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Bridging income inequalities

Mudit Garg
mudit.9.garg@gmail.com
Indian Institute of Technology, New Delhi, Delhi

ABSTRACT

Distribution of wealth has been among one of the most controversial debates in recent times. When the rate of return on capital exceeds the rate of growth of output and income (as in the 19th century and seems to be the case in the 21st century), Capitalism leads us in a direction which sabotages the very basic values upon which our democracies are based. Drawing inspiration from Capital in the Twenty-First Century by Thomas Piketty, this paper plans to offer some insights and policy-based solutions that could bring about a shift in income and wealth towards less inequality. The paper also keeps a note of the role of technological advancements and the increase of wealth. These policies need to be implemented on a national level to bring about a genuine shift in the distribution of income. The implementation of these policies is as critical as the ideation and formulation.

Keywords— *Capital income, Labor income, Technology, Policy, Inequality*

1. BACKGROUND

According to a report by the OECD in December 2014, the gap between rich and poor is now at its highest level in 30 years in most OECD countries. The overall increase in income inequality is driven by the top rich 1% who have seen their incomes accelerate away from the average. The question that now arises is whether the Indian government is committed to reducing such inequality?

Oxfam India published its report *Widening Gaps: India Inequality Report 2018* on the real and rising inequality in the country. The report revealed some shocking statistics about the gap between the rich and poor, but more importantly, it debunked the myth that India is a low-inequality country. The report suggested reducing the widening economic gaps through progressive direct taxation by the introduction of wealth and inheritance tax and increasing public spending on health and education.

With the Commitment to Reduce Inequality Index, released by Oxfam and Development Finance International, the inequality conundrum becomes even pertinent with India being ranked 147th of the 157 countries. It has been placed 151st on the index for public spending for healthcare, education and social protection, 141st for labor rights and wages, and 50th on taxation policies.

Introduction of policies which focus to narrow down the inequalities becomes critical in such scenarios is a huge country like India.

2. OBJECTIVE

This paper, as introduced earlier plans to pitch some policy-based solution to reduce the inequalities in income. The inequalities, however, need to be explicitly clarified. The main issue is not only the inequalities in vertical distributions but also in the horizontal ones.

The vertical distribution refers to the differences in the incomes between the rich (wealthy, with high capital) and the poor; but also between the horizontal distribution i.e. between the men and women and also among the different generations. Reducing inequality does not mean to balance out in absolute terms; it refers to bringing down the inequality levels to justifiable ones where the population living at risk of poverty and social exclusion can be brought down to a small number.

3. WHAT NEEDS TO BE DONE?

The policies and ideas have been classified into two simple aspects; one is through the shares of Income and other being the technology development aspect, which has become critical in the recent times due to the introduction of technologies relating to automation which play a significant role in the employability factors in a state.

- Public policies to reduce market power
  This has to be the key objective of the national policymakers in bridging the gap of inequality not just among the vertical distribution but also among the horizontal one. Quite evidently, the powers have been vested with the large corporates which

have a huge influence in the policy-making of most governments. Rather than this, more power should be vested to increase the competition in the market.

- Progressive tax codes
  There have been some changes towards the implementation of policies with such a model, however, the figures are not good enough. The richer sections continue to enjoy high net incomes as an outcome of high returns on capital income. A possible way to curb this factor is to apply extra taxes on capital income. This would help us move more towards merit-based incomes rather than inherited ones. Taxing the wealthiest in society more than the poorest directly reduces income inequality. If these taxes are invested in public services, they can further reduce inequality. Tax systems can also be used to discourage practices that exacerbate inequality and encourage practices that reduce it e.g. tax breaks for businesses that share more of their profits with their employees.

- Termination of residential segregation
  We often find that the population with similar race and economic statuses reside in segregated localities. Emphasized efforts need to be made in the termination of such residential segregations based on the incomes and race of the population as it has a strong correlation with the reduction of intergenerational economic mobility. It has the potential to lift working families out of poverty, support greater economic mobility and/or reduce the growth of inequality.

- Ethical pay policies
  Evidently, there is a wide difference in the horizontal division of income prevailing. The incomes of men and women are clearly unequally distributed and narrowing down this gap can significantly help us getting closer to our objective. There is significant evidence that higher wages and stronger labor rights - especially for women workers who tend to work in the lowest-paid and most insecure jobs - are key to reducing inequality. For example, if the Indian government ensured women were paid the same amount as men for the same job, women’s incomes would be boosted by almost a third.

- Increasing expenditures on skill development and welfare
  Education and skill development plays a critical role when it comes down to lowering income inequalities. These help increase the productivity and quality of the labor which in turn have a direct correlation with their respective labor incomes. Evidence from over 150 countries spanning more than 30 years shows that investing in healthcare, education and social protection significantly reduces inequality. For example, if a government invests in free quality public services poor people don’t have to use their meager earnings to pay for them- this can significantly boost their available income by as much as (if not more than) their regular earning. Social spending can also reduce unpaid care work carried out by women- by redistributing child and elder care, healthcare and other domestic labor. Social spending has been shown to reduce inequality by 20 percent across OECD countries.

- High wealth transfer taxations
  This has to be the highlight stepping stone in order to achieve our target the quickest. The main reason for sparking the inequality in income debate is the merit vs inheritance concept. If the taxes on inheritance are increase to levels where it practically does not influence the incomes by a very huge factor, it can in a matter of a few generations help in narrowing down the inequalities, hence, accrediting the meritorious ones with appropriate status.

- Increasing net worth of the State
  This is a factor which turns out to be the net effect of taxations as proposed above. It highlights the way in which increased taxations on richer sections help in achieving our goal. The increase in the net worth of state leads to the use of the capital (directly or indirectly) by large sections of the population ultimately leading to either reduction of their expenditures or improvement in their productivity.

- Role of technology
  Technology cannot be taken as given. It has two aspects attached with it; the direction and the extent to which it functions. In recent years, we have seen technological boom to an extent that has never been witnessed in the past. It now becomes important to see the direction in which this boom takes place. With the introduction of technologies like AI (Artificial Intelligence), which have the potential to replace the employees in global markets, it becomes important to guide the boom in order to increase the employability of people rather than replacing them with the automation technologies. More emphasis should be given in enhancing the productivity of the labor using these advanced technologies in order to bridge the gaps in income inequalities.

Finally, the actions by individuals as consumers, workers or employees can all contribute to reducing the inequalities in incomes.

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