Conservation Economics
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Module 10
Labour market economics and Conservation
Lecture 3
Income inequality and poverty

Namaste! We carry forward our discussion on Labour Market Economics and Conservation and in this lecture we shall have a look at Income Inequality and Poverty. We have seen before that poverty is intimately related to land and environmental degradation.

This is because poverty increases the amount of pressure on natural resources, because of which an over exploitation of natural resources becomes much more likely. Whether it is for fuel good or it is for agriculture or it is for meeting their daily needs of different people.

Poverty is intimately related to a lack of resources which might lead to an over population especially in the earlier stages of the demographic transition. Because of all of these there is an abundance of pressure on land and natural resources, because of which there is land and environmental degradation. This is the reason why it is very crucial for us to understand why poverty is there and what are the things that lead to poverty?

One very important topic when we talk about poverty is Income Inequality. Income inequality is the disparity of income distributions, it is the disparity which means differences in the distribution of income with a high concentration of income usually in the hands of a small percentage of the population.

When we say income inequality it means that there are some people in a society that have the largest amount of resources with them, they have the largest amount of money and the most assets with them. Whereas a large portion of the society has to go with very little amount of resources.

So, it is a disparity of the income distributions with a high concentration of income usually in the hands of a small percentage of the population. It means that even though the society in total would be having a large amount of resources, but because these resources are concentrated in the hands of a few people. In that case a large number of people would be poor and this poverty might lead to degradation of the land and the environment.

It manifests itself in wealth disparity, disparity in standards of living and disparity in human development indices. It results in a disparity in wealth that is the amount of money that people have disparity in the standards of living. In the same society you can have people who are using LPG or say electricity and you will also have certain people who are using fuel wood and disparity in the human development indices.

And disparity in the human development indices is one of the major reasons why poverty continues, because a person who is born into a family that is poor has less access to things like education or health.

In the absence of education or with a little amount of education this person would have little chance to move up in the economic ladder. So, a lack of education would mean that this person would not be earning large amounts of money when he or she grows up and that would mean that this person would continue to remain poor.

Similarly, in the absence of sufficient health infrastructure and access to health services, it is also possible that the person remains sick for a large portion of his or her life which would reduce their efficiency and with a reduced efficiency a person's ability to earn also reduces, which also keeps the person more and more into poverty.

Now, income inequality can be observed at the global stage and also at the local stage. So, when we talk about inequality in the world there are certain regions of the world such as most of North America, most of Western Europe and Australia and Japan that have a large amount of per capita income.

The people here earn much more as compared to countries in Asia or countries in Africa or some countries in South America where the per capita income is less and because the per capita income is less. The wealth levels also become very less.

The total assets that are there with people and the resources that people have are also less. So, we can observe that in the world stage there are certain rich areas and there are certain areas where people are mostly poor.

In our country we find a major difference in terms of the kinds of employment that people have. There are certain occupations where people get a regular source of income through their employment.

On the other hand there are certain people who work on a casual basis, which means that on some days they would be getting an income and some on some other days they will not be getting their income.

In our country if we look at the distribution of workers we will find that around 52 percent of people are self-employed, around 23 percent of people are having regular wages, that is they are working a regular job they may be salaried people and around 25 percent of people are casual labourers.

Now, these kinds of labourers may get an income on some day, on some other day they might not get any income. When we talk about this the people who are self-employed include professionals such as doctors and lawyers, but it also includes a large number of poor people especially the small shopkeepers or people who till their own lands the agriculturalists.

So, these people are self-employed, they are not working for wages, they are not working with someone else and at the same time they are not casual labourers. But in a large portion of these people who are self-employed the per capita income is very less and the people with a regular source of income are just around 23 percent of our population.

If we look at changes over time, the number of self-employed or the percentage of self-employed has hardly changed in between the years 2011-12 to 2017-18.

But the number of regular wage waged people or the salaried people has increased and the number of casual labourers has decreased, which in turn can be said to be a positive development. Because now more and more people are having regular sources of income.

