

WHAT RISING INEQUALITY MEANS

Relevant for: Indian Economy | Topic: Issues Related to Poverty, Inclusion, Employment & Sustainable Development

The COVID-19 pandemic has exposed the stark divide between the rich and the poor. At this juncture, evaluating the state of inequality serves as an eye-opener on the income/wealth divides prevailing across regions. Such divides are represented in terms of the share of income/wealth among the top 10% of the population against the bottom 50% of the population. With regard to income, the top 10% of the global population share 52% of the total income, while the bottom half survives with a mere 8.5% of it. This leaves the 40% in the middle with 40% of the income. This distribution shows the tendency of a rising middle class with lower disparity in income, but it also shows that the status of the poor is worsening day by day. In terms of wealth, the top 10% of the global population own 76% of the total wealth, while the bottom 50% share a mere 2%. The practice of unabated accumulation has been possible in the absence of effective measures of redistribution on the one hand and the absence of measures discouraging undue accumulation on the other.

This inequality varies across regions. It is moderate in Europe and sharp in Africa. The top 10% have an income share of 36% in Europe vis-à-vis the top 10% with a share of 58% of the total income in West Asia and North Africa. This disparity shows that worsening inequalities are avoidable with appropriate measures in place. The share of income among the top 10% has been varying across regions indicating that the global picture is an aggregation of the most uneven distribution of income and wealth. While there is an argument in literature that inequalities are a manifestation of the average level of income, as explained by the Kuznets' theory, the prevailing pattern across countries does not follow the same. The average income levels seem to be poor predictors of the levels of inequality, with high-income countries such as the U.S. having higher levels of inequality as against countries such as Sweden, which have moderate levels of inequality. Similar contradictions are also seen when we contrast middle-income nations such as Brazil, India and China as against Malaysia and Uruguay. Hence, emerging inequalities are not necessarily an outcome of rising levels of income in the post-liberalisation era, but a depiction of poor redistributive policies towards discouragement of accumulation by governments with due sensitivity towards inequalities. Such a contention is evidenced with the rise in inequalities in the U.S. and India as against a moderate rise in China.

A reading across regions shows that global inequality is being largely contributed by South Asian, Southeast Asian and Latin American countries, Sub-Saharan Africa, West Asia and North Africa. This pattern is confirmed based on a ratio of average incomes of the top 10% to the bottom half which ranges in 5 to 50+ depicting the kind of disparity in income otherwise.

The situation worsens further in the wealth domain. The top 10% own 76% of the total wealth compared with the bottom half which owns 2%. This means that we are keeping 50% of the population under-endowed to a degree of 15 to 20 times against the privileged. One wonders whether such a disproportionate distribution of wealth is sustainable in the long run.

This prevailing pattern of wealth concentration and differential levels of income around the world has also resulted in rich nations having poor governments. In fact, many governments are relatively poor with very limited resources, as resources are gradually moving into private hands. Such a situation has two underpinnings: one, governments have a limited capacity to act on inequality aversion measures and two, private interests overshadow the distributional fairness of wealth. The scenario is undoubtedly an outcome of the ineffectiveness of redistribution measures and also a complete absence of measures that discourage accumulation. Some

additional features of this exposition of inequality also relate to imbalance of women's share in income as well as the ecological inequities indicated by the differential carbon emission levels.

Focus also needs to be placed on reducing disparities in capability domains like education and differential endowments (tangible and intangible) that have the potential to sustain inequalities. The most unfortunate part of the prevailing inequality is the great homogeneity among the bottom half and the extreme disparity among the top 10%. This has led to an increase in the number of billionaires in the world while billions don't have the means for a decent life.

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