



A PEOPLES' SUMMIT ON G20

POSITION PAPER ON G20 AND INEQUALITY: A MISSED OPPORTUNITY

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G20 AND INEQUALITY: A MISSED OPPORTUNITY

The World Economic Forum in a report stated that “As 2023 begins, the world is facing a set of risks that feel both wholly new and eerily familiar.” On one end it speaks of the return of “older risks” some of which we assumed we have left behind us. These include inflation, trade wars, capital outflows from emerging markets, falling human development, widespread social unrest, geopolitical confrontation and the spectre of nuclear warfare. In this cauldron it also added recession, debt distress, polarised societies fed with misinformation, and of course climate crisis. For India, the report identified the cost of living crisis, digital inequality, geopolitical contest for resources, natural disasters and extreme weather events as the biggest risks over the short and medium term. “Together,” the report said, “these are converging to shape a unique, uncertain and turbulent decade to come.” What needs to be added to this is the menace of grotesque inequality. It seems that despite the economic uncertainty and what is being called the “permacrisis”, four in ten High Net Worth Individuals are planning to increase overseas travel spending expenditure on leisure activities.

Worldwide billionaires' wealth increased by a staggering \$3.9 trillion between 18 March and 31 December 2020. Their total wealth stood at \$11.95 trillion, equivalent to what G20 governments together spent in response to the pandemic. The Oxfam inequality report finds that since 2020, the richest 1% have captured almost two-thirds of all new wealth – nearly twice as much money as the bottom 99% of the world's population. Billionaire fortunes are increasing by \$2.7bn a day, even as inflation outpaces the wages of at least 1.7 billion workers, more than the population of India.

Global discussions about wealth tax

Just before the global summit in Paris in June, a group of more than 100 leading economists have urged taxing extreme wealth to spend on the energy transition of the poorer economies, or on loss and damage. In a letter addressed to the World Bank and the UN, more than 200 economists including Jayati Ghosh, Joseph Stiglitz and Thomas Piketty have said that “Extreme poverty and extreme wealth have risen sharply and simultaneously for the first time in 25 years.” They were backed by the likes of former UN secretary general Ban Ki-moon, New Zealand's former prime minister Helen Clark among others. They said that “without a sharp reduction in inequality, the twin goals of ending poverty and preventing climate breakdown will be in clear conflict.”

We have seen several comparable countries taking steps towards it. For instance, in Argentina, about 80% of the 12,000 odd millionaires whose assets exceed \$2.1 million paid a one-off wealth tax raising more than \$2.3 billion. The tax called solidarity contribution amounting to 0.5% of GDP raised resources to pay for medical supplies and relief for small businesses battered by the pandemic in Argentina.

In Bolivia tax collection from the Wealth Tax on the Super Rich Exceeded \$32 million in 2021 from 203 millionaires with assets over \$4.3 million. Bolivian President Luis Arce said that the new tax is part of the “dismantling of neoliberalism to resume the Productive Community Social-Economic Model to get out of the crisis.”

India has seen a phenomenal increase of wealth inequality

India ranked 107 of 121 countries in the Global Hunger Index 2022 and is home to 8 percent of the world's population living in absolute poverty, only marginally better than Nigeria and Democratic Republic of the Congo. At the same time, the number of billionaires in India increased from 1 in the early 1990s to 9 in 2000 and further rose to 166 in 2022. A recent study has shown that the income share of the top 1 percent was around 21 percent during British rule in 1922, declined to 6 percent in the 1980s, but returned to 22 percent by 2015.

The pandemic that pushed 23 crore more Indians below the national minimum wages has given way to a time of crushing price rise and burning fuel prices that weighs heavily on the poor while the corporates have been given a substantial tax rebate. The result has been such that since the pandemic we are witness to a K shaped recovery. In recent times we have witnessed that the sales of two wheelers and small cars were on a downward slide while sales of SUVs were on the rise. What this shows is the rich are getting richer while the poor are getting poorer. The richest Indian is worth USD 150 billion as per the Forbes India rich list 2022. At an exchange rate of 80 INR per USD, this translates to about INR 12 lakh crore, a staggering amount of wealth to be held by a single individual. If the richest Indian were to spend INR 2000 every minute, more than 10,000 years would pass before his net worth is exhausted!

