

Articles

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Promoting Socio-Economic Equity in South Asia: Challenges and Prospects*

Growth and Equity

For the past decade or so, questions related to equity have been front loaded on the global agenda of economic growth and development. Equity has an umbilical but extremely uneasy relationship with growth. It is almost meaningless to talk of equity if there is no growth, and growth, in the long run, may be seriously imperilled and jeopardised if it thwarts equity.

The vision of “Growth with Equity”, so assiduously projected during the Sixties and the Seventies sadly stands shaken if not shattered. The illusion of “trickle-down” mythology has been exposed. Pope Francis, in a paper written in November 2013, described the “trickle-down theories” as “never being confirmed by facts”, adding that these theories express “a crude and naïve trust in the goodness of those wielding economic power and in the sacralised workings of the prevailing economic system.” A few months later, in April 2014, the Pontiff again tweeted: “Inequality is the root of social evils.” Reading this tweet, my memory was thrown back to the early seventies when Indira Gandhi of India called poverty the greatest polluter of human society.

The voices expressing unease with inequalities are becoming louder and more powerful as inequalities haunt even the developed world. Recall President Obama’s statement that termed inequality as the “defining challenge of our times.” The American people have marched to “Occupy Wall Street” saying “We are the Ninety Nine Percent” victims. The IMF Chief Christine Lagard warned a conference in Brussels on 17 June 2015, that “If you want to see more durable growth, you need to generate more equitable growth.” Such voices

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reflect the scrutiny of global economy carried out by scholars like Amartya Sen, Joseph Stiglitz and Thomas Piketty, and many others. The world leaders are also deeply concerned about the possibility of coming global economic recession in 2016. A number of recent reports by the United Nations Department of Social and Economic Affairs, World Bank, International Monetary Fund (IMF), Organisation of Economic Cooperation and Development (OECD) have strongly emphasised the need for equality. In his preface to the Report on World Social Situation, Wu Hongbo, the UN Under Secretary General says: "As the International Community shapes its vision for a post-2015 global developmental agenda, worsening inequalities across and within many countries have been an important part of the discussion." The democratic Presidential hopeful in the US, Hillary Clinton, in a major campaign speech focussed on the US economy and counted the woes of capitalist growth. She blamed globalisation and technological change for the plight of the growing inequality, lamented the erosion in the bargaining power of the workers and made a strong plea for punishing corporate criminals.

In May 2015, I bumped into a panel discussion at the Brookings Institution, Washington. They were celebrating the re-release of Arthur M Okun's 40-year-old book *Equality and Efficiency: The Big Tradeoff*. It was underlined in the course of discussion that the share of wealth of the top one per cent in the US rose from eight per cent during the early 1970s to 20 per cent at present. One panellist assessed that if the US income distribution was the same today as it was in 1979, then one trillion dollar will shift from the rich to the poorer, making the bottom 80 per cent gain by 25 per cent and the top one per cent lose 50 per cent of their wealth.

The Equity Issue in South Asia

Viewed in this international context, debating the equity issue in South Asia is therefore, both, important and opportune for joining the raging debate on growth and equity. The world leadership is nervous as evident from the G-8 and G-20 deliberations and intellectual foundations of the Bretton Woods Institutions are under serious pressure. Everyone is looking for new and effective answers to the dilemmas of development generated by phenomenal growth and frightening inequality.

For all those who are concerned with global growth, attention to South Asia is inevitable. How can the world's fastest growing region that has left behind the "tiger" economies of East and Southeast Asia be ignored? The latest available estimates peg South Asian countries' growth rates at five to eight per cent. India is leading South Asian growth trajectory and may continue to do so until 2030 and even afterwards, these estimates suggest. South Asia also houses

the world's largest working age population and a burgeoning middle class. Its growth potential lies, besides other factors, in properly harnessing its demographic advantage, which is not available to China and other emerging economies.

On the negative side, South Asia has the distinction of housing the world's largest number of poor people, despite its impressive poverty reduction record. There are varied poverty bench marks in Asia. On the basis of people living on less than 1.25 dollar per day, in 2015, South Asia has nearly 350 million absolutely poor people. India and Bangladesh have the most of them. This accounts still for around 30-35 per cent of the world's total poverty. We in this region have also had a fair share of the world's fragile and failing states, confronting serious internal violence and political flux. The situation in this respect has improved in Nepal and Sri Lanka, but anxieties and concerns persist elsewhere.

