

Extreme Economic Inequalities and Sustainable Development – The Trajectory of Indian Economic Growth



Geography

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ABSTRACT

Inequality is a central obstacle to the transition to sustainable development that “meets the needs of the present without compromising the ability of future generations to meet their own needs” and to development that balances economic, social and environmental concerns. The World Economic Forum’s Global Risks survey has found ‘severe income disparity’ to be one of the top global risks for the coming decade. A growing body of evidence has also demonstrated that economic inequality is associated with a range of environmental problem and ecological carrying capacity of the area. This is true across rich and poor countries alike, and has negative consequences for the richest as well as the poorest people. Around the world, inequality is making a mockery of the hopes and ambitions of billions of the poorest people. Without policy interventions in the interests of the many, this cascade of privilege and disadvantage will continue for generations. In the present work, extent of economic equality has been enquired with special reference to India and policies to reduce have been discussed.

Introduction

Concern regarding inequality in society dates back to the start of the rapid economic growth after industrial revolution, especially Karl Marx, who saw it driven by the very logic of capitalism and argued its disruptive tendencies would be a key factor in its ultimate overthrow. Today, inequality has once again surged to the fore of popular debate. A large number of studies have documented the sharp rise in inequality over the past several decades. As OXFAM Report frames it, in 2014, the richest 1% of people in the world owned 48% of global wealth, leaving just 52% to be shared between the other 99% of adults on the planet. Almost all of that 52% is owned by those included in the richest 20%, leaving just 5.5% for the remaining 80% of people in the world. If this trend continues of an increasing wealth share to the richest, the top 1% will have more wealth than the remaining 99% of people in just two years, as shown on Figure with the wealth share of the top 1% exceeding 50% by 2016

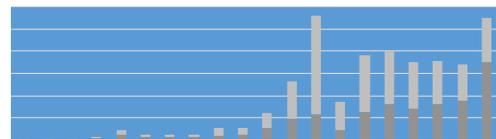


Figure 2: The Billionaires Wealth in India, Forbes.com

The income of billionaires moved closely with economic growth and the stock market, which accounts for a large part of their wealth. Billionaire wealth soared with the stock market boom of the mid-2000 and peaked in 2008 but then dropped sharply when the stock market crashed (by over 60%) in the wake of the international financial crisis in 2009. By 2015, total net worth was way above 2007 levels, if still below the 2008 high (Figure 2).

How does growth of extreme wealth compare with India’s overall growth? Total billionaire wealth to gross domestic product (GDP) provides a proxy this ratio rose from around 1% in the mid-1990s to 22% at the peak of the boom in 2008, and was over 15% of GDP in 2015, reflecting both new entrants and increased wealth of existing billionaires.

The increasing number of India’s billionaires and Rent Thick Sector of the Economy

India has seen its number of billionaires increase from less than 6 to 61 in the past decade, concentrating approximately \$250bn among a few dozen people in a country of 1.2 billion. What is striking is the share of the country’s wealth held by this elite minority, which has skyrocketed from 1.8 percent in 2003 to 26 percent in 2008, though it declined in the aftermath of the global financial crisis.

By some estimates, half of India’s billionaires acquired their wealth in ‘rent thick’ sectors. This means sectors where profits are dependent on access to scarce resources, made available exclusively through government permissions and therefore susceptible to corruption by powerful actors – as opposed to creation of wealth. ‘Rent-thick’: Sectors such as real estate, infrastructure, construction, mining, telecom, cement and media have been classified as “rent-thick”, because of the pervasive role of the state in giving licenses, reputations of illegality, or information on monopolistic practices. Now, Telecom spectrum is also a natural resource distributed by the government. The real estate sector is well known for the large number of “black” transactions, and the nexus between politicians and realtors has

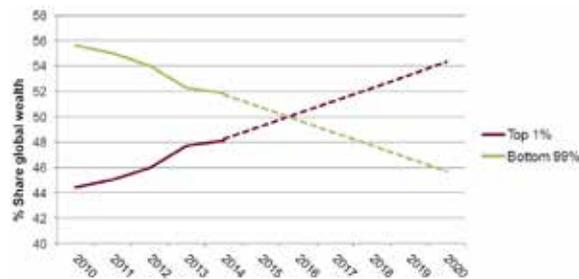


Figure 1: Share of global wealth of the top 1% and bottom 99% respectively; the dashed lines project the 2010–2014 trend. By 2016, the top 1% will have more than 50% of total global wealth. After OXFAM, 2015

Objectives and Data Source

Main objective of the present study is to examine the rising share of billionaires in Indian economy and evaluate the rising inequality among rich and poor of the country. The present study have used data from OXFAM Report on Inequality, 2014 and the annual billionaires list compiled by Forbes, publicly available on forbes.com, and based on research by Forbes staff. It aims to include all sources of individual or family wealth. It only includes disclosed wealth, and wealthy individuals may well under-report. However, it seeks to apply a consistent methodology across countries and over time, and we believe it is of value in making comparisons.

been documented in recent scams

In fact, it is common knowledge that property development is India's most opaque business, where enormous sums of illegal money exchange hands and little tax is collected. Wealth accrued from rents is made possible by the coactions of government and powerful groups, whereby the economic rules of the game are rigged in favor of elites.

