Focus on Inequality*

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The World Bank and the IMF have started a new trend of late, of taking "progressive" positions in their publications even while insisting on the same old "conditionalities" in policy negotiations with particular countries. In accordance with this new trend these institutions have now got concerned with issues of poverty and inequality; and the World Bank has just brought out what is supposed to be the first of a series of annual publications tracking progress towards poverty removal and curtailment of inequality. This publication is called Poverty and Shared Prosperity. While I do not wish to review this publication here, certain points made in it should be noted.

The World Bank notes that since growth in the world economy is slowing down, this would have a deleterious effect on poverty reduction. For achieving a given target of poverty reduction therefore, such as what the Sustainable Development Goals (SDGs) of the UN specify, namely ending poverty (almost) by 2030, income inequality should be reduced. Towards this end, the objective is to increase the share of the bottom 40 percent of the population in total income.

Of course an increase in the share of the bottom 40 percent in total income is not exactly synonymous with a reduction in income inequality, since the gap between the rich and the poor can still grow even when the share of the bottom 40 percent is increasing. For instance if the share of the bottom 40 percent increases from 20 to 25 while the share of the top 10 percent of the population increases from 30 to 50 percent (with the middle being squeezed), the gap between the bottom 40 percent and the top 10 percent has still increased despite the former's share increasing; but under the influence of the World Bank the UN's SDGs have focussed attention on raising the share of the bottom 40 percent in total income rather than on reducing conventional measures of income inequality like the Gini Coefficient. And it is this which the World Bank's document Poverty and Shared Prosperity tracks.

If the share of the bottom 40 percent of the population in total income is to rise, then the per capita income of the bottom 40 percent must rise faster than the per capita income of the population as a whole. The excess of the rate of increase in the per capita income of the bottom 40 percent over that of the population as a whole is grandiosely referred to in the document as the "shared prosperity premium", and the World Bank notes with satisfaction that of a set of countries whose data it has examined for the period 2008-2013, nearly two-thirds showed a positive "shared prosperity premium".

The five best performers among these countries were: Brazil, Cambodia, Mali, Tanzania, and Peru. Of these, the most significant case of course is that of Brazil because of its size, and the World Bank report admits that Brazil's progress towards greater equality, in terms of the "shared prosperity premium" measure, has been made possible by the rise in minimum wages, the formalization of unprotected workers, and the strengthening of collective bargaining rights of the workers. All of these occurred under the rule of the Workers' Party, i.e. under Presidents Lula and Dilma Rousseff. But the latter, it may be recalled, has just been ousted in a U.S.-supported parliamentary coup on the flimsiest of grounds, and an unelected new President, soft on MNCs and domestic corporates and hostile to workers, has been installed in her place.

The World Bank's apparent "optimism" over the fact that two-thirds of the countries showed a positive "shared prosperity premium" (i.e. in their case the per capita income of the bottom 40 percent grew faster than that of the population as a whole), is tempered by the finding that at current GDP growth rates, even at such "shared prosperity premia", the UN SDG target of removing poverty by 2030 will not be achieved. But even this "optimism" is misplaced for several reasons.

First, the number of countries included in the World Bank study is only 83 out of a total of 195, so that even the existence of such a positive premium for the bulk of the countries in the world is doubtful. And even among these 83, most cases of positive premium are marginal, i.e. their positive premia are very small.

Secondly, the income data for countries are extremely dubious. Even for India which has a fairly developed system of data collection through periodic large sample surveys, there are no reliable income data. Besides, even the concept of income is far less clear than the concept of expenditure (on which one can get somewhat more reliable data): questions inevitably arise about whether capital gains should be included in income, and how "transfers" should be treated, to which there are no simple answers.

