

**RESEARCH PROJECT**

# **Studying Inequality Among the Brics Nations**

**By**

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## **ABSTRACT:**

"Severe income disparity" has been predicted as one of the top global risks in the coming decade by the "global risks report 2016". And evidence has shown how inequality leads to health and social problems ranging from mental illness to violent crimes. This has made inequality a major issue to be tackled with on a global level. Through this paper the aim is to study the inequality among the BRICS nations and what different policy measures have they adopted in order to tackle inequality. This economic group had aspirations to challenge the global inequalities that have prevailed between West and the rest. BRICS have great importance, both economically & politically because, BRICS have a share of 30% in the global GDP. They are home to more than 40% world population. And all of them contribute to 17% of the global trade holding more than US \$ 4 trillion in their reserves. These five countries have been facing inequality domestically as well. They have a peculiar cause for their inequality. Racism in South Africa is was very rampant since the past but even today its repercussions are evident , making it the most important cause for inequality, The deep rooted caste system in India is the main reason for inequality, similarly in Russia we see regional disparity among the oil producing and oil non-producing regions. In case of China the elites are very dominant and have monopolized a huge chunk of the wealth, leading to inequality. Apart from all this another reason why BRICS is important is because of the worsening economic and political conditions among these economies. Their growth potential has declined heading towards bursting of the BRICS bubble.

**KEYWORDS-** *Inequality, BRICS, Growth, tackling, social.*

## **INTRODUCTION:**

BRICS consist of five major economies Brazil, Russia, India, China, and South Africa. These countries are home to a major chunk of the world population. And contribute to 30% of the world GDP. But in spite of this the inequality in these five countries is also very rampant. The term BRICS was termed in 2001 in a paper named "The world needs better economic BRIC. The formal grouping was made in 2006. It was in 2010, that South Africa joined the group. The original aim of these nations was to change the inequality scenario in the international relations. Apart from this the BRICS organisation could be seen and followed by other developing economies. But recently the BRICS have been caught in great economic and political crisis. According to the book " Rise and fall of Nations" by Ruchir Sharma " BRICS today is often qualified with the adjective like broken or crumbling and reshuffled into a new acronym CRaBs to capture how ungainly China, Russia and Brazil look now." Through this paper inequality in each country will be seen separately and also in the form of a comparative analysis of inequality among the five nations. Also the various policy measures would be taken note of.

## **REVIEW OF LITERATURE-**

There has been a lot of research done on inequalities in various countries. There have been a series of articles on BRICS. Although not much work has been done on inequality especially on BRICS. Hence the researcher has taken the subject of "Studying inequality among BRICS nations" and referred to a series of articles and research papers published by World Bank and other scholars. For case study of Brazil researcher has reviewed a World Bank report on Inequality in focus, which stated that Brazil has taken several measures in order to treat the inequality in Brazil which has been an example for the world. For Russia the researcher has reviewed a paper "Inequality and poverty in Russia in transition" by Independent institute for social policy, the paper has talked about the reasons of inequality and what policies it took. The article reviewed for India by the researcher named "Inequality in India - A survey" by Jayati Ghosh stated how India has dealt with its inequality. While writing the case study for China the researcher mainly referred the paper titled "Chinese regional inequalities in income and well being" written by Albert Keidel has highlighted the problem of regional disparity to be the main cause for inequality in China. For South Africa the researcher has reviewed the World Bank on South Africa's economic update, it talked about how the inequality in South Africa has its origin deep rooted in the racism that prevailed in the country.

## **OBJECTIVES-**

1. Studying the various inequality patterns among BRICS nations.
2. Studying the policy measure by every country to tackle inequality.