This is the status of employment. If we look at the income share of people. Here on the x axis we have the decile, now decile means that when we talk about 1 it is the bottom 10 percent of the population.

The 10 th decile is the top 10 percent of the population, now with this curve we can observe that the top 10 percent of the population is having an income share of greater than 60 percent. Whereas, the bottom 10 percent of the population is having an income share of less than 1 percent.

This is a representation of the income inequality that we have in our country. There are certain people who are in the top 10 percent of the population who have a major share of the total earnings of our country. More than 60 percent of the income is being earned by only 10 percent of the people.

On the other hand there are other people who fall in the bottom 10 percent who do not earn even 1 percent of the earnings of the country. So, this is a good indication of the income inequality in our country.

We can convert this curve into the cumulative income state. Now, when we talk about the cumulative income share, what happens here is that when we talk about the 2nd decile. We are adding the income of the 2nd decile plus the income of the first decile. So, it becomes an increasing curve.

The 3rd decile will include the incomes of everybody in the bottom 30 percent of the population. So, in this case we are adding up the incomes. When we talk about the 10 th decile it will include the income of 100 percent of the people of India.

Essentially what we are observing here is that in the 10 th decile we have a 100 percent income share. If we talk about the 5 th decile it is the income of the bottom 50 percent of the population. Here we can observe that the income of 90 percent of the people of our country comes to around 40 percent of the total income of the country.

This is just another way of representing the income inequality that we were seeing so this was income share and this is a cumulative income share in percentage. Now, cumulative income share ensures that in the 10 th decile we reach a value of 100.

This is important because we can use a curve like this to compute the Gini coefficient of the country. If there was absolutely no income inequality, that is if everybody was earning the same income. What would have happened?

In such a scenario if we talk about any 10 percent of the population they would be earning 10 percent of the income of the country, 20 percent people would be in 20 percent of the income, 50 percent would be in 50 percent of the income and this is being represented by this straight line.

If we look at the 5 th decile it would reach 50 percent. If we talk about the 10 th decile it would be 100 percent. This is a 1 on 1 correspondence.

If the income of the country was distributed in such a manner that there was absolutely no income inequality, then these bars would have been touching this line. This is the line that shows

absolutely no income inequality, on the other hand this is the curve that is representing the data in these bars. This is no income inequality and this line is showing the actual position.

Gini coefficient is defined as this portion A divided by A plus B that is out of the total area of this triangle, how much of the area has been left out which is this portion A. So, this gives us the Gini coefficient of inequality.

If there is more inequality in the country in that case this curve would shift to this side and in that case the amount of A would increase and when A increases we will have more inequality. When A decreases when these curves just touch this line in that case A will be 0 and when A is 0 we will have a Gini coefficient of 0.

Gini coefficient is a way of representing the income inequality by a single number and this is how the Gini coefficient is determined. We find out the cumulative income share of the country, draw the straight line between different deciles and find out these 2 areas.

One thing is very clear that in our country we have income inequality. We saw that there is income inequality at the global level and we also have income inequality at the national level. Now, this income inequality manifests itself in the form of a number of indicators.

If we look at the indicators of inequality, this is data from the economic survey of India and if we look at the per capita net state domestic product at current prices that is 2011- 12 series as on date first of august 2019.

What we are observing here is that for any state we can find or say for most of the state what we will find is that the per capita net state domestic product has been increasing with time. That is overall the income levels of people has been rising, because the total produce of the state has been increasing and it has been increasing at a rate that is faster than the growth of the population.

Which is why we are observing an increase in the per capita state domestic product. But if we look at different states for any year, let us see 2011 and 12. The per capita net state domestic product for Andhra Pradesh is 69000 rupees.

But for Goa was more than 2 and half lakhs of rupees, for Haryana it was above a lack of rupees. So, what we are observing here is that different states are having different per capita net state domestic product. In the case of Bihar it was less than 22000 rupees.

