

PUZZLING PRODUCTIVITY AND INCOME INEQUALITY

– Cardinal Problem of Globalisation

*Vineet Sheth**

Introduction:

During mid of twentieth century, economies of world had aim of providing robust economic growth to the people of that generation to tackle myriad set of problems like poverty, health, etc. In the most parts of world, economic activities were boosted by opening up domestic economies, partially or fully, for foreign investors which thereby steeply decreased the cost of labour and on the other hand, innovation and research were stepped up in various sectors which brought enormous change in consumption pattern of public at large.

In run up to opening up of economy, various economists and Government was heavily relying upon “trickle down” approach and “rising tide hypothesis”.¹ The underlying principle of such approach was giving boost to incomes, wealth and distribution and allocation of resources to upper segment of society i.e. Upper Class, which will eventually end up distributing resources, wealth and other benefits in the hands of other segments of society also and thereby benefiting each and everyone and such policies will upgrade living standard of people to large extent.

But as quarter of 21st Century is about to end, within next few years, the fruits of such theories are diminishing and globalisation has widened the income inequality which further results into accumulation of wealth and income among very few elites and has left large size of population in the poverty trap. So it raises various questions among which the prominent ones are: 1) Has Globalisation failed to bring large part of population out of poverty? 2) What are the reasons behind such widening of Income Inequality? 3) Has income inequality started causing or triggering problems to economy or is it at very nascent stage?

Income Inequality has widened not only due to one single factor but numerous considerations and objectives have played wider role in insulating it in the economy. Government policies,

* Pursuing law at Gujarat National Law University, Gandhinagar (India)

¹ Joseph Stiglitz, *Inequality and Economic Growth*, at 1, available at <http://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Inequality%20and%20Economic%20Growth.pdf>

technological changes, tax administration, labour laws, etc are few ubiquitous factors contributing to income inequality.²

Few of factors contributing to income inequality are more or less common to developed nations and developing nations but there are certain domestic factors which also play crucial role to widening income inequality. Glaring example to one such common/mutual factor is technological changes i.e. skill biased technology, which demands for educated workers but with rising cost of education and widening income inequality, some bottom segment of society cannot afford educating their children and further it causes and triggers problem of poverty and unemployment. These factors are common in nature which is faced by every small and large country in varying degrees. Some factors are domestic in nature like large size of population engaged in unorganised sector, as it is the case in India. As more population is employed in unorganised sector, they remain unknown and untouched to large amount of social and safety nets provided to employees of organised sector. Though various steps have been taken to widen the umbrella of social and safety nets and include more number of employees of unorganised sector.

As we move ahead, this paper explains concerns of income inequality on macroeconomics, drivers of income inequality, few empirical analysis involving data and what lies ahead for developing nations. At the intermediary section of this paper, two of the most ignored and vital instruments of the society i.e. Health and Education have been explained in detail which paves way for further discussion.

² Ers-Dabla Norris et al., *Causes and Consequences of Income Inequality: A Global Perspective*, IMF Discussion Note, (June 2015), at 18-22, available at <https://www.imf.org/external/pubs/cat/longres.aspx?sk=42986.0>

Impact of Income Inequality on Macroeconomics

Income Inequality of certain level and upto certain threshold is good for the economy. Income Inequality helps to generate competition, skill, education, etc. among future generations. But at the same time, it creates myriad sets of problem for society once it crosses and moves beyond minimum threshold. Therefore, Income Inequality is not *per se* bad for the health of any economy but it certainly creates adverse impact on economy after minimum threshold is breached. The problems and outcomes created with widening of income inequality are basically related to either directly or indirectly with expanding of poverty trap.

Primarily, it affects **opportunities available**³ to every segment of population. As income inequality widens, top segment of society would be more able to exercise and exploit best accessible opportunity available to them than the bottom segment of society. Furthermore, bottom segment of society will hardly get an opportunity to exploit resources mainly due to two reasons. Firstly, it is costlier for them either relatively or absolutely to access resource available to them. Secondly, it becomes difficult to overcome other pressures like rising cost of education, health problems due to status anxiety syndrome, etc. Income inequality also affects **growth sustainability of any economy**. It has been proven with the help of empirical analysis that there is inverse relationship between growth and rising income inequality. Furthermore, there is positive relationship between growth and income distribution among third and fourth quintiles of society.⁴ Not only the growth sustainability of economy is adversely affected but growth drivers like education, social security schemes, consumption expenditure, etc are also affected.

