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Full Length Research Paper

Distributive justice: Cognitive Preferences and Jarring Priorities

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In the wake of Thomas Picketty's refocus on the concentration of income and wealth with the publication of "Capital in the 21st Century" in 2013, discussions about growing inequalities due to " $r > g$ " have intensified. The widening chasm in incomes and wealth between the top 1% and the bottom 99% is due to pervert transfer of incomes from the poor to the rich. Burgeoning inequalities are also due to Schumpeterian entrepreneurship and innovations as well as crony capitalism. Cognitive preference aside, there is resistance to the Pigou-Dalton transfer principle embedded in the idea of a global system of progressive wealth tax. A realistic Marxian understanding of the matter-of-fact power associations and interactions in a free capitalist state shapes the world view. It deconstructs radical solutions and calls for furnishing the basics of an unpretentious life on an emergency basis to the deprived. After tracing the outcomes of the commonplace empirical constructs about the policy packages offered as an antidote to inequality, the paper identifies the trends in income and wealth in America and India. Finally it offers the Tertium Quid: While inequality reduction is as critical as ever, it is worth doing what is only feasible: diminish deprivations in food, shelter, education and health care on a firm timeline and special budget. This will enable more of the poor to achieve their potentials and that will contribute to disparity management.

Keywords: Inequality; Poverty; Inclusive Economic Growth; Basic Needs, and Education Prerogative.

INTRODUCTION

In the wake of Thomas Pickett's refocus on the concentration of income and wealth with the publication of "Capital in the 21st Century" in 2013, the discussion about growing inequalities due to $r > g$ has intensified. One of the merits of this work is the use of administrative tax records, real empirical (income tax) rather than survey data to bring up stark truths about income and wealth inequalities. For example the top 0.1 percent owns as much wealth as the bottom 90 percent. The same trajectory may persist well into the future. Simply stated,

whenever the rate of return (r) on capital is higher than the general growth (g) rate in GDP, inequalities in incomes and wealth will emerge inevitably. Bigger the gap between the two variables larger also is the magnitude of inequality. Chapter 10 of Picketty's book uses this explanation for extremes of inequality in practically every society up until the First World War. More recently he has clarified that $r > g$ is not the only or main tool for considering changes in income and wealth in the 20th century or for forecasting the path of inequality in the 21st century.

Factors endogenous to the process of growth and development such as institutional changes and political shocks have played an important role and will continue to

do so in the future. Picketty himself does not consider $r > g$ as a useful tool to explain increasing inequalities in labor income. A factor like the demand for and supply of skills assumes more importance. Regardless of the reassessment of the role of $r > g$, Picketty has helped bring economic distribution to the center of economics. Picketty, Thomas (2015) Putting Distribution Back at the Center of Economics: Reflections on

Capital in the Twenty-First Century, *Journal of Economic Perspectives—Volume 29, Number 1—Winter 2015—Pages 67–88* At the same time he is criticized for perpetrating the same missteps of David Ricardo and Karl Marx: Ignoring a) technology's role, b) the juggernaut of market behavior, and c) market distribution of economic gains in a free society. Acemoglu, Daron and Robinson James (2015) The Rise and Decline of General Laws of Capitalism, *Journal of Economic Perspectives—Volume 29, Number 1—Winter 2015—Pages 3–28*, Be that as it may, for the greater good, sound economic policy needs to ensure that economic progress is inclusive and not just for the top 1 or 10 percent, not even for those that have the political wherewithal to channel the gains. The rich are becoming the rentier class living off accumulated and inherited wealth. Picketty's work, whatever may be the drawbacks, has proved that inequalities are getting egregious historically and more so currently. He has called for reforms even in the eurozone for the sake of all-round progress. Picketty, Thomas (2016) A New Deal for Europe, *The New York Review of Books*, Feb.25 2016, p. 4, Inequalities are a threat to democracy in more ways than one.

Focus on Deprivations

The issues of a) reducing inequalities, b) lessening poverty, and c) getting rid of deprivations, though interrelated, are not the same. They have different income, non-income, material and non-material dimensions. None has come up with a universal model or General Theory of Egalitarianism that would resolve issues of a, b, and c above.

This paper has the limited objective of reasoning out that for the next decade or so the focus needs to be on deprivations: guaranteeing the prerogatives of basic needs, including universal education and health care. This would reset the struggle for eliminating poverty and later inequalities. Given the compulsions of a free capitalist democracy in the US and India, and the Marxian perspective of power control of economic and political levers by the wealthy, it may be too idealistic to plan for an egalitarian social order. In these democracies it may be imprudent to plan elimination of inequalities or even poverty without first ensuring that the real living needs are met. With equal opportunities available to all, the more motivated may pull themselves up, like many

indeed do, by the bootstraps, and snap out of poverty and get to have some of the essentials of modern life. They should also have the choice of a life of minimalism or moderation like that of the carbon-negative Bhutanese or of Henry David Thoreau. The paper also starts from the premise that the drives propelling the capitalist system viz., incentives and disincentives, competition, entrepreneurship and innovation, are vital. Second, the Government alone cannot accomplish rapid growth and disparity reduction.

Basic needs include literacy, vocational skills and health care. There is wellness too, which is subjective. That economies even rich as the US have been unable to make essentials affordable to the less well-off speaks much about the system's cognitive dissonance. Millions of such folks do want to improve their miserable living conditions and look for education and training. In a macro sense, there are out-of-the-box solutions that might reduce a society's burden of guaranteeing basic needs such as for example: a) lessening gender or other human discriminations (see Table 4) b) making available on tap Internet Technology (IT), regarded as the great equalizer after education, and c) helping the poor curb environmental degradation and become less vulnerable to afflictions, cancers, distresses and deprivations of various kinds. This paper limits itself to discussing economic deprivations. Lack of holistic knowledge of other dimensions illustrated in Figure 1 above suggests this approach.

The OECD Composite Index of Well-being evidences that increase in per capita GDP does influence positively many of the factors used to construct the Composite Index. The correlations between GDP per capita and factors like life expectancy, height, real wage, years of schooling are strongly positive. However between per capita GDP and inequality it is significantly negative. Correlation with polity is around 0.75. It is again somewhat negative between 0 and -0.5 for biodiversity and homicides. OECD (2014) How Was Life?: Global Well-being since 1820: A composite view of well-being since 1820. Available at http://www.keepeek.com/Digital-Asset-Management/oecd/economics/how-was-life/a-composite-view-of-well-being-since-1820_9789264214262-17-en#page4. The enormous variety of factors and local variations will demand solutions custom-made to the demographic space in say Sub-Saharan Africa, or in India or Bangladesh or even intra-nationally or within regions and sub regions. The point in time is also relevant. The question is: how do you make life happy or happier for more people? This was the conundrum faced by investigators such as Iyengar and others, describing poverty as a multidimensional concept and a great challenge for any country. N.S. Iyengar (2010) Poverty and Sustainable Development. Concepts and Measures, Indian Economic Association, Deep and Deep Publications, New Delhi. P.xv.



