

WORKING PAPER

Unequal India in an Unequal World: Causes, Consequences & Policy Options

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List of Acronyms

BRICS – Brazil, Russia, India, China and South Africa

GDP – Gross Domestic Product

GII - Gender Inequality Index

GNI – Gross National Income

HDI - Human Development Index

HNW - High Net Worth individuals

IMF – International Monetary Fund

MGNREGA – Mahatma Gandhi National Rural Employment Guarantee Act

SECC - Socio Economic and Caste Census

UHNW – Ultra High Net Worth individuals

UK – United Kingdom

UNDP – United Nations Development Programme

USA – United States of America

WTO – World Trade Organization

INEQUALITY IN A GLOBAL CONTEXT

Introduction

Disparities in income and wealth have all along been present in almost every society across the world. However, the rate of increase in inequality in the distribution of income and wealth has been alarming in recent times. This has generated much concern among policy makers, academics, and even general public. The phenomenon of escalating inequality in income and wealth is found not only between countries, but also within countries – both developed and developing.

Although the supporters of free market mechanism claim that globalization and economic liberalization have the potential to increase the overall output in a country, the experience of the past three decades reveals that these policies have failed to benefit all sections of the society. Inequalities within countries have been growing at a rapid pace particularly since 1980s when more and more economies started embracing neo-liberal policies. Under the growing sway of free market principles, the main focus of the policy makers and international agencies has been on economic growth while the distributional aspect has largely been ignored. The contemporary significance of inequality is huge as the phenomenon has wide-ranging socio-economic ramifications for nations, societies, individuals and their future. Economic inequality is considered to be one of the main contributing factors for the great recession which started during the first decade of the twenty first century from which many countries of the world are yet to recover.

Inequality is observed not in income or wealth alone, but also in a number of other variables. The different dimensions of inequality could be social, political or cultural. However, this paper has attempted mainly to analyse the economic aspects of growing inequality in the world with special focus on India.

Rise in Income and Wealth Inequality

Income inequality has been rising in almost all countries during the past few decades. While market oriented neo-liberal policies were expected to increase the overall economic growth of an economy, in reality, even in countries where growth in income and output has occurred, all the sections of the society have not been benefitted equally. For instance, according to Joseph E. Stiglitz, income growth in the US in recent times has primarily occurred only at the top 1 per cent of the income distribution thereby aggravating the problem of inequality in the economy. According to him, "those at the bottom and in the middle are actually worse off today than they were at the beginning of the century".¹ In the words of Christine Lagarde, Managing Director, IMF, "In the US, inequality is back to where it was before the Great Depression, and the richest 1 per cent captured 95 per cent of all income gains since 2009, while the bottom 90 per cent got poorer. In India, the net worth of the billionaire community increased twelve fold in 15 years, enough to eliminate absolute poverty in this country twice over".²

A major reason behind the increase in income inequality is due to a phenomenal rise in the incomes earned by top company executives and successful businessmen.³ However, apart from income inequality, wealth

¹ Stiglitz, Joseph, E (2012), *The Price of Inequality*, Penguin Allen Lane, New Delhi, p.25.

² Lagarde, Christine (2014), *A New Multilateralism for the 21st Century*, The Richard Dimpleby Lecture, London, 3 February, <https://www.imf.org/external/np/speeches/2014/020314.htm>

³ Mitchell Lawrence (2014), 'How the American Myth of Self-reliance is Fuelling Income Inequality', *Washington Post*, December 10, <https://www.washingtonpost.com/posteverything/wp/2014/12/10/how-the-american-myth-of-self-reliance-is-fueling-income-inequality/>

inequality has also been rising in a huge way. Wealth is the stock of all the assets people own such as houses, bank accounts, financial assets like stocks and bonds, etc. Income, on the other hand, consists of mainly wages and salaries. According to a study by Oxfam, at the beginning of 2014, the richest 85 individuals owned wealth as much as the poorest half of the entire global population.⁴ Interestingly, extremely wealthy people are found not only in developed countries, but in developing nations of South Asia, sub-Saharan Africa and Latin America also.

As given in Table 1, Credit Suisse estimates that considerable wealth inequality exist in different countries across the world.⁵ While the percentage share of the top 10 per cent wealthiest people is as high as 84.8 per cent in Russia, US with almost 75 per cent is not far behind. India with 74 per cent has a greater wealth inequality than China (64 per cent). Interestingly, contrary to common understanding, Scandinavian countries like Norway (66 per cent) and Sweden (68.6 per cent) also have high levels of wealth inequality. The highly disproportionate share of the wealthiest individuals who constitute the top 1 per cent in the total personal wealth of a country, is too glaring in countries like the USA (38.4 per cent) and Russia (66.2 per cent). Apart from Russia, in other BRICS nations like Brazil (45.7 per cent), India (49 per cent) and China (37.2 per cent) too, the richest 1 per cent owns a sizeable proportion of the total personal wealth. It is indeed a matter of grave concern that the share of the wealthiest 1 per cent in India shot up from 36.8 per cent in the year 2000 to 49 per cent in 2014. The Table reveals that even though the economic policies of various countries of the world may differ considerably, the level of economic inequality has become quite high in most of them.

TABLE: 1
SHARE OF WEALTHIEST 10 PER CENT IN THE TOTAL
PERSONAL WEALTH IN DIFFERENT COUNTRIES (2014)(in %)

Country	Share of Richest 10% in Total Personal Wealth	Share of Richest 1% in Total Personal Wealth
USA	74.6	38.4
Germany	61.7	28.1
United Kingdom	54.1	23.3
France	53.1	21.4
Japan	48.5	17.9
Australia	51.1	21.1
Switzerland	71.9	30.9
Norway	65.8	28.9
Sweden	68.6	30.8
Denmark	67.5	29.3
Mexico	64.4	33.7
Brazil	73.3	45.7
Russia	84.8	66.2
India	74.0	49.0
China	64.0	37.2
South Africa	71.7	-

Source: Credit Suisse Global Wealth Databook 2014

⁴ Oxfam (2014), *Even It Up- Time to End Extreme Inequality*, p.8, https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/cr-even-it-up-extreme-inequality-291014-en.pdf

Note: Although the estimates in the Oxfam report have been contested by some, the issues raised by the report merit serious consideration as it points to the direction in which the world is moving today.