An outcome of market fundamentalism

The doctrine of market-led growth has become an accepted paradigm of development since the neoliberal turn. The “spontaneous” tendency of capitalism to produce “wealth at one pole and poverty at another” had been somewhat brought under control in the post-war years through State intervention, the rising socialist threat and the growth in working class strength. This is the time when the share of wealth of the richest had been cut substantially through progressive taxation while redistributive and rights-based welfare measures had been enacted. This meant increased public expenditure on health, affordable housing, strong social security net, priority sector lending and so on as public sector units held sway in several countries including India. These changed with the neoliberal turn as regulations were brought down, taxation policies were reversed, public sector shrunk and labour rights crushed. Global capital pushed through and reshaped entire economies to the whims of market fundamentalism in the name of structural adjustments and reforms. The same measures are further being aided, propagated and perpetuated by forums like the G20.

Their effects were palpable in India since the 1990s. While in 1969 out of total value created, 65% went towards wages and 35% towards surplus, since the 1990s this has almost reversed. While 35-40% today goes to wages, 60-65% goes towards surplus. The ratio of private wealth to national income in India increased from 290% in 1980 to 555% in 2020, one of the fastest such increases in the world.

A missed opportunity

The pandemic served as a pressing reminder for the world about the need for closing coverage and adequacy gaps of social protection schemes. The G20 countries responded to the urgent need to expand, innovate and extend their social protection measures using various means and to varying degrees. Apart from targeted (and inadequate) cash transfers and food grains, almost none of the measures were considered in India despite being far more vulnerable to the economic shock of the pandemic wherein the women and the other marginalized sections in the workforce were worst hit. As a result, while the super rich continued to get richer in India, 24% of the population was struggling to make Rs. 3,000 per month.

While the world recognized the importance of social security in these trying times, India sadly witnessed further dilution of labour laws even in the midst of the pandemic. The G20 in fact recognized that the economic upswings following the lockdowns would not immediately alleviate the damage inflicted by the recession as income losses suffered during such downturns tend to become entrenched. As such it spoke of extending the temporary support mechanisms taken during the pandemic, but as a group it has not made any financial commitments so as to support in the endeavor.

The nature of the crisis unleashed by the pandemic, the shrunken state of welfare expenditure and public infrastructure, the inaccessibility of basic rights, the informalisation of the workforce, the rising cost of living, the geo-political tensions and the climate crisis, requires a fundamental change of course. It needs phenomenal expansion of the fiscal space of developing countries so as to be able to close the financing gaps that a robust social security network and investment in public services would entail. It needs immediate attention and a reversal of a development paradigm that concentrates wealth at the top while peddling the myth of trickle down. But none of this seems to be on the table in the run up to the G20 summit this year as world leaders pretend to look for a solution within the same paradigm albeit with a rhetoric of “sustainability” and “inclusion”.

The way forward

We did away with our wealth tax in the year 2015 with the excuse that it was non-implementable. While countries like the United States, Germany, France, Japan, Turkey, Chile, Italy, and Korea, among others have varying degrees of inheritance tax, we have none. Japan has a 50% and Ireland for instance has a 33% inheritance tax.

The wealthy Indians are the biggest beneficiaries of the government that runs on our tax monies, and so it is reasonable to expect them to pay their fair share of taxes from this accumulated wealth. It is the need of the hour that a 2% wealth tax and 33% inheritance tax be applied on the top 1% Indians to ensure universal social and economic rights for all.

Just for the sake of demonstration, the total wealth of the top 1% of the wealthy in 2021 was about INR 427 lakh crore. Only a 2% wealth tax on the top 1% could generate about INR 8.54 lakh crore for the exchequer. Add to it 7.04 lakh crores that we can raise from a 33% inheritance tax on the top 1% rich.

That could raise an amount as big as 15.58 lakh crores. Alternatively, a progressive wealth tax of 2-6% spread over five wealth slabs on say the 1,007 individuals having above Rs. 1,000 crore of wealth in India (as per the Hurun Rich List, 2021) could have generated 2.76 lakh crores. Alongside, the inheritance tax on the top 1% could cumulatively generate nearly Rs. 10 lakh crores which could be invested on the people thereby having immense multiplier effect.

Many economists believe that the revenue generated from these two taxes can be enough to ensure universal rights - food & nutrition, education, healthcare, livelihood and pensions - for everyone. It will be enough to guarantee social security for all of us. Prof. Prabhat Patnaik and Prof. Jayati Ghosh postulate that increasing social spending will improve the economic situation of the poor and working classes, and that will in turn spurt economic activity and growth from below - a “bubble up” plan in counter to the farce of their “trickle down” theory.