan and Dev, 2024). Bhalla et al. (2022) examined the impact of food subsidies in India on inequality and concluded that once the measured inequality (Gini coefficient) is adjusted for food subsidies, inequality estimates turn out to be lower. Between 2011-12 and 2017-18 (based on 2016-17 HCES survey results which were not released in the public domain), inequality was reported to have declined in both urban and rural areas, but largely due to "levelling down", *i.e.*, lowering of standards of the better off rather than improvement in the standards of the worse off (Subramanian, 2019). Such findings could largely be due to the underreporting of consumption and income by the well-off participants in the surveys. Thus, depending on how the impact of government transfers (both in cash and kind) are captured fully for the lower income brackets and the extent of deliberate underreporting of income and wealth in surveys by the well-off, measured inequality numbers may not help in having a precise identification of inequality, but they could still help capture broad trends.

Figure 1 -Inequality in Income and Consumption in India



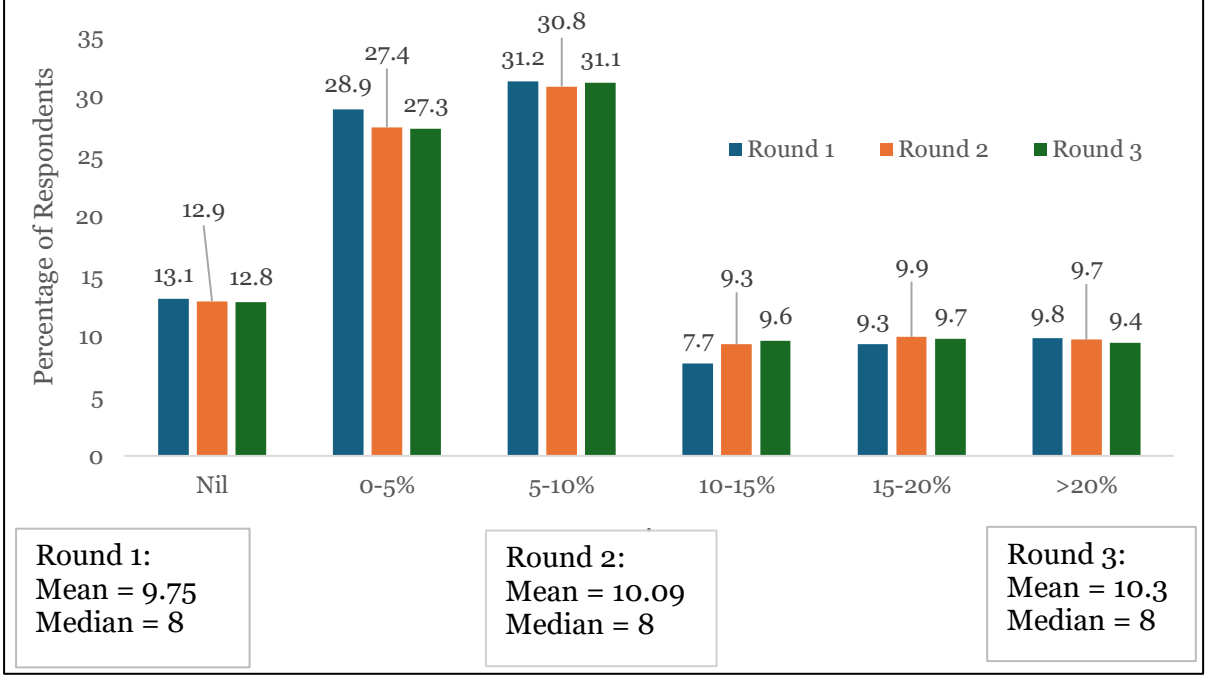
Average Monthly Income and Consumption for Different Deciles (in Rupees)

Deciles	Income		Consumption	
	2016-17	2021-22	2016-17	2021-22
1	1,019	8,732	2,156	5,948
2	2,753	9,949	3,286	7,446
3	4,330	10,572	4,456	8,306
4	5,342	11,169	5,271	9,261
5	6,881	11,720	6,101	10,054
6	8,484	13,047	6,697	11,070
7	8,817	14,106	7,047	12,187
8	10,449	14,000	7,999	13,335
9	11,981	15,877	9,426	15,233
10	20,548	17,826	14,030	19,796
Overall	8,059	12,698	6646	11,262

Source: NABARD (NAFIS, 2016-17 and 2021-22)

Note: In 2021-22, income in the upper income category appears to have been underreported, both relative to income reported in 2016-17 and also relative to consumption reported in 2021-22. Estimation of inequality based on any survey data, thus, may only be indicative and not precise.