Widening income inequality may also lead to **economic and financial crisis**.⁵ Income inequality concentrates wealth and resources in the hands of few people leading economy in the direction of crony capitalism. Later on, to redistribute wealth in the hands of bottom segments, Governments take up quick fix measures, which cause harm to economy more than anything else. At individual level also, bottom segment of society, out of angst and frustration, creates trust deficiency with the institutions vital to their society and therefore,

³ Ers-Dabla Norris et al., *Causes and Consequences of Income Inequality: A Global Perspective*, IMF Discussion Note, (June 2015), at 16-18, available at <https://www.imf.org/external/pubs/cat/longres.aspx?sk=42986.0>

⁴ Ers-Dabla Norris et al., *Causes and Consequences of Income Inequality: A Global Perspective*, IMF Discussion Note, (June 2015), at 6-7, available at <https://www.imf.org/external/pubs/cat/longres.aspx?sk=42986.0>

⁵ Rahuram G. Rajan, *Fault Lines, How Hidden Fractures Still Threaten The World Economy*, (1st ed. 2010-11).

individuals engage themselves in crime and related situations.⁶ Therefore, widening income inequality affect both micro and macro economics. **Eventually, it brings economy in such a stage that hurts potential growth rate and poverty reduction and alleviation programmes.**

In terms of economics, **aggregate demand of consumers** will also fall in consequences to high income inequality. Further, it will also **discourage public investments** in transportation, technology, education as inefficiency of economy would benefit top segment of society more than anyone else.⁷

In brief, it can be explained that rising income inequality has different social and economic costs attached to it. Widening of income inequality raises those costs too. Therefore, Governments across the globe must try to contain income inequality beyond certain threshold.

The logo for IJESLS is presented on a horizontal scroll with a parchment-like texture and slightly frayed edges. The letters 'IJESLS' are rendered in a large, bold, grey, serif font with a white outline, centered on the scroll.

IJESLS

⁶ Lynch, J et al., *Income Inequality, the Psychosocial Environment and Health: Comparisons of Wealthy Nations*, Lancet 358, (2001), at 194-200.

⁷ Joseph Stiglitz, *Inequality and Economic Growth*, at 11-12, available at <http://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Inequality%20and%20Economic%20Growth.pdf>

Drivers of Income Inequality

As earlier said, there are numerous factors playing role in widening income inequality. Among them, few factors are common to every economy. Prominently, technological changes, education, weakening of labour market institutions, education policy, etc. have caused more problems for the present day economies and workmen than anything else.

Primarily, **technological changes**⁸ in the past few decades have brought enormous changes in the society. It has brought mammoth change in manufacturing as well as consuming process. It has increased demand of skilled labourers and at the same time, it has increased value of education. Due to high mobility of labourers and cheap labour, it has been possible to lay off unskilled labourers and replace skilled labourers easily. Few empirical analyses came to conclusion that technological changes has substantial role to play in widening income inequality.

Secondly, **labour market institutions**⁹ have completely changed and due to such drastic changes in labour market, it has caused suppression of collective bargaining and labour unionism. As flexibility in labour market has increased significantly, it fosters dynamism in the economy thereby it enhances leverage of top level management which further causes easy retrenchment and lay off workers. Furthermore, decline in collective bargaining and trade unionism increases wage inequality and minimum wage structure also. At the same time, it is highly probable that rigidity in hiring and recruitment process and laying off workers may lead to expansion of unorganised sector. Such expansion will create more contract regulated jobs, temporary employment which casues problem of job security and wage distribution. Therefore, a set of regulations must be brought into the situation which enhances protection to workers, in terms of working condition, wages but at the same time, regulation must relax hiring and retrenching conditions of workers. Therefore, it will insulate conducive environment for businesses and workmen both to large extent.

Thirdly, **education**¹⁰ can play crucial in decreasing the gap of income inequality. As technological changes are undertaken drastically, the need for skilled labourers is set to rise.

⁸ Joint Economic Committee (Republicans), *Economic Inequality: Causes and Solutions, Where do we go from here?*, at 3-5, available at <http://www.jec.senate.gov/public/cache/files/d8658ea1-0a42-4086-88d4-b25c03bd63a9/rsc---economic-inequality-causes-and-solutions.pdf>

⁹ Frederiksen, A and O. Poulsen, *Increasing Income Inequality: Productivity, Bargaining and Skill Upgrading*, IZA Discussion Papers 4791, Institute for the Study of Labor, Bonn, Germany.

In such circumstances, education and especially higher education will pay higher premiums and therefore education must be significant instrument to change the trend. The value of education has arisen many times and the reason behind such dramatic increase in its value is that higher education pays higher premium and this hypothesis has been rightly proven with empirical analysis.¹¹ Therefore, education policy must be overhauled and newer policies must incorporate skill based knowledge in curriculum.

