

Managing inequality

Dr Bharat Jhunjhunwala

The Government has certainly made some progress in the alleviation of poverty. Programs like Employment Guarantee, subsidized food grains to BPL families and loan waiver for farmers have provided relief to the poorest people. But this is not helping establish peace in the countryside. Maoist activities are increasing. The reason may lie in the huge increase in inequality. Businesses are earning huge profits. Results of top companies indicate an increase in profits of about 28 percent against increase in sales of 2 percent. Such huge increase in profits means that businessmen are rolling in money. They have the money to shop in air-conditioned malls and travel in private jets or cars costing more than crore rupees. On the other hand stagnant sales mean that people do not have the purchasing power to buy the goods. The poor man living in the slum across the boundary of the shopping mall; or the poor villager who travels to the city is perturbed by this flamboyant display of wealth. The youth are agitated. They are being attracted towards egalitarian Maoist ideology.

Increase in inequality is nothing new. It has been taking place through the ages. It is necessary for a country to deprive the common man of consumption in its quest for economic growth. This is known as 'primitive accumulation' in economics. Imagine you are living in a tribal community. Every family has equal plot of land and standard of living of all is almost equal. Now there is a proposal to establish a factory. Community ownership of business has not been successful. And no individual in the tribal community has the money to invest in this. Strict observance of equality will never make it possible for the community to put up a factory and the people will remain ever backward. In such situation the chief finds ways of imposing inequality on the people. He asks them to undertake free labour—begar—for the establishment of the factory. Or he persuades them to make war on the neighbour and they enslave others to provide free labour. The chief establishes the factory and becomes rich while the people become poor because of the begar that they have to perform. Nevertheless, the factory is established, road is made and jeeps ply on it and development takes place. Such deprivation of the poor is called primitive accumulation. This leads to economic development along with increase in inequality.

The countries that are classified as 'developed' today have invariably undertaken such primitive accumulation in the past. The poor villagers of England were deprived of access to the village commons in the nineteenth

century. They could not graze their livestock and were reduced to abject poverty. They fled to the cities and lived in shantytowns. The supply of labour in the cities was huge hence the wages were very low. The business who put up the textile factories in the cities made huge profits. Thus inequality increased along with the rise of the British Empire.

Inequality increased at the international level through the same process. Britain forcibly exported the natural resources of colonial India at low prices. India became poor while Britain became rich. The United States practiced the same policy in importing black slaves from Africa. These slaves provided the cheap labour that made it possible for the Americans to invest in industries and in clearing of lands for cultivation in the southern states.

This same 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 one year only very partially compensates 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. This is the true story of nine percent growth rate that we have so gloriously attained. I am not denigrating this achievement which is indeed laudable. The point here is that it comes 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 acceptance of increase in 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 because of use of automatic machines. This tendency is seen clearly in the data provided by Ministry of Finance in the annual Economic Survey. Employment in organized sectors—both private and government—has been stagnant in the last decade. Increase in population combined with reduction in employment in organized sectors will push more people to earn their livelihood by plying rickshaws and other similar 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.

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. This happens because the supply of tractor drivers is more. The tractor driver may produce ten times that of the ploughshare but he gets barely 33 percent higher wages. Wages are not determined by the productivity of labour. They are determined mainly by supply and demand in the labour market. They remain low because the supply of tractor drivers is large. In the result, the wages of workers remains low all around while the profits of businessmen increase manifold.

We face a difficult challenge. We need to use automatic machines for producing goods at a low cost to stand in the global marketplace. This will lead to a steep increase in inequality and destabilize the society as seen in the Maoist resurgence. The solution, in my assessment, will come from change in the culture of the rich. The rich should lead simple lifestyles and make charity liberally. Then their wealth will not irritate the poor just as the bank balance of the beggar does not irritate the pedestrian. Charity will put money in the hands of the poor and raise their standard of living. The solution will not come through poverty alleviation programs run by the government because these are predicated on high profits and low wages—which is the cause of inequality.

Author's address: bharatj@sancharnet.in

Bharat Jhunjunwala

If sending by Post: Lakshmoli, PO Maletha, Kirti Nagar, UK 249161

If sending by courier: Care First Flight Courier, Srinagar, Via Rishikesh, UK 246174

Tel: 99171-44777