The per capita net state domestic product of Bihar was less than 10 percent of that of Goa, which is telling us that there are certain states in which people are earning way more than what people are earning in the other states as much as a greater than 10 times difference. This is how we can observe the income inequalities at the state levels.

Even within the country we are observing that different states have been having very different per capita state domestic product and for most of the states though it has been increasing, but still we are finding that there are large differences.

If we look at 2017-18 Bihar the figure is less than 39000 rupees, but for Goa it is around 422000 rupees. Here again even though both have increased in their per capita net state domestic product. So, Goa has increased from 260 to 422 Bihar has increased from 21 to 38, but still the inequality remains.

Another indicator is the social indicator such as the life expectancy at birth. While the life

expectancy at birth in the year 2013 to 17, if we look at Bihar it is 68.9 years but in Maharashtra it is 72.5years, in UP it is only 65 years, whereas in Kerala it is 75.2 years.

So, people in different states are having different life expectancies. Now, this is one result also of the amount of income that different people have in different states, because if people are earning more they can have access to more resources, say better healthcare or health care for a majority of the people. So, these things would increase the life expectancy.

Another indicator is the infant mortality rate that is out of every 1000 life births how many infants die in the first year. Now, here in the case of Assam the figure is 44, in the case of a state like Kerala the figure is 10. So, a child that is born in Kerala is having a much less chance of dying than a child that is born in the state of Assam, or a child that is born in the state of Madhya Pradesh. So, this is also because people in Kerala are earning more, they have better health services, they have much better antenatal care. Even before a child is born the mother is attended to and she is given medicines she is given adequate nutrition.

The income inequality will manifest itself in terms of differences in the human development indices of different states, differences in birth rate, differences in death rate. So, if we look at now a more developed state such as Kerala the birth rate per 1000 is only 14.2, whereas in a state like Madhya Pradesh it is 24.8. So, it is roughly double in the case of Madhya Pradesh.

If we look at total fertility rate in the case of Kerala it is 1.7, in the case of Madhya Pradesh it is 2.7 a large difference in the case of Uttar Pradesh it is 3.0, in the case of Bihar it is 3.2. What we are observing here is that there are different inequalities not only in the economic criteria, but also in the social criteria, in the demographic criteria and to a large extent these are also related.

Because what we have observed in the case of demographic transition is that when a society progresses. So, it has become more developed. In that case the birth rates would be less, the death rates would be less, the growth rates of population will be less and people will be spending more time in school. People will be having access to better health. So, better health and better education. We are observing all these different criteria in the social indicators.

Another indicator is the number of recognized educational institutions in the country in terms of different states. So, here we can observe that the number of education institutions in a state such as Karnataka is much greater than what we have in Arunachal Pradesh or in a state like Meghalaya.

Similarly, if we look at universities we will find that there are certain states that have a very large number of universities such as Karnataka and there are certain states that have less number of universities such as Nagaland.

So, there are differences everywhere the number of recognized educational institutions in a state such as Uttarakhand we have only 2 institutes under the ministry under different ministries, whereas in West Bengal we have as high as 12.

Now, what is happening here is that the more the number of institutes that you have in terms of educational institutions or institutions under the government, the better is the opportunity that is available to the people that are residing in those particular states. So, they have access to more institutions, they have access to more educational institutes, or training institutes where they can learn things or if we have a look at the state wide literacy rates.

If we take any state in a large possibility their literacy rates would be going down. So, if we look at Jharkhand it was 12.9 percent in 1951 and now it has reached as high as 66.4 percent. But then here again there is a difference.

If we look at a state like Kerala in 1951 they had 47.2 percent literacy rate a state such as Madhya Pradesh had to reach till the year 1991 to reach that state.

In the year 1991 we had 44.7 percent literates and Kerala was having a much greater percentage way back in 1951.

Now the literacy rate means that people have access to more job opportunities, they have access to newer technologies, newer developments they can incorporate or they can imbibe any new developments much faster because they are literates. And even today we can find that there is a difference in the literacy rates across different states.