Fourthly, **the income of top management has increased many times than expected.**¹² The compensation, salaries paid to top CEOs around the world has increased dramatically. The increment to salaries in such a manner is unjustified. Therefore, salary and compensation package scheme must be reviewed again. It must consider rate of return on capital rather than any other parameters. Therefore, limiting the pay scale of top management would clearly help to reduce widening income inequality. It has been analysed that rise in income of top 1% in United States is at staggering 142% between 1980 and 2013.¹³ At the same time, top 1% of people in United States hold approximately 35% of wealth.¹⁴ Therefore, figures clearly explain the level of inequality trap and such trend of inequality is more or less similar across the world. .

Fifthly, **the quality of investment** has deteriorated significantly. The investment strategies nowadays are significantly encircled towards liquid assets or short term profit generating assets. Companies and individuals are more interested in investing their monies in assets like equity, real assets, gold, etc which helps them to generate easy and quick profits. There has been trend that investment in product intensive capital are comparatively less or negligible and therefore such investments creates spill over effect on other aspects of economy like less creation of jobs, less innovation, etc.

Few of the factors affecting income inequality have been explained in this part of paper. These factors play crucial and pivotal role in reducing or widening the gap. But bringing

¹¹ Terry J. Fitzgerald et al., “*Degrees of Job Security*”, *The Region*, Federal Reserve of Minneapolis, (Dec., 2010), available at <https://www.minneapolisfed.org/publications/the-region/degrees-of-job-security>

¹² Joseph Stiglitz, *Inequality and Economic Growth*, at 7-8, available at <http://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Inequality%20and%20Economic%20Growth.pdf>

¹³ Joseph Stiglitz, *Inequality and Economic Growth*, at 1-2, available at <http://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Inequality%20and%20Economic%20Growth.pdf>

¹⁴ J. Harkinson, *The Walmart Heirs Are Worth More Than Everyone In Your City Combined*, *Mother Jones*, (Oct., 2015), available at <http://www.motherjones.com/politics/2014/10/walmart-walton-heirs-net-worth-cities>

reforms to these factors will only ease down the problem to large extent. Therefore in the next chapter, we will look into the consequences of high income inequality through empirical analysis. Further, we will also look into the question what lies ahead for developing nation and what reforms primarily must be taken to ease down the problems further.

Consequences of High Income Inequality

The price of high income inequality will be borne by every individual economy and eventually every citizen of that affected economy. Paradoxically, the fruits of high income inequality are available to only upper segment of society but the prices of high income inequality are borne by every segment of the society. Income inequality affects **outcomes and opportunities** available to the citizen adversely after certain level.

Recently, it has been concluded that global inequality has remain high and especially, rise in the income of middle income segment and lower income segment are shrinking in comparison to top 1% of the population. Secondly, the alarming situation is that the trend of high income inequality is more or less similar across the world.¹⁵ There may be few exceptions but on cumulative note, it has shown generalized international trend of rising income inequality. It has been even true that labour productivity has not changed much but wage index has declined significantly¹⁶ which clearly indicates that share of income is more concentrating at top !% and further investments by corporate are clearly focused in equity, real estate, etc which enhances concentration of income more at upper segment. Not only high level of concentration is found in income, but wealth inequality is wider than income inequality.

Inequality is not only found in outcomes but it becomes apparent even in case of availability of **opportunities**¹⁷ like health, education, financial services, etc. It has been found that income inequality has not much affected health outcomes in developed nations but it has started playing crucial role which is reflected on parameters like life expectancy, etc. On the other hand, in developing nations, wide gap of income inequality is clearly visible in

¹⁵ Joseph Stiglitz, *Inequality and Economic Growth*, at 4-5, available at <http://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Inequality%20and%20Economic%20Growth.pdf>

¹⁶ Ers-Dabla Norris et al., *Causes and Consequences of Income Inequality: A Global Perspective*, IMF Discussion Note, (June 2015), at 14, available at <https://www.imf.org/external/pubs/cat/longres.aspx?sk=42986.0>

mortality and fertility rates, life expectancy, etc. Educational inequality or poverty is also adversely affected with huge difference in income among different class of society. It has been true that public spending and policy has helped education to outreach itself among poorest of poor people but still higher schooling and college education is prevalent more among higher class than lower class. As value of education is increasing day by day with the infusion and induction of skill biased technology in the market, it becomes essential for governments to revamp education policy for the betterment of public at large. Therefore, to ease down problems further, policies must revamp two of the most ignored sectors vital to society i.e. Health and Education.

What lies ahead for Developing Nation: Boom or Doom?

In the above part of paper, the drivers and consequences of income inequality has been explained at length. It has been explained that how excessive income inequality creates more problem than expected. Now we must look into what lies ahead for developing nations and what reformative steps must be taken by individual country especially developing nations like India, China, etc.