⁵ Credit Suisse (2014), *Global Wealth Databook*, http://economics.uwo.ca/people/davies_docs/global-wealth-databook-2014-v2.pdf

Growing Number of Billionaires

While millions of people remain deprived of even basic necessities of life, the number of billionaires and their wealth continue to grow. And that too at a time when the world has been going through the aftermath of the worst financial crisis since the Great Depression of 1930s. According to the report by Oxfam, the richest 1 per cent of the world owned 48 per cent of global wealth in 2014.⁶ In other words, 99 per cent of the world's adult population was left with just 52 per cent of the total wealth. The Oxfam report also states that the world's richest 80 people in the Forbes rich list saw their net worth increasing from \$1.3 trillion in 2010 to \$1.9 trillion (an increase of \$600 billion) by 2014, during a period marked by widespread unemployment, falling incomes and drastic reduction in welfare measures in many countries. Moreover, while the wealth of the richest 80 individuals has doubled between 2009 and 2014, the wealth of the bottom 50 per cent of the global population has become lower in 2014 than it was in 2009. The wealth of these richest 80 billionaires was equal to that owned by 3.5 billion people who formed the bottom 59 per cent of the world's population. The report further reveals that almost 30 per cent of the total 1645 billionaires listed by Forbes belonged to the USA. A sizeable proportion of the world's billionaires belonged to finance, insurance and real estate sectors.

Although the number of the super-rich billionaires may not be too high, there is no dearth for millionaires in the world. Credit Suisse classifies millionaires as high net worth (HNW) individuals (with wealth between \$1 million and \$50 million) and ultra-high net worth individuals (UHNW) (with net assets above \$50 million).⁷ As per Credit Suisse's estimates, in 2014 there were altogether 35 million HNW individuals and 128,200 UHNW persons worldwide. About 49 per cent of the UHNW persons belonged to the US followed by China (6 per cent), UK (3.7 per cent) and Germany (4.3 per cent). India with 1800 UHNW people had 1.4 per cent of the total super rich on the planet.

Even while the number of the millionaires and billionaires and their share in the global wealth kept growing in recent times, the overwhelming majority of the humankind saw their average wealth remaining stagnant or falling.⁸

Inequality among Countries

Inequality varies considerably among different countries of the world. Table 2 indicates inequality measured by Gini coefficient in percentage among selected countries. Gini coefficient is a commonly used measure of inequality in the distribution of income. Its value ranges between 0 and 1 (where a value of 1 (100 per cent) represents absolute inequality whereas a value of 0 shows absolute equality). According to UNDP's Human Development Report 2014, while inequality is relatively low in Scandinavian countries like Sweden and Norway, it is the highest in South Africa (63 per cent).⁹

India's inequality (34 per cent) may not appear to be too high in the UNDP estimation. This is because Gini coefficient values could vary depending on the database used for calculation. In the case of both India and China, inequality is calculated on the basis of consumption data. As per the calculations of Anthony B. Atkinson in his book 'Inequality: What Can Be Done?', 2015, Gini coefficient based on equivalised household disposable income is more or less the same for Sweden (less than 25 per cent) and South Africa (about 60 per cent) as in the

⁶ Oxfam (2015), 'Wealth: Having It All and Wanting More', Issue Briefing, January 19, https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/ib-wealth-having-all-wanting-more-190115-en.pdf

⁷ Credit Suisse (2014), *Op. cit.*

⁸ Oxfam (2015), *Op. cit.*

⁹ UNDP (2014), *Human Development Report*, <http://hdr.undp.org/sites/default/files/hdr14-report-en-1.pdf>

UNDP estimation, but it is around 50 per cent for both China and India indicating relatively higher income inequality for both these emerging economic powers.¹⁰

TABLE: 2
INEQUALITY AMONG SELECTED COUNTRIES

Country	Gini Coefficient (in %)
Sweden	25.0
Norway	25.8
Germany	28.3
Canada	32.6
Switzerland	33.7
India	33.9
United Kingdom	36
Italy	36
Russia	40.1
United States	40.8
China	42.1
Mexico	47.2
Brazil	54.7
South Africa	63.1

Source: UNDP Human Development Report 2014

¹⁰ See Atkinson, Anthony, B (2015), *Inequality: What Can Be Done?*, Harvard University Press, London, pp.21-22.

Note: Equivalised household disposable income is the total income of a household, after tax and other deductions, that is available for spending or saving, divided by the number of household members converted into equalised adults; household members are equalised or made equivalent by weighting each according to their age. See: http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Equivalent_disposable_income

RISING TREND OF INEQUALITY

It is interesting to note that the world had witnessed a remarkable decline in wealth inequality during the period 1930s to 1980s. But it began to rise thereafter, leading to a steady increase in the concentration of wealth in the hands of a few. The phenomenal increase in wealth inequality during the last few decades has mainly been attributed to the growing influence of neo-liberal economic policies in both the developed and developing countries across the world.

Domination of Neo-Liberal Policies

The emergence of neo-liberalism and the weakening of the Keynesian macro-economic policies formed a major contributing factor to the rising trend of economic inequalities world over since 1980s. While Keynesian economics which largely influenced the economic policies since the Great Depression of 1930s up to 1980s, emphasised active role of the government in the economy, progressive taxation and increased public spending, neo-liberal policies stand for reduced role of the government, lower taxes for the rich and free play of market forces. The economic policies followed by Margaret Thatcher in the UK and Ronald Reagan in the USA during the 1980s accentuated the sway of neo-liberal free market policies at the global level. The disintegration of the Soviet Union and the success of the Asian Tigers through their export-led model of growth further strengthened the supremacy of neo-liberalism. International funding agencies such as the IMF and the World Bank, dominated by the Western capitalist powers, aggressively prescribed market-friendly structural adjustment and stabilization policies to the developing countries when they approached these agencies for financial assistance. The conditionalities imposed by the IMF/World Bank forced many developing countries to implement policies that promoted greater economic liberalization, privatization and globalization paving the way for further spread of market-friendly policies worldwide. All of these developments together brought about significant changes in the nature of the state and its role in the economy. Neo-liberal policies primarily aim at faster growth of the national output which then is expected to trickle down to the poor and the downtrodden. The neo-liberals believe that a rising tide will lift all the boats, implying that rapid growth of the economy will benefit all sections of the society. However, even after following neo-liberal policies during the last three decades, economic inequality has only widened within and between countries.

Changing Perspectives

Since the 1980s, the emphasis of the economic development strategy has been more on issues like growth rate, output, efficiency, ease of doing business, etc. and less on issues like inequality or poverty. But, after a while, the growing inequality and discontent among the masses forced policy makers, including international financial institutions to do a rethinking on the growth strategy.¹¹ As a consequence, there occurred a shift in the reform agenda of different countries in favour of a more 'inclusive' growth model which envisaged pro-poor growth policies including a few rights-based schemes for basic social security as well. Widening inequality in

¹¹ See Saad-Filho, Alfredo (2011), 'Growth, Poverty and Inequality: Policies and Debates from the (Post-) Washington Consensus to Inclusive Growth', Indian Journal of Human Development, Vol.5, No.2.

income and wealth in most of the countries reveals the fact that in spite of the introduction of the 'inclusive growth' agenda, substantial improvement in the living conditions of the common person did not come about.

