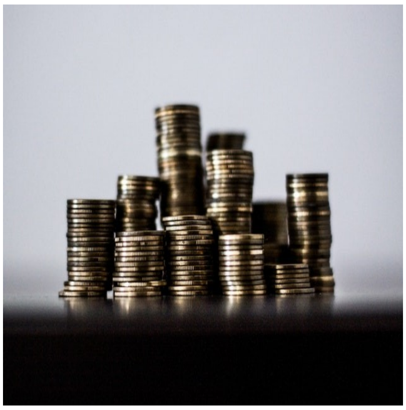

How can we reduce wealth gap between Rich & Poor?

Description

As per Oxfam's latest report (2019), 73% of the wealth generated last year went to the richest 1%, while 67 crore Indians who comprise the poorest half of the population saw only 1 % increase in their wealth. It also highlighted that 37% of India's billionaires have inherited (family) wealth. Apart from this, The Credit Suisse in their 2018 Global Wealth Report of 2018 stated that the richest 10% of Indians own 77.4% of the country's wealth.

In the past years the gap between rich and poor has increased rapidly in countries, despite expansion of their economies. The IMF and economists over the world view this as a hurdle to the economic growth. Such a billionaire boom indicates an economic failure and promotes inequalities in education and employment.

The Gini coefficient is understood as the major indicator of unequal wealth distribution, which was 35.1 for India in 2011. But this seems unfair in light of the present situation and on account of unavailability of data for current years. The same was much higher for United States or Russia, where inequality is addressed on a larger scale.

What Is Wealth Inequality?

Wealth inequality constitutes a type of economic inequality. It refers to the unequal distribution of assets among a group of people. Wealth is a stock concept and majorly constitutes the following:

- Savings held in commercial bank deposits
- Ownership of shares issued by stock-market listed companies and equity stakes in private businesses
- Ownership of property / real estate
- Wealth held in corporate bonds and government bonds
- Wealth tied up in private (occupational) pension schemes and life assurance schemes

Causes for wealth inequality :-

It is true that wealth inequality has existed always irrespective of the design of the society. But the present the extremes are avoidable upto a great extent which is possible only when we understand the causes behind this, some of which are listed below:

- **Tax Evasion:**

High tax rates are a major reason for the gap between rich and poor especially in India. Tax avoidance follows a high tax rate which leads to a parallel economy. In India the unofficial economy is as strong as the official economy. This is turn leads to more and more concentration of income and wealth in few hands.

- **Unemployment:**

Despite the governments continued efforts to generate employment, unemployment and underemployment continue to be a major reason for wealth inequality. This leads to a low labour productivity and ultimately pushes the unemployed and their families below the poverty line.

- **Literacy among people:**

Variation in levels of education plays an important role in creating inequality among people. An educated individual has the potential to reach higher positions and ultimately earn more as compared to a person is uneducated. As a result of this those who are not able to afford education or choose not too, are at a disadvantaged position as they earn lower salaries.

- **Inflation:**

Inflation is another major reason for the wide gap between rich and poor. During inflation the rising prices are not bagged by sufficient increase in wages. This leads to concentration of profits in few hands while the people with lower wages become losers. Moreover during rise in prices the workers in the organised sector get wages which partly offset the increase in prices but the real income of the informal sector does not rise.

- **Regressive Tax Structure:**

It is true that the government highly depends on the indirect taxation system. But the system in regressive in nature and exaggerate the already existing financial burden on the common people. Over the years such taxes have created more and inequality.

- **Other reasons** like laws of inheritance, corruption and smuggling, cost of professional training and the deteriorated condition of landless workers and marginal farmers have contributed to the increased wealth inequality.

What needs to be done :-

The World Economic Forum was concluded in Davos in the last month. How to fight inequality was one of the major areas of discussion. Oxfam's report states that the top 1 per cent of the world increased their wealth by $762 billion while the bottom 50 per cent saw no growth. Various economists and governments throughout the world have given several solutions for unequal distribution of wealth; some of them are as follows:

- **Encouraging women to work:**

Women should be encouraged to work as this will not only reduce income inequality but also increase the gross domestic product. As per IMF Chief Christine Lagarde, if women's participation in the workforce matched men's, India could grow at 27 per cent per annum. This would mean more family friendly policies like parental leaves, allowing children at work place or other policies that promote more women workers.

- **Investing in agriculture:**

A major part of the population earns a living because of agriculture. Thus investing in the agriculture can uplift the poor farmers and reduce much of income inequality. This will include providing farmers with services such as access to seeds, plant nutrients and insurance against risk and loss.

Measures introduced by the government :-

- **Introducing Minimum Wages and Universal Basic Income**:

By introducing Minimum Wages and Universal Basic Income, the workers laws can be reformed. This will also help to decrease the gap. UBI and minimum wages for the less fortunate have a similar motive which is to provide a regular income which can help in sustaining the individual and his/her family.

- **Land reforms:**

In India wealth inequalities are generally due to concentration of agricultural lands in the hands of few landlords. The Zamindari system worsened the situation further. After independence the government enacted various laws to abolish Zamindari system and reduce the inequalities by redistribution of agricultural land. But the results have not been in accordance with the expectations.

- **Monopolies and Restrictive Trade Practices Act**

The Monopolies and Restrictive Trade Practices Act was passed in 1969 to make provisions for the control of monopolies and prohibit restrictive trade practices. Controlling monopolies and abolishing restrictive trade practices was another way to reduce the unequal income gap.

- **Social Security measures:**

The government has introduced various social security measures like Workmen's Compensation Act, Maternity Benefit Act, Employee's Provident Fund Act, Employee's State Insurance Act and various others to uplift the people by providing for their health related benefits.

- **Other measures** undertaken by the government include:
    - Poverty alleviation programs
    - Redesigning the pricing policies to provide the basic amenities at lower prices to the weaker sections of the society.
    - Encouraging the small scale industry
    - Expansion of the public sector

Best Practices Worldwide :-

As per the Oxfam's report South Korea, Georgia and Indonesia were among countries praised for trying to reduce inequality, through policies on social spending, tax and labour rights. The index comprised of 157 countries which were ranked on different parameters including spending on health education and social protection, progressivity of tax policy and labour rights and minimum wages. These parameters were understood as indicators of country's commitment to reducing inequality.

- South Korea which was 56 on the list was praised for increasing its minimum wage.
- Georgia which was 49 on the list was praised for boosting it's spending on education more than any country.
- Denmark was placed at top due to the progressive taxation system, schemes relating to social spending and worker protection.
- The top ten countries on the basis of overall CRI (Commitment To Reducing Inequality) index included Denmark, Germany, Finland, Austria, Norway, Belgium, Sweden, France, Iceland and Luxembourg respectively.

Conclusion :-

It can definitely not be denied that wealth inequality is a deterrent to the actual economic growth and it has grown in the past years. But on the other hand it is important to understand that with more and more government policies which bring transparency and confidence wealth inequality can be reduced for sure, if not entirely eliminated.

Your Turn…

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