Developing nations have relatively wider scope to improve on parameters on income inequality by taking various steps. In addition to wider scope of improvement, developing nations have even other advantages over developed nations as the economies of former i.e. developing nations, have just “taken off”. Primarily, developing nations have advantage of **low skilled technology** usage. There are two aspects to this issue. Primarily, developing nations have not advanced technologies in operational conditions and therefore, those economies still have labour intensive technology in place and low skilled labour still find place to inhabit them in job market. Secondly, technology transfers from developed nations to developing nations in form of Foreign Direct Investment, etc in developing nations, are relatively low skill demanding technologies in comparison to technology operational/functional in advanced economies therefore the transition of technology in developing nations is taking place gradually.

Developing nations have lesser penetration in higher education and financial inclusion. Therefore, developing economies can revamp education policy and thereby educate large number of people. The advantage of such education policy would help to cop up with the challenge of present functional technology and future advanced technology to be brought in

market. Financial inclusion is another aspect which enables huge scope of improvement for developing economies. Deepening of financial inclusion will lead to more savings and it will help to replace formal institutions in place against informal institutions which engaged in charging exorbitant rates. Finally, developing nations have biggest advantage in form of its younger population. Due to large number of younger population, those economies can expect more growth rate, easy transition and transformation of economy and more stable macro economy.

Above mentioned factors are advantages of developing economies in comparison to developed nation. But they have certain disadvantages too. They face problem of expanding and wider unorganised sector. Better educational opportunities are available to, and can be exercised by few elites only. Population explosion is putting up huge stress on exchequer and treasury. Population explosion has been increasing faster than expected and therefore, employment opportunities have not been able to keep pace with rising population. Further, population explosion creates another myriad set of problem like poverty, inflation, etc. So everything is not favouring developing nations but they have lot of scope to improve themselves.

So what must be concluded from above discussion? Income inequality has started creating problems for economy more than ever. One of eminent economist stated that income inequality would not reduce significantly even if income of top 1% is distributed among the other 99% population but college premiums would pay much better and reduce income inequality more than mere redistribution of income.¹⁸ No doubt, such statement does not discourage redistributive tax policies and other related policies but reformative process must have multi-pronged attack on this issue rather than focusing only on one factor. Solutions to such problems even rest in revamping of health and education polices.

Health is one such area, considered to be of less significance but it must be taken into consideration that there is correlation between health and income inequality. It cannot be said confidently that education and health has causal effect on income inequality. But there must not be doubt among governments and international organisation, that there lies relationship among income inequality and education and health, respectively. Therefore, next two

¹⁸ Nina Easton, "Don't Blame the 1% For America's Pay Gap", Fortune, (April, 2012), available at <http://fortune.com/2012/04/24/dont-blame-the-1-for-americas-pay-gap/>

chapters of this paper would try to establish relation between income and health and income and education.

Income Inequality and Health

Introduction

Health has been one of the most ignored sector or segment more or less by every government. Primarily, there may be two reasons behind such prolonged ignorance by governments. Firstly, it requires enormous investment for longer duration. The cost of investment may seem to be very high than returns on investment, especially in shorter duration. Secondly, it is time consuming process. Therefore, the process requires continuous investment but outcomes will be apparent only after few spans of years.

More or less, outcomes of health have improved significantly and every parameter has improved, in absolute terms, in comparison to previous few decades. Better results in life expectancy, mortality and fertility rates, etc are very much visible from various datasets. There may be various reasons attributed to such better outcomes. Public awareness, increased but unsustainable government spending, better living standards, etc are few factors which may have brought changes in health outcomes. But the question is that does high income inequality affects health outcomes or health equality? Secondly, are income inequality and health outcomes are inter-related or not?

It may be true that parameters of health outcomes have improved significantly. But the gap of health inequality has also widened. Probably, widening income inequality has spill over effect on health outcomes also. It may not be sole reason but independent of other factors, income inequality has positive correlation with health outcomes. There may be many other social gradients affecting health outcomes like discrimination¹⁹, culture²⁰, etc but income inequality is one among those gradients. Widening income inequality may not be single and absolute reason for weak health outcomes but certainly a crucial component. The simple

¹⁹ P. Saunders, *Beware, False Prophets: Equality, the Good Society and The Spirit Level*, Policy Exchange, London, (2010), available at <http://www.policyexchange.org.uk/images/publications/beware%20false%20prophets%20-%20jul%2010.pdf>

²⁰ Karen Rowlingson, *Does income inequality cause health and social problems?*, Joseph Rowntree Foundation, (Sept., 2011), at 28, available at <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/inequality-income-social-problems-full.pdf>

correlation between income inequality and health outcomes has been very well founded.²¹ Primarily, it has also been founded that individual income and relative income both affects health outcomes to large extent. So it clearly implies that debate has moved ahead by few steps by establishing correlation among income inequality and health. Further, Income inequality and health outcomes are vice versa dependent on each other. Widening income inequality will affect health of productive workman and therefore, numerous adverse outcomes will prevail for time being over their productivity. Secondly, weaker health would adversely affect productivity of workmen and so, they would not be able to inculcate knowledge, attend workplace, earn higher wages, etc. Therefore, both are heavily dependent on each other and therefore both are systematically interlinked. In next chapter, casual effect will be assessed between income inequality and health.