Fig. 1 Economics-Wellness link stemming from a modified Maslow Pyramid
Source: S. Char (2015)

The Pareto Distribution

Paradoxically, there is little challenge to the hypothesis that poverty triggers political and social strife and conflict and perpetuates egregious deprivations. On the flip side of the hypothesis, robust economic development is a production function of equal opportunity, and lesser the disparities in personal income distribution, higher also is the probability of economic welfare and faster growth. There is however, a case for boosting inclusive economic growth advancing equal opportunities in tandem. In India's case, the deficiencies are flagrant, that they need to be redressed with urgency. Technological progress mandates inclusivity of all sections of the society for robust growth.

The Pareto fact of 80-20 eponymous distribution principle stating that larger proportions or percentages of wealth, income, (and various other observable phenomena) are owned (powered) by a smaller proportion or percentage of people, or that 20 percent of the population controls 80 percent of the wealth has been analyzed in depth and is today an axiom. Analysis can be carried further down to Pareto distributions within wealth (interest income to capital), and within labor income (vast variations) and between inequality as between capital and labor. Jones, Charles I. (2015) Pareto and Piketty: The Macroeconomics of Top Income and Wealth Inequality, *Journal of Economic Perspectives—Volume 29, Number 1—Winter 2015—Pages 29–46*. It would meet our purpose of review of inequality if we could consider both inequalities of incomes and of opportunities for growth. However opportunity assessment is far more difficult because it relates to human capital development, letting people achieve their potentials, given that they get the best education possible at all times or at all ages of learning, including in adulthood. In the case of income

inequality, it is much less problematic: the Gini coefficient can give us a fair, but limited idea about it.

Figures 2 and 3 depict inequalities and their composition in America over the past century bringing into focus the sharp contrasts in growth of average GDP per capita of the top 0.1 percent and the bottom 99.9 percent. It stands at a higher level in 1913 for the top than in 1977. It is the bottom 99.9 percent enjoying the outcomes of growth till 1960. Between 1950 and 1980 the average growth in GDP for the bottom 99.9 percent was 2.3 percent. During 1980-2007 it declined to 1.8 percent. In absolute terms it plateaued. GDP growth per capita for the top 0.1 percent which was almost stagnant at about 1 percent till 1980 grew impressively at an average clip of 6.86 percent. In dollar terms it is an outlier rate to some extent accounted for by inheritances, innovations, and incomes of hedge funds making money not by adding value but by financialization or financial scheming or gaming the finance practices.

Graph of the decomposition of pretax income to top 0.1 indicates that there is a U shape of the income inequality curve before the Great Depression. It was high and got flattened till about 1970 and again rose to the same high levels of 1910 and 1920s. Capital income contributed to reduce income inequality to a limited extent. The rise in income inequality is contributed by the so called business income and by labor income. If the rate drops and rises over time, it will be but more like a rolling wave ($Y = \sin X$). Banerjee A. and Piketty T (2004) Figure 4, The Kuznet's Curve, yesterday and Tomorrow, *Understanding Poverty* edited by Abhijit Banerjee, Roland Benabou and Dilip Mukherjee available at <http://piketty.pse.ens.fr/fichiers/public/Piketty2005c.pdf>.

Pareto distribution is explained by very quick growth such as say X raised to the power of a given exponent like in the case of population or compound interest. Such

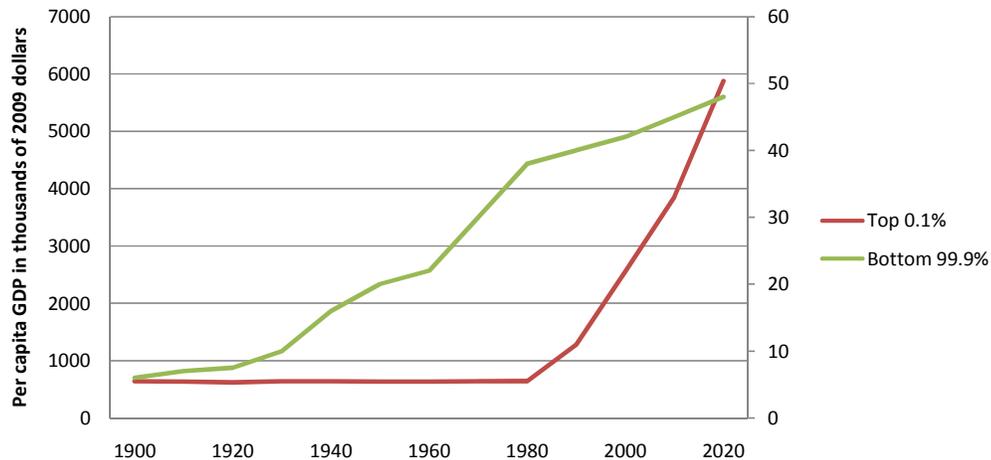


Fig. 2 GDP per capital Top 0.1% left scale in crimson and Bottom 99.9% right scale in green
Data Source: Graph by author from data in Charles I. Jones(2015)

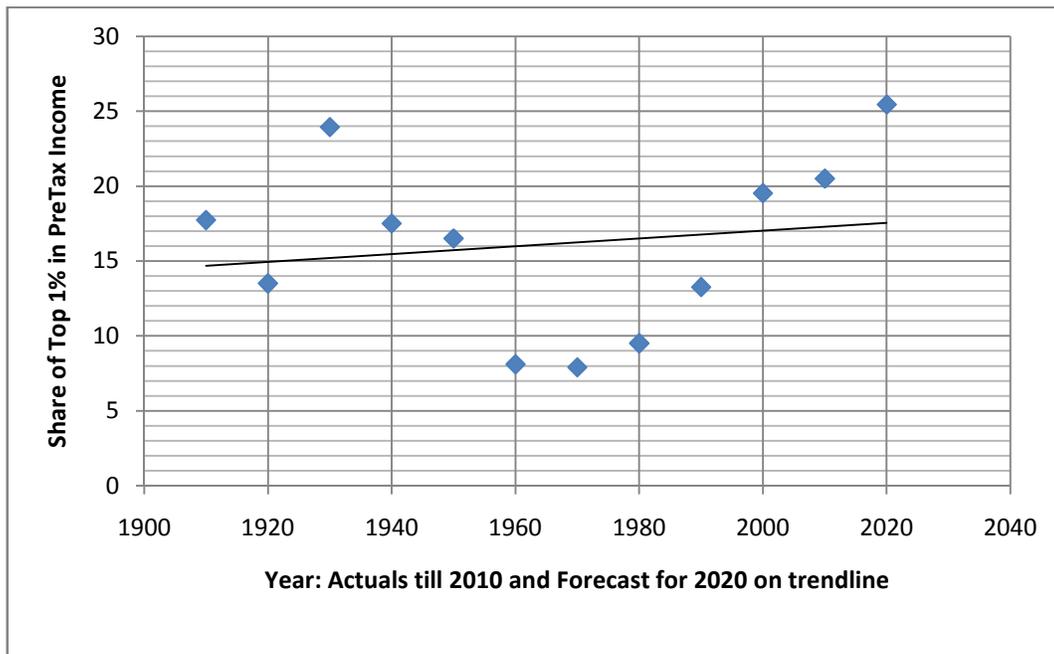


Fig. 3: Share of top 1% in US Total Pre-Tax Income
Source: Chart by author using data from www.Inequality.org

