

NOTE

## **Inequality vs Poverty**

**Bharat Jhunjhunwala writes :**

Welfare can be defined in two ways—poverty alleviation or reduction of inequality. The two definitions are different. Poverty alleviation means that basic means of livelihood such as food, clothing and shelter are made available to every individual. This can be done along with prevalence of high levels of inequality. For example, big companies can make huge profits and give out huge salaries. This will create huge inequality.

Simultaneously, taxes collected from them can be used to provide food, clothing and shelter to the poor. In this way poverty alleviation and increase in inequality can go together. But the converse is not true. Less inequality does not mean less poverty. Communist Albania had a relatively equal distribution of income but at dismally low levels. The tribal society is, relatively speaking, equal but has widespread poverty. Distribution of wealth of the rich among the poor may create equality but absence of investment will lead to stagnation in the economy and breed poverty. This is precisely what happened in China during the Cultural Revolution of the 1960s. The rich and the educated were sent to the villages to learn from the peasants. Equality was promoted. But this led to economic stagnation and later led to the adoption of the capitalist model of development in the 1970s.

Increase in inequality cannot be reversed. The atoms that came out of the Black Hole when this universe was created were 'equal'. Gradually elements were created and inequality increased. Inequality was further created between the living and non-living things and later between more-conscious and less-conscious living beings. It is seen that inequality soon arises between brothers who have inherited similar genes and environment because every individual does not put in same level of effort. One brother may adopt tissue culture and earn much money while another brother may stay put with cultivation of paddy and remain poor.

Another reason for increase in inequality in recent times is the use of labour-saving technologies in industries.

One more reason for increase in inequality is 'primitive accumulation'. The common man is deprived of even subsistence incomes in the initial period of industrialization and the money is used for investment. The underlying thinking is that poverty, not inequality, is the main problem.

Actually reduction of poverty will create more social instability by enabling people to protest against rising inequality. The poorest hungry have no capacity to protest. They have no energy to participate in a mass procession or hartal. Poverty alleviation makes it possible for them to rise in protest. In areas like Bastar, the tribals were previously too poor to protest. The area had widespread poverty but was yet peaceful. Now, fortified with cheap food grains provided to BPL families, they are joining the Naxalites in protesting against inequality.

Inequality is also an impediment to economic growth. It kills demand for goods. If 99 percent of the people are making a living with, say, Rs 100 per day, then there will be little demand for motorcycles, refrigerators and TVs. It is necessary that the market grows for economic growth to sustain. Karl Marx had

pointed this out in his major work *Das Kapital*. He said that the businessmen are ever trying to reduce the payment to workers in their effort to reduce their cost of production. These low wages prevent the workers from consuming goods. In the result, there is more production from modern factories along with low demand. This leads to a 'crisis of overproduction'.

Yet another problem with the model of inequality with poverty alleviation is that it kills the incentive to work among the poor. Easy availability of food, clothing and shelter removes the incentive to work for a better life among the poor. This problem is now clearly visible in countries like the United States and Germany. Poor people are content living with the unemployment dole and social security benefits. They have stopped trying to find work. For these reasons the model of inequality with poverty alleviation will not provide stability to the society.

There lies a difficult choice to make. Inequality is likely to increase because it is inherent in the process of development. This inequality will become explosive despite poverty alleviation for the reasons mentioned above. The solution, perhaps, lies in simplicity of the rich and private charity. One must combine rising inequality with simplicity and charity. The model of rising inequality with poverty alleviation will not work. □□□