Causal Relationship between Income Inequality and Health

It has been quite apparent by now that there is correlation between income inequality and health. But does that mean there is causal relationship between both of them? The criteria to determine causal relationship are consistency, plausibility and dose-response relation, popularly known as Bradford Hill criteria.²² Despite such attempts of streamlining determination of causal relationships, most models have over-estimated or under-estimated the role of any particular variable in context of another. Due to such reasons, those models have failed to reach any particular conclusions. Such models consider numerous variable and factors and therefore, overreliance or under reliance on any one of those factors would change the results significantly. For example, it has been found in Finland that relationship between income and health is linear which means that there will be corresponding increase in life expectancy with increase in income But such results were not found in other European nations, primarily because exogenous as well as endogenous factors plays crucial role.²³ Therefore, in the case of income inequality, individual income and societal income insulates different conclusion at different point of time.

²¹ M. Marmot, *Fair Society, Healthy Lives*, [The Marmot Review], (2010), available at <file:///C:/Users/VINIT/Downloads/fair-society-healthy-lives-executive-summary.pdf>

²² Bradford Hill, A., “*The Environment or Disease: Association or Causation*”, Proceedings of the Royal Society of Medicine, (1965), at 295-300.

²³ Martikainen, P. et al. *The Shape of the Relationship Between Income and Self Assessed Health: An International Study*, International Journal of Epidemiology, (2004), at 286-93.

It has been clear from the above discussion that there lies enormous complexity in determining causal relationship between income inequality and health. Numerous factors play crucial role in determining causal relationship. For example, retail inflation affects individual income to large extent. Similarly, various researchers have found that parental income, culture, ethnicity, racial composition, etc also play significant role in determining adverse impact on income. Even government policies, which differ from country to country, also affect individual income.²⁴ Therefore, proper evaluation of causal relationship would be enabling only after standardizing minimum income support required for any particular individual. Minimum income support must consider all the relevant factors as mentioned above. Such standardization would help to evaluate cross country datasets effectively and its impact on health. At present, it is extremely difficult to establish strong causal relationship but that does not mean that there does not exist any correlation between them. In determining causal relationship, more cross country datasets and standardized threshold must exist for better evaluation. In next chapter, we will take stock of individual income inequality and its impact on health outcomes.

Individual Income Inequality and Psychological Factors

Earlier, discussion took place on macro consequences of high income inequality. Now, we must discuss the role of individual circumstances in developing income inequality at societal level. People at different stages of life and after every such interval of time period would face the situation which subsequently changes perception and self esteem of individuals. It has been argued vehemently that social status is mechanism which triggers problem of income inequality and thereby health and social problems. For example, high income inequality leads to problem of depression, stress and psychological tensions which would deteriorate health of individual. Further, to cure such deterioration of health, heavy expenses are required to be carried out before medicines and drugs.

This kind of explanation has helped to evolve ‘status anxiety’ theory.²⁵ Status anxiety means people would compare themselves with their ‘peer group’ and would try to inculcate similar

²⁴ Karen Rowlingson, *Does income inequality cause health and social problems?*, Joseph Rowntree Foundation, (Sept., 2011), at 6, available at <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/inequality-income-social-problems-full.pdf>

²⁵ Karen Rowlingson, *Does income inequality cause health and social problems?*, Joseph Rowntree Foundation, (Sept., 2011), at 24-26, available at <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/inequality-income-social-problems-full.pdf>

kind of lifestyle. Certainly, it is difficult to define or confine peer group but it would exclude society as a whole.

In such circumstances, individuals would try to achieve similar outcomes as that of those peer members and in furtherance to achievement of such outcomes, those individuals end up with encountering high stress, cholesterol, high blood pressure, etc. It would therefore deteriorate quality of their health and income which is popularly known as expenditure cascade. Not only, has it further emanated expenditure cascade but influences other peer groups and different class of society. It would simply mean rich influenced by super rich, middle income group influenced by rich, etc. which would mean forming of 'chain of local comparisons'.²⁶

Conclusion

So what must be concluded from the above debate? Firstly, it has been very well established that there is correlation between income inequality and health outcomes. Certainly, it does not help us to conclude or concretize the causal relationship between income inequality and health. Therefore, the depth of relationship remains unknown and inconclusive until rigorous empirical research is undertaken in this field. Income inequality is not *per se* bad in itself and it is even true that income inequality is good for the health of economy to certain threshold. But, it harms society adversely after minimum threshold is breached and impact may be in different forms like financial crisis, status anxiety syndrome, etc. Few research analyses have found that people are better off in equal society than their counterparts. But, research methodology has always been questioned and so various loopholes have been found in research methodology. At the end, brushing aside critiques and their comments, it can be argued that correlation does exist but causal relationship may or may not be.