growth occurs over an exponentially distributed period of time. Stiglitz points out such a Pareto pattern is a matter of choice, and not inevitable and can be substantially improved towards less inequality by changing the “trickle down economics” structure of free market economy. This calls for rewriting the rules governing the distribution process, practice and procedures, something very hard to contemplate under the current political environment. Stiglitz, Joseph (2015) *Rewriting the Rules of the American Economy, An Agenda for Shared Prosperity*

and Growth, Roosevelt Institute, New York. Available at <http://static1.squarespace.com/static/5547c707e4b0e8aadbc53a05/t/55520236e4b0872f41a7058a/1431438002852/Rewriting+the+Rules+Report+Full+Report+-+Single+Page+Final.pdf>. There are other dimensions to inequality as depicted in Figure 4 below. Race and age too play a role as the chart of race and age-wise networth shows. It is quite possible a similar diagram emerges if data for different ethnic and racial backgrounds for India’s population is charted.

Wealth Gap

Average and median net worth, by race and age of head of family

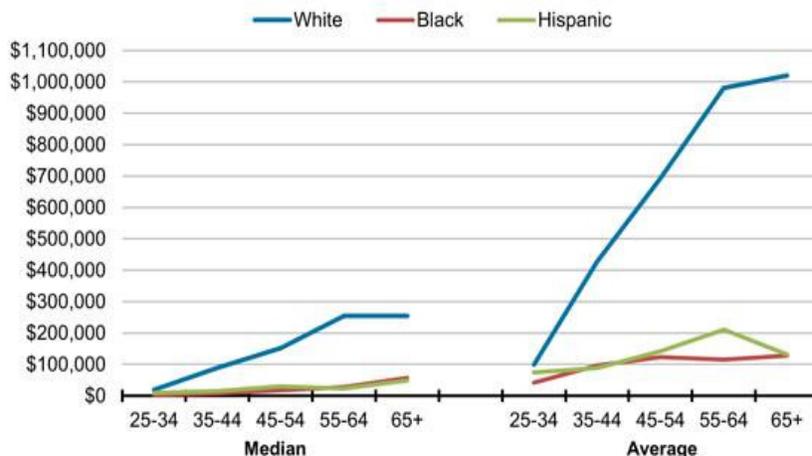


Fig.4: Race-wise Wealth Disparities
Source: Federal Reserve/ WSF.com

Table 1: India's HDI trends based on consistent time series data and new goalposts

	Life expectancy			GNI per capita (2011 PPP\$)	HDI value
	Expected years	at birth	of schooling		
			Mean years of Schooling		
1980	53.9	6.4	1.9	1,255	0.362
1985	55.8	7.3	2.4	1,446	0.397
1990	57.9	7.7	3.0	1,754	0.428
1995	60.4	8.3	3.5	2,046	0.462
2000	62.6	8.5	4.4	2,522	0.496
2005	64.5	9.9	4.8	3,239	0.539
2010	66.5	11.1	5.4	4,499	0.586
2011	66.9	11.7	5.4	4,745	0.597
2012	67.3	11.7	5.4	4,909	0.600
2013	67.6	11.7	5.4	5,180	0.604
2014	68.0	11.7	5.4	5,497	0.609

Inequality in India

In 2011 the Organization for Economic Cooperation and Development (OECD) reported that in India the top ten percent of income earners made 12 times more than the bottom ten percent as compared to six times twenty years earlier. Thus inequality in India doubled between 1991-2011. India also has the unsavory distinction of having the largest number of poor in the world with about 508 million out of 1210 million total population living on less than \$1.25 a day or a revised \$1.90 a day. The data in Tables 1 and 2 from UNDP's Human Development Report is in this respect a case of too little too late, and yet the progress made in the quarter century between 1990-2014 in life expectancy (17%), mean years of schooling (80 %), Gross National Income (GNI) per capita (213.4 % in 2011 purchasing power parity dollars) is encouraging. What is striking however is that the data

hide poverty and deprivation which this paper is urging should be the single-minded focus?

The data confirms the urgent task in South Asia at the national, state or local level is one of focusing on deprivations in food, health care and education, and not one of the grandiose and unachievable goal of ending inequalities. It is commonplace understanding that while talent is universal, opportunities are very limited. Given the needed education, means for livelihood and health care, communities anywhere can advance economically and socially.

Antidotes to Inequalities

While inequalities matter for America, what is more crucial for India is ending stubborn deprivations in basics. An outstanding feature of the current inequality scene

Table 2 India's HDI indicators for 2014 relative to selected countries and groups

	HDI value	HDI rank	Life expectancy at birth	Expected years of schooling	Mean years	GNI per Capita (PPP US\$)
India	0.609	130	68.0	11.7	5.4	5,497
Bangladesh	0.570	142	71.6	10.0	5.1	3,191
Pakistan	0.538	147	66.2	7.8	4.7	4,866
South Asia	0.607	—	68.4	11.2	5.5	5,605
Medium HDI	0.630	—	68.6	11.8	6.2	6,353

Source: UNDP: UN Development Report 2015 accessible at http://hdr.undp.org/sites/all/themes/hdr_theme/country-

whether in the US or India is the lack of concern about any inequality, egregious or otherwise. While no one trying hard to level the hills of wealth and fill the valleys of poverty like in a revolutionary way there ought to be more concern about ensuring equitable distribution of basic goods and services such as clean water, health care, education and employment, market failure never interrupting such distribution. No one is wasting time planning an ideal or desirable level of income or wealth inequality.

Pragmatists would let even evidently skewed incomes and wealth be as they are, and instead focus mainly on essentials distribution not as an entitlement or gratuity, but as a humane society's concern to promote all people's capabilities and functionalities. The flip side to this would be: How much longer the poor anywhere should continue to be deprived of life's basics? What really matters is not if the top two quintiles make 50 or 60 percent of the incomes or possess 50 or 60 percent of the wealth or if the bottom two quintiles receive less than 20 percent or 30 percent. Similarly, it is not worrisome if the Lorenz curve is way too much drooping close to the cumulative population line or close to the perfectly equal 450 diagonal distribution line. What is of concern is one of providing opportunities for human development, and not the location of the Lorenz curve as under the Pigou-Dalton principle. Debraj Ray (1998) *Development Economics*. Princeton University Press, Princeton, New Jersey. Pp 180-186.