The market-led economic growth policies together with the gradual withdrawal of the state from the economy especially from the social sector have resulted in the growing deprivation and marginalisation of a sizeable section of the population. Such marginalisation is found not only in developing countries, but also in developed countries including the USA. The frustration and anger of the masses regarding the widening chasm between the 'haves' and themselves, culminated in several forms of protests around the globe. The 'Occupy Wall Street Movement', better known as '99 per cent vs. the 1 per cent' was indeed a trend-setter in the matter of open protests of the desperate masses against extreme inequality.

Piketty's book, 'Capital in the Twenty- First Century' further pushed the issues related to inequality to the centre stage. Piketty's work was based on historical data covering almost two and a half centuries pertaining to several countries. A major contribution of Piketty was the rebuttal of the 'Kuznets Curve'. Kuznets's study based on data related to the USA during 1913-1948 period had stated that inequality increases during the early stages of growth and then starts declining, giving Kuznets Curve an inverted 'U' shape. Piketty's findings from his study based on wealth and income data during the 20th century produced a 'U' shaped curve thereby disproving the validity of Kuznets Curve and establishing that inequality, after falling in the early years of growth, rises during later years.¹²

Of late, there is a growing realisation that economies grow faster when there is relatively more equality in the distribution of wealth. Post World War II decades prove this argument as rapid growth coincided with falling inequality during that period. The success of Scandinavian countries like Sweden, Finland and Norway in achieving faster growth in per capita incomes than the United States and with far greater equality also substantiates this argument.¹³ Recently, an IMF Staff Discussion Note, 'Redistribution, Inequality and Growth' asserted that reducing inequality would lead to faster and more durable growth.¹⁴ It is no more a choice between tackling inequality and achieving faster growth. According to the paper, only excessive redistribution would lead to slower growth. The IMF which has been actively promoting neo-liberal policies has finally woken up to the realization that increasing inequality is one of the principal reasons for the slow growth of economies.

¹² Piketty, Thomas (2014), *Capital in the Twenty-First Century*, The Belknap Press of Harvard University Press, London.

¹³ Stiglitz, Joseph, E (2014), 'Inequality Is Not Inevitable', *The New York Times*, June 27, http://opinionator.blogs.nytimes.com/2014/06/27/inequality-is-not-inevitable/?_r=0

¹⁴ IMF (2014), Staff Discussion Note, 'Redistribution, Inequality, and Growth', <https://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>

REASONS FOR THE INCREASING INEQUALITY

Neo-liberal economic policies pursued since the 1980s have played a major role in promoting unequal growth in a number of countries all over the world. Several other factors have also contributed to the phenomenon of rising inequality. Now let us briefly discuss the major reasons for the growth of inequality in different countries in the world.

Failure of the Market

During the last few decades, the economic policies of major nations have been based on market fundamentalism which upholds that high rate of growth of the economy could be achieved only with minimum government intervention. But from the experience during the last few decades, it has become clear that markets have failed. Markets are supposed to be stable and efficient. But recent developments have proved that they are neither stable nor efficient. According to Stiglitz, “markets by themselves, often lead to high levels of inequality.”¹⁵ Markets therefore need to be “tamed and tempered to make sure they work to the benefit of most citizens.”¹⁶ But, the political system has failed to effectively regulate the markets or correct the failure of the markets. Governments which used to play a major role in improving the welfare of ordinary citizens have ceased to be doing so effectively any more. The globalization process and the pro-market policy prescriptions of IMF/World Bank have also led to the weakening of governmental controls and regulations and the strengthening of the market forces thereby perpetuating inequality. The manipulation of market by a few wealthy in their favour is yet another reason which aggravates the growing disparities.

Vested Interests Influencing Government Policies

In large democracies, be it the US or India, election campaigns are largely funded by private business houses. It is not surprising then that, once elected, most governments seem to protect the interests of this group. Government policies are quite often influenced, purchased or manipulated by vested interests for maximizing their profits, leading to increase in inequality. Companies use huge resources for lobbying of governments. For instance, in 2013, the total expenditure of American companies on lobbying of the US government has been estimated to be \$3.2 billion which includes \$487 million by the pharmaceutical and healthcare sector and \$400 million by the finance sector.¹⁷ Billions are thus spent every year by companies in various countries on lobbying in the expectation that such lobbying expenses would be more than compensated by the grant of favours from the government such as tax exemptions, subsidies, privatization and various other concessions. Such lobbying activities could possibly reduce government controls and regulations on these powerful business houses. Moreover, lobbying on tax issues could weaken the revenue earning potential of the government leading to reduction in its capacity for delivering essential public services, thereby further aggravating inequalities.¹⁸

¹⁵ For more details see Stiglitz (2012), *Op. cit.* p.xi.

¹⁶ *Ibid.* p.xiii.

¹⁷ Oxfam (2015), *Op. cit.* p.7.

¹⁸ *Ibid.* p.9.

Disproportionate Increase in the Incomes of a Few

During the past few years, incomes of the top executives in sectors like finance, banking, real estate, etc. have soared phenomenally. This has been particularly true in capitalist countries like the US and UK. Piketty has come out sharply against this disproportionate increase in income leading to extreme inequality.¹⁹ According to him, top managers of large firms have the power to determine their own remuneration. No wonder, CEOs of large companies in the US enjoy incomes on an average of more than 200 times that of a typical worker.²⁰ Such glaring disparities have been growing in emerging economies like India too. The high executive compensation without any clear relation to their individual productivity along with the lowering of the tax rates on their incomes have aggravated the already skewed income distribution.

Stagnant Wages and Growing Indebtedness

While the real income of the top executives and highly skilled workers have gone up considerably over the past three decades, it has been widely observed that wages in general, especially for unskilled and semiskilled workers who form the majority of the labour force have remained more or less stagnant.²¹ Globalization, privatization and deregulation together have systematically weakened the trade unions and the bargaining power of the workers. This has adversely affected the wages and working conditions of labour in the organized sector. In the present globalized era, the threat of shifting industries to cheaper destinations overseas has further weakened the position of the trade unions. In advanced countries like the USA, while the saving capacity of the richer sections has been increasing, stagnant wages has resulted in drastic reduction in the saving capacity of the majority of the workforce, pushing millions of families into indebtedness.²² The extreme income inequality along with growing disparity in the ability to save have resulted in unprecedented wealth inequality in most of the countries of the world. In countries like India majority of the labour force is engaged in the informal sector. A sizeable proportion of informal sector workers are not paid even living wages and they do not have any security of job either. The plight of female workers is even worse.

Rising Discrepancies in the Shares of Capital and Labour

In most of the countries, the share of labour in the national income has been declining steadily in recent times. The widening gap between the relative shares of capital and labour is yet another cause of growing income disparities across the world. Piketty explained the divergence in the wealth distribution by the formula: $r > g$ (where r stands for the average annual rate of return on capital and g for the rate of economic growth of the economy).²³ Return on capital includes incomes such as profits, dividends, interest, rents and other incomes from capital. Piketty argues that as the rate of return on capital tends to be much higher than the growth rate, the net result would be phenomenal growth in the income share of owners of capital (wealth). At the same time, stagnation in the real wages during the past few decades has led to considerable erosion of the share of labour force in the national income of most countries.