Figure 2: Share of Government Subsidies/Transfers in Monthly Household Income (% of Monthly Income)



Source: NABARD, Rural Economic Conditions and Sentiments Survey (RECSS)

Growth and Inequality Interaction

Inequality is often linked to stages of growth as per the Kuznets curve, or the inverted-U curve relationship between per-capita income and inequality. An agrarian rural economy may be more equal, but as industrialisation leads to gradual absorption of surplus labour from agriculture and as per-capita income rises, the usual farm and non-farm and/or rural and urban divide may become more pronounced, leading to widening of income inequality. At some point, the share of farm/rural employment drops sharply, and at higher levels of per-capita income, inequality starts reducing. Empirical literature corroborates the relevance of Kuznets curve, but contrarian results are also obtained at times. On the reverse causality, *i.e.,* from inequality to growth, Barro (1999) reported that inequality (Gini coefficients) do not show any significant relationship with economic growth, but the impact depends on the level of development – negative below a level of per-capita income (USD 2070 at 1985 US dollars) and positive above that.

Recognizing the emerging debate that lowering inequality is an option to step up the growth momentum of countries, Grigoli *et al.* (2016) studied the cross-country differences in inequality and their impact on growth. It found that income inequality pattern is generally converging, and the impact of inequality on growth (real per-capita GDP) is heterogenous, which is negative and significant around the median level, but positive and significant for one fourth of the countries. Arguments supporting the positive effect are based on inequality providing incentives for innovation and productivity, raising saving and investment rate given that rich and well-to-do have higher propensity to save and that they tend to acquire more skills and higher education. The negative effect is supported by the argument that inequality lowers health and education outcomes which impact productivity, encourages redistribution policies (with accompanying fiscal stress) that are harmful to growth, and amplifies leverage (debt funded consumption) and the associated risk of financial crisis, and the resultant asset quality concerns dampening growth. Topuz (2022) studied the inequality and growth relationship for 143 countries using data for the period 1980 to 2017 and concluded that the level of development matters, *i.e.,* higher inequality in some countries tends to have higher fertility rate and less innovation activity, whereas in developed countries inequality tends to raise the saving propensity. Baselgia *et al.* (2022) presented a comprehensive review of the theoretical and empirical arguments

on the relationship between inequality and growth and then concluded that some intermediate level of inequality is growth maximising, because very low inequality may be a disincentive to save, invest in human capital and innovate, while very high inequality may mean credit market imperfections and sociopolitical instability, the key negative channels to dampen growth.