Income inequality is corrected in many countries by means of redistributive income taxation at varying costs in terms of slower growth or nil effect on inequality, or both. The marginal income tax rates in India not long ago were almost 100 percent above a given low ceiling, giving a valid excuse to the rich to evade them and indulge in black or tax-avoided income. Tax law enforcement was not anywhere competent like in the USA. Both such taxation as well as welfare benefits that are not means-tested could discourage people from working. Why would a rational person make more if only to part with most of it by way of taxes? In America, there are hedge fund owners and managers who have winner-take-all incomes that run into millions every year, net worth doubling

swiftly to over a billion, increasing inequalities prominently. 25 Richest Hedge Fund Managers. Available at

[http://www.investmentweek.co.uk/investment-week/news/2405579/odey-nets-gbp580m-to-rise-up-rich-](http://www.investmentweek.co.uk/investment-week/news/2405579/odey-nets-gbp580m-to-rise-up-rich-list-)

rankings?utm_source=taboola&utm_medium=referral&utm_content=dailykos, The same is the situation with inventors, soft-ware and app developers, celebrity singers, and sports persons, gamblers and lottery-winners. As Angus Deaton would say "Inequality is partly a marker of success. If someone thinks up some new innovation that benefits many, and the market works right, they get richly rewarded for that and that's just terrific and that creates inequality." Some of the harshest inequalities have originated from successful innovations such as the steam engine to computer software and applications such as Apple I phone, Google, Facebook, WhatsApp and so forth. Angus Deaton (2015) 'I Both Love Inequality and I'm Terrified of It' *Wall Street Journal*, Available at

<http://blogs.wsj.com/economics/2015/11/17/nobel-winner-angus-deaton-i-both-love-inequality-and-im-terrified-of-it/>. Facebook, Apple, Netflix and Google (FANG) stock prices provided the source of alpha or the excess of return compared to a benchmark, thereby contributing disproportionately to overall S&P 500 returns or to NASDAQ 100. Schumpeterian innovation is embraced everywhere, but not crony capitalism, people in the top one or ten percent living off inherited economic fat. Crony capitalists tend to invest heavily in politics to retain or gain political clout.

Contrast this with the recent Deaton-Case findings of the epidemic of self-destructive behavior of middle-aged white Americans significantly increasing mortality rates due to higher incidence of suicides, narcotic excesses or binge drinking damaging the livers. Krugman, Paul (2015) *Despair, American Style*, Available at

http://www.nytimes.com/2015/11/09/opinion/despair-american-style.html?rref=collection%2Fcolumn%2FPaul%20Krugman&action=click&contentCollection=Opinion&module=Collection®ion=Marginalia&src=me&pgtype=article&_r=0.

Higher incomes and education were supposed to increase happiness and well-being and not bring about pikes in mortality rates. There are thus shades of grey for every change in variables and there cannot be a rush to judge if what occurred is the right or the wrong turn/happening as far as ending poverty or reducing inequality. Similarly the impact of a wealth tax cannot be guaranteed to reduce inequality because of the dynamics of macroeconomic factors as for example, the savings-Investment rates, depreciation rate, growth rate, the dimensions of wealth and income increases, and of course plain capital flight and tax evasion. They impinge on each other, and on inequality. The famed $r - g$ alone will not help get down to the brass-tacks of inequality reduction.

At times inequality is reduced in unpredictable ways, like it was illustrated above with an example of stopping gender discrimination in compensation. By way of further evidence, as simple an action as rehydration has saved millions of lives and improved longevity. This is the case of oral rehydration solution (ORS) consisting of salt, sugar and water. Yee, Amy (2015) In Bangladesh, a Half-Century of Saving Lives With Data, Available at <http://opinionator.blogs.nytimes.com/2015/11/17/in-bangladesh-a-half-century-of-saving-lives-with-data/?action=click&pgtype=Homepage&version=MostVisible&moduleDetail=inside-nyt-region-1&module=inside-nyt-region®ion=inside-nyt-region&WT.nav=inside-nyt-region>. ORS has saved millions of children vulnerable to diarrheal diseases thereby improving life expectancy and impacting the HDI positively. On account of regular surveys and collection of data, together with honing simple solutions over the decades, child mortality in Bangladesh has been reduced 75 percent in 25 years. ORS has had global applications. Better health and well-being are significant contributors to better life. Another significant example listed earlier is the McKinsey Global Institute's finding that tapping women's potential and ensuring greater women's labor participation rate would add \$28 trillion to global GDP as early as by 2025 (See Table 4) Bhutan's Gross Happiness Index (GHI) is now trending among wellness watchers. The Center for Bhutan Studies and GNH Research, Prime Minister's Speech at the International Conference on Gross National Happiness 2015 available at <http://www.grossnationalhappiness.com/>.

Reduction of inequality in unpredictable ways is further illustrated by the work of Raj Chetty. Social mobility is a significant factor in reduction of inequality. Using Big Data from NSS Survey Raja Chetty finds that as far as the chances of moving up in income terms, there has not been any significant change in the US over the past 40 years or so. This is notwithstanding the cries of discrimination and other handicaps as well as the increase in US inequality. What are the odds of someone moving up from the bottom fifth to the top fifth income quintile? In the US it is 7.5 percent compared to 13.5

percent in Canada and 11.7 percent in Denmark. Douglas Clement (2014) Interview with Raj Chetty. Federal Reserve Bank of Minneapolis, December 2014 Available at <https://www.minneapolisfed.org/publications/the-region/interview-with-raj-chetty>. In USA itself there are great variations from 4.5 in Atlanta to 16.8 percent in the Great Plains areas such as Iowa. The chances of improving one's living standards are much better in Canada or Denmark than in the US, or wherever the neighborhoods are progressing with skilled and educated people. It is also as simple as being born into a well-off family. In certain locations such as Charlotte or Atlanta the percentage of someone in the lowest quintile easing up into the top quintile is five percent. Researchers are not sure of the causal factors for improving mobility across income quintiles. Inequality is definitely one of them. Family togetherness or integrity as opposed to single parenting was another. Early pregnancy has had a negative influence even as good teachers and schools had a positive influence. If similar techniques are adopted for analyzing Indian empirical data there would be a harvest of many new piquant facts relevant to inequality reduction. Chetty's more recent study shows the close association between incomes and life expectancy with geographical location adding noticeably to variations. Raj Chetty et al (2016) The Association between Income and Life Expectancy in the US 2001-2014, Journal of the American Medical Association (JAMA) April 10, 2016 available at <http://jama.jamanetwork.com/article.aspx?articleid=2513561>. Much work like Chetty's needs to be done in India with more diversity in every walk of life and in every one of the states in order to discover new factors contributing to lessening disparity.