In a state such as Bihar the literacy rate is 61.8 percent; in the state of Himachal Pradesh it is around 83 percent; in Kerala it is 94 percent. Here again what we are observing is that we have different indicators that are showing that different states are not the same.

There are differences or if we have a look at the number of households or the percentage of households with access to safe drinking water in India. In the state of Andhra Pradesh as many as 90.5 percent of households had access to safe drinking water in the year 2011. This is the census data.

But in 2011 they had 90.5 percent of people with access to safe drinking water, in the state of Haryana it was 93.8 percent Himachal Pradesh 93.7 percent, but in the state of Jharkhand it was as less as 60.1percent.

If people in a state do not have access to safe drinking water, it means that there is a greater possibility of those people falling ill to waterborne diseases. These indicators tell us what is the state of living in different states. A person who is much more probable of falling ill because of waterborne diseases will probably not be that efficient than a person who is safe from these diseases.

Because ultimately when a person falls sick the efficiency to do this reduces. People will have to take leave and so these are all different indicators that give us an idea of the level of income that people will be having.

If people have more access to health and education, their incomes will go on increasing. If you look at the population in different states it is different. If you look at population at in under different age groups child sex ratio, now child sex ratio is also a very good indication of the level of development of the society. Because if the society is giving equal weight age to the girl child and the boy child in that case we will find a much higher child sex ratio.

It would tell us that there are very less cases of female infanticide or female feticide and this is what we are observing. Indicators such as these can help us determine the level of development of different states.

In a state such as Gujarat is having a child sex ratio of 890, Haryana is having 834. But if we look at more developed areas such as Kerala you have the figure of 964 in the case of Karnataka it is 948. So, these are also very good indicators of the differential roles of different factors in different states.

So, a state that has a better child sex ratio probably has of women as compared to that of men, which would mean that later on with these girls get into the age of employment they will be having better chances of getting an employment which would mean that they would also be earning.

In a family when more and more people are earning the income would grow up for the family as a whole. Whereas, for a family in which only the male members are earning the income is just half.

Similarly we can have a look at other factors such as the percentage decadal growth or the sex ratio at birth or the school education quality index and all these factors are different between different states. And these differences will also manifest themselves in terms of all these different maternal mortality ratios. Under 5 mortality ratio education that people are getting and so on.

This brings us to the topic of poverty, when we have an income inequality then in the same state or in the same society we will have certain people with more income, certain people with less income certain people with more wealth certain people with less amount of wealth. That brings us to the definition of poverty.

Poverty is a state or condition in which a person or community lacks the financial resources and essentials for a minimum standard of living. So, poverty is a state or it is a condition in which a person or community. What it means is that we can have poverty at the level of a person or we can also have poverty at the level of a community. Which means that in a community there can be certain people who are rich and certain people who are poor or we can have a community that itself is rich or poor.

We have observed that in the case of different states there are certain states that have more resources. We will say that those are the richer communities and there are certain states with lesser resources and we can say that those are poorer communities.

And poverty will be defined as a state or condition in which a person or community lacks the financial resources and essentials for a minimum standard of living. So, we are not talking about a very luxurious life, but we are saying that the minimum standards of living; how easy it is for people in those communities to meet the minimum standards of living.

In this case we can define 2 different kinds of poverty: absolute poverty and relative poverty. Absolute poverty is a condition characterized by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter education and information. So, absolute poverty is characterized by a severe deprivation of basic human needs.

On the other hand relative poverty is a condition where a household income is lower than the median income in the particular country. So, the difference between absolute and relative poverty is that absolute poverty says that people are unable to meet the basic requirements.

Whereas, relative poverty says that even in a community that people are able to meet their basic requirements, there will be some people who have more income and some people who have less income. So, the people who are earning less than the median income would be said to be poor, in terms of relative poverty.

So, a condition where a household's income is lower than the median income in that particular

country is the people who fall in the bottom half. We will say that they are the relatively poor people in that community or that country. So, it is possible for a person to be relatively poor, but not absolutely poor.