Taxation Policies

The taxation policies of the governments during the last three decades have played an important part in the

¹⁹ Piketty (2014), *Op. cit.*, p.24.

²⁰ Stiglitz (2014), *Op. cit.*

²¹ Desai, Meghnad (2015), *Hubris- Why Economists Failed to Predict the Crisis and How to Avoid the Next One*, Collins Business, Noida, p.251.

²² Saez, Emmanuel and Gabriel Zucman (2014)

<http://blogs.lse.ac.uk/usappblog/2014/10/29/the-explosion-in-u-s-wealth-inequality-has-been-fuelled-by-stagnant-wages-increasing-debt-and-a-collapse-in-asset-values-for-the-middle-classes/>

²³ See: Piketty (2014), *Op. cit.*

escalation of inequality. Following neo-liberal free market principles, most of the countries have been pursuing the policy of reducing tax rates on capital, big corporates and high income individuals as an incentive for 'wealth generation'. In the US, the top 400 tax payers with the largest incomes had paid an average 30 per cent in taxes in 1995. By 2009, their average rate of tax came down to 20 per cent.²⁴ In the case of Britain, income tax formed just 25 per cent of the total tax revenue of the government where as about 45 per cent of the total tax revenue came from indirect taxes.²⁵ As is known, the major share of the burden of indirect taxes is borne by ordinary citizens. The high proportion of indirect taxes reflects the regressive nature of the overall tax system. In recent times, the share of indirect taxes in the overall tax system has been rising in most of the countries. For instance, it has gone up to 67 per cent of the total tax revenue in the case of many sub-Saharan African countries.²⁶ Large scale tax evasion by big corporate houses and wealthy individuals all the while enjoying different tax incentives, tax exemptions and tax holidays is rampant in many countries. Such practices tend to leave the governments, particularly in developing nations with very limited tax revenue resources to be allocated for the social security programmes and income support schemes meant for the needy. Little wonder then that inequality is on the rise.

Inheritance

Thomas Piketty in his book tries to establish that inheritance plays a significant role in exacerbating income and wealth inequality. According to him, the wealthy have several ways to ensure the increase of their wealth over time. Moreover, financial globalization has led to extreme concentration of capital and wealth. That is why Thomas Piketty has cautioned that inherited wealth could become the defining line between the have and have-nots in the twenty first century.²⁷ Inheritance provides disproportionate advantages and opportunities to the children of the wealthy in developed as well as developing countries. Oxfam report states that one third (34 per cent) of the total 1645 billionaires in the world in 2014 had inherited some or all of their wealth.²⁸ In the traditional rural societies, unequal distribution of land holdings perpetuated wealth inequality through inheritance. In today's advanced industrial societies also, inheritance remains an important factor in perpetuating wealth inequality over the years. According to Credit Suisse, property rights and inheritance customs are major determinants in the level of wealth inequality and its transmission over time.²⁹

Unequal Educational Opportunities

Education is generally considered to be one of the most effective ways to reduce inequalities in the society. Strangely, even in many advanced economies, educational opportunities have contributed much in enhancing the already existing inequalities. With increasing privatization in the field of education, particularly higher education, the high cost of quality education stands in the way of children from middle class and poor families to access better education and skills training meant for obtaining top jobs that offer high salaries. Broadly speaking, children from well-to-do families alone would be able to bear the high cost of education in many of the top schools and universities, and thus would be better positioned to secure high-end jobs. In today's world, as manufacturing and service sectors increasingly use newer and more advanced technology, economic growth will benefit only those individuals with suitable skill sets. Due to the fast changing nature of modern technologies and skills requirements, now we find a small proportion of high income earners and very large number of low income earners in the job markets, leading to further growth of income inequality.

²⁴ Rattner, Steven (2014), 'Inequality, Unbelievably, Gets Worse', *The New York Times*, November 16, <http://www.nytimes.com/2014/11/17/opinion/inequality-unbelievably-gets-worse.html>

²⁵ Hutton, Will (2015), 'Inequality has Become a Challenge to Us as Moral Beings', *The Guardian*, January 25, <http://www.theguardian.com/books/2015/jan/25/inequality-has-become-challenge-how-good-we-can-be-extract-will-hutton>

²⁶ Oxfam (2014), *Op. cit.*

²⁷ See: Piketty (2014), *Op. cit.*

²⁸ Oxfam (2015), *Op. cit.*, p.5.

²⁹ Credit Suisse (2014), *Op. cit.*, p.120.

INEQUALITY IN INDIA

After independence in 1947, India opted for planned development of the country within the framework of a mixed economy in which both public and private sectors existed side by side. But the public sector was given the predominant position especially in priority areas. During the first four decades after Independence, although the country could make considerable progress in different sectors, Indian economy grew at a slow pace.

The unprecedented balance of payment crisis which India encountered during the beginning of the 1990s compelled the government to approach the IMF for financial help. Based on the IMF recommendations, the government undertook several macroeconomic stabilization measures and structural adjustment policy reforms based on neo-liberal principles. This led to considerable liberalization, privatization and opening up of the economy. The establishment of WTO in 1995 further accelerated the liberalization and globalization process in India. These economic reforms brought about significant changes across various sectors of the economy. Average annual growth rate of the economy rose to about 8 per cent between 1991 and 2012 compared to the low rate of growth (4.1 per cent) recorded during 1951-1991 period.³⁰ International perception of India changed dramatically during the first decade of the present century with the world starting to view India as an 'emerging economy'. The relatively higher rate of growth that India registered during the post-liberalisation period, particularly after the 2008 financial crisis, has attracted much international attention.

In spite of such achievements in the overall performance of the economy, the growth process does not appear to be equitable, balanced or inclusive. In fact, one of the biggest challenges before India at present is the increasing concentration of wealth in the hands of a privileged few. As per 2011 Census data, vast majority of Indians (68.8 per cent) live in rural areas.³¹ According to the data released by the Ministry of Rural Development from the Socio Economic and Caste Census (SECC) on the standard of living of rural households in India, in nearly 75 per cent of rural households, the main earning family member makes less than Rs. 5,000 per month (or Rs. 60,000 annually).³² Only in eight per cent of households does the main earning member make more than Rs. 10,000 per month. More than 90 per cent of rural households do not have members with salaried jobs. Over half of the households in rural India own no land at all. The SECC report further reveals that while more than half of all rural households derive their household income mainly from casual manual labour, another 30 per cent derive it from cultivation, largely subsistence farming. Contrast this with the growing number of millionaires and billionaires in the country. Knight Frank Wealth Report reveals that the number of ultra-high net worth individuals (UHNWIs) in India increased by 166 per cent during the period from 2004 to 2014.³³ In 2014, India had 1,652 ultra-high net worth individuals. Their number is predicted to rise to 3,371 by 2024—an increase of 104 per cent. The report predicts that over the next ten years, only the USA and China will have more billionaires than India.