The Politics of Citizens United versus Federal Election Commission (2010)

Country-wise economic and corresponding political dynamics have made generalizations inaccurate about public policies to lessen inequalities. A good example is the case of American institutional transfers by way of social security, Medicare, Medicaid, Affordable Care Act, food stamps and so forth. While these measures have had limited success in making essentials more affordable, no one expects more material action aimed at moderating inequalities in view of the convergence of sorts between the Republicans and Democrats in the USA in regard to moderating inequalities. Free market capitalism is accepted by the mainstreams of both the parties. There is distaste for income transfers of the Food Stamp kind as well as for raising marginal tax rates, or for budget support for poverty reduction programs. Secondly, the distribution of voters is more weighted towards the rich. Legal and administrative measures make it more

difficult for the poor to vote. There is less support for social insurance as larger sections find it affordable to obtain it privately themselves instead of turning to the government. Also in a capitalist economy the rich manage to wield more political weight and influence than the not so rich. The latter lack “countervailing power” that John K. Galbraith spoke of in a different context.

There is something worse than lack of countervailing power. Those helped out by safety net provisions resent having been “helped out” to migrate to higher income and social brackets. More than that, they resent some gatecrashers into larger income brackets because they took undue advantage of the safety net provisions. As a result they are voting for Republican candidates that want to downsize the safety net. Recently a strange phenomenon was noticed: Even as inequality is worsening in America, the support for redistributive policies is declining. Older Americans who have climbed out of the lowest quintile to the next upper quintile after being helped out by safety net measures entertain fears that if more persons join their ranks either by way of immigration or by way of graduating to higher income brackets, they may have lesser amounts of Social Security and Medicare for themselves. Either they support the conservatives or do not exercise their voting franchise. This trend was witnessed in West Virginia which ranked 50th in voter turnout as well as in Kentucky, Arkansas and Tennessee. They are disassociating themselves from the lowest quintile. Details of recent developments as inequality is increasing are available at http://www.nytimes.com/2015/11/22/opinion/sunday/who-turned-my-blue-state-red.html?em_pos=small&emc=edit_up_20151123&nl=upshot&nid=66749854&ref=headline&r=0.

The Democratic Party under influence of the rich and the professional classes seems to have moved away from the traditional welfare agenda. Campaign donations to Democratic candidates from the very rich have increased more than before. The share of contributions from the top 0.01 percent has gone up from 7 percent of total in 1980 to 25 percent in 2012. Citizens United has favored Democrats too, not just Republicans, the well-off hedging up the options all ways. The less well-off are less likely to vote too, and so there is less probability of impacting inequality. Adam Bonica, Nolan McCarty, Keith T. Poole, and Howard Rosenthal (2013) Why has not democracy reduced inequality? *Journal of Economic Perspectives—Volume 27, Number 3—Summer 2013—Pages 103–124.* The poorest of the poor and the persistently poor, lacking political organization are ignored by parties and instead focus on the middle classes. Porter, Eduardo (2015) *Electing to Ignore the Poorest of the Poor.* Available at: <http://www.nytimes.com/2015/11/18/business/economy/electing-to-ignore-the-poorest-of-the-poor.html?mabReward=CTM&moduleDetail=recommendations->

[0&action=click&contentCollection=Fashion%20%26%20Style®ion=Footer&module=WhatsNext&version=WhatsNext&contentID=WhatsNext&src=recg&pgtype=article.](#) This could lead to misallocation of resources and adopting policies favored by the wealthy. But extreme distributions of income could negate democracy and usher in plutocracy, a fear being expressed time after time in America. Occupy Wall Street has been the result of frustration of sorts over these trends as is the emergence of Elizabeth Warren and Bernie Sanders.

US Redistributive Transfers

In the USA trillions of dollars get transferred from the well-off to the poorer sections in the form of food stamps, Medicaid, social security disability benefits, and the Earned Income Tax Credit. And a number of other programs, such as social security retirement benefits, unemployment benefits, the minimum wage, Medicare, and subsidies for education, have a large redistributive component, though they are not means-tested. And despite such transfers, inequality has increased. For instance while in 1982 the top one percent of income earners received 13 percent of total income, it went up to 17 percent in 1997, and further to 22 percent in 2013. The poorest 20 percent received just 5 percent of the total personal income and the richest 20 percent received 50 percent. Inflation-adjusted median household income fell during 1997-2008 by 4 percent and during 2007-2011 it fell by 8.9 percent. Becker, Gary and Posner, Richard (2013) *The Becker-Posner Blog, Does Redistributing Income from Rich to Poor Increase or Reduce Economic Growth or Welfare?* Available at <http://www.becker-posner-blog.com/2013/12/does-redistributing-income-from-rich-to-poor-increase-or-reduce-economic-growth-or-welfare-posner.html>. In Fig. 4 the falling share of the bottom 99 % is well brought out. 100 percent of labor receives 78.5 % of all income, but the bottom 99 % alone receives 63 %, meaning that the top 1 % makes up the difference of 15.5 %.

In contrast public policy has definitively contributed to a modicum of equality in access to health care under the affordable Care Act 2010. New large set of data gathered by Enroll America and analyzed by Civis Analytics evidences redistribution of incomes in the form of health care subsidies for health insurance for groups with incomes below a threshold as shown in Table 3 below. In this sense, the health care law has been unique in American distributive history. Kevin Quely and Margot Sanger-Katz (2014) *Obama’s Health Law: Who was helped most?* Available at <http://www.nytimes.com/interactive/2014/10/29/upshot/obamacare-who-was-helped-most.html?action=click&contentCollection=The%20Upshot®ion=Footer&module=WhatsNext&version=WhatsNext&contentID=WhatsNext&moduleDetail=undefined&pgt>

Table 3 Income Redistribution Before and After Health Care Reform Fiscal Year 2016

Market Income Percentile	Average Income Redistribution (OMB Baseline)	Average Income Redistribution (Post-HCR)	Change in Income Redistribution
Top 20%	-47,594	-51,450	-3,856
Top 10%	-83,030	-90,066	-7,036
Top 5%	-147,250	-160,345	-13,095
Top 1%	-484,493	-536,697	-52,204

Based on Tax Foundation Fiscal Incidence Microsimulation Model; CBO final score of health care bill; President's FY 2011 Budget

Source: Tax Foundation at - <http://taxfoundation.org/article/health-care-reform-how-much-does-it-redistribute-income>

ype=Multimedia&_r=0. The most gains from the law were made by people between the ages of 18 and 34, by blacks, Hispanics, and rural people. Who live in rural areas?