Because in the case of a person who is relatively poor, but is having access to sufficient amounts of nutrition, sufficient access to health, and a sufficient amount of education, but still there are people in that community that are earning way more. So, in that case we will say that this person is not absolutely poor, but he is relatively poor when compared to others.

At the same time there can also be a situation where everybody is absolutely poor and in that case it is possible for a person to be relatively rich, but absolutely poor. Which means that the community in itself is having such a huge lack of resources that even the best of people are unable to meet the basic human requirements of health education information and so on.

This is the difference between absolute poverty and relative poverty. Absolute poverty talks about a severe deprivation of basic human needs and relative poverty talks about the comparison with other people in that country or community.

Now, absolute poverty depends not only on income, but also on access to social services. Which means that you can have people who have a very small amount of income, but if they are provided the basic human needs of shelter, education, nutrition and so on by say the government or they are provided these amenities by say an NGO then they will cease to remain in absolute poverty.

Even though their income levels are very low, which means that we can eliminate absolute poverty by things such as providing nutrition to people or providing shelter to people or by providing a certain amount of money to these people.

So, absolute poverty depends not only on income, but also on access to social services. In our country absolute poverty refers to per capita consumption expenditure level, which does not meet the average per capita daily requirement of 2400 calories in rural areas and 2100 calories in urban areas along with a minimum of non food expenditures.

Which means that in our country we say that a person is absolutely poor, when he or she is not able to meet the minimum nutritional requirements and certain other requirements. We would also mean that if the government provides everybody with minimum nutritional requirements, that is the government provides food grains at cheaper cost, then we can pull people above the poverty line.

That means, we can bring them away from absolute poverty. This is why these two definitions become important. And in this context we define the poverty line, it is an absolute level of income set by the government for each family size below which a family is deemed to be in poverty.

It is an absolute level of income, which means that we are talking about absolute poverty, we are not talking about relative poverty. The poverty line is an absolute level of income that is set by the government, for each family size because if somebody has a larger family then probably they will require more income. And if the income of the family is less than this absolute level that is set by the government for that family size, then we will say that this family is below the poverty line.

And in this context we also define the poverty rate or the head count ratio, poverty rate is the percentage of the population whose family income falls below an absolute level called the poverty line. That is when we are talking about the poverty rate we are asking the question of all the families in our country or in a state. What is the percentage of families that are below the poverty line? That is they are below this minimum criterion or the minimum level that has been set by the government.

More the number of families that are below the poverty line more will be the poverty rate also known as the head count ratio. And in our country if we look at the head count ratio it has been decreasing over time.

In 1973-74 around 50 percent of people in urban areas and even more so the number of people in the rural areas were below the poverty line. But in the year 1999- 2000 this figure had come down to less than 30 percent.

So, the poverty rate was roughly half in a quarter of a century. This is the head count ratio, the percentage of families that are below the poverty line and with time because of development more and more people are now moving out of the poverty line.

But if you look at the number of poor in millions, then it presents a somewhat different picture. If you look at the number of rural poor then we will find that this number has been going down. But if you look at the number of urban poor we will find that this number went up and now it is showing a downward trend.

Now, why do we see this increase in number, now this increase in number can be because of 2 reasons: one is that these people are not running enough, that is the incomes of certain groups of people are becoming less. So, that they are moving from above the poverty line to below the poverty line, now that can be one reason.

But another reason that is more prominent in our country is that because of migration people move from rural areas to the urban areas and in a large number of cases the people who shift from rural areas into urban areas are the poor people, who are looking for casual employment.

Say employment: in employment as a street seller or employment as a household worker or employment as a casual labour in a factory, employment as a porter. Now, these people who were extremely desperate who were extremely poor were living in the rural areas and they shifted to the urban areas in search of employment.

In such a scenario the number of urban poors would increase because more and more rural poor are moving into the urban areas. But the good thing is that the poverty rate has been going down with time.

When we are talking about poverty it is important to remember that people can move into and out of the poverty line, that is there can be times where people are more poor and there can be times where the people are less poor. A good example is the agricultural sector.