³⁰ Note: Figures are based on different issues of *Economic Survey*, Ministry of Finance, Government of India, New Delhi.

³¹ Census of India, 2011, Ministry of Home Affairs, Government of India, New Delhi, http://www.censusindia.gov.in/2011census/PCA/PCA_Highlights/pca_highlights_file/India/Chapter-1.pdf

³² Rukmini, S and Samarth Bansal (2015), '8 Reality Checks from the SECC', *The Hindu*, 3 July.

³³ Knight Frank.Com (2015), 'The Wealth Report', <http://content.knightfrank.com/research/83/documents/en/wealth-report-2015-2716.pdf>

NATURE AND DIMENSIONS OF INEQUALITY IN INDIA

Inequality in India is multi-dimensional in character. The following discussion takes into account a few important features of India's inequality along with certain contributing factors that perpetuate inequality in the country. It is interesting to note that several features and contributing factors are closely interwoven with one another.

High Growth Rate and Low Human Development

As per the UNDP's Human Development Report, 2014, India ranks just 135th out of 187 countries regarding Human Development Index (HDI).³⁴ India is often compared with China with regard to socio-economic achievements. It is evident from Table 3 that although India has made rapid strides in terms of economic growth, it lags far behind China in almost every indicator related to human development. China's per capita income itself was 2.3 times higher than that of India in 2014. More importantly, China ranks (91) much higher than India (135) in human development. Among the various BRICS nations too, India finds itself at the bottom while Brazil (79), Russia (57) and South Africa (118), like China, are way ahead of India in human development. In spite of prolonged war and internal strife, Vietnam (121) and Sri Lanka (73) could record much higher ranks than India in almost every HDI indicator. Although China has greater income inequality than India, China scores much higher in human development. Unlike India, China has been able to reduce deprivation at the bottom levels considerably. Interestingly, many poorer economies like Bangladesh, Nepal and Bhutan have better human development indicators than India. Table 3 shows that when adjusted for inequality, India's overall loss in HDI value is about 29 per cent whereas it is only 14 per cent for Sri Lanka. It is indeed unfortunate that when HDI is adjusted for gender inequality, India's performance is one of the worst in Asia. As Table 3 reveals, among south Asian countries, even Bangladesh, Nepal and Bhutan fare much better than India with regard to gender inequality. India is also one of the worst performers in the case of multi-dimensional poverty. India fares very poorly among both the BRICS and Asian countries in this regard.

Persistence of Poverty and Human Deprivation

Despite achieving high rate of growth of the economy, India could not wipe out the hunger of about one third of its population. According to Table 3 based on the Human Development Report 2014, while 32.7 per cent of India's population fall below the poverty line (\$1.25 PPP per day), the proportion of population below the poverty line is considerably less in China (11.8 per cent) and other BRICS nations and even Pakistan (21 per cent) and Vietnam (17 per cent). It is evident from Table 3 that the benefits of the high rate of GDP growth in India during the past couple of decades have not reached the poorer sections. It shows that the high rate of economic growth has benefitted only the rich and the middle class population, while the living conditions of the poor have not improved much. India's record in the matter of school enrolment, life expectancy, infant mortality rate, under five mortality rate, etc. are one of the lowest among Asian countries. India's dismal

³⁴ UNDP (2014), *Op. cit.*

performance in improving human development in spite of rapid economic growth reveals the highly inequalising growth path the country has been following in recent times and the need for policy correctives. With the inequality gap growing steadily, it seems that issues like mass deprivation, hunger and malnutrition will continue to be a matter of concern for the country in the near future too.

TABLE: 3
MAJOR HUMAN DEVELOPMENT INDICATORS OF SELECTED COUNTRIES

COUNTRY	GNI Per Capita (2011 PPP \$) (2013)	HDI (Human Development Index) Rank	Inequality Adjusted HDI. Loss (%) due to inequality	GII (Gender Inequality Index) Rank (2013)	Population in Multi-Dimensional Poverty Intensity of Deprivation (%) (2013)	Population below Income Poverty Line (%) PPP \$1.25 a day (2002-2012)	Life Expectancy at Birth (Years) (2013)
INDIA	5150	135	28.6	127	51.1	32.68	66.4
CHINA	11477	91	N.A	37	43.4	11.8	75.3
PAKISTAN	4652	146	30.1	127	52.0	21.04	66.6
BANGLADESH	2713	142	29.1	115	47.8	43.25	70.7
SRI LANKA	9250	73	14.3	75	N.A	N.A	74.3
NEPAL	2194	145	28.8	98	47.4	24.82	68.4
BHUTAN	6775	136	20.4	102	43.5	1.66	68.3
AFGHANISTAN	1904	169	31.4	150	49.9	N.A	60.9
VIETNAM	4892	121	14.9	58	40.7	16.85	75.9
CAMBODIA	2805	136	24.7	105	45.1	18.6	71.9
MEXICO	15854	71	22.9	73	39.9	0.72	77.5
BRAZIL	14275	79	27.0	85	40.8	6.14	73.9
RUSSIA	22617	57	12.0	52	N.A	N.A	68.0
SOUTH AFRICA	11788	118	N.A	94	39.6	13.77	56.9

Source: UNDP Human Development Report, 2014

Failure to Meet Basic Necessities of the Poor

The level of inequality found in the distribution of income in India does not look very different from other BRICS countries like China or Brazil. But, the income levels of the poor and their access to basic necessities are extremely low in India. The provision of different public services including health, education, etc which could improve the capabilities of the poor is grossly lacking in India. In the words of Dreze and Sen, "As far as the economic dimension is concerned, the worst infringement of principles of equity in India is not so much the unseemly wealth of the rich or super-rich, but the fact that so many people still lack the basic requirements of dignified living- food, shelter, clothing, sanitation, health care, and schools for their children. It is against this background of mass deprivation that the opulence of the rich seems particularly grotesque."³⁵ One of the basic requirements to be fulfilled to evolve a more egalitarian society in India is through the provision of essential social services to the masses. A distinguishing feature of Chinese economy (with higher rate of economic

³⁵ Dreze, Jean and Amartya Sen (2013), *An Uncertain Glory- India and its Contradictions*, Penguin Allen Lane, New Delhi.

inequality than India) is that they have been more successful in mitigating mass deprivation through the provision of essential public services and basic entitlements to the common person.