As we move on, our next chapter will exclusively deal with role of education in widening income inequality. The next chapter will bring clarity that not only primary education is crucial for development, as it happens to be emphasized more by every government especially developing nation, but secondary education plays more crucial in sustainable development of any individual than primary education.

²⁶ Frank, R., *Falling Behind: How Rising inequality Harms the Middle Class*, Berkeley and Los Angeles, University of California Press, (2007) available at <http://www.robert-h-frank.com/PDFs/MusingsOnInequality.pdf>

Education and Income Inequality

Introduction

This paper in earlier two chapters has firmly established and explained the problems caused due to high income inequality and correlation between health and income inequality has also been explained. In the last leg, this paper will explain correlation between education, especially higher education and income inequality.

Education has been of vital importance to society from viewpoint of economics and sociology both. It has been given enormous importance by each and every government. International forums too, has emphasised more significance to education. But the trend of significance attached to education so far has been ring fenced around primary education only. Secondary and higher secondary education has been neglected or ignored at national as well as international level.²⁷ There are various reasons like resource scarcity, public awareness, minimal government and intergovernmental emphasis, etc. on pursuing higher education etc for triggering the problem of ignorance and negligence towards secondary and higher secondary education.

At present, poverty is viewed in context of income. If a person is unable to consume minimum amount of calories out of the income that he is earning, then he is considered to be poor. It is apparent that such kind of definition of poverty does not include cost of education to it. So there are two basic flaws in measuring relationship between education and poverty. Firstly, it has not included the elements essential to live a life in a dignified manner like education. Secondly, governments have found benefits are only incurring in case of primary education and therefore secondary education has been completely ignored.²⁸

Educational poverty has always been restricted to the idea of obtaining primary education only.²⁹ Elementary literacy is no doubt crucial for any living being but it generally does not

²⁷ World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, A World Bank Policy Research Report, Oxford University Press, New York, (1993), available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1993/09/01/000009265_3970716142516/Rendered/PDF/multi_page.pdf

²⁸ UNDP, *Human Development Report*, Oxford University Press, New York, (1996), at 27, available at http://hdr.undp.org/sites/default/files/reports/257/hdr_1996_en_complete_nostats.pdf

²⁹ Jandhyala B G Tilak, *Post Elementary Education, Poverty and Development in India*, Centre of African Studies, University of Edinburgh, (2005), at 7, available at [http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_\(final\).pdf](http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_(final).pdf)

help to survive life in dignified manner. In modern era, technological changes are rapidly happening in a drastic manner. It has become essential for survival of human beings to acquaint with latest technologies or such changes will end up ruin life of many individuals in different form like unemployment, rising inequality, etc. Skill biased technologies require attainment of education more than that of primary education. Primary education only provides knowledge limited to read and write. But to earn livelihood in the modern world, one must engage himself/herself in gaining more and more technical education. Such knowledge would not only help them to earn livelihood but it will also help to stand against catastrophes.

Education and poverty is vice versa related. Effect of under education is apparent at micro and macro level both. At micro level, uneducated individual will face unemployment, rising inflation, tackles social responsibilities, etc. At macro level, problems related to rising level of unemployment, rising level of unproductively, etc. will hamper economic growth rate. So basically it creates vicious circle causing enormous problems to individuals and country. Therefore, “educational reconstruction”³⁰ is required to get rid of such vicious circle. “Educational reconstruction” requires mitigating both direct and indirect effect of correlated education and poverty.

Further, “educational reconstruction” also requires to address issue of value attached to secondary and higher secondary education because so far, objectives of international organisation and government is revolving around poverty alleviation. International organisations and government have found links between primary education and poverty alleviation but no such link has been found in case of secondary education therefore primary education is emphasised over secondary education and higher secondary education.³¹

Primary education may have helped millions of people to move out of poverty but such alleviation are not sustainable and therefore, any kind of untoward event may throw such

³⁰ Education Commission, *Education for Development: Report of the Education Commission 1964-66*, National Council of Educational Research and Training, (1966), New Delhi, available at <http://krishikosh.egranth.ac.in/bitstream/1/2041424/1/CCS270.pdf>

³¹ Philip H. Coombs & M. Ahmed, *Attacking Rural Poverty: How Non-Formal Education Can Help?*, Johns Hopkins, London, (1974), available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/02/18/000178830_98101911003374/Rendered/PDF/multi_page.pdf

people back in poverty trap. Therefore, secondary and tertiary education is vital for the development of society and individual to large extent.³²

Education, Development and Poverty

Education and Poverty

In last few decades, poverty has been brought down across the world. People have experienced more monies in their hand. Purchasing power parity has also been increasing and therefore, economic development and gross domestic production has moved up and hence, governments across the world find it comfortable to cite major macroeconomic indicators to paint the rosy picture. But the core questions are whether economic development has brought any ground level changes in lifestyle of poor people? Or such economic development is only on account of burgeoning income of top class? Similar kind of questions have been answered in earlier chapters but conclusion to be drawn is that there is no doubt that income has not increased, poverty has not reduced, purchasing power parity has not shown any positive signs but certainly, the picture is not as rosy as it has been painted.