In the agricultural season more and more people get employment in the fields. When they get work they get a certain amount of money, but at the end of the agricultural season when there is no longer any need for the workers or there is very little need for workers in those times these people lose their jobs and in that case they become poorer.

So, we have certain categories of poverty, the first category is always poor. If this is the poverty

line that is on the y axis we have the income on the x axis we have the time and if this is the poverty line and if the income of a family or a household is it is going up and down with time. But at all points of time it is below the poverty line then we will say that these people are always poor.

On the other hand we can have situations where people are usually poor, which means that for a large portion of the time they are below the poverty line. But there can be instances where they move above the poverty line. In this case they are usually poor, they are not always poor.

Then the third category is that of churning poor. So, these are those households that are regularly moving in and out of the poverty line. For certain periods of time they are below the poverty line and for certain periods of time they are above the poverty line. This is known as churning poor.

On the other hand we can also occasionally have poor people, which means that for the most part they are above the poverty line. But in certain points they move below the poverty line. And then we have the category of never poor of those people who are always above the poverty line.

It is important to note here that poverty is a dynamic phenomenon that can change with time. So, a person who is absolutely poor can become a non poor in certain seasons when they are getting employment or probably when they get remuneration by selling agricultural produce.

There could be certain points of time where these people are no longer poor, but then there are the people who are not poor they can also move into the poverty line. So, this is a dynamic concept.

The next thing to note is that the income distribution and poverty rate do not completely quantify the inequality. Now in this case we are interested in conservation economics to know the situations or the circumstances where poverty would lead to a greater environmental degradation. What we have seen so far is that when people are poor then the amount of pressure that each household puts on the environment in certain cases is much greater than if these people are moved out of the poverty line.

But then this is not the complete story. Basically we can say that people who are very rich are also putting a very large amount of strain, people who are very poor are also putting a very large amount of strain. But then the people in between are putting probably a lesser amount of strain on the environment. How can we make those people who are very poor a little less poor? Is income the only criterion? The answer is no, because what matters is not the income but the ability to maintain a good standard of living.

Essentially if there is a household that is earning less, but we are able to provide it with education and health services, adequate nutrition then probably we would be able to shift them from the very early stages of demographic transition probably to a later stage, that is we are interested in making these people a little less poor by providing them with all different sorts of facilities that are necessary for the maintenance of the minimum basic standards of living so that the amount of pressure that this household is putting on the environment reduces, that is probably we we increase their living standards to such an extent that it is now possible for them to say purchase fertilizers. So, their crop productivity increases and the amount of pressure that they are putting on the forest reduces.

Because they now no longer require very large portions of land, because of the productivity

increases or with adequate amounts of health services and education. We can make them come to the conclusion that yes our children are going to survive. It is not the case that the majority of our children are going to die, which means that even if we have 1 child or 2 children they are going to reach adulthood.

Now, there is no longer a need to have a larger family. So, if that is our aim to use the concepts of poverty to aid conservation, then how do we analyse this situation is providing income the only way out the answer is no. So, what matters is not the income, but the ability to maintain a good standard of living and this ability is also affected by things such as in kind transfers.

In kind transfer is transfers to the poor given in the form of goods and services rather than cash, which means that in place of giving the poor people with money directly to purchase food at the normal market prices.

What the government does is that it provides them with a certain amount of rations every month either free of cost or at a very nominal rate and when the government does that it is able to raise their nutritional level of standards.

Similarly, the poor people get access to health facilities. So, even though they might not be able to afford a private doctor in say a city, the government ensures that there is a hospital that is set up in their community and also that doctors are appointed there so that the poor people are also able to get access to good health services.

Similarly, the government puts a lot of emphasis on opening up educational institutions, primary schools in areas that are more poor and more backward. The government puts a lot of emphasis on setting up things such as clean sanitation or provisioning of clean water in areas that are very poor.