Most notable example is Panama Papers Leak, a global list with over 1,100 Indians with secret bank accounts in HSBC Geneva, which shaped the debate over black money parked overseas. A lot of rich and powerful people have been exposed of going through extraordinary measures to create a super confusing web of shell entities to hide money, evade taxes or otherwise protect their huge wealth.

These records reveal a list of individuals who have paid the Mossack Fonseca Firm and bought the benefits of the secretive, lax regulatory system in which it operates — to set up offshore entities in tax havens around the world.

How the Rising Inequality Hampering the Sustainable Development

Inequality is a central obstacle to the transition to sustainable development that "meets the needs of the present without compromising the ability of future generations to meet their own needs"

45 and to development that balances economic, social and environmental concerns. Inequality puts the environment at risk through three main mechanisms:

Despite incredible economic gains by a few dozen people in India, poverty and inequality remain rampant. While the number of billionaires has multiplied by ten, government spending on the needs of the poorest and most vulnerable groups in society remains remarkably low. For example, India's public spending on healthcare is just one percent of GDP. The Asian Development Bank's recently released (assessing country expenditure on poor and economically vulnerable groups) ranked India 23 out of 35 countries in the region. Even among the 19 low- to middle-income countries, India ranked in the bottom half, in twelfth place.

Corruption and loopholes mean that tax revenues necessary to address inequality are either too low or misappropriated. The fortunes amassed by India's new billionaires are often hidden through shell companies established in foreign countries, making it easy to evade taxes. An offshore tax haven provides people with a safe and legal means of reducing their tax liabilities. Given the present state of the world's economy the tax havens can provide both stability and security for clients. In most tax havens income gained from outside of the jurisdiction is not taxed or in some countries very low taxes are applied, for example the offshore jurisdiction of Barbados charges international business companies incorporated there at a rate of between 1 and 2.5 % on their annual global profits. The tax structure in India is also highly regressive, with only 37.7 percent of total taxes coming from direct taxation such as income, profits, and capital gains.

The Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living. India's position in the ranking of HDI is 130 while in 1991 it was 133. The in-

ference is, development and the consequent availability of additional resources have not been invested "adequately" in improving health and education for the masses. To put in perspective Srilanka ranks 73 in the same HDI ranking whilst the ten countries ahead of us include Iraq, Morocco and Tajikistan among others.

Expenditure on education as a proportion of GDP stands at 3.4% in 2014-15 which is woefully low compared to the Kothari Commission (set up in 1964-65) and National Education Policy recommendation that recommended 6 percent of GDP.

Health expenditure as a percentage of Gross Domestic Product (GDP) for 2014-15 (BE) is 1.2 percent, one of the lowest in the world. Low health and education expenditures mean, the vast majority of the population could not get the chance to capitalize on India's growth story. Significant amounts of money that could be invested in service provision that tackles inequality are being diverted by tax breaks and public-private partnerships (PPPs). In India, numerous private hospitals have been given tax incentives to provide free treatment to poor patients, but have failed to honor their side of the bargain.

India's much-hyped economic growth story is a little hard to digest if one were to closely scrutinize the results emanating from the 68th round survey of the National Sample Survey Office. The survey carried out during July 2011-June 2012 reveals some alarming facts about how little money people have to spend on food, nutrition and health. If our society is truly growing economically, as claimed, and the state is withdrawing from its role in very basic social and essential sectors like education, health, transportation and nutrition, one would assume that expenditure on these services would have increased. But data shows expenditure on food has decreased proportionately over a period of time; at the same time overall expenditure is also not showing any impact of economic growth. This report gives a statistical base to the assumption that economic growth has maintained huge inequality in per capita expenditure on very essential needs such as food, health and education. The level of inequity is very high on in the context of per capita expenditure on education and health.

Conclusion

No society can sustain this kind of rising inequality. In fact, there is no example in human history where wealth accumulated like this and millions of people continued to live dilapidated life after so many developmental programs.

The rapid rise of extreme economic inequality is significantly hindering the fight against poverty. New research from Oxfam has shown that in Kenya, Indonesia and India, millions more people could be lifted out of poverty if income inequality were reduced.¹⁹ If India stops inequality from rising, it could end extreme poverty for 90 million people by 2019. If it goes further and reduces inequality by 36 percent, it could virtually eliminate extreme poverty.

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