There has been consistently imbalanced regional development. It has caused problem of high level of immigration, centralisation of resources, inadequate basic infrastructure, etc. Therefore, growth achievements have been gained from few pockets only.³³ Lop-sided development is particularly faced at domestic level which cumulatively creates problem at international level. Many international forums have tried to address those issues but either due to domestic hurdles or incomplete transition/lack of vision has not helped to achieve those objectives fully. For example, active terrorism and political instability in Middle East of Asia and Northern African continent must be cited for lop-sided development against the development of United States, Japan, China, United Kingdom, etc. Despite the fact, that most of the Middle East countries are enriched with oil reserves, they have not been able to earn development out of it. Such example explains domestic hurdles within the economy causing lop-sided development.

³² Robert Barro, *Economic Growth in Cross Section of Countries*, Quarterly Journal of Economics 106(2), (1991), at 404-44, available at <http://www.econ.nyu.edu/user/debraj/Courses/Readings/BarroGrowth.pdf>

³³ Jandhyala B G Tilak, *Post Elementary Education, Poverty and Development in India*, Centre of African Studies, University of Edinburgh, (2005), at 17, available at [http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_\(final\).pdf](http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_(final).pdf)

Another aspect of incomplete transition or lack of vision can be explained through various initiatives taken by international organisation. International organisations and Central Governments across the world have focused more on penetrating and prompting primary education at domestic level.³⁴ No doubt, it has been noble idea and there was need of hour that addresses such issue but along with promoting primary education, governments and international organisation must also focus on benefits of secondary and tertiary education. For example, in India earlier resources were allocated and charted out in a planned manner by Planning Commission. Planning Commission has always emphasised on expanding educational outreach but secondary and tertiary education had always faced financial crunch to expand its foot.³⁵

UN mandated and government initiatives have given legal binding to compulsory primary education as it happened in India but again secondary and tertiary education has not received that kind of attention. The quality of education has not improved a lot. There has been remarkable boom in enrolment in primary education against secondary and tertiary education. But the development in education is more of horizontal in nature than vertical.

Secondly, vocational training has not been that successful. Tuition fees and academic maintenance cost has increased immeasurably which further poses problem for segment other than top class, to avail such facilities. Lack of skill and technological changes has brought down availability of employable manpower. People find it cheaper and economical to gain knowledge till the level of primary education only because prima facie, costs of accruing further education outweighs benefit available to it.

Therefore, from above discussion it is clear that governments have not much focused on promoting and penetrating secondary and tertiary education. It has created vicious circle of unemployment. Technological changes have made it harder to get employment easily. Rising inflation will be relatively more tearful as unemployed manpower would have no money to

³⁴World Bank, *The East Asian Miracle: Economic Growth and Public Policy*, A World Bank Policy Research Report, Oxford University Press, New York, (1993), available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/1993/09/01/000009265_3970716142516/Rendered/PDF/multi_page.pdf

³⁵ Jandhyala B G Tilak, *Post Elementary Education, Poverty and Development in India*, Centre of African Studies, University of Edinburgh, (2005), at 34, available at [http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_\(final\).pdf](http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_(final).pdf)

consume. To sum up, the situation for manpower will be miserable, if they still ignore higher education.

In the next chapter, we will be discussing economics behind attaining higher education especially in Indian context. It is myth to believe that costs of pursuing higher education outweighs benefit available out of it.

Education, Development and Faulty Assumptions

It has been found in various researches that higher education has positive impact on earnings and development. Similar trend has been found in other Asian countries.³⁶ Higher education is positively related to development. It also improves other indicators like Human Development, Gender Development, infant mortality, etc. Cross border data suggests that the presumption that primary education alone is significant for the development is not correct. For example, it has been proved that literacy and poverty are vice versa related which means that the literate men/women will have lesser chance of being poor. In India, few years ago, analysed data suggested that there is positive relationship between primary education and poverty which means that there are chances of person being poor, if he has merely attained primary education. Further, it suggested that relationship between higher education and poverty becomes negative which clearly explains that development and education are positively related.

