

# THERE IS NO SILVER BULLET TO FIGHT INEQUALITY

Relevant for: Indian Economy | Topic: Inclusive growth, Inclusion and Poverty

That economic growth has led to significant reduction in absolute poverty in India is beyond doubt. This growth has also brought with it increasing inequality. Societies which recognise the sanctity of right to property cannot address inequality by radical redistribution of assets. This means that the only effective way to promote equality is to ensure wage equality. The long-term way to achieve this is to provide quality education to future wage-earners. Inequality in skill endowments, however, is not the only factor which is responsible for wage inequality in India. Differences in bargaining power of workers vis-à-vis employers, social biases such as discrimination against women and lower caste workers and obligations which make it mandatory for employers to make contributions for social security of workers etc can play a large role on determining the extent of wage-inequality in an economy. As is obvious, most of these issues are covered by labour laws.

Pro-market voices often blame India's labour laws as an impediment to next-generation reforms. The opponents of such a view believe that any change in these laws will significantly dilute the rights of workers in India. An International Labour Organisation (ILO) report shows that this debate is more likely to be a false binary.

The report says that only 10.7% of India's workforce had a trade union membership. Even among non-agricultural workers the figure is less than 20%. Degree of unionisation among women workers is half compared to men. Share of labour in national income has actually gone down between 1981 and 2013. These statistics show that the balance between capital and labour in the Indian economy is firmly tilted in favour of the former. What is ironical is that India's complex labour laws have also failed to work to the advantage of workers. The report says that there are more than 1700 minimum wage rates across India currently. Despite the plethora of regulation, over 33% of wage workers were paid less than the indicative national minimum wage in 2009-10.

The report also calls for facilitating transition from the informal to the formal economy while ensuring the preservation and improvement of existing livelihoods. Such prescriptions are easier said than done. Many small informal businesses in India work on very small margins and are only viable because they manage to stay out of the tax net and social security commitments which apply for formal sector enterprises.

Less dogma (of either variety) and more evidence should guide our fight against inequality.

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