Poverty is neither an equivalent nor a synonym of equality, but in South Asia, the two extensively overlap. South Asia's inequality is characterised by the fact that the worth of the top 10 per cent of its population is more that 380 times of those at the bottom. There are, however, many layers of this inequality in a region characterised by huge diversities, even extremities. As compared to other regions of emerging and developing economies, South Asia represents moderate levels of monetary or 'outcome' inequality. It has done better as compared to countries like China, Mexico and South Africa, but is lagging behind those like Brazil, Indonesia and Argentine. However, with respect to the 'inequality of opportunity', South Asia's performance is dismal. In education, there has been significant improvement in primary school enrollments, but huge dropouts when you go to the secondary and tertiary levels. The condition of higher education is bad with hardly any institution making its mark in the global or even Asian rankings. In the area of health care, South Asian performance is particularly worrisome, be it under-nourishment, child mortality, maternal mortality or access to primary health care facilities. Sri Lanka and Maldives have, however, done much better than the rest of South Asia in health care and other human development indices. This region is also considerably poor in the field of gender equality, be it the access to paid employment, education and health care, or representation in decision-making bodies. The latest and final UN Report on the performance of Millennium Development Goals presents a detailed picture of South Asia's comparative status in many areas related to "equality of opportunity."

The inequality situation of South Asia gets further complicated when available indices are looked at in terms of rural urban divide and, minorities

and socially marginalised (caste and ethnic) groups. Education and location are key factors in defining South Asian inequality. Not enough and authentic data is available in this respect for all the South Asian countries. Even UN and other documents computing inequality have seldom paid attention to the opportunity status of the marginalised and excluded social groups, with the exception of rural population and women. In India, the results of socio-economic survey undertaken in 2011, for the first time after 1931, have been withheld for political reasons. According to one assessment for 2004–2005, the head count ratio suggested that within the overall poverty figure of 22.7 per cent, the poverty among the Scheduled Castes and Scheduled Tribes was 35 per cent, for Muslims it was 31 per cent, Other Backward Classes 21 per cent, and for the general category only 8.7 per cent. Poverty in India, therefore, is writ large on the poverty of the marginalised groups. The picture is not radically different in other South Asian countries.

An official committee appointed under Justice Rajinder Sachar in 2005 to look into the conditions of Muslims in India found that in accessing opportunities in the areas of residence, education and work, the condition of Indian Muslims was worse than those of its traditionally excluded Scheduled Castes (SCs) and Scheduled Tribes (STs). Indian Muslims, who constitute 14 per cent of the total population, find only 2.5 per cent representation in bureaucracy. Another excluded group in India, the Dalits (“untouchables”) that constitute around 20 per cent of the rural population make 38 per cent of the rural poor. Similarly, Tribal groups that constitute about 11 per cent of rural population account for 48 per cent of the poor people. Not much data is available for minorities in other countries, but one estimate for Pakistan suggests that minority-poverty is 39.6 per cent against the national poverty figure of 24.6 per cent. Economic conditions of other marginalised and excluded groups like minorities in Bangladesh, Sri Lanka and Madhes and Janjati groups in Nepal are also worrisome. The figures available to us may not be precise and updated but the point being underlined here is that in South Asia, poverty and inequality overlap social backwardness, marginalisation and exclusion.

Meeting the Equity Challenge

For meeting the global challenge of inequality, economic pundits and policy makers, including experts from the Bretton Woods Institutions have been advancing a number of policy interventions in the name of ‘structural adjustments/reforms’. On top of their agenda has been the need for macro-economic stability and fiscal prudence (including tax and transfer policies). There is also clear emphasis on smart structural reforms in the vital areas of education, health care, labour market, gender equality and land holdings. The

recommended policies also include creation of strong social security net and even conditional cash transfers. These policy packages, however, have to be tailored according to the specific needs of the countries and sectors concerned.