Targeting Inequality

When poverty reduction becomes a principal goal, noteworthy progress becomes possible such as under the Millennium Development Goals. World-wide, the number of people living on \$1.25 or less fell from 1.9 billion in 1990 to 836 million in 2015, exceeding the goal of halving the number poor. This has meant the reduction of the poor in developing countries from about 50 percent to 14 percent. This is considered the fastest rate of poverty reduction, much of the credit being given to China's fast growth contributing to uplifting millions of poor. Also there is a note of caution: keeping the \$1.90 (updated on the basis of 2015 PPP) per day as the benchmark, compared to the average life of the Financial Times reader, the progress has been "from unimaginably poor to unimaginably poor." Martin Sanbu (2015) Critics Question Success of UN's Millennium Development Goals, Available at http://www.ft.com/cms/s/2/51d1c0aa-5085-11e5-8642453585f2cfc.html?ftcamp=Traffic/Offsite/Taboola/Sustainable_Development/AudMark#axzz3mNIRsIGm.

The new estimates show that the number living below the \$1.90 global poverty line would be reduced to less than 10 percent of world population in 2015. In absolute numbers, the number living below the upgraded \$1.90 would come down from 902 million or 12.5 percent of world population in 2012 to 702 million or 9.6 percent of the world population in 2015. Assuming India would continue to account for 40% of the world's poor, the poor population in India would be 300 million in 2015. Strong growth in developing countries together with investments in education, health programs and in safety net measures have contributed to these outcomes. The goal is to end extreme poverty entrenched in Sub-Saharan African countries and in South Asia by 2030. World Bank (2015) Policy Research Note No.3: Ending Extreme Poverty and

Sharing Prosperity: Progress and Policies. Available at <http://www.worldbank.org/en/research/brief/policy-research-note-03-ending-extreme-poverty-and-sharing-prosperity-progress-and-policies>. The main problems according to the World Bank paper are incomplete data about depth of poverty, the unevenness of shared economic progress and vast divergences in non-income dimensions of progress. In simple plain words the connotation is that deprivations of all kinds would continue far into the future, poverty or no poverty.

India's Poverty Estimates as per URP and MMRP Methods

Food intake can throw light on life expectancy, state of wellness, and on the HDI itself. The preliminary studies of Indian poverty, especially of rural poverty, based on calorie intake were by VM Dandekar and Nilkanth Rath. VM Dandekar and Nilkanth Rath (1971) Poverty in India, Indian School of Political Economy. P.V Sukhatme's suggestion for adopting the stochastic comparisons of income/expenditures was adopted by P.C. Mahalanobis as head of the Commission on Distribution of Income and Wealth. Under the National Sample Survey (NSS) respondents have a 30-day recall period for consumption of food and non-food items to estimate the expenditures. These are called the Uniform Reference Period (URP) of aggregate consumption expenditures. World Bank estimate of baseline poverty rate as per the URP consumption expenditures for 2011-12 was 21.2 percent. Since 2009-10 the NSS has been using the Modified Mixed Reference Period (MMRP) in which a 7-day recall period is used for food items and one year recall period for non-food items. The MMRP is expected to yield more accurate results of aggregate expenditures. Under the MMRP thanks to much larger expenditures under the surveys both in rural and urban areas, the poverty rate for 2011-12 has been re-estimated at a substantially lower level of 12.4 percent of the population. The 12.4 is the new baseline of poverty. World Bank (2015) Why Poverty in India could be even lower? Available at <http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/10/109701443800596288/PRN03-Oct2015-TwinGoals.pdf>.

The trajectory for poverty and inequality is definitely negative, but that begs the question of ending deprivations. The deprivation issue for India is stupendous not because it is complex, hard or tough, but it is ignored in most discussions, or it is thought that ending poverty or inequalities will automatically end deprivations. Evidentially this has not happened because poverty or inequality is not easily ended.

Differences in Approach between Bhagwati-Panagariya and Dreze-Sen

In this setting the recent Bhagwati-Panagariya and Dreze-Sen differences on this theme therefore appear perplexing because for the greater good, or at least Pareto optimality, pragmatism calls for both equal opportunities and rapid growth going hand-in-hand though there could be questions about the right sequencing of policy measures. Building up capability and ending deprivations such as lack of drinking water, toilets, rudimentary education, and health care should be the highest priority. They should be available to all people anywhere on tap on a default basis. No one should be expected to wait for many years to come, or at best, get them on a random or on an ad hoc basis.

Dreze-Sen rightly point out that the privileged sections with education and affluent living are marginalizing the bulk of the Indian population. They rightly regard it an imbalanced situation when there is relatively rapid growth, but slow progress in living standards of people. The human capabilities must be enhanced by devoting resources targeted at that very goal so that there is no conspicuous suffering from hunger and deprivations. Jean Dreze and Amartya Sen (2013) *An Uncertain Glory: India and its Contradictions*. Available at <https://mufftbooks.files.wordpress.com/2014/12/an-uncertain-glory-india-and-its-contradictions-jean-dreze-and-amartya-sen.pdf>. When deprivations are reduced, individual capacity for growth is enhanced. That is wholesome for the entire economy.

The Gini does not capture such deprivations. And the irony is China or Brazil may have a much bigger Gini and a Lorenz far to the right, and yet neither China nor Brazil has deprivations on the same scale as India does, albeit with a much smaller Gini. The statistic misses out on the role of public services in education, health care and other social dimensions. While inequalities may be more stunning in China, comparisons are irrelevant in view of the modicum of basic facilities available by default in China whereas a sizeable proportion of Indians suffers deprivations. There is extraordinary tolerance of multidimensional deprivations in India. It is indeed a different kind of inequality that has to be tackled head-on with more than normal level of honest government intervention at the national, state and municipal levels for

any decent measure of success. Hirschman and Rothschild used the "Tunnel Effect" metaphor to explain the tolerance: when others' standards start improving, like those stuck in the tunnel feel somewhat better that the traffic congestion in the tunnel is getting cleared and their own turn for an improvement would be approaching. See Debraj Ray (1980) *Ibid.* pp. 200-201.

"Grow first, distribute later" will not work if people's tolerance for inequality is low as it is getting to be in India. Deprivations have become so conspicuous around the world that recently even Pope Francis felt compelled to reject the "trickle down" theories with a "naïve trust in the goodness of those wielding power and in the sacralized workings of the economic system." Pope Francis (2015) *Apostolic Exhortation Evangelii Gaudium of the Holy Father Francis to the bishops, clergy, consecrated persons and the lay faithful on the Proclamation of the Gospel in Today's World*. Available at: http://w2.vatican.va/content/francesco/en/apost_exhortations/documents/papa-francesco_esortazione-ap_20131124_evangelii-audium.html#No_to_an_economy_of_exclusion. Also in India it is irrelevant in view of abysmal statistics: It is intolerable that 334 million Indians do not have access to drinking water even now in 2016, some 67 years after gaining freedom, after a dozen or more Five Year Plans. 53 percent of Indian homes (70 percent in rural areas) do not have toilets, leading to contamination of water and water-borne diseases. India has 287 million illiterates, 37 % of world's total.

