

NOTE

Of Growth and Inequality

Bharat Jhunjhunwala writes :

INEQUALITY IS INCREASING across the world. The widespread support to people's agitation of Anna Hazare despite implementation of NREGA is due to this. Recent riots in England are also being attributed to the disaffection in the underclass. This is happening despite the world economy having enjoyed unparalleled prosperity since the Second World War and poverty having been substantially eliminated in many parts of the globe.

Why should high growth rate have such a negative effect? In a paper titled "Classical Economics on Limits to Growth", Khalid Saeed of Worcester Polytechnic Institute says that economic growth indeed leads to higher production and the demand for labour increases. But simultaneously an increase in the population leads to increased supply of workers and the wages do not rise. The price of labour, like other commodities, is determined by the balance of supply and demand. Economic growth leads to increased demand and, in normal circumstances, this should lead to higher wages. But wages decline if the supply increases more just as the price of tomatoes in the market declines despite higher demand if there is a huge supply.

Then economic progress means plentiful availability of capital. That leads to lower interest rates. It becomes profitable for the industrialist to use more machines and less labour. At the same time, workers want a share of the growth pie and demand higher wages. The industrialist thus finds it beneficial to use more capital and less labour. As a result economic growth leads to less employment.

How have large number of jobs been created in countries like the US in the last fifty years then? That was a short run phenomenon that cannot sustain. New technologies were being created which were leading to the creation of new jobs. The invention of motor car led to jobs for motor mechanics. The invention of computer created jobs for software programmers. The supply of these new-skilled personnel was initially less hence their wages were high. However, their wages have been declining to subsistence levels as the supply of mechanics and programmers is increasing. Graduates from IT Institutes are often found languishing these days. These high wages are only a short term phenomenon that arises when new technologies are being created.

Such increase in inequality is taking place in India today. The price of agricultural commodities is at historically low levels. The temporary increase in price in the last two years has only very partially compensated for the huge reduction in the last 50 years. Village folk are migrating to the cities in search of better incomes. Inequality between villages and cities is increasing. A similar increase in inequality is taking place within the cities. The wages of urban

workers have increased by, say, 20 percent but the incomes of the politicians, bureaucrats and businessmen have increased 20 times in the same period. The point is that growth has come along with a huge increase in inequality which is a natural consequence of economic growth.

Mainstream economists propound that it is necessary to attain 9 percent growth rate in order to remove poverty. High growth will enable the government to collect more taxes and use the money for running poverty alleviation schemes such as Employment Guarantee. This is correct as far as poverty reduction is concerned. But it fails on the touchstone of inequality. This policy, in fact, is based on veneration of increased inequality. Big companies will be given freedom to undertake production with automatic machines. This will push up the growth rate to 9 percent. Few high-skilled workers will be employed. Total demand for labour will increase nominally, if at all. This tendency is seen clearly in the data provided by Ministry of Finance in the annual Economic Survey. Employment in private organized sectors has increased by about 1.25 lacs persons per year in the last two decades. This is drop in the ocean when seen along with the 65 lac persons entering the work force every year. Huge increase in population combined with small increase in employment in organized sectors will push more people to earn their livelihood by plying rickshaws and other low-paid works in the unorganized sectors. These poor people will get subsidized food grains under BPL card and their poverty will be removed but they will still remain at subsistence levels and get agitated by the display of wealth by the rich.

The high-skilled workers in the organized sectors also will not get much high wages because the supply of skilled workers is increasing. The wages, for example, of the plowshare and the tractor driver are nearly same today-at about Rs 150-200 per day-even though the tractor driver is much highly skilled.

Increase in inequality with abolition of poverty is an explosive combination. The expanding lower middle class will be more restive. The economy needs creative solutions to deal with this. Dr Man Mohan Singh's approach of tax-plus-redistribution will not deliver. □□□