South Asia has worked on many of these prescriptions with mixed results. For instance, in the area of social security, some of the South Asian policy initiatives have received international appreciation. Bangladesh's Grameen Bank (for micro-credit), Pakistan's Benazir Income Providing Scheme, India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and Sri Lanka's Jansaviya and Smrudhi schemes may be mentioned in this respect.

Such policy interventions have yielded only partial results in most of the cases. One of the former South Asian Prime Ministers publicly confessed that only 15 per cent of the resources committed to welfare measures reach the targeted groups. The rest are either consumed in administrative costs or are usurped by diverse groups. Reasons for this have been many and varied. To begin with, Bretton Woods prescriptions that generally shape and define these policy interventions are drawn from different cultural perspectives and requirements. The Bank and the fund, above all, want their loans to be serviced and that cannot be done without generating growth. That's why stress is on reforms and adjustments, not on basic changes and transformations in the economies of the targeted countries. Then the emphasis of the South Asian policy makers have also always been growth. Equity measures are pursued more as fire fighting exercises in the interest of political survival, not as the main concern for change and balanced development.

That is perhaps why the revenue collection in South Asia has been rather poor as compared to many other developed and emerging Asian economies. In Pakistan, for instance, only one per cent of the population is covered under income tax. In India tax exemptions make procedures complex and give greater advantages to the rich. Tax structures should cover wider sections, close tax shelters and curb monopolies. Poor revenue collections have led to poorer allocation of resources in the social sector. Education and public health initiatives have been affected by poor financial allocations and lack of political will to carry out bold and sustained reforms. Social safety nets have been breached by high administrative costs. Many of the fuel and food subsidies are skewed in favour of the undeserving and against the deserving recipients. Corruption and lack of proper governance are wide spread with no or very weak system of accountability. Above all, with the change in political regime in a country generally, the set of policy initiatives in social sector become vulnerable. They are often dropped, replaced or rehashed with different nomenclatures, or left unattended to become dysfunctional.

What we need, therefore, is an objective and dispassionate scrutiny of the existing policy interventions that seek to redress the equity balance in the midst of growth momentum. Such a scrutiny is better undertaken by brilliant minds present here rather than by the babus shuffling files in various Ministries and Departments in the South Asian capitals and metropolis. This exercise will help us draw lessons in learning where we are at fault and how to correct ourselves. We may thus be able to streamline and reinforce the required policy interventions.

I am not quite competent in suggesting specific innovative policy packages. The broad areas of policy interventions, however, need to focus on three fronts i.e. opportunities, mobilities, and social support. We have noted above that social safety net programmes of South Asia have received wide acclaim. But South Asia spends less on its social safety programmes than on its fuel subsidies. Accordingly, there is ample scope for these programmes to be expanded, strengthened and possibly, even redefined. South Asian countries' allocations in this sector vary from 0.25 to 2.0 per cent of GDP which need to be somewhat harmonised across the region around the global average of 1.50 per cent or more.

Also take the issue of positive discrimination through employment quotas and reservations for the excluded and marginalised groups. In India, positive discrimination is constitutionally protected. This has helped many lower castes and untouchables to climb up the social and economic ladder of development. There is no doubt that still a case for keeping these reservations exist, though initially they were planned for a specified time period. In view of the success of this provision, many other social groups are also asking for positive discrimination. Women may deserve such job quota reservations most, but they may never be considered for. The eligibility for the reserved category for many social groups therefore needs to be seriously re-assessed. In the long run, however, allocating resources and creating opportunities for greater employability may be preferable over protecting jobs. It may be noted in this respects that many of the reserved quota jobs for the backward groups are not filled for years partly because of the prejudices of the upper caste managers of these jobs but partly also for the non-availability of qualified (at the minimum level of proficiency) persons.

The minorities are also asking for such privileges. Recently in India, a small number of Muslims qualifying for the prestigious civil service examinations were financially supported by Zakat (charitable contribution/religious tax in Islam) fund. Why the State funds cannot offer such support and why such funds should not be mandated only for socio-economic empowerment?

Will it be wrong to shift a good part of the resources allocated for subsidising religious pilgrimages like *Haj* to such empowerment. Voices are continuously being raised in favour of cutting down on misused and unnecessary subsidies and make the surplus resources for creating opportunity channels for the minorities.