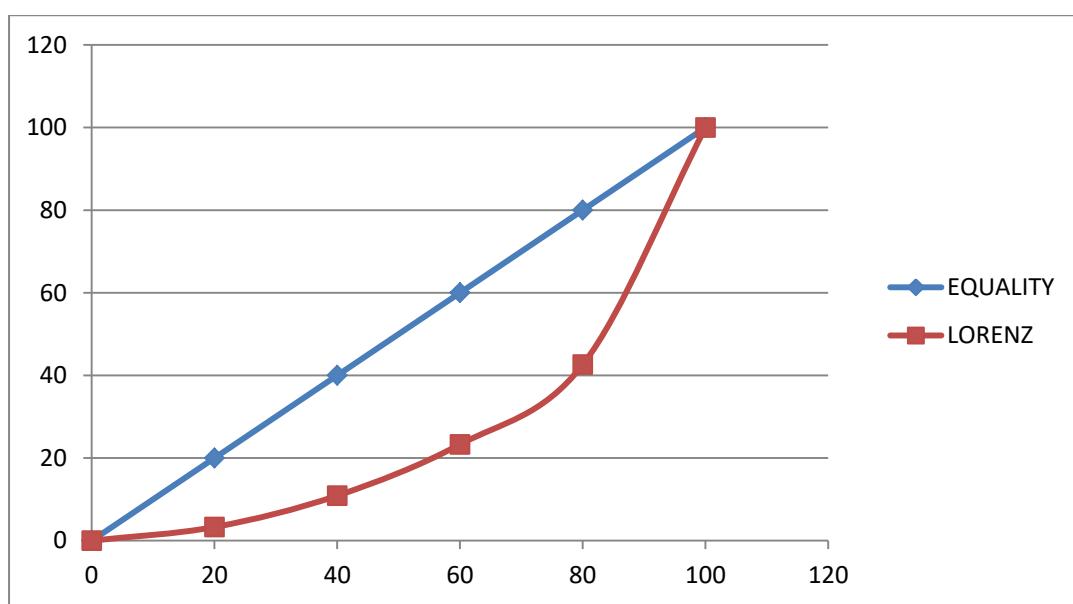
## **INEQUALITY IN BRAZIL-**

Brazil is considered to be the economic leader of South America. Sao Paulo and Rio de Janeiro are the major cities in Brazil. Portuguese ruled Brazil and they were the ones that started plantations in Brazil and brought slaves from Africa to work on them. It was in that Brazil got independence from the Portuguese rule. Up to 1985 Brazil was under military rule. Roman Catholics constitute majority of the population in Brazil. Brazil leads the world in production in Coffee. It also produces huge amount of sugarcane.

### **Some economic facts about Brazil-**

1. GDP- \$1774 Billion
2. POPULATION- 207.8 Million
3. POVERTY- 3.7%
4. PCI- \$9850

### **THE LORENZ CURVE DIAGRAM FOR BRAZIL**



From the above figure we see how far is the income distribution line of Brazil from the line of equality which is drawn at 45 degrees. The Gini co efficient calculated from the above figure is 51.5.

## **THE MAJOR REASONS FOR ITS INEQUALITY ARE-**

- Gender and Racial discrimination are two major reasons for the inequality in Brazil.
- Brazil lived under military dictatorship up till 1985, this period is very significant in order to study inequality.
- Red tapism very rampant in Brazil which further aggravates the issue of inequality.
- Among the children there is a disparity because of education. There is a clear demarcation between the children of high income families and low income families on the basis of the education given to them.
- There is greater inequality in land distribution. The farmers with large land get more benefits and loans from financial institutions making them more richer on the contrary marginal benefits are available for poor farmers further deteriorating their condition.
- There is prevalence of regional inequality in Brazil, north eastern part is most hit by the issue of inequality.

## **POLICY MEASURES TAKEN TO TACKLE WITH THE INEQUALITY**

Between the years 2002-08 Brazil underwent an economic transition. It made use of its comparative advantage in raw materials to the fullest thus controlling its external debt. Brazil also followed a diversified trade pattern in order to avoid dependence on any particular commodity export. Also government tightened norms for regulation of the financial institutions. Because of the exports rose by 43 %.

**"BolsaFamilia"** was a program launched in Brazil by then President Lula da Silva in the year 2003, in order to bridge the poverty gap. Under this program the families who enrolled their children to school and vaccinated them would receive a cash transfer of \$11-\$45 (35 - 135 Reals) in the name of the female heads. Considering they would put the money in the proper use and are more reliable. This also helped in empowering women and giving them participation in decision making. This also helped reduce the wage gap. By the year 2013, 28% poverty reduced. And 1.7 million people gave up their cash transfers as they came above the poverty line. This was most effective policy in Brazilian context. Brazil government has worked on its educational policies thus increasing the skills among labours and narrowing the wage gaps. There was a program called **"Beneficio de Prestacao**

**Continuada**" (non-contributory pensions) which increased the social welfare. Dilma Rousseff started another program named "**Brazil SemMiseria**" ( Brazil without extreme poverty) which was aimed at providing public services like electricity , medical services, sanitation etc. to the poor especially the North Eastern regions of Brazil which were the most impoverished and most prone to various diseases.

