# On growth and equality, two trajectories

Thirty years ago, income distribution in India was regarded as relatively equal, at least in international comparison. Meanwhile, Brazil was breaking world records for inequality. Today, inequality in India is high and increasing, while in Brazil it has declined substantially since the 1990s. As a result, on many measures India is now more unequal than Brazil.

At the global level, inequality has become a central concern, and not just among politicians and intellectuals of the left – it is on the agenda of major international institutions such as the IMF and the World Bank, and is a key subject of debate in the Davos meetings of the World Economic Forum. The reasons are not hard to see. High inequality can be a threat to both political stability and economic growth; and it raises fundamental ethical questions about the fairness of both global and national economies. What has been going on in India and Brazil?

Brazil went through a period of rapid growth before 1980. In this process, the labour market became more segmented, with an increasing number of protected, regular workers but a widening gap with the informal economy. The middle class also expanded, with high incomes and consumption. Growing private investment led to an increasing concentration of wealth, while in rural areas, land distribution remained highly unequal. The result was a dynamic of development in which the bulk of the benefits were captured by a relatively small fraction of the population.

While the circumstances of India's rapid growth since the 1980s are different, there are clearly echoes of the earlier pattern in Brazil. In India, liberalization released some of the factors that had previously prevented an increase in the concentration of income, and this has led to wider gaps in the labour market, where many are excluded from the new opportunities, and has generated a highly unequal accumulation of wealth.

From the 1990s onwards there was widespread recognition of the adverse economic and social consequences of increased inequality in Brazil. Especially after the turn of the century, state policies aimed to increase the numbers of workers with adequate social protection and rights at work, raised the minimum wage, and greatly expanded the transfers of income to poor families. The Gini coefficient of income inequality fell from 0.60 in 1993 to 0.53 in 2012.

In India too, policies were introduced after 2005 which helped to moderate the rise in inequality, especially in rural areas, notably MGNREGA and improvements in the PDS. But the scale and scope of social policy was less than in Brazil, formal employment stagnated, minimum wages hardly rose in real terms and urban inequality continued to rise, as did the gap between urban and rural areas.

These patterns reflect the growth regimes in the two countries, which are built on the social and economic institutions – labour institutions, agrarian systems, market functioning, financial mechanisms, state interventions, international linkages – that underpin investment, production and job creation. Inequality arises out of the ways these institutions distribute economic opportunities, structure labour markets and influence the returns to labour and to capital.

It also reflects the basic, persistent cleavages of each society. For instance, wage differences between men and women have been reduced in both countries, but this is only relevant for those who succeed in obtaining wage work. In India, standard measures of women's labour force participation have been declining, suggesting that gender inequality in access to employment is increasing. Meanwhile, in Brazil, female labour force participation has doubled since 1980 and today there is much less gender inequality in employment than in India.

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There are also persistent differentials in employment and incomes by caste and community in India. Like for gender, this results less from direct wage discrimination, and more from differences in access to education and decent jobs. In contrast, racial disparities in the Brazilian labour market have declined substantially in recent years.

But just how important is it to reduce inequality? Although inequality has declined in Brazil the country is now in a deep economic and political crisis; meanwhile, rising inequality in India does not seem to have yet had major political repercussions and the economy continues to grow.

In Brazil, the present situation is in part due to the global financial crisis that started in 2008 and subsequent macroeconomic policy errors. But it also reflects a middle-class backlash against redistribution once economic growth stalled. “Some of the social and labour policies put in place in the period 2002-12 are now being reversed, former President Lula da Silva – who led the effort to reduce inequality at that time – has been jailed on corruption charges, and inequality is again rising. This is reviving social tensions, and inequality is at the heart of the political debate.

In India, inequality is strangely absent from the political agenda – for instance, it is hardly mentioned in the last two Economic Surveys. Attention is more focussed on poverty reduction and the relative position of particular social groups. But the strains are increasing. There is growing awareness of increasing relative poverty, as casual construction labourers build gleaming commercial centres; many groups are demanding an increased share of good jobs through wider reservations; recent policies such as demonetization and the introduction of GST appear to have had adverse distributional consequences that were not anticipated; increasing concentration of income can lead to shortfalls in demand and distorted patterns of investment.

There is a lack of reliable data on changes in inequality in recent years, but wages have been rising more slowly than output per capita, and there is no sign that the increasing trend in inequality has been reversed. The histories of Brazil and India show that this is not an issue that can be dealt with minor adjustments to economic strategy. It needs a more fundamental shift to a view of development in which growth and equality are two sides of the same coin.

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