Limited Access to Quality Education

According to 2011 Census data, literacy rate is only 74 per cent in India (82 per cent for men and 65 per cent for women).³⁶ Out of the total literates, 16.7 per cent have not even completed primary school education. Drop-out rate is very high and a large number discontinue education due to poverty or other economic reasons. In many regions, social barriers based on caste, religion, etc. compound the issue. Privately owned English-medium schools which are generally made out to be offering better academic and infrastructural facilities than most of the government-run schools, often charge much higher fees and are thus beyond the reach of a large number of students. As quality education is difficult to access and unaffordable for the majority, the overall socio-economic inequality is perpetuated over to the next generation also.

Inadequate Public Health Facilities

It is true that India has made considerable achievements in the sphere of health since 1947. However, its record in areas like life expectancy, infant mortality rate, maternal mortality rate, malnutrition, etc. are far from impressive. India's public expenditure on health is around 1.2 per cent of the GDP, one of the lowest in the world, compared to 2.7 per cent in China, 3 per cent in Thailand and 1.5 per cent in Sri Lanka. Consequently, private out-of-pocket spending on health is very high in India (69 per cent) compared to several other Asian countries like Thailand (25 per cent), China (44 per cent), and Sri Lanka (55 per cent).³⁷ A large number of households in India are driven into poverty as they are forced to meet their huge medical expenses through borrowing or by selling their assets. According to a World Bank study, about 25 per cent of the people who were hospitalized in India fell into poverty due to the unbearable medical expenses.³⁸ India's poor record in the sphere of public health is yet another reason for growing inequality in the country.

Predominance of Informal Sector and Backwardness of Agriculture

There exists a great divide between formal and informal sectors of the economy. While only about 8 per cent of the labour force is employed in the formal sector, an overwhelming majority (about 92 per cent) of workers are engaged in activities belonging to the informal sector.³⁹ Informal sector consists mainly of self-employed workers with low asset-base, casual labourers, etc. The low wages and insecure working conditions of these workers aggravate the inequalities prevailing in the economy. In India, about 56.6 per cent of the population is engaged in agriculture and allied activities.⁴⁰ However, their contribution to GDP is just 17 per cent.⁴¹ It reflects the low levels of productivity as well as the backwardness of the farming sector in the country. A large number of the farmers are engaged in subsistence farming and remain poor. Many of them are heavily indebted too. Frequent crop failures and indebtedness have resulted in numerous farmer suicides in several states. At the same time, budgetary allocation to agriculture sector has been steadily declining over the years. Reduction in farm subsidies and taking over of farm lands for commercial purposes without adequate compensation or social impact studies would only alienate and impoverish the already distressed farmers.

Multi-Dimensional Social Inequalities

Apart from economic inequality, there exist various other kinds of inequality in India. India's social inequalities

³⁶ www.census2011.co.in/literacy.php

³⁷ Shivakumar, A.K.(2014), 'Confronting Health Challenges', in Debroy, Bibek, et.al.(Eds.), *Getting India Back on Track*, Random House India, Gurgaon, p.127.

³⁸ Peters, David H, et.al.(2002), *Better Health Systems for India's Poor: Findings, Analysis and Options*, World Bank, WashingtonD.C, pp.290-291.

³⁹ Institute for Human Development (2014), *India Labour and Employment Report*, New Delhi.

⁴⁰ Census of India, 2011, <http://censusindia.gov.in/2011-common/CensusDataSummary.html>

⁴¹ *Ibid.*

have a reinforcing effect on the economic inequalities. According to Dreze and Sen, the mutual reinforcement of different inequalities like caste and gender inequalities create enormous disparities in Indian society.⁴² The centuries old practice of caste system has compartmentalized the Indian society. Caste hierarchies strengthen the inequalities, deprivations and discriminations faced by the poor and the downtrodden, especially by those belonging to the so called 'lower castes'.

Gender inequality is another form of oppressive social system in which women are subjugated and denied opportunities in India's highly patriarchal society. Gender inequality exists within every community and leads to low rates of literacy and health indicators for the womenfolk, particularly for the women from poor and socially backward sections. Women belonging to Dalit communities face the worst kind of inequalities. The multiple social inequalities prevailing across the country have always acted as a drag on the social and economic progress of India.

Iniquitous Economic Growth Model

The model of economic growth pursued since 1991 has paved the way for increased inequalities in India. According to Dreze and Sen, "the societal reach of economic progress in India has been remarkably limited. It is not only that the income distribution has been getting more unequal in recent years (a characteristic that India shares with China), but also that the rapid rise in real wages in China from which the working classes have benefited greatly is not matched at all by India's relatively stagnant real wages".⁴³ Inequitable economic growth could lead to grave socio-economic and political conflicts and upheavals. Armed struggle against the state by the Maoists and other ultra- outfits originated basically from wide-spread poverty, deprivation and alienation of marginalized people. The struggles and protests of farmers against the government reflect to a great extent the perception of the rural population that economic policies are drafted only for the benefit of corporates and the rich.

⁴² Dreze, Jean and Amartya Sen (2013), *Op. cit.*

⁴³ *Ibid.* p.8

SOCIO-ECONOMIC CONSEQUENCES OF INEQUALITY

As we have seen, the benefits of economic growth since the 1980s have been cornered largely by the richest sections across the globe. The benefits of growth have not percolated to the bottom levels as the proponents of neo-liberalism had claimed. Further, the number of multi-billionaires and their share in the world's total wealth have been rising alarmingly. Today, the problem of economic inequality has become a major concern for policy makers in both developed and developing countries. The main reason for the growing concern is the dire consequences that extreme inequality has on the majority of the humanity.

Poverty, Deprivation and Indebtedness

As we have already seen, growing inequality could lead to the marginalization and deprivation of a large section of the population. Average real income of the middle class and the poor has been falling even in affluent countries like the USA since the turn of the century.⁴⁴ Inadequate incomes of the households generate greater demand for credit leading to larger debt burdens for the middle class and poor families. Rising cost of education and medical care further aggravates their debt burden. Soaring prices for land and residential homes also keep many middle class families heavily indebted. At the same time, cuts in the welfare expenditure of the government exacerbate the plight of the ordinary citizens. When income inequality is high, the saving capacity of the poor and the middle class households remains low. As the debts of these households who form the majority pile up, wealth gets further concentrated in the hands of a rich few.

Inadequate Tax Collections Leading to Cuts in Social Sector Spending

Growing economic inequality leads to concentration of income and wealth in the hands of a few. Under the neo-liberal dispensation, powerful vested interests including the richer sections of the society, big corporates and global finance capital often succeed in pressurizing the government to obtain tax cuts and tax benefits in their favour. Consequently, the government is not able to collect taxes to its full potential. Compared to advanced economies, developing countries have considerably less tax-to-GDP ratio indicating the inability to meet their tax revenue-raising capacity.⁴⁵ Lower tax revenue means lower availability of funds for the government to spend on poverty eradication programmes and welfare schemes for the benefit of the less fortunate sections of the society. Moreover, budgetary cuts made in the name of fiscal prudence also leads to drastic reduction in the allocations for social sectors like basic education and public health care which could have reduced the prevailing socio-economic inequalities by improving the capabilities of the underprivileged.