Studies have revealed that economic mobility from rural to urban areas, from one job to another and one country to another has helped reduce poverty in South Asia. International migration has also brought in remittances and helped national economy. Such remittances are highest in India in absolute amounts and they constitute a sizable proportion of national GDP in Bangladesh (12 per cent) and Nepal (25 per cent). These remittances have also energised rural economy in the region. Attempts should accordingly be made to facilitate legitimate migration and protect the rights and security of the migrants. At the regional level, we may even consider evolving a system of South Asia work permits that is accepted across the borders. South Asian countries may also like to explore the possibility of setting up an independent Equal Opportunity Commission (as suggested in the Sachar Report for Indian Muslims) to attend to and address, the grievances of the socially and economically deprived, excluded and marginalised people.

While South Asia works on the present set of adopted and innovated approaches to address opportunity inequality, it must be realised that these approaches are piecemeal, incremental and even vulnerable to regime changes. They are also highly susceptible to bureaucratic whims and leadership ideosyncracies. In many cases, these programmes are designed and shaped by donors to suit their priorities and preferences. These approaches amount to taking the inequality bull, at best by its tail, which cannot over-power and subdue it completely. In fact, some of the proponents of Development Policy, both nationally and internationally, passionately argue that not only inequality can never be completely eliminated but it need never be eliminated. According to them, some inequality is good for growth and social dynamism as it energises efforts and competition. This, even as a thought, howsoever economically attractive, is socially pejorative and pernicious, particularly for 'opportunity' inequality. They also argue that redistribution exercises in the interest of equity come at some cost for economic efficiency. My humble submission is let it be so in the larger interest of sustaining balanced growth. It is unfortunately true that the governments all over the world, and also in South Asia, are at times excessively obsessed with growth ignoring its long term social and political costs.

Look Beyond: Revisit Growth Strategy

This takes me to a rather provocative question; should we revisit South Asia's growth strategies that have been modelled on neo-liberal approach? This revisit is not to bury, but to bolster the neo-liberal strategies. The foundations of neo-liberal paradigm is rooted into capitalism which seems to be drifting into some sort of a problem zone. Capitalism has stirred discomfort and pain in the developed market economies of US and Europe. We noted Pope Francis decrying the "idolatry" of markets and money. Arthur Okun had argued that while the "market needs a place, market also needs to be kept in its place." Thomas Piketty's bestselling critique of capitalism in the present century draws most of its evidence from US and European economies.

And yet, we in South Asia, nay whole of Asia, have had a happy experience with such growth strategies so far. We need more of growth as a necessary precondition for equitable and sustainable development. Yes, inequity has come almost as an unavoidable by-product of growth based on neo-liberal strategies, but there does not appear to be any other viable alternative. The time may be ripe for vigorous attempts to evolve such alternative but until an alternative emerges, we have to do with what we know and what we have. Therefore, while keeping, and accelerating the growth momentum, let us look at some of the broader economic, political and social dimensions of South Asia in our search for equity.

The present growth strategy has enhanced South Asia's dependence upon global markets beyond our region. These markets are in turbulence which is expected to increase before it settles down. The recent bouts of economic crises in Euro zone and China affected us all in South Asia. To cushion such shocks, we must expand, deepen and consolidate our national and regional markets. At the national level, our social (marginalised and excluded groups) and physical peripheries need to be integrated with the mainstream economy. People living on 'fragile lands', like high mountains, deserts and coastal belts, are vulnerable and mostly economically unconnected. They have to be connected to the mainland through transport and communication networks and brought within the reach of the national economy. Connectivity in general will also facilitate economic growth through harnessing of natural resources and human capital. Similarly, people dislocated as a result of various development projects, national disasters, social conflicts and civil wars, have to be rehabilitated. Mostly, only poor and marginalised groups are worst affected by these disasters and conflicts.