The most recent problems that Brazil is facing is the recessionary phase. Also the impeachment of President Dilma Rousseff on the charges of economics mismanagement and high level of corruption has raised a doubt about the credibility of Brazil in the international arena.

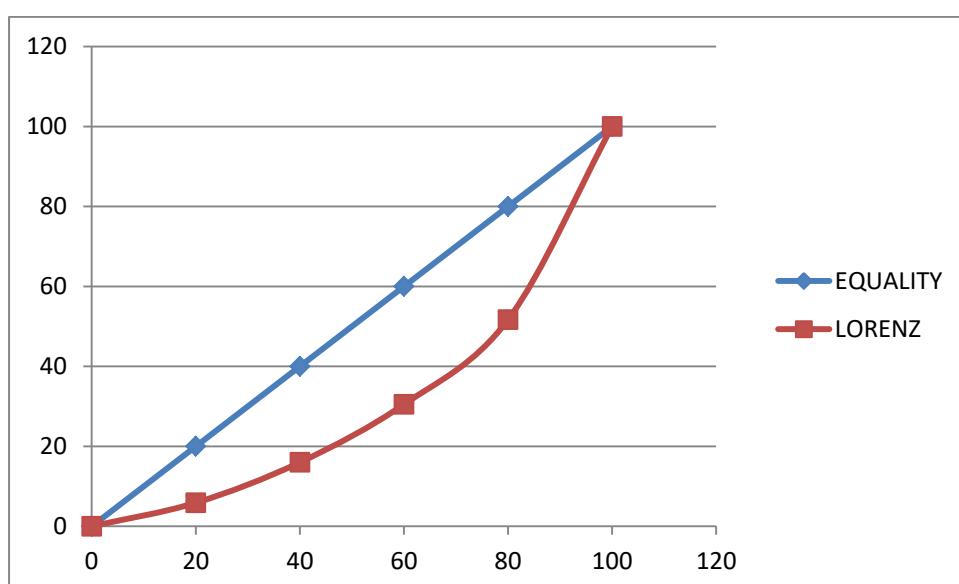
## **INEQUALITY IN RUSSIA-**

Russia has a rich history which includes the historically significant Russian revolution. It saw great rulers like Lenin and Stalin. The communist rule sustained for several years until it was seen that communism did no good to the majority in Russia. In 1991 the Soviet Union disintegrated into 15 countries and was called the USSR. Post this Russia suffered great depression, it fell short of supplies and all the goods had to be imported. Since this era the poverty and inequality figures showed an upward trend. According to the World Bank data poverty in 1988 was 1.5% that rose to 49% in 1994, and the PCI declined from \$ 72 to \$32 per month. But post 2004 the PCI has been rising but this is limited to certain developed areas like Moscow.

## **Some economic facts about Russia-**

- 1.GDP- \$1.267 Trillion.
2. PER CAPITA INCOME- \$11,450
3. POVERTY - 0%
4. POPULATION- 144.1 Million.

## **THE LORENZ CURVE DIAGRAM FOR RUSSIA-**



This figure shows the income inequality in Russia. The area between the red and the blue curve shows the inequality. The Gini coefficient calculated from the above figure is 41.6.

## **THE MAJOR REASONS FOR INEQUALITY IN RUSSIA-**

- The most important factor is that there is great regional inequality in Russia. For instance the top five regions in Russia like Tyumen, Moscow, St. Petersburg have very high PCI ranging from \$ 30,000 to \$ 60,000. On the contrary the bottom five regions have PCI that ranges from \$ 3000 to \$ 7000.
- Another one includes the inequality seen in imparting of education, the soviet era did much better in this area.
- Curbing corruption is also one major problem that Russian government has to tackle.
- Higher levels of inter and intra industry wage difference is one of the key drivers of inequality in Russia. The difference between the highest paid and the lowest paid wages to workers in the service sector is over 25 times.
- The tax structure is unable to positively contribute to eliminate inequality. There is a flat income tax rate, the social security contribution is regressive in nature. Also the property tax rates are very low, hence the rich acquire huge bulk of wealth.
- Inequality is mostly present among the oil producing and oil non producing regions in Russia.