Adverse Impact on Economic Growth

In today's world, high GDP growth rate has become the primary objective of most of the market economies. Although economic growth is important, the distribution of the benefits of growth is no less significant. It has been observed that rapid growth of the economy often results in soaring economic inequality. Rising

⁴⁴ Stiglitz (2012), *Op. cit.*

⁴⁵ Oxfam (2014), *Op. cit.*

inequality over the years would curtail demand for goods and services leading to recessionary conditions and slower growth of the economy. Thus extreme inequality has a destabilizing impact on economic growth in the long run. It is true that some degree of inequality is necessary to create incentives. However, in today's world, inequality has risen to such high levels that it has become an impediment to economic growth.⁴⁶

Denial of Opportunities

Extreme inequality deprives many people of the opportunity to fulfill their potential. Children born in poor families have fewer opportunities to get quality education and to take up better careers compared to their richer counterparts. According to Paul Krugman, such inequalities in opportunity for talented children from poor families result in huge waste of human resources.⁴⁷ Moreover, lack of access to quality education and skill development for the younger generation can also lead to the weakening of the economy in the long run. Since the income and education of parents play a significant role in the future prospects of their children, denial of educational opportunities to children from poor families perpetuates deprivations over to the future generations as well.

Social Tensions and Upheavals

Increasing concentration of wealth in the hands of a few cannot only increase poverty, but also fuel social tensions and upheavals. The increase in the number of conflicts and violent protests in different parts of India and elsewhere in recent times is attributed to the escalating inequalities in the society. Such developments have the potential to break the social fabric and the rule of law. Many of the violent protests of Dalits, tribals and other marginalized sections in India reflect their attempts to resist the domination of the 'haves' over the underprivileged. Widespread poverty and deprivation due to persisting socio-economic inequalities might ultimately result in collapse of trust in the political process and democratic institutions. Extreme inequalities and the resultant poverty could also lead to large scale environmental degradation, mass migration and even wars.

⁴⁶ Kristof, Nicholas (2014), 'An Idiot's Guide to Inequality', *The New York Times*, July 24, http://www.nytimes.com/2014/07/24/opinion/nicholas-kristof-idiots-guide-to-inequality-piketty-capital.html?_r=0

⁴⁷ Krugman, Paul (2014), 'Inequality Is A Drag', *The New York Times*, August 7, <http://www.nytimes.com/2014/08/08/opinion/paul-krugman-inequality-is-a-drag.html>

POLICY OPTIONS FOR A MORE EQUITABLE GROWTH

We have, so far attempted to analyse the causes and consequences of growing inequality in the world, particularly in India, under the neo-liberal economic policies pursued since the 1980s. We now discuss a few important policy options which could possibly enable the government and the policy makers to meet the challenges raised by increasing inequality. It is evident that effective redistributive policies are necessary to prevent concentration of income and wealth in the hands of a limited number of people in the economy. A proactive role of the government is imperative in this regard. The government has to take special care to protect the interests of the middle class and the poor. Distributive justice could be improved through progressive taxation and public spending initiatives of the government. According to Stiglitz, "While tax policies can either let the rich get richer or restrain the growth of inequality, expenditure programmes can play an especially important role in preventing the poor from becoming poor".⁴⁸

Progressive Tax Policies

Progressive taxation is a powerful instrument in preventing concentration of income and wealth in a country. While it prevents accumulation of too much wealth by a few, it enhances government's tax revenues as well. This will strengthen the hands of the government to devote more funds for public spending on education, health, etc. and on various anti-poverty schemes and welfare measures. The preferential tax treatment given as incentives to corporates and the richer sections needs to be curtailed. Steps should also be taken to prevent large scale tax evasion, particularly by the big corporations and the super-rich.

Larger Public Spending

Apart from a progressive taxation policy, the spending policies of the government are also equally important for effective redistribution of income and wealth. However in recent times, under the influence of market fundamentalism, most of the governments are increasingly found to be withdrawing from social sector and infrastructure investments. Instead, they are encouraging privatization in more and more sectors. The tendency to slash government's budgetary allocations to social sectors is a matter of grave concern. In order to sustain economic growth over the longer term, governments in developing countries like India need to spend more on the social sector including education, health, social and economic infrastructure, etc.

Redistribution through Income Support Programmes

During the last thirty years, economic growth in most countries have resulted in huge concentration of income and wealth particularly in the hands of people belonging to sectors such as finance, insurance, real estate, etc. Escalating inequality in most of the countries has hurt not only their economy, but their social solidarity as well. Such adverse impacts could be mitigated only through better redistribution. Apart from progressive taxation and enhanced public spending, income support programmes and employment generation schemes need to

⁴⁸ Stiglitz (2012), *Op. cit.* p. 74

be strengthened. The positive impact of income support programmes like India's MGNREGA (Mahatma Gandhi National Rural Employment Guarantee Act) is a case in point. While better redistribution of income and wealth could improve the general well-being of ordinary citizens, it would also raise the economy's overall growth rate.

Provision of Public Services

In tackling poverty, deprivation and socio-economic inequalities, provision of public services has a significant role. However, there exists an absence of the availability of essential social services for a large number of the population in different developing countries including India. Dreze & Sen narrates in their book the example of the state of Tamil Nadu.⁴⁹ The commendable initiatives of the state in launching several social welfare programmes like universal mid-day meal scheme in primary schools and provision of several social infrastructure such as schools, health centres, roads, water supply, electricity, etc. have enabled the state to achieve rapid progress in a short period. Many of these services are universally provided on a non-discriminatory basis and many of them are free. Provision of essential public services in the states of Tamil Nadu, Kerala and Himachal Pradesh has proven beyond doubt what the state can do to ameliorate massive deprivation and inequality with the right kind of administration and political will. To make such provisions successful, governments need to ensure more accountability in the delivery of essential public services and basic entitlements meant for the most disadvantaged sections of the society.

Better Public Health Facilities

In the absence of access to affordable public health facilities and due to unbearable medical expenses, a large number of families in India are driven into poverty every year. Universal health coverage is necessary for increasing access to basic health facilities. Moreover, primary health care facilities should be provided to the entire rural sector. Improvements in the quality and access to health services would be possible only through substantial increase in the budgetary allocation for public health programmes. The remarkable achievements in the physical quality of life and health indicators of states like Kerala clearly justifies the importance of incurring larger per capita expenditure by the state on public health. Under the Indian constitution, health is a state subject. But the Centre bears about 36 per cent of public expenditures on health.⁵⁰ Large cuts in the Centre's budgetary allocations for health in recent times would only abet iniquitous growth in the country.