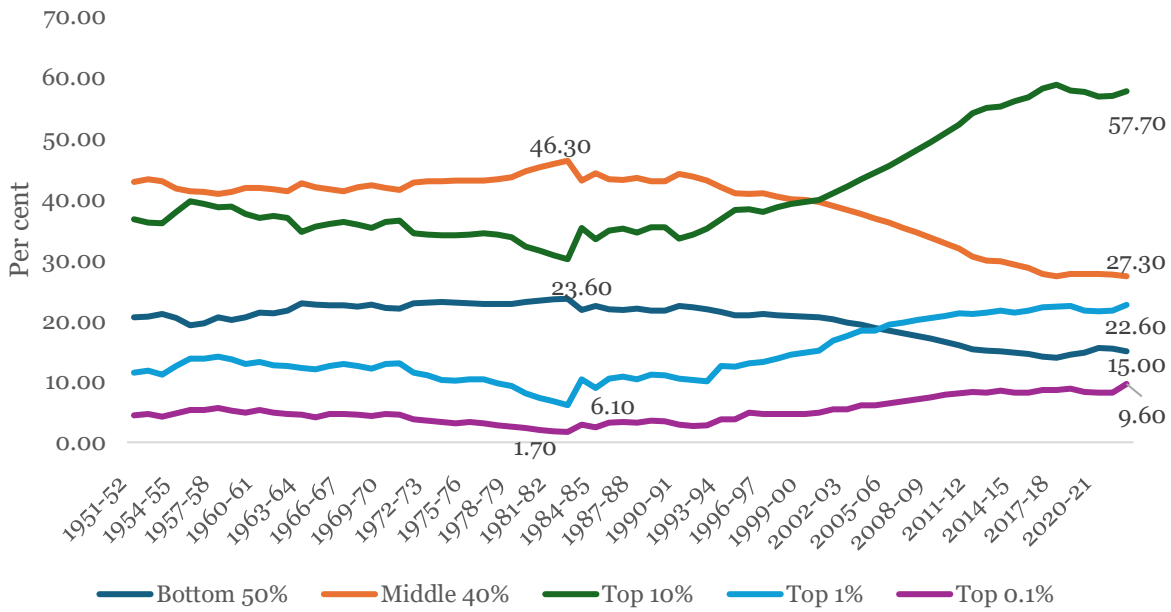
Based on a comprehensive review of theoretical and empirical literature on the relationship between growth, poverty and inequality, Cerra *et al.* (2021) concluded that unlike the nearly universal consensus view that growth reduces poverty, the impact of growth on inequality and also the impact of inequality on growth remains ambiguous, and empirical results may vary depending on the underlying sources of growth. For example, financial globalization and technological progress driving growth may lead to higher inequality while trade globalization may lower inequality. Importantly, though both economic growth and inequality influence overall social welfare, growth often tends to be the dominant force. Aiyar and Ebeke (2019) stressed the importance of information on inequality of opportunity for assessing the impact of inequality on growth. If low-income households have poor access to high quality education and finance, slower human capital accumulation and financial exclusion (and the associated credit constraints) could dampen growth. On using any assessment of inequality for public policy making, Ostry *et al.* (2014) highlighted the critical significance of redistribution (or taxes and subsidies), as lesser inequality achieved through redistribution may be conducive to growth. However, one needs to be particularly careful about threshold effects, because beyond a point greater reliance on redistribution could be destructive for growth, though allowing extreme inequality to continue could as well be detrimental to growth. This would suggest that country-specific empirical assessment of the relationship between inequality and growth must guide any recommendation on the scope for and magnitude of redistribution policies that could lower inequality while boosting economic growth.

Empirical Facts for India

Bharti *et al.* (2024) argued that since actual and perceived inequality was not high in India before the pro-market reforms that started in the 1990s, inequality was not an important issue for public policy discussions. In the post-reform period, however, inequality has increased, as the shares of the bottom 50% and middle 40% in pre-tax national income have declined while the shares of the top 10% and 1% have

consistently increased (Figure 3). Using their annual time series data for the period 1951-52 to 2022-23 on inequality (in terms of shares in income), it is possible to examine the impact of economic growth on inequality. A visual look at the scatter plot, however, may be misleading, as only a proper empirical scrutiny may show either no statistically significant relationship, or a relationship that is supported by empirical estimates for drawing relevant policy conclusions. This article makes an attempt to examine the impact of growth on inequality, and also of inequality on growth, applying carefully the statistical techniques using available Indian data.

Fig 3: Per Adult Pre-tax National Income Shares



Stationarity properties of all relevant variables are tested first (Table 1), before using them for further empirical analysis. Four measures of inequality and two measures of growth are used, details of which are presented under notes to Table 1. While the two measures of growth (GDP and GDPPC) are I(0), and all four measures of inequality (Inequality 50, Inequality 40, Inequality 10 and Inequality 1) are I(1). The inequality variables are also used in the first difference form to ensure all variables as I(0) before checking causality.

Table 1: Stationarity Test Results

Variables	Augmented Dickey-Fuller
Inequality50	-2.166360
Inequality40	-1.845615
Inequality10	-1.859216
Inequality1	-0.845139
DInequality50	-3.881216**
DInequality40	-4.967627*
DInequality10	-4.570466*
DInequality1	-5.574270*
GDPG	-5.523122*
GDPPC	-5.768695*

*, **, *** indicate significant at 1%, 5 % and 10 % level. All inequality equations have an intercept and a trend, whereas growth equations have an intercept.