For expanding and reinforcing the regional market, regional integration, through SAARC or sub-regional cooperation has to be expedited. The pending connectivity proposals and the vision of building an economic community need

to be pursued vigorously. The BBIN initiative has received political endorsement. Such initiatives may also be launched by India, Sri Lanka and Maldives as also by India, Pakistan and Afghanistan. Advantage may also be taken of South Asian countries' participation in the extended regional groupings like BIMSTEC, ASEAN, SCO and Indian Ocean Cooperation. We must learn from the best practices of Southeast and East Asia as these regions were greatly benefitted by regional cooperation in fighting inequality and poverty as well as in building their growth and prosperity.

There are studies that suggest that heavy reliance on market forces, capital promotion, technology infusion, and service sector for growth complicates the equity issue. To balance this, impetus has to be given to labour intensive industrialisation, manufacturing, agricultural reforms and rural development.

A recent World Bank study on addressing inequality in South Asia, estimates that in India, the only billionaires country in South Asia – Nepal being a minor exception (only one billionaire) – while 40 percent of billionaires are inheritance based, 60 per cent of them have made their fortunes in “rent-thick sectors” of economy like telecommunications, real estate, infrastructure, mining, cement, media, and entertainment. All these sectors have also contributed to the growth of a large informal sector in South Asian economy. These sectors being the drivers of growth, are being promoted. Some of these sectors are considered part of knowledge economy, the next stage of industrial economy. But all these sectors being inequality generating, also need to be regulated effectively. Their rent-seeking tendencies that account for the growth of corruption and crony capitalism need to be monitored closely and curbed. All these inequality building sectors of economy in South Asia have also to be subjected to strict regulations. Economic reforms being pursued and planned presently in the region are mostly focussed on boosting growth, not on promoting equity.

Among disincentives to be applied to these sectors could be imposition of minimum and maximum wage regulations and rationalisation of salaries and pay packages. Arguments have also been advanced to monitor salary structures in government establishments and formal sector employments. The famous economist Anthony B Atkins talks about “ethical pay policy.” Hillary Clinton has come up with a new proposal to link wages with profits. In India for instance, the government sector salaries are 4.5 per cent higher than the national average salaries. This is one of the highest in the world. It goes without saying that informal sector thrives on low wages and exploitation of the labour force. Irrationally high salaries has been a problem in the developed economies as well. President Obama had called the pay packages of the top bank executives in the US as a loot of the national wealth. The IMF chief recently expressed her

shock on knowing that one of the hedge fund managers received 1.3bn dollars as pay package and 25 of such best paid managers earned a combined income of 12bn dollars in 2014. Digitisation of economy in South Asia will also help curb rent-seeking and corruption.

Political Reforms and Social Mobilisation

We have already noted that inequality resulting from unbridled growth can be curbed only through intelligent and effective State interventions. Why is it that such interventions have yielded only partial and sometimes, distorted results? Part of the answer is that such policy interventions were pursued inefficiently and half-heartedly, without sufficient political will. The question of political will is the question of the character of the State in the South Asian countries.

For responding to the equity and justice aspirations of the people at large, the State, to begin with, must be democratic, must be representative. The South Asian States have not been fully democratic. For a long time, South had a majority of monarchical, military dominated and autocratic regimes. They survived and prospered by reinforcing socio-economic stratification and inequalities. They were not even strongly inclined to build national economy in their respective countries. Even in India and Sri Lanka, where representative institutions have functioned almost uninterrupted since independence, electoral politics has played with social fault-lines based upon class, caste, religious, sectarian, regional and ethnic divisions. This has sharpened these fault lines and even reinforced them, though, in the long run, such electoral exploitation has also helped marginalised and excluded groups to politically organise themselves and build pressures for their socio-economic equity and justice. In the former authoritarian South Asian countries, democratic transitions were seriously initiated only in the first decade of this century, but they have not been brought to their logical conclusions yet. Commitment to democracy of the new leadership is thin and opportunistic and the regressive and discarded forces are doing their best to stage comeback. A sense of political instability in Nepal, Bangladesh, Maldives and Afghanistan clearly underlines this. In Pakistan also, civil-military relations continue to be tense and army continues to have a significant political role.

