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PHOTO: AFP

Global inequality reveals policy failings

Political will is inexcusably weak, and mere statistics are failing to prod governments beyond election-year soundbites and platitudes. **BY ASIT K BISWAS AND KRIS HARTLEY**

THE wealth gap, often measured as a comparison between the top 1 per cent and the rest, is receiving increasing attention in political circles, particularly from the left in the United States, the UK and Australia. Even on the right, populist economic grievances are credited for the rise of Trumpist politics and support for Brexit.

Inequality is so far-reaching and undeniable that it is providing common ground across the political spectrum – although strategies for how to address it differ substantially. Shifting ideological tectonics in most of the world’s major economies would seem to be an opportunity to test new policies. But little creative thought is being embraced at high levels, and the results are predictably dismal.

STUBBORN REALITY IN CHINA, INDIA

According to the World Inequality Report (WIR), inequality has worsened at varying rates around the world.

In the past three decades, North America and Asia have experienced significant growth in inequality, which has settled at alarmingly high levels in the Middle East and Sub-Saharan Africa. Over that period, 28 per cent of the aggregate increase in real incomes in North America and Western Europe was captured by the top 1 per cent of earners – the bottom half saw less than 10 per cent of this increase.

This trend was not inevitable – inequality was relatively low immediately after World War II. But policy has since failed to arrest its growth in most parts of the world, and current governments seem indifferent to this historical lesson.

In absolute terms, the fight for poverty alleviation has seen some success. The bottom 50 per cent of the world population has experienced a significant rise in income, due in great part to transformational economic growth in China and India. Both have been the world’s development superstars of the past two decades, substantially improving living standards by generating industrial jobs that offer higher incomes than agricultural work. But these gains do not excuse rising inequality.

In China, lifting citizens on the *dibao* subsistence guarantee programme out of poverty remains a stubborn policy challenge. Further, over 500 million people in China still live on less than US\$5.50 per day. The WIR stresses the spatial dimensions of China’s inequality gap, focusing on differences between coastal urban regions and the more rural interior.

For example, between 1978 and 2015, urban

share of national income increased from 30 to 80 percent, with urban households earning 3.5 times more than rural households. Two Chinas are emerging: one urban, educated and mobile, the other isolated, immobile and tethered to outdated livelihoods and social assistance.

At the same time, India saw the fastest rise in inequality between 1980 and 2016 among major world regions, with 55 per cent of income share in the hands of the richest 10 per cent of the population since 2012. This is highest among the world’s major economies. The US and Canada are not far behind at 47 per cent, followed by Russia (46 per cent), China (41 per cent) and Europe (37 per cent).

India is expected to be the fastest-growing large economy in 2018, with over 200,000 millionaires and 100 billionaires existing alongside the 78 million who earn US\$10 per day (considered “middle class” by the National Council of Applied Economic Research). While the economic elite has benefitted from the liberalising reforms of the 1990s, a two-speed effect on income growth left a majority of the population behind. A working paper by two co-authors of the WIR, Lucas Chancel and Thomas Piketty, shows that the share of income for India’s middle 40 per cent dipped from 46 per cent of the total in early 1980s to 30 per cent by 2014.

POLICIES CAN WORSEN PROBLEMS

Inequality is decried at campaign rallies and in the global commentariat, but little is being done at any policy level. Mr Piketty’s proposed global tax on individual net worth (targeting the super-rich) lacks an obvious coordinating body. Worse, it would trigger crippling panic from the right about imaginary one-world-order-style socialism.

In the absence of such a broad initiative, most national-level policies are either ham-handed or intentionally ineffective. Even genuinely concerned governments plod forward as though bewildered by the challenge, tinkering at the margins with transfer payments and social programmes while failing to address structural causes.

Examples of policy ineptitude are numerous. In thrall to oft-discredited claims about “trickle-down economics”, governments in the US and India have passed sweeping tax reforms that substantially favour corporations.

In China, expectations of urban-led economic growth are supporting programmes to move 100 million rural residents into urban environments, including third-tier cities that lack the advanced education and health services.

This policy comes on top of neighbourhood redevelopment programmes that are displacing low-income residents, particularly in Beijing.

In India, employment in agriculture is declining without a commensurate rise in urban manufacturing employment. Despite promises from the Modi government of about 10 million new jobs per year, only about 230,000 new jobs materialised in 2016. The twin reforms of demonetisation and a goods and services tax may have also stunted job growth by crippling the construction and informal sectors, where a majority of migrant workers find jobs.

Failure to improve basic services is one of the most glaring gaps in inequality policy. China’s economic rise has generated tax revenues to invest in schooling, but education gaps persist in rural areas. Private sector and philanthropic intervention, while helpful, are no substitute for equal access.

In the US, health policy is cynically used as currency for political negotiations, a matter of concern given the country’s widening mortality gap. The richest 1 per cent of American men live an average of 14.6 years longer than the poorest 1 per cent.

In India, the 2017 Economic Survey revealed that the government spends only 1 per cent of GDP on health services, compared to the world average of 6 per cent. Governments are swinging, but missing, at efforts to improve and broaden access to services, thus worsening the personal trials of the less fortunate.

Inequality is not ignored for a lack of evidence – the challenge is made clear in research reports like the WIR and in daily press headlines. For example, inequality in China got global attention in a recent story about the “ice boy”, an eight-year-old in a rural Yunnan province who walked almost 5km through freezing cold weather to reach school. Perhaps the personalisation of inequality would more effectively influence public sentiment and policy pressure.

Currently, political will is inexcusably weak, and mere statistics are failing to prod governments beyond election-year soundbites and platitudes. Both the economics and the ethics of inequality demand transformational thinking, but the voice of the poor continues to be drowned out by a global minority enjoying elite status – and based on voting patterns, even by the many who aspire to such status.

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