Notes: Description of Variables
Inequality50: Share of the bottom 50% in pre-tax national income;
Inequality40: Share of the middle 40% in pre-tax national income;
Inequality10: Share of the top 10% in pre-tax national income;
Inequality1: Share of the top 1 % in pre-tax national income;
D: First difference of the series (change over previous year);
GDPG: Annual GDP Growth (at constant prices)
GDPPC: Per Capita Income Growth (at constant prices).
Sources of Data: Bharti *et al.*,(2024) for timeseries data on inequality for the period 1951-52 to 2022-23, and RBI Handbook of Statistics for the rest of the variables.

Bharti *et al.* (2024) presents a consistent annual time series data on inequality, which is commendable because of known data availability challenges to generate precise estimates of inequality. This time series, however, has helped in empirically assessing the causal relationship between growth and inequality in this paper. Bharti *et al.* (2024) also highlight at one place that broad trends captured in their data are robust, but there is some uncertainty about the exact levels. At another place, they also report that alternate data sources present contradictory trends for bottom incomes. In fact, depending on the various combination of p1(survey data) and P2 (tax data), the levels of inequality seem to get affected, but not the trends. This would suggest that both yearly change (first difference of time series data) in inequality as well as the trend (in the level) of inequality need to be examined separately, which is done in this paper, though based on stationarity properties of the data before using them in relevant models (in the form of both level and first difference).

Pairwise Granger Causality Tests reported in Table 2 (for data relating to the post-reform period (*i.e.,* 1990-91 to 202-23) suggest: (a) no influence of any measure

of growth on any measure of change in inequality, and (b) three measures of change in inequality (Inequality 50, Inequality 40 and Inequality 10) impact two measures of growth (*i.e.*, the null of no causality is rejected).

Table 2: Pairwise Granger Causality Tests

Null Hypothesis	F-Statistic	Prob.
GDPG does not Granger Cause DInequality50	1.53282	0.2348
GDPG does not Granger Cause DInequality40	0.47446	0.6275
GDPG does not Granger Cause DInequality10	0.11963	0.8877
GDPG does not Granger Cause DInequality1	1.38093	0.2692
GDPPC does not Granger Cause DInequality50	1.58998	0.2231
GDPPC does not Granger Cause DInequality40	0.40527	0.6709
GDPPC does not Granger Cause DInequality10	0.11824	0.8890
GDPPC does not Granger Cause DInequality1	1.63785	0.2138
DInequality50 does not Granger Cause GDPG	4.31358	0.0241**
DInequality40 does not Granger Cause GDPG	3.63337	0.0406**
DInequality10 does not Granger Cause GDPG	4.31466	0.0241**
DInequality1 does not Granger Cause GDPG	1.33517	0.2806
DInequality50 does not Granger Cause GDPPC	2.99954	0.0673***
DInequality40 does not Granger Cause GDPPC	2.75705	0.0821***
DInequality10 does not Granger Cause GDPPC	3.30643	0.0526***
DInequality1 does not Granger Cause GDPPC	1.12460	0.3401

*, **, *** indicate significant at 1%, 5 % and 10 % level.

The causality analysis shows that inequality (3 measures) has some impact on growth. To check the sign of the impact (positive or negative) and statistical significance, OLS regression is used in which two measures of growth are I(0) and the first difference of three measures of inequality are also I(0). Hence, OLS is used to assess the impact of change in inequality on growth. When the pace of increase in the share of bottom 50% in income rises, growth in GDP and per-capita income growth decelerates. Thus, only for one measure of inequality (i.e., Inequality 50), the impact on growth (both GDP growth and per capita income growth) is statistically significant, but contrary to perceptions, this would suggest that lowering inequality may be detrimental to growth. For the variable Inequality10, the coefficient is not statistically significant (Table 3). Interpretation of a variable in difference form is always not very straight forward. To avoid the challenge of interpretation, recognising that four inequality variables in level form are I(1) and growth (2 measures) are I(0), the autoregressive distributed lag (ARDL) model was also used, but the bounds test did not confirm the presence of cointegration, and diagnostic tests, such as the serial correlation LM test and Breusch-Pagan-Godfrey heteroscedasticity test suggested that

residuals are serially correlated and not homoscedastic, respectively. Thus, unlike the causality results that point to inequality impacting growth, there is no clear evidence of any increase or decrease in inequality either harming or benefiting growth.

