Capital is back? The fall and rise of the rich in India

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Concentration of wealth in India maybe returning to pre-independence levels

To understand the levels and structures of inequality in India, it is necessary to put the rich at the centre of its macro-history.

In Europe and the United States of America (USA) on the eve World War I, wealth held by a fraction of the richest percentile dominated over national income. This wealth fell dramatically over the course of the Great Depression and two World Wars, only to emerge again in the late 1970s. It is this long-run evolution that is at the centre of Thomas Piketty’s book *Capital in the 21st Century*.

Much like the developed world, wealth concentration in India seems to have followed a U shape, now recognised as the inverted Kuznets curve. To be sure, India has for centuries housed the richest and poorest people on the planet. My recent research (Kumar, 2017 *Capital and the Hindu Rate of Growth*) asks a question along these lines: Is the state of wealth inequality today a continuation or a sharp break from India’s past?

The decline

In 1937, the Nizam of Hyderabad graced the cover of *Time* magazine as the wealthiest person in the world. His land, precious metals, and other assets were equivalent to almost 30% of India’s national income. He was by every definition of the word, “Super Rich.”

Joining him at the top of India’s wealth distribution were other ancestral royalty from India’s princely states and a handful of business houses. The establishment of independent India along with its newly drafted Constitution created a new paradox — it guaranteed private property but also made tremendous promises of democratisation. It was on these lines that a large-scale dismantling of incumbent and established wealth occurred over the next three decades. It began with the annexation of private (princely) land during the formation of the Indian union.

Over time, as India’s tryst with socialist planning proceeded, much of old wealth was confiscated, taxed progressively and nationalised. In development economics, this period (1950-1980) is often referred to as “The Hindu Rate of Growth.” For example in 1966, the top 0.1% in India owned the equivalent of 16% of GDP; i.e. almost two months worth of output. By 1986, this wealth was worth less than 5% of national income.

Had India achieved superb equality? We cannot pretend to answer this affirmatively because the Hindu Rate of Growth was an embarrassment relative to what was happening in East Asia. But much like Europe and the USA, a combination of progressive taxation with anti-capital policies broke up the existing rentier class. Private property was also turned into national wealth — not always efficient but the pace and level of the decline amongst the rich was staggering. The term “Tata-Birla” resonates with the Indian imagination because these (and one or two others) corporate houses were the few that made the journey intact.
Resurgence and metamorphoses

While the speed of the decline owes much to Indira Gandhi, her successor Rajiv planted the seeds needed to rebuild private wealth. By 1986, inheritance taxation was abolished, other direct taxes diluted and private industry began to flourish again. Eventually nationalisation was reversed with sales of public assets and the globalising market became India’s friend. The pace of stock market capitalisation since 1989 easily surpassed India's outstanding GDP growth. Although existing data does not allow a systematic analysis, a collection of stylised trends makes it seem like the super-rich are back again.

The Forbes Rich List published annually showed that by 1996 the richest two persons in India held wealth equal to 1% of GDP. It took thousands of estates to make this figure in 1980. In 2007, exactly seven decades after the Nizam, Mukesh Ambani made the global list as the world’s wealthiest person.

At this juncture, India’s billionaires club was worth almost 20% of national income. All this points to the possibility that India too has a U-shaped evolution of wealth concentration, indeed these trends were matched by income inequality according to work by Mr. Piketty and Abhijit Banerjee.

The resurgence of the rich was accompanied by a metamorphoses — much of top wealth is still inherited, but instead of hereditary royalty it is now ‘corporatised’ primogeniture. Unlike the poor investments made by incumbent aristocrats, inherited assets continue to grow. The families dominate private assets, due to closely held equity. But they are also joined by other smart investors and self-made businessmen. Rankings today change frequently based on entries and exits. These fluctuations are in the nature of wealth at the top. Old wealth has made way for the new and even newer wealth keeps emerging. Will national income be dwarfed again?

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