While from a macroeconomic perspective the outcomes of inclusive growth as proposed in the Union Budget (2015-16) may be the same, it is possible to argue that larger allocation for health, education and more basically for drinking water, sanitation (toilets for the masses) would have better outcomes in terms of poverty and inequality reduction without compromising rapid growth (as under the Gujarat model.) It is urgent that there are larger allocations for drinking water and sanitation.

India need not also tolerate at this juncture what Raj Krishna described as Hindu rates of growth. Both Sen and Bhagwati without a doubt believe in inequality reduction as well as rapid growth, albeit the differences in emphasis and sequencing of projects. That China has been able to pull millions more out of poverty receives uncritical acceptance by Dreze and Sen although they do not cringe mentioning China's failure to prevent famine for want of democracy. They also mention the success of Kerala state in ensuring longer years of life expectancy. Finally there is much truth in the criticism that the fetishism about growth in India at the cost of neglecting deprivations reflects "a disarmingly foggy understanding of how long-run growth and participatory development can actually be achieved and sustained." Dreze and Sen (2013) *Ibid.* This is unsettling and makes one think if democracy works effectively in India. At the same time it

would have been fair if equal stress was put on rapid growth because that is not antithetical to ending deprivations.

The CCC List of Projects with Benefits 15 times Costs

Bhagawati and Panagariya are no doubt pro-growth-oriented asking minimal government interventions to address any kind of inequality. Bhagawati, Jagdish and Panagariya, Arvind (2013) *India's Tryst with Destiny: Debunking Myths that Undermine Progress and Addressing New Challenges*. They put faith in the metaphor that a good (economic) tide raises all boats including hopes of the deprived. There is much merit in what they say and cannot be ignored. Their main oversight relates to not attaching urgency to ending the glaring deprivations. Also there is a scientific case for doing so. For instance, the benefit cost ratios of projects listed by the Copenhagen Consensus Center score over other arguments, with benefits 15 times or more than costs: The CCC list includes: 1) Lower chronic child malnutrition by 40%. 2) Halve malaria infection. 3) Reduce tuberculosis deaths by 90%. 4) Avoid 1.1 million HIV infections through circumcision. 5) Cut early death from chronic disease by 1/3. 6) Reduce newborn mortality by 70%. 7) Increase immunization to reduce child deaths by 25%. 8) Make family planning available to everyone. 9) Eliminate violence against women and girls. 10) Phase out fossil fuel subsidies. 11) Halve coral reef loss. 12) Tax pollution damage from energy. 13) Cut indoor air pollution by 20%. 14) Reduce trade restrictions. 15) Improve gender equality in ownership, business and politics. 16) Boost agricultural yield growth by 40%. 17) Increase girls' education by two years. 18) Achieve universal primary education in sub-Saharan Africa. 19) Triple preschool in sub-Saharan Africa. See Timothy Taylor (2015) *Recommendations for Further Reading, Journal of Economic Perspectives—Volume 29, Number 2—Spring 2015—Page 265* or <http://www.copenhagenconsensus.com/> With a few exceptions, these projects should have priority over others because of some of the worst levels of human development indicators apply to India.

There is also the need for perspective: how many more decades have to pass before elementary entitlements of a decent society such as drinking water, rudimentary sanitation, universal health, free education? Rising expectations and discontent in not achieving a modicum of even simple but meaningful or full life have the potential of erupting out in unsettling ways. It is the least that the better off can do to one's community or country. A less corruptible administration committed to the goal of ending deprivations is the urgent need. Discussions about inequality sound somewhat irrelevant in the face of

glaring inequality of opportunities and conspicuous deprivations.

Politically or economically implausible deeds need not to be done to attain both growth and equity. Earlier the case of Bangladesh's ORS was mentioned in combating serious and endemic health issues. The exemplary costs: benefits ratios of the essential CCC projects above have been mentioned above. Here is another example of simple actions to promote both growth and reduce inequality. The following table shows how worldwide gender parity in wages and emoluments could boost world GDP by \$28.4 trillion before 2025. (Table 4 below) This is possible when as simple an act as gender equality is allowed. Women need to be offered the same opportunities as men. This is as much as a 26 percent improvement on 2014 world GDP. McKinsey Global Institute (2015) *Want to Boost Global GDP by Trillions? Improve Gender Equality*. Available at: <http://blogs.wsj.com/economics/2015/09/24/want-to-boost-global-growth-by-trillions-improve-gender-equality-mckinsey-report-says/>. The indicators considered for gender parity are labor force participation such as 40 percent in India, social equality, political representation and related measures.

US Trends

There are commonplace empirical constructs about the policy package needed as an antidote to inequality, in a post-Picketty discussion. Some of them have already been covered. Despite cogent line of reasoning for inclusive growth, the status quo prevails the world over in the matter of extending importance to reducing inequalities, non-income inequalities in particular. In America, political parties and most politicians are letting themselves influenced by the well-off and even the middle class, and the poor are indulging in "Occupy Wall Street" and other movements for want of countervailing power. Citizens' United legislation has licensed the well off to fund their causes and political agendas virtually to an unlimited degree. They are succeeding in stash their funds running into trillions abroad to avoid taxes. All Administrations are under pressure to reduce tax rates so that the corporate funds abroad could be repatriated back to the US. Tax havens such as revealed in the Panama money-laundering papers hide \$7.6 Trillion or about 8 percent of world financial wealth. Tax evasions cost governments some \$200 billion and legal havens cost \$130 billion. Gabriel Zucman (2015) *The Hidden Wealth of Nations*, University of Chicago Press, pp. 25-30.

The Obama Administration's success in introducing the Affordable Care Act is to a large extent attributable to the Supreme Court upholding the basic tenets of the Act, thereby enabling ten million more indigent Americans get health insurance coverage. The safety net props of social

Table 4 Impact of Promoting Gender Equality**All regions have a substantial incremental GDP opportunity from bridging the gender gap**

Global GDP opportunity, 2025

Incremental 2025 GDP to 2025 business-as-usual scenario

	Full-potential scenario		Best-in-region scenario	
	%	2014 \$ trillion	%	2014 \$ trillion
India	60	2.9	16	0.7
South Asia (excluding India)	48	0.4	11	0.1
Middle East and North Africa	47	2.7	11	0.6
Latin America	34	2.6	14	1.1
East and Southeast Asia (excluding China)	30	3.3	8	0.9
Sub-Saharan Africa	27	0.7	12	0.3
World	26	28.4	11	11.8
Eastern Europe and Central Asia	23	1.1	9	0.4
Western Europe	23	5.1	9	2.1
China	20	4.2	12	2.5
North America and Oceania	19	5.3	11	3.1

NOTE: Numbers may not sum due to rounding.