Table 3: Impact of Inequality on Growth

Variables	Coefficient	Std. Error	t-Statistic	Probability
Dependent Variable: GDP Growth				
DInequality50	-3.372462	1.316011	-2.562639**	0.0155
Constant	5.315288	0.531860	9.993779*	0.0000
R-squared: 0.174810; Adjusted R-squared: 0.148191; Durbin Watson (DW): 2.250707				
Dependent Variable: GDP Growth				
DInequality40	-0.842816	1.043602	-0.807603	0.4255
Constant	5.601578	0.703127	7.966661*	0.0000
R-squared: 0.195350; Adjusted R-squared: 0.169393; Durbin Watson (DW): 0.144505				
Dependent Variable: GDP Growth				
DInequality10	0.920398	0.601405	1.530412	0.1361
Constant	5.378034	0.635174	8.467019*	0.0000
R-squared: 0.070246; Adjusted R-squared: 0.040254; Durbin Watson (DW): 2.185755				
Dependent Variable: Per-capita Income Growth				
DInequality50	-3.510378	1.516433	-2.314891**	0.0274
Constant	3.429711	0.612859	5.596247*	0.0000
R-squared: 0.147385; Adjusted R-squared: 0.119881; Durbin Watson (DW): 2.263423				
Dependent Variable: Per-capita Income Growth				
DInequality40	-0.738704	1.188034	-0.621787	0.5386
Constant	3.793219	0.800438	4.738927*	0.0000
R-squared: 0.195350; Adjusted R-squared: 0.169393; Durbin Watson (DW): 0.144505				
Dependent Variable: Per-capita Income Growth				
DInequality10	0.913679	0.687738	1.328528	0.1937
Constant	3.524999	0.726355	4.852997*	0.0000
R-squared: 0.053868; Adjusted R-squared: 0.023348; Durbin Watson (DW): 2.220349				

*, **, *** indicate significant at 1%, 5 % and 10 % level.

Tax Reforms to Stem Rising Inequality

Research work on inequality that aims at proposing tax reforms must be country- specific, comprehensive, and credible. Piketty (2015) relies on his extensive work on inequality for the advanced economies to recommend that an optimal tax policy is two dimensional, involving a progressive tax on labour income and a progressive tax on inherited wealth (with estimated optimal inheritance tax pegged at as high as 50-60 per cent). Progressive consumption tax can be an alternative, but he considers it as a highly imperfect substitute. Milanovic (2014), in a technical review

of Piketty's influential work titled Capital in the Twenty First Century, highlights many limitations in the approach, including its relevance for emerging economies like India, and the feasibility of its controversial recommendations relating to taxing income and wealth. Following the release of updated estimates of inequality in India up to 2022-23 in Bharti *et al.*(2024), Piketty (2024) advocated that: (a) a 2% wealth tax on India's super rich (167 billionaires) could be imposed to raise revenue equivalent to as high as 0.5% of the national income; (b) India's current 43% peak *effective* income tax may not be progressive enough because of underreporting of income by the wealthy; and (c) the percentage of population in India paying tax must rise substantially from the low level of just about 10% (comparing with China, where it was 10 % about 40 years back, which has now gone up to 70-80%). In response, there has been an animated debate on the way ahead for India.

