INEQUALITY AND GROWTH - GS I, II AND III MAINS

Q. Inequality in contemporary India surpasses that of colonial times. Critically analyse the impacts of inequality on Indian democracy and suggest measures to reduce the inequality in India. (15 marks, 250 words)

News: *Does inequality lead to growth? | Explained*

What's in the news?

- Studies conducted by researchers from "the Paris School of Economics" indicate that inequality in contemporary India surpasses that of colonial times.

Inequality and Democratic Processes:

1. Concentration of Power:

- Inequality can lead to the concentration of monopoly power among a few capitalists relative to the labor force.
- This concentration allows dominant business groups to set prices, resulting in lower real wages and reduced purchasing power for the majority.

2. Impact on Consumption and Welfare:

- High inequality can negatively impact consumption and welfare due to higher mark-ups and lower real wages.
- Lower real wages mean that workers can afford fewer goods, which reduces overall consumption and welfare.

3. Effect on Democratic Processes:

- Economic inequality can translate into unequal political power, undermining democratic processes.
- Those with significant wealth can have disproportionate influence over political decisions, policies, and elections, leading to governance that favours the wealthy over the general populace.

How Redistribution and Growth Can Work Together?

1. Wealth Taxes and Redistribution:

- Taxing wealth and redistributing it can enhance economic growth by increasing incomes and consumption among the lower and middle classes, who have a higher propensity to consume.

2. Multiplier Effect:

- Redistribution can strengthen the multiplier effect, where an initial increase in investment leads to a greater overall increase in income and consumption.
- Higher incomes among workers and goods-sellers lead to more purchases, driving further economic activity and growth.

3. Investment and Profit Expectations:

- Investment is driven by future profit expectations rather than past wealth. Therefore, taxing wealth does not necessarily reduce investment.

4. Creation of New Entrepreneurs:

- Redistribution can support the emergence of new entrepreneurs by providing financial resources and reducing dependence on wage employment.
- This can foster innovation and competition, further contributing to economic growth.

5. Curtailing Monopolies:

- Reducing monopolistic power through redistribution and other policy measures can lower prices and increase real wages.
- Higher real wages boost demand, leading to increased investment and economic expansion.

Addressing inequality through redistribution can promote inclusive growth, empowering marginalized communities and advancing progress towards a more equitable society, essential for fulfilling SDG Goal 10 (Reduced Inequalities).