Further analysis of data suggests that higher education also improves consumption expenditure and related pattern. Higher education helps people to move out of poverty easily and sustainably. Various other indicators like infant mortality, fertility rates, etc are significantly reduced with the attainment of secondary and tertiary education. Life expectancy is also improved significantly with the achievement of higher education. Therefore, in summation, it can be concluded that education has positive impact on overall development of any particular individual and economy.³⁷

³⁶ J B G Tilak, *Higher Education and Development*, Handbook on Educational Research in Asia-Pacific Region, Kluwer Academic Publishers, at 809-26, (2003a), available at <http://www.nuepa.org/libdoc/e-library/articles/2003jbgtilak.pdf>

³⁷ Jandhyala B G Tilak, *Post Elementary Education, Poverty and Development in India*, Centre of African Studies, University of Edinburgh, at 46-50, available at [http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_\(final\).pdf](http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_(final).pdf)

Developing nations have, due to certain faulty assumptions, focused completely on primary education with the backing of international forums and governments. Globalisation and Liberalisation led to situation causing further financial crunch for secondary and tertiary education. Therefore, environment was not conducive for higher education to take a big leap. Budget for higher education shrunk drastically with factors like globalisation, emphasis on primary education, etc. working completely against it.

So what are the faulty assumptions upon which governments are banking? Firstly, there was consensus among governments with the backing of international organisations that primary education is crucial for overall development of human being. So emphasis must be laid on primary education. Secondly, government initiatives across the world were favourable in accommodating primary education and therefore, government in wake of emphasising primary education felt it difficult to float comprehensive policy covering secondary and tertiary education.

In the earlier stage, governments did not face the heat of unemployment. But with the gradual expansion of globalisation and liberalization, economies demanded for skilled labourers and at that time, governments felt the heat of not providing or supplying employable workmen as it was demanded by the economy. Such situation has clearly explained that governments cannot ignore higher education. If governments want to build society of employable workmen, it must not ignore secondary and tertiary education.

So it can be concluded firmly that assumptions of governments for higher education are completely faulty and such assumptions must be reconciled by proposing new educational policy covering aspects of secondary and tertiary education comprehensively. Qualitatively higher education has not improved but enrolments have increased many folds which mean that public awareness regarding higher education is relatively high but on the other hand, pursuing higher education would not help them to earn money.³⁸ Therefore, educational policies must be revamped to cater the problems of quality education.

It can be concluded that this part of paper does not encourage governments to abandon their emphasis on primary education but it merely suggest floating of comprehensive policy which equally emphasizes primary, secondary and tertiary education. It also suggests increasing

³⁸ Jandhyala B G Tilak, *Post Elementary Education, Poverty and Development in India*, Centre of African Studies, University of Edinburgh, at 29, available at [http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_\(final\).pdf](http://r4d.dfid.gov.uk/pdf/outputs/policystrategy/tilak_india_pbet_wp6_(final).pdf)

budgetary allocation to higher education to overcome past disadvantage suffered by that sector. Governments are paying heavy price for not evaluating and reforming their respective educational policy from time to time in different forms like “jobless growth”, economies are adamant to technological changes, etc and therefore, in this era of globalisation and liberalisation, our education policy must also be globalised and liberalised!



Conclusion

Initially, our paper discussed about problems of income inequality and its adverse consequences. It has been concluded that income inequality is good for the health of economy but there must be certain minimum income inequality threshold beyond which it may cause problems for the economy. We discussed modern day economics have turned itself from infusion of productive capital to infusion of unproductive capital. Manufacturing units and industries are investing heavily in equity, debt, real estate, etc. But lax behaviour has been found in investing their capital into machineries, labour, etc. Therefore, it has been apparent that no doubt, growth has been enormous in last few decades and so does income and per capita has moved up significantly. But such type of growth has been more or less “jobless growth”.

Two of the most ignored aspects of government i.e Health and Education were discussed at length. The consequences of ignoring the two crucial sectors and at the same time, adverse impact were calculated considering the changes foreseeable in near future. Our paper discussed potential correlation between income inequality and health. Health consequences, due to income inequality, may not be visible and tangible as it may happen to be in other cases but in course of our discussion, we concluded that there may be eruption of many status anxiety problems like Cholesterol, Diabetes, Blood Pressure, etc. Therefore, in long run, health of millions of people suffering from such problems will get deteriorated. But it must be kept in mind that there has been no assertion of the fact that there lies causal relationship between income inequality and health. The establishment of causal relationship requires standardized empirical research and data analysis.

In the last section of paper, we discussed importance and significance of education in the case of income inequality. Primarily, we discussed that governments and international organisations have focused on primary education and they have time and again ignored secondary and tertiary education. It has been explained that ignoring secondary and tertiary education would end up ruining economy. At present, globalisation demands skilled labourers and merely emphasising on primary education would not help to supply those skilled and employable labourers. Therefore, secondary and tertiary education must be equivalently emphasised as primary education. **In the end, we must have faith that world has so far find ways to incorporate changes and in future also, world will find its ways.**