Thirdly, the world capitalist crisis is likely to affect income distribution adversely in the coming days. This claim may appear odd at first sight, since many have argued the exact opposite, i.e. that the reason for the reduction in income inequality during the period 2008-13 which has been noted by the World Bank lies in the crisis itself, that, as in the U.S. in the 1930s, the crisis, by imposing business losses, has reduced income inequality even though it has also made people worse off. But during the period 2008-13, the primary commodity prices had held up well, and they have started collapsing thereafter. Hence, the reduced income inequality of the period 2008-13 cannot be expected to continue in the subsequent years. As primary commodity prices fall, the tendency on the part of primary-commodity-marketing MNCs is to shift the burden of the fall onto the shoulders of the petty producers of such commodities. Such producers are themselves poor and they in turn pass on a part of the burden to the labourers working for them. Therefore, once we take note of the fact that the world capitalist crisis has entered a new phase, with primary commodity prices collapsing (which had not been the case earlier), the "optimism" about the sustenance of reduced inequality disappears.

Fourthly, there is an additional fall-out of the crisis. Under the impact of the crisis, as the example of Brazil and several other Latin American countries where Leftist regimes have been in power for long shows, right-wing forces are emerging in a significant way. The hardships of the people are exploited by them to wean support away from the Leftist regimes; and imperialism makes matters worse by conducting an economic guerilla warfare against these Left regimes. Even if the Left suffers only a marginal loss of support, that is quite enough to put right-wing governments in power, for the time being at least, as has happened in Argentina and Brazil (though in the latter it was a parliamentary coup), and may well happen in Venezuela.

Such right-wing regimes which could capture power not just in Latin America but in some other countries as well, will do precisely what even the World Bank and the IMF officially consider inimical to a reduction in inequality, namely launch an attack on the workers' rights and living standards.

We do not have to go far to confirm this. The experience under the Modi government in India shows what is in store. Despite even the World Bank's finding that raising minimum wages reduces inequality and hence poverty, the Modi government steadfastly refused the demand of the trade unions which went on strike on September 2, to raise the minimum wage to the level suggested by the government's own Central Pay Commission. And one of the main items on the agenda of this government today is "reforms" to introduce "labour market flexibility", a euphemism for the untrammelled right of employers to fire workers at will. Such "reforms" would weaken trade unions and collective bargaining, which according to the World Bank study constitute major weapons against inequality and poverty. (It is a symptom of the duplicity of the World Bank that economists from its stable who decide the economic policy of the country as "advisors" are keen to introduce such "reforms" even as the World Bank's own publication claims that workers' organizations are an antidote to poverty and inequality).

Likewise, while the World Bank's study underscores the importance of income transfer schemes, as in Brazil under the Workers' Party, for reducing inequality, the one pro-poor scheme that was instituted in this country under pressure from the Left, namely the Mahatma Gandhi National Rural Employment Guarantee Scheme, is being whittled down significantly at present.

We are in short moving in India in a direction that is the very opposite of what the World Bank in its publication considers essential for reducing poverty and inequality. And we are doing so in a context where inequality has actually been rising in this country.

Let us take the World Bank's own measure of inequality, namely the share of the bottom 40 percent in total income. We do not of course have income data; but we do have, from the National Sample Surveys conducted every five years for a large number of households, fairly detailed consumption expenditure data. Now, as income increases, the ratio of consumption to income typically tends to fall; hence if the share of the bottom 40 percent in total consumption expenditure shows a fall, then we can safely conclude that their share in total income must have fallen even more.

According to NSS data, the share of the bottom 40 percent of the rural population in the total consumption expenditure of the rural population in India, moved as follows:

1999-2000: 60.4 percent

2004-2005: 56.1 percent

2011-2012: 55.1 percent

For urban areas the corresponding figures for 2004-05 and 2011-12 were 50.2 percent and 44.6 percent respectively. Since these figures, relating to consumption expenditure, show a fall, the share of the bottom 40 percent in total income, it follows, must have fallen even more.

The increase in urban inequality according to the World Bank's measure has been even sharper between 2004-05 and 2011-12 than in rural inequality. But what is striking is that despite the introduction of MGNREGS there has been an increase in rural inequality. From this one can imagine what the impact of the dilution of the MGNREGS, as is occurring at present, is going to be on the income inequality scenario. Contrary to the World Bank's "optimism", such a denouement is also in store for the third world as a whole, as the effects of the crisis of neo-liberal capitalism get superimposed on the effects of neo-liberal capitalism itself.

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