Great Divergence

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The shockwave of the COVID-19 pandemic and the lockdown measures taken to control it have severely contracted the global economy. IMF Managing Director Kristalina Georgieva urged advanced economies to provide more resources to low-income countries, warning of an emerging “Great Divergence” in global growth that could risk stability and trigger social unrest for years to come.

In news: We face the risk of ‘Great Divergence’ : IMF Chief
Placing it in syllabus: Economics
Dimensions

- Post 1970s era and inequality
- Thomas Piketty and his study
- State of inequality in India in post reform era
- Steps taken for fighting inequality

Content:

Post 1970s era and inequality

- The Great Divergence is a term given to a period, starting in the late 1970s, during which income differences increased in the US and, to a lesser extent, in other countries.
- By the 19th century, **Western Europe and parts of North America had become fabulously wealthy**. Almost everywhere else was horribly poor.
- Economic historians refer to this as the “Great Divergence”.
- Inequality has been on the rise across the globe for several decades.
- Some countries have reduced the numbers of people living in extreme poverty. But economic gaps have continued to

grow as the very richest amass unprecedented levels of wealth.

- Among industrial nations, the United States is by far the most top-heavy, with much greater shares of national wealth and income going to the richest 1 percent than any other country.
- The **pandemic has exacerbated economic disparities across the globe.** Oxfam reports that from March 18 to the end of 2020, global billionaire wealth increased by $3.9 trillion.
- By contrast, global workers' combined earnings fell by $3.7 trillion, according to the International Labour Organization, as millions lost their jobs around the world.
- According to the **Credit Suisse Global Wealth Report,** the world's richest 1 percent, those with more than $1 million, own 44 percent of the world's wealth.
- Their data also shows that adults with less than $10,000 in wealth make up 56.6 percent of the world's population but hold less than 2 percent of global wealth.
- Individuals owning over $100,000 in assets make up less than 11 percent of the global population but own 82.8 percent of global wealth.
- Since 1980, the **World Inequality Report** data has shown that the share of national income going to the richest 1 percent has increased rapidly in North America (defined here as the United States and Canada), China, India, and Russia and more moderately in Europe.

Thomas Piketty and his study

- Thomas Piketty is a **French economist** and Professor of Economics
- Piketty specializes in **economic inequality**, taking a **historic and statistical approach**.
- His work **looks at the rate of capital accumulation in relation to economic growth** over a two hundred year

spread from the nineteenth century to the present.

- His novel **use of tax records** enabled him to gather data on the very top economic elite, who had previously been understudied, and to **ascertain their rate of accumulation of wealth** and how this compared to the rest of society and economy.
- His 2013 book **Capital in the Twenty-First Century,** relies on economic data going back 250 years to **show that an ever-rising concentration of wealth is not self-correcting**.
- To address this problem, he proposes redistribution through a progressive global tax on wealth

State of inequality in India in post reform era:

- India embarked on big-bang economic reforms 30 years back in 1991.
- **GDP growth has been much higher** in the post-reform period.
- A World Bank study by Gaurav Datt and others, shows that **poverty declined by 1.36 percentage points per annum after 1991**, compared to that of 0.44 percentage points per annum prior to 1991.
- Their study shows that among other things, urban growth is the most important contributor to the rapid reduction in poverty even though rural areas showed growth in the post-reform period.
- Also in the post-reform period, **poverty declined faster in the 2000s than in the 1990**s.
- The official estimates based on **Tendulkar committee's poverty lines** shows that poverty declined only 0.74 percentage points per annum during 1993-94 to 2004-05. But poverty declined by 2.2 percentage points per annum during 2004-05 to 2011-12.
- Around 138 million people were lifted above the poverty line during this period. This indicates the success of reforms in reducing poverty.

- The poverty of Scheduled Castes and Scheduled Tribes also declined faster in the 2000s.
- The **Rangarajan committee report** also showed faster reduction in poverty during 2009-10 to 2011-12.
- However, the **evidence shows that inequality increased post 1991**.
- The **Gini coefficient** measured in terms of consumption for rural India increased marginally from 0.29 in 1993-94 to 0.31 in 2011-12.
- There was a significant rise in the Gini coefficient for urban areas from 0.34 to 0.39 during the same period.
- If we use income data from the **National Council of Applied Economic Research's India Human Development Survey**, the Gini coefficient in income (rural+urban) was 0.52 in 2004-05 and increased to 0.55 in 2011-12.
- In other words, inequality is much higher in India if we use income rather than consumption.
- If we consider non-income indicators like health and education, inequalities between the poor and rich are much higher.

Steps taken for fighting inequality

Higher economic growth, agriculture growth, rural non-farm employment, increase in real wages for rural labourers, employment in construction and programmes contributed to higher poverty reduction in the 2000s compared to the 1990s.

Some of the important schemes for reducing inequality include:

Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA)

- provides a legal guarantee for one hundred days of employment in every financial year to adult members of any rural household willing to do public work-related unskilled manual work at the statutory minimum wage.
- aims at addressing causes of chronic poverty through the

works (projects) that are undertaken, and thus ensuring sustainable development.

National Urban Livelihoods Mission (NULM)

- It aims to reduce poverty and vulnerability of the urban poor households.
- It tries to enable them to access gainful self-employment and skilled wage employment opportunities.
- The mission would aim at providing shelter equipped with essential services to the urban homeless in a phased manner.
- In addition, the Mission would also address livelihood concerns of the urban street vendors by facilitating access to suitable spaces, institutional credit, social security and skills to the urban street vendors for accessing emerging market opportunities.

Atmanirbhar Bharat Rojgar Yojana (ABRY)

- A scheme to boost creation of new jobs in the formal sector through support of EPF contributions by the Central Government for new employees.
- As part of the package Atma Nirbhar Bharat Rozgar Yojana (ABRY) Scheme is announced to incentivize creation of new employment and restoration of loss of employment during the COVID pandemic.
- Under this, Government of India will provide subsidy for two years in respect of new employees engaged on or after 1st October, 2020 and up to 30th June, 2021.
- Government will pay both 12% employees' contribution and 12% employers' contribution i.e. 24% of wages towards EPF in respect of new employees in establishments employing upto 1000 employees for two years.
- Government will pay only employees' share of EPF contribution i.e. 12% of wages in respect of new employees in establishments employing more than 1000 employees for two years.

PM Street Vendor’s AtmaNirbhar Nidhi (PM SVANidhi)

- It was launched by the Ministry of Housing and Urban Affairs on June 01, 2020 for providing affordable working capital loan to street vendors to resume their livelihoods that have been adversely affected due to COVID-19 lockdown.
- The Scheme is available to all street vendors engaged in vending in urban areas as on or before March 24, 2020.
- Urban street vendors will be eligible to avail a working capital (WC) loan of up to 10,000 with tenure of 1 year and repaid in monthly instalments.
- No collateral will be taken by the lending institutions.
- On timely or early repayment, the vendors will be eligible for the next cycle of working capital loan with an enhanced limit.
- No prepayment penalty will be charged from the vendors for repayment before the scheduled date.

Mould your thought: What is great divergence? Evaluated the status of inequality in India post 1991 reforms.***Approach to the answer:***

- Introduction
- Define great divergence
- Discuss the poverty and inequality in India after 1991
- Discuss the measures taken by the government
- Conclusion