Improving Basic Education

As education plays a crucial role in enhancing the capabilities and opportunities of the poor and the under privileged sections, there is an urgent need to strengthen the basic education system of every state. Improving access to basic education is the primary responsibility of the state. It is the failure of the public education system that has led to the proliferation of private education institutions which are unaffordable to a sizeable section of the student community. Even after almost seven decades since independence, about 26 per cent of Indians are illiterate. Education system should be revamped to provide adequate basic facilities like sufficient number of schools with competent teachers and improved infrastructure in order to ensure affordable and quality education for all the children.

Employment Generation through Skill Development

In order to reduce the inequality gap, productive employment opportunities need to be created. Basic education and skill development are essential to provide productive employment to millions of Indian youth and also to meet the challenges of technological change. Skills training will greatly enhance the labour

⁴⁹ Dreze, Jean and Amartya Sen (2013), *Op.cit.*, pp.77-79.

⁵⁰ Shivakumar, A.K (2014), *Op.cit.*, p. 125.

productivity in agriculture and allied activities and in the small scale enterprises where majority of the work force in India are engaged. As mentioned before, in India, majority of the population are engaged in informal sector jobs. Unemployment and under employment rates are also quite high. In this context, the government should ensure more vocational training facilities at the secondary school level in order to increase the skills and productivity of the workforce in both the farming and non-farming sectors. Skill development and skill upgradation would create greater employment opportunities and promote self-employment. India's overwhelmingly huge youth population could be a demographic dividend or liability depending on how successfully the country is able to invest in improving education and skill development for the new generation.

Reducing Social Inequalities

As we have seen, social inequalities rooted in factors like caste, gender, etc. reinforce economic inequality and mass deprivation in India. States like Kerala and Tamil Nadu are good examples which show that lowering of social inequalities could lead to higher per capita income and faster alleviation of poverty. These states have largely been successful in this respect through better education and health provisions, social movements and active political participation of the less privileged which in the long run have led to higher per capita incomes and better standard of living compared to several other states.⁵¹ Lowering of social inequalities and the promotion of human capability will ultimately lead to better economic welfare and narrowing of economic inequalities in the society.

Inclusive Growth Policies

Confronted with increased criticisms against the inequitable economic growth policies based on market principles, several governments, of late, have been trying to make their growth strategy more 'inclusive'. Any reduction in absolute poverty often came to be regarded as inclusive growth. However, inclusive growth is meaningful only if the rate of growth of income of the poor is greater than the rate of growth of aggregate income of the economy.⁵² Therefore in order to ensure inclusive growth, elimination of poverty, malnutrition and different kinds of deprivation should receive top priority in the policies of the government. Various social protection measures like old age pension, widow's pension, unemployment benefits, etc. which provide a safety net to the elderly, widows, informal sector workers and other weaker sections would go a long way in reducing extreme inequalities.

Regulation of the Market and Finance Capital

Although markets have been instrumental in achieving much economic prosperity and improvement in the levels of living in advanced economies, they have also played a major role in increasing economic inequality in these countries. Markets need to be regulated to ensure that majority of the citizens stand to gain from the growth process. Accelerated growth through market-friendly policies catering to the interests of the rich few and the global finance capital could be extremely dangerous to the welfare of the majority. In order to regulate financial capital, several economists have suggested a financial transaction tax. While arguing for regulating financial capital, Piketty admits that there could be practical difficulties in imposing any global tax on capital. But he strongly argues for more international financial transparency by measures like sharing of banking information across the globe.⁵³

Promoting Sustainable Economic Growth

According to Branko Milanovic economic growth is the most powerful tool for reducing global poverty and

⁵¹ For details see Dreze, Jean and Amartya Sen (2013), *Op.cit.*

⁵² Kannan, K.P (2014), *Interrogating Inclusive Growth – Poverty and Inequality in India*, Routledge, New Delhi, p.203.

⁵³ Piketty (2014), *Op. cit.*, p.515.

inequality.⁵⁴ There is no doubt that robust economic growth is absolutely essential for improving the welfare of the citizens of a country. But it is equally important that the lower rungs of the society also get a fair share of the gains of economic growth. In the case of India, although the country could register a reasonably high growth rate in recent years, the sharing of the benefits of growth has been grossly unequal. Therefore, along with initiating pro-growth economic policies, the distributional aspects of economic growth also need to be given due importance in order to achieve sustainable growth of the economy. As we have already seen, even international agencies like the IMF have started to admit that a more equal distribution of income could accelerate growth rate rather than slow it down, contrary to what it had tried to practice and propagate earlier. The proactive role of the government in providing better access to education, health and other basic facilities is equally important as pro-growth policy initiatives like massive infrastructural investments.⁵⁵

Building Better Database

One of the priorities in the policy making agenda of a country in dealing with inequality should be to gather accurate data on income and wealth. This will help formulate better policies and implement them efficiently. Moreover, availability of a better and up-to-date database will enable authorities to collect more tax revenue and also to effectively target potential beneficiaries for various anti-poverty and development policies.

⁵⁴ Milanovic, Branko (2016), *Global Inequality: A New Approach for the Age of Globalization*, Belknap Harvard, Massachusetts, p.232.

⁵⁵ Rattner, Steven (2014), *Op.cit.*

CONCLUSION

Economic growth during the last three decades all over the world has largely been iniquitous. Rapidly growing income and wealth inequality even in the context of the Great Recession in recent times points to the need for revamping the market-oriented development strategies pursued by leading economies and actively promoted by international institutions such as the IMF, World Bank and WTO among developing countries across the world.

Economic liberalisation and globalisation policies initiated in India since the 1990s have brought about considerable growth, although not on a consistent basis, in different sectors of the economy. But, it has also led to growing inequality in the distribution of income and wealth. The trend of rising inequality could be reversed only by narrowing the gap between the rich and the poor. It is possible only when economic policies cease to be largely influenced by vested interests and crony capitalists. Extreme inequality jeopardizes the well-being, living standards, opportunities and future prospects of the masses. Since it could lead to escalation of crimes, corruption, social conflicts and loss of faith in democratic institutions, a critical relook at the current model of economic growth is imperative. Evolving strategies to make the growth process more equitable and inclusive would be in the larger interest of the nation for ensuring sustainable growth.

The state cannot leave everything to the market. It is the responsibility of the government to ensure the welfare of the common man. India's poor, faced with multi-dimensional social and economic injustice needs to be provided with essential public services and basic entitlements. If the human development aspect of growth is neglected, it would only aggravate the growing inequalities further. For a country as diverse as India, only a mixed economic framework that aims at improving human development and capabilities through better public services along with better redistributive justice would be able to provide a more equitable, inclusive and sustainable growth. Concerted action at both the national as well as global level is the need of the hour in order to narrow the gap between the 'haves' and 'have nots'.



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