In this case the government is not providing money to the people, but the government is providing them with facilities in the form of in kind transports and those are also able to raise the standards of living. So, when we saw here that the head count ratio has been going down, a major factor is also because in our country the poverty line is defined by the amount of nutrition that people get 2400 calories in rural areas and 2100 calories in urban areas.

But with the government programs and policies we have been able to provide people with this amount of rations, so that they are able to get this amount of nutrition. Another thing is the economic life cycle, the regular pattern of income variation over a person's life. So, we observed here that there is a regular pattern of variation in income.

In certain points of time people have more money, in certain points of time they have less money and a very important thing in this case is retirement. Now, people earn money when they are in the employable age, but when people become old then they do not find employment. So, in that case their income reduces by a very drastic amount. Because of that, retirement planning is important.

So, the income is less to begin with, then it rises with age and sharply reduces on retirement, if retirement planning is done properly a decrease in income will not reflect as a decrease in the living standards. And this is what the government is also emphasizing these days. So, the government has brought up a number of programs that provide people with facilities for better retirement planning things like old age pensions.

Another point is the permanent versus transitionary income, so a person's normal income versus the income in a particular time period, such as drought or flood or market upheaval. The standard of living is more dependent on the permanent or average income while transitionary changes can be smoother now using loans etcetera.

When we talk about this permanent versus transitionary income, we are interested in this portion. So, there are certain people who are occasionally poor, that is for a large portion of the time they are above the poverty line, but because of certain market fluctuations or things such as drought they might move into the poverty line.

When a person moves from above a poverty line situation into the poverty line, then it is also possible that their living standards do not go down drastically. Why because they have access to funds in the form of things like loans. So, in this case the average income of a person is more important than transitionary income.

Even if transitionary income goes down, if we are able to ensure that people have a good amount of average income, then that will be helpful to the people. Now, next we come to the normative question should income be redistributed. So, when we talk about poverty although one way of reducing poverty is by taking the money from the rich people and giving it to the poor people, the question is should the government do it. Now, this is not just a question of economics it is also a question of philosophy and a question of quality.

And in this case we have several schools of thought, the first school of thought is utilitarianism, it is the political philosophy. According to which the government should choose policies to maximize the total utility of everyone in the society, where utility is defined as a measure of happiness or satisfaction.

So, utilitarianism says that the aim of the government should be to keep the maximum number of people happy or satisfied. Now, in this case because we have the law of diminishing marginal utility it means that a person who is having a large amount of income is probably gaining a lesser amount of happiness or satisfaction with each increase in the income.

But in other words what we are saying is that if there is a person who is earning say 100000 rupees or 1 lakh rupees and if the person shifts to earning 101000 rupees now this is case 1. The second case is a person who is earning say 200 rupees and he is also earning 1000 rupees more so 1200 rupees so this is case 2.

In this case what happens is that a person who is already earning a large amount of money 100000 of rupees in for this person this change of 1000 rupees it will not lead to a very large increase in happiness, because percentage wise this change is very less and also the resources or the utilities that this person wants to have in his life they have mostly been already accumulated.

So, this 1000 rupees will not make a very big change in the life of this person. But if you look at case 2 a person who was earning just 200 rupees you give him 1000 rupees and he is now earning 1200 rupees.

In this case there is a 6 fold change in the income. So, even though the absolute change is only 1000 rupees in both the cases, in the first case the change is very minuscule around 1 percent; whereas, in the 2 nd case it is as high as 6 times. So, utilitarianism would say that there is a case of taking money from the rich people and giving it to the poor people. So, in total the amount of

happiness or satisfaction in the society increases.

Because of the law of diminishing marginal utility the utilitarian perspective would say that income redistribution will help maximize the utility of the society. So, this is one school of thought. Another school of thought is Liberalism, the political philosophy according to which the government should choose policies deemed as just.

So, the government should make those policies that are just policies as evaluated by an impartial observer behind a wheel of ignorance. What liberalism says is that the government should be interested in making just policies that are fair policies and fair policies that are judged by an outsider. An impartial person who is behind a wheel of ignorance, which means that this person should not know whether he himself belongs to a rich class or a poor class.