For effective interventions in favour of equity, the State has not only to be democratic in its political and electoral dynamics, it also has to be secular and federal. Sectarian (religious, ethnic or majoritarian) identity of the State automatically creates exclusion of minorities and all such social groups that cannot identify with the State. States with religious identities are notorious in

discriminating against women and minorities. Centralised character of the State does not allow wider participation in decision-making. Developmental decisions are taken and executed without factoring local needs and requirements. Federalism and devolution of power to the lowest tiers of decision making, upto village *panchayats* and urban community centres, can cure this aberration. The federalism debate has been vitiated by the induction of issues of the size of the country or its administrative and economic resources as is being done in Nepal, Sri Lanka and Bhutan at present. The call should be taken on the basis of the nature of social diversity and the size of the social groups that feel marginalised and excluded in a given country.

Secular and participatory character of the State has to go beyond the formal structures and institutions of the State. Political parties and processes have to be based upon wider participation. However, in South Asia, hierarchical ethos of social engagement continue to impinge on democratic institutions and processes. Accordingly, there is marked under-representation of women, minorities and marginalised social groups, in some cases despite political promises as well as legal and constitutional provisions. Unless this is improved upon, the goal of social equity and justice will continue to elude us.

As State interventions are required to manage the powerful market forces and correct economic distortions, social pressures are needed to reform and discipline the State. In a recent interview, Nobel Laureate Amrtya Sen reflecting on the challenge of sustainable and equitable development said:

...Development has to be a kind of comprehensive social engagement and so it is not just the fault of the government but also the lack of pressure from the public to see the defects in the thinking of governance, to make sure that they are rectified....

As noted earlier, South Asia's social stratification has been nurtured through the layers and layers of historical and cultural evolution. These societies are now passing through rapid transformations. Under the impact of globalisation and economic growth, our societies are quietly experiencing three implosions namely of information, aspirations and identity. These implosions have released two sets of forces; those which are creative and capable in building pressures on the State for equity and justice and those which are obstructing the processes of equity and justice. The former are responsible for driving democratic transition in South Asia and the latter have unleashed extremism, violence and disruption. While mainstreaming of the violent Maoist insurgency into a democratic process in Nepal stands out as the best example of the former, the rise of the forces of unabashed terrorism and sectarian violence in Afghanistan and Pakistan, represent the worst of the latter. We were all shocked to see the brutal and

barbarious stoning to death of a mentally deranged woman in Afghanistan which was cheered by a section of society, with the State watching the spectre of hate helplessly. The forces behind such events have to be exposed of their ideological atrocities and resisted.

The challenge posed by the extremist forces to both economic growth and equity within their respective countries and the region as a whole, is formidable. Besides the use of force against such forces in the short-term, this challenge can only be met, on long-term basis, by mobilising creative and constructive social forces. Determined efforts have to be made for such mobilisation at the national, regional and international levels. We have witnessed such mobilisations in the form of Peoples' SAARC for better regional cooperation, *Aman Ki Asha* movement for better India-Pakistan relations and the Open Working Group idea in identifying Sustainable Development Goals at the UN Level. All these social mobilisation efforts support State actions for equity directly or indirectly. Civil society groups can also help in this respect by establishing their liaison with the State as also by putting pressures on the State. People who are marginalised and excluded need to come forward in this mobilisation by themselves or through various civil society groups. Madhes and *Janjati* groups have been mobilised to secure a place of respect for themselves in the Nepali Constitution. The Shahbagh protests under the *Gonojagaran Manch in Bangladesh* in 2013 was also an example of popular and almost spontaneous youth mobilisation against war crimes and in support of democratic and secular forces. The Anna Hazare Movement in India awakened and organised people against corruption. Mobilisation for womens' rights and equality in South Asia and all over the world, is well known in this respect. It is also heartening to note that the 210 million *Dalits* of South Asia have been mobilised to influence the Post-2015 Development Agenda of Sustainable Development Goals by the UN.

The questions related to political transformations and social mobilisation are sensitive, controversial, and uncomfortable. Social scientists and economists, particularly those embedded with power establishments, often shy away from raising them sharply. They generally opt for cosmetic, affordable and acceptable policy interventions in support of growth and equity. Unless we show the courage to take the bull of socio-economic inequality by its horns in all its manifestations – economic, political and social – we will not succeed in taming it.

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