Addressing the Growing Income Inequality

What is the issue?

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- Fast growing Asian economies have lifted millions out of poverty.
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- But they have developed high income inequalities in recent decades, which need to be addressed.
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What do the numbers say?

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- Gini coefficient is a common measure of inequality in which 0 signifies perfect equality and 1 means high inequality.
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- From 1990-2012, the net Gini coefficient increased dramatically in China, from 0.37 to 0.51.
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- During the same period, it rose from 0.43 to 0.48 in India.
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- In South Korea, the share of income held by the top 10% rose from 29% in 1995 to 45% in 2013.
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- Even the “Asian Tigers”—Hong Kong, Singapore & Taiwan, which were previously known for equity, face rising inequality.
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What has caused this trend?

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- Increasingly open borders have made it easier for businesses to find the cheapest locations for their operations.

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- In particular, China’s entry into global markets has put downward pressure on the wages of low-skill production workers elsewhere.
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- Also, new technologies raise demand for skilled workers, while reducing demand for their less-skilled counterparts.
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- This expansion of disruptive technological has hence led to expansion of the wage gap between skilled and unskilled.
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- Notably, return on investments also increased for capitalists due to technological progress and process enhancement.
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- Hence, while new opportunities have opened for some people, many have face wage stagnation and unemployment due to unbridled globalization and disruptive technologies.
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What are its implications?

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- Income inequality often goes hand in hand with inequality of opportunity for the future.
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- With limited educational and economic prospects, talented youth from disadvantaged backgrounds don’t get their due share.
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- This deprivation can potentially erode the consensus in favour of pro-growth economic policies, undermine social cohesion, and spur political instability.
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What can be done?

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- To avoid such a future, countries need to ensure opportunities for youth, irrespective of their background, to ascend the ladder.
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- As market mechanisms aren’t enough to achieve this, governments must step in to ensure that gains are shared more equally.
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- **Income Redistribution -** Notably, some governments have been attempting to tackle inequality with redistribution policies.
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- Considerably raise the minimum wages and ensuring stricter adherence to it is being considered by many policy makers.
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- Also raising the tax rates for the highest income earners & corporate entities to finance welfare is another consideration.
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- **Human Development -** Effective development of human capital is the best way to secure futuristic growth and equity.
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- This requires enhanced social safety nets and redistributive tax-and-transfer programmes, as well as quality education for all.
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- Also, improving the quality of higher education and timely curriculum reforms to match the dynamic demands of the labour market is important.
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What are the challenges?

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- While redistribution measures have strong public support, they could end up hurting the economy due reduced investment.
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- As this could in turn hurt job creation and tax collection, redistributive decisions must be taken with caution.
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- There is a growing temptation to reject globalization in its totality and embrace protectionism which would be regressive.
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Source: Live Mint

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