Suppose a person is given this option that he can be born into a rich family or he can be born into a poor family, but he does not know whether he will be born into a rich family or a poor family. Now if you ask this person to make the laws or the policies then probably those will be the best policies, because this person would take care of the interest of both the rich as well as the poor. So, these will be fair policies.

Because he might be born as a rich person in which case if he had made policies to favour only the poor then he will be negatively influenced. On the other hand he may even be born a poor person. So, if he had made policies that favour the rich in that case he would be negatively impacted.

So, given that a person does not know whether he will be born rich or poor and if you ask such a person to bring the policies, those will be the most fair policies. So, this is what liberalism says and it talks about the maximin criterion or maximizing the minimum utility.

So, the people who have the minimum utility and the fair policies would try to maximize their utility, the claim that the government should aim to maximize the wellbeing of the worst off people in the society. So, in the case of liberalism it says that the government should try to help the most poor people and while this criterion suggests income redistribution. So, some amount of income redistribution is ok according to liberalism.

The veil of ignorance would suggest that complete equality would remove the motivation to work to the detriment of the society. So, liberalism says that yes some amount of income redistribution should be done, but it should not be done to equalize everybody, because if everybody is equal then there will be no incentive for people to become rich to work hard and we want people to work hard so that the society progresses.

And so there has to be some amount of inequality, but then this inequality should be maintained in such a manner that the poorest people also are not very bad often, that is they also have abilities to meet the minimum standards. So, this is liberalism.

It suggests that some income redistribution should be done, but some inequality should remain to motivate people to work and redistribution of income should be done in the form of social insurance. So, the worst of people are also protected.

Social insurance is the government policy that is aimed at protecting people against the risk of adverse events. Social insurance is a government policy aimed at protecting people against the risk of adverse events. It means that when we make the policies, then liberalism would say that if

somebody becomes very poor if there is, say, a drought, then there should be policies that help these people.

Another school of thought is libertarianism, the political philosophy according to which the government should punish crimes and enforce voluntary agreements, but not redistribute them. So, this is another extreme. It says that the role of the government is to punish crimes and enforce the voluntary agreements, but not to redistribute income.

Equality of opportunity is more important than equality of incomes and once the rules of the games are established the government should not alter the result. So, libertarianism says that the government should only be interested in making the institutions - maintaining the institutions that promote the rule of law.

But once you have the system then a person should be allowed to remain in whatever state he or she is in. So, if somebody is poor even though the system is just, if somebody is poor the government should not help that person. This is another school of thought.

What we are observing here is that when we talk about income redistribution we can move from utilitarianism which says that everybody should be made equal to maximize utility to the other extreme which is libertarianism which says that even if somebody is poor we should let that person remain poor. So, this is a normative question.

Now, because the government is interested in reducing poverty in our country we are more towards liberalism than either of the 2 extremes, so we take the middle path. So, the government tries to reduce poverty and the government reduces poverty or it tries to reduce poverty by a number of measures such as the minimum wage loss.

It says that people have to be paid a minimum amount, but as we have seen in a number of cases it results in surplus. Apart from minimum wage laws we have welfare policies which are government programs that supplement the income of the needy, such as things like old age pensions or disability pensions. So, people who are very old or people who are disabled they are provided with a certain amount of government money to supplement their incomes because they are needy.

We also have negative income tax which is a tax system that collects revenue from high income households and gives subsidies to the low income households. So, in our country as well we have income tax that is a progressive tax which means that if somebody is earning more than a larger share of income is taken from that person.

But at the same time the government also provides subsidies to the poor people. So, negative income tax is also used in kind transfers are used such as provisioning of food grains at subsidised prices and we also have anti poverty programs and work incentives such as the Mahatma Gandhi National Rural Employment Guarantee Scheme, but to bring the income inequality to 0 or not still remains a political question.

That is all for today. Thank you for your attention. Jai Hind!