Subramanian (2025) has argued that India must celebrate its wealth creators, and we should ignore imported ideas that view businesses with disdain, recognising that without risk takers (the entrepreneurs), there would be no economic growth, and hence, no employment or income to tax. Mint (2025), besides highlighting the risk of capital flight, concluded that taxing wealth is high on idealism but low on pragmatism. Sabnavis (2025), however, proposed feasible areas where the tax regime could be made more progressive, such as by imposing luxury tax/surcharge (on high value properties, air travel by business and first class, expensive hotel tariffs, and celebrity endorsements) and exploring the option to tax income from agriculture, particularly rich farmers (based on large land holdings). Pant (2025), in turn, supported a low tax-rate regime, but proposed to expand the coverage, with as low as 1 per cent, applied to all who can afford it, drawing inspiration from the wisely words of Chanakya – "collect taxes from the citizens as honeybees collect nectar from flowers …gently and without inflicting pain". In fact Piketty (2009) had recommended that India must work towards fiscal modernisation, and convince the electorate for a mass income tax. Aiyar (2017), besides highlighting major "methodological and conceptual difficulties" in the approach adopted by Piketty (2015) in constructing the inequality series, emphasised that economic liberalization has created new opportunities, but people with skills and access to global markets may have benefited more. Instead of soaking the rich, that failed India in the socialist era, the emphasis of policy should be more investment to enhance skills, upgrade infrastructure and improve governance that can empower all to be able to benefit from the growing opportunities in a market economy.

The presumed economic justification behind such recommendations on tax policy changes to achieve lower inequality is that GDP growth in a market economy results in higher inequality, and that lower inequality would lead to higher economic growth (and greater economic welfare). The present paper has clearly shown on the contrary that, in India, there is no statistically significant impact of economic growth on inequality and there is only very weak evidence of inequality impacting growth, that too pointing to lower (not higher) inequality could be detrimental to growth. Thus, there appears to be no sound empirical economic justification for the proposed advocacy to overhaul the tax regime for achieving lower inequality in India.

Conclusions

The perception of rising inequality in India since the 1990s, supported partly by some estimated time series information on measured inequality, has triggered an animated debate in India on the need for changing India's tax regime to make it more progressive, covering both personal income and wealth. This requires a deeper analysis of: (a) whether inequality has increased in terms of all available information pointing to such a consensus inference, particularly since the 1990s under the pro-market policy regime; and (b) whether higher inequality dampens growth or alternatively, whether lower inequality would lead to higher economic growth.

On inequality trends, many survey based analyses – using household consumption expenditure survey (HCES), Consumer Pyramids Household Survey (CPHS) and NAFIS – suggest that inequality has actually decreased in India (and in the rural economy as per NAFIS) in the recent years. Cash transfer schemes of the central government and state governments may explain partly the monthly consumption of the lower deciles of the income bracket rising faster than that of the upper decile income groups. So, there is no consensus view, yet, that inequality is increasing in India.

On the second issue, when proper empirical tests are applied, one does not find any statistically significant impact of economic growth on measured income inequality. In other words, as per the causality analysis, inequality is not caused by economic growth.

The empirical evidence on inequality impacting growth is also weak. While the causality analysis points to three out of the four measures of inequality causing GDP growth as well as growth in per-capita income, when actually estimated in regression equations, they show an adverse impact of the pace of increase in the share of the bottom 50% on both GDP growth and growth in per-capita income. In other words, lower inequality may be detrimental to growth. This result, however, is not statistically supported when the other measures of inequality (such as top 10% and top 1% share in national income) are used, making the inference about inequality impact on growth weak.

Given the key findings of this paper in terms of no adverse impact of growth on inequality, and only weak evidence of lower inequality leading to growth moderation (not higher growth, as often perceived), it may be difficult to justify any tax reforms as the convenient means to address the challenge of inequality. Any recommendation for a revamp of the tax policy regime must be backed by country-specific more research, at least on whether higher inequality has been an outcome of growth in a pro-market policy regime; whether more inequality has dampened the trend growth of India ; and if the tax policy regime is revamped to address the challenge of inequality, what could be the costs for the economy, particularly for future trend growth. Moreover, the thrust of public policy should be a mix of limited redistribution (using taxes and subsidies) that could lower inequality without dampening growth, and sustained measures to address inequality in opportunities, in terms of access to health, education, and finance for all. Instead of a tax policy induced "levelling down" approach that could lower the welfare of the upper income deciles, there must be sustained emphasis on "levelling up", by enhancing access to opportunities that could lift up the average income and consumption levels of the lower deciles. Efforts directed at mobilisation of greater fiscal resources to support redistribution must also focus on widening the tax base and improved compliance, rather than only higher tax rates applied to the well-off sections of the society.

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