SOURCE: ILO; World input-output Database; Oxford economic; HIS; national statistical agencies, Mckinsey, Global Growth Model, Mckinsey Global Institute analysis

security net, food stamps, Medicare and Medicaid, and free public schooling till high school and even Community College continue for now, but may suffer fund shortage under a different administration. The strange paradox of people voting for conservatives vowing to shred the safety net and more and more states turning red instead of blue has been mentioned above. The convergence of Democrats and

Republicans on most economic issues and the relative unsupport for advocates of egalitarianism does not augur well for dealing with inequalities. The findings about upward mobility of the lower fifth of the income brackets have been mentioned. There has to be more opportunities for them to migrate faster.

Needed: Onslaught on Deprivations

At the stage in which India finds itself it is beside the point to thrash out ideas such as growth versus equity. It is urgent that there is an onslaught on deprivations such as lack of drinking water, lack of toilets, quality primary, middle and high school education, imparting vocational skills and basic health care to the poorest. They are the fundamental rights. The priority should be one of leveling the playing field so that none lacks the capability to take

advantage of opportunities available and make the most of them to improve standards of living. India can afford to set aside enough resources to ensure basic needs listed above even as it allocates resources for infrastructure, irrigation, industrial facilities, IT expansion and all the rest. Simple executive actions such as promoting more gender parity, construction of toilets, promoting public health, accountability in administration and such others are all that are needed for leveling the field and promoting capability. These self-evident facts are philosophical and humanistic as well as economic. Non-targeting the deprivations or ad hocism will condemn India to progress by trial and error which has been the historical truth since Independence. Deprivations will indefinitely perpetuate into the future. It would be a jarring set of priorities that would ignore the obvious deficiencies and continue to put faith in growth. Several well-intended deprivations-oriented programs have floundered in India because for every hundred rupees allotted for "public welfare" just 14 rupees reach the target population, rest obviously ending up in the wrong hands. This is a serious governance issue and a special task force that is not interested in personal aggrandizement should be entrusted with ending deprivations such as drinking water, toilets, malnutrition and illiteracy.

Abhijit Banerjee et al found the most effective way to end

deprivations and boost livelihoods, health and incomes: transfer assets such as livestock or goods for trade, train the poor to manage the assets effectively, undertake frequent mentoring and coaching, provide health education and so forth for a period of at least two years. These are the conclusions of a 6-country 7-year study of some 21,000 families deprived of basics like health care and nutrition, and most importantly lacking the morale. Banerjee, A., E. Duflo, N. Goldberg, D. Karlan, R. Osei, W. Pariente, J. Shapiro, B. Thuysbaert, and C. Udry. "A Multifaceted Program Causes Lasting Progress for the Very Poor: Evidence from Six Countries." *Science* 348, no. 6236 (May 14, 2015): 1260799–1260799. This is called the Graduation model of poverty alleviation and its needs to be replicated by non-bureaucrats for effective outcomes. To uplift 50m households it would cost one percent of GDP or \$414 per household. The Economist (August 1, 2015) Free Exchange: Graduating from Destitution, A multi-country Study comes up with a universal method to help the poor. P.67. This is an urgent task to sustain India's future. There is also the moral viewpoint. Ravi Kanbur and Adam Wagstaf (2014) "How Useful Is Inequality of Opportunity as a Policy Construct?" World Bank Policy Research Working Paper 6980, http://www.wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/07/28/000158349_20140728112400/Rendered/PDF/WPS6980.pdf.

Future generations in longitudinal time and demographic space should not be burdened by the same problem of underdevelopment of the lower fifth of population on account of neglect by the better off.

China

China has had amazing progress in all areas of human development transforming a virtual opium den into a modern economy. The salutary developments in China in equality predates Picketty's emergence. However, for a long time there is much concern like in most traditional societies about the obsession with westernization in all walks of life including music and culture. This fetishism accounts for relative neglect of environmental aspects impacting growth sustainability for future generations. It is a moot point if environmental degradation in China has peaked and would start improving as per the environmental Kuznets curve. Also the regimentation of life and lack of freedoms cannot be ignored. The Gini coefficient is worse for China (0.5+) than for India (0.4). This is on account of transition from a centrally planned economy to an increasingly market economy when inequality inevitably increases.

As China's economy grows will inequalities go up or down? Will Chinese fiscal policy pressure inequalities down? Will it follow the path of the inverted Kuznets curve for inequalities? This is highly likely because the

Chinese system of Danwei or work unit was responsible for reducing inequalities and poverty and more importantly providing basic accoutrements such as lifetime employment, housing, pensions and medical care. The wages were determined by the administration and it was egalitarian. John Knight (2014) *Inequality in China: An Overview*. Oxford Journals: The World Bank Research Observer 2014-1- 21, Available at <http://wbro.oxfordjournals.org/content/early/2013/07/18/wbro.lkt006.full>. At the same time, as Table 4 shows, China's GDP can go up by \$4.2 T by 2025 just by ending gender discrimination.

CONCLUSIONS

Post-Picketty deliberations have opened up numerous discussions, covering all aspects of growth and inequality, including the Pareto distribution, corrections to growth, growth and inequality trajectories in India, USA and China. India's growth has been impeded by outrageous deprivations even decades after India's independence. Ending deficiencies in water supply, nutrition, sanitation, health care, and education cannot wait any longer. Growth need not take a back seat for this sake. Proper sequencing of projects and their funding so that projects that have benefits some 15-20 times more than costs would mechanically buffet deprivations. Lack of accountability in Indian administration has been a serious depravity. The disconnect between Sen et al and Bhagawati et al relates to perceptions inequalities. Sen's is inclusive of deprivations, whereas Bhagawati's is related more to inequalities, which can be reduced to some extent by growth but with the caveat of Will Rogers' 'trickle down' theory.

In Bhagawati's case the desperation for ending deprivations is not articulated. This is fine for growth per se, but somewhat jarring for diminishing India's persistent deprivations. So far this has been sought to be taken care of by half-hearted implementation and sloganeering (Garibi Hatao, Aam Admi, Jawahar Gram Samridhi Yojana, Integrated Rural Development Scheme, TRYSEM (Training Rural Youth for Self-Employment), Development of Women and Children in Rural Areas (DWCRA) which evidently have not made a dent on monstrous deprivations such as drinking water, basic health care and education and so forth. A special force accountable for every penny should be entrusted with the task of frontal assault on deprivations so that India does not continue to be a third world nation with sizeable illiteracy and malnutrition. There are serious governance issues especially in states that drag the appalling averages down for the country.

Non-growth prospects in the context of global warming have not been dealt with. India and others in similar economic circumstances are pleading for "carbon space" so that its people may have a modicum of growth with no

deprivations. Technology may help chart new pathways that do not depend on drawing on underground carbon, minimizing pollution. Positive-sum games in this realm are still possible, but the immediate concern is one of ending deprivations which are zero-sum results for the deprived and underprivileged. It is still possible to endure increasing inequalities as long as deprivations, glaring as they are, are ended. This is priority one. Everything else is credibly secondary.

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