

Calcutta Notebook BJ

IS WEALTH THE ONLY STANDARD for success? Maybe, it is the dominant philosophy of the day and UPA Government is mighty pleased. Recently released statistics indicate that poverty has reduced from 37 percent in 2005 to 32 percent in 2010. This is being attributed to the free market policies espoused by Dr Manmohan Singh. There are two problems, however. One, the rate of reduction in poverty has declined. Pranab Bardhan, economist at University of California says that "rate of decline in poverty somewhat slowed for 1993-2005, the period of intensive opening of the economy, compared to the 1970s and 1980s, and that some child-health indicators, already dismal, have hardly improved in recent years." Second problem is that inequality has increased much. Professor Abhijit Sen, member of the Planning Commission says: "I am certain that inequality is increasing and nothing is being done to curb grotesque amounts of wealth building up." A study by Asian Development Bank says that inequality, as measured by the Gini Coefficient, showed an increasing trend during 1987-97, in a complete reversal of the trend of decline during 1960-73. Handful of families are swimming in items of luxury such as private jets and heated swimming pools but only a marginal improvement in the conditions of the common man has taken place. The reported reduction in poverty pales into insignificance in contrast with this huge increase in wealth of the few.

India is caught between the devil and the deep blue sea. Before reforms, inequality was under control but the country was slipping in economic growth. After reforms, rate of economic growth has increased but inequality is becoming grotesque. Rate of reduction in poverty is also slowing down. This is a cause for the UPA Government to introspect, not to celebrate.

First reason for increase in inequality is the declining efficiency of public social sector expenditures, especially those in education. Education is the most important stepping stone for coming out of poverty. The poor are more dependent on government schools for this. They do not have to pay fees. They also get free meals and books and uniforms. But the results are dismal. Not a single student of Class 10 and 12 of a particular government school in Uttarakhand passed this year. In the result the poor are deprived of good education. The United Nations Development Programme has made inequality-adjusted Human Development Indices for India. It is reported that India ranks 119 out of 169 countries in the unad-justed Human Development Index but loses 32 percent of its value when adjusted for inequalities. The loss from inequality is highest in education. Reliance on the decrepit public education system appears to be the main reason for this.

Other social sector expenditures such as those on Employment Guarantee Scheme and Loan Waivers have had a positive impact. However, these have not fully compensated for the increase in inequality due to asymmetry in education.

More importantly, the government has unwittingly promoted inequality in its efforts to raise funds for these social sector expenditures. Tax revenues have increased even though tax rates have declined. This means that income of the rich has increased so much that they are paying more taxes at lower rates. Number of billionaires in the country is multiplying rapidly. Public expenditures on education are being increased. The government is encouraging amassing of wealth by the rich in order to collect taxes for meeting these expenditures on education. Thus inequality is increasing doubly-first by pushing the poor down the education ladder providing low quality education; and second by raising the wealth of the rich.

The second reason for increase in inequality is that most wealth in recent times has been generated in share markets, real estate and gold. These assets are owned by a very few.

According to statistics published by the Ministry of Finance, about four lac jobs are being created every year in the organized private sector. On the other hand, about 40 lac new workers are entering the workforce every year. In comparison to the new jobs being created, about 10 times are entering the labour market. Inequality has to but increase. Number of such jobs needs to be increased, nevertheless. The problem, once again, is that the poor are being given substandard education and are not able to enter the emerging service sector which requires skill.

Increase in inequality is built into the very process of economic growth. The UPA Government has failed to control this tendency. This will lead to increased fissures in the society as seen in the rise of insurgency, ethnic, religious or otherwise, across the country. Solution is to restrain the vulgar exhibition of wealth. It is good to earn. But the wealth must be used mainly for investment or charity, not for unending consumption. Increased consumption by the few is harmful for both the rich and the poor. The rich get trapped in meaninglessness of consumption. The poor get agitated by them being excluded from the growth story. It is necessary to build a social consensus on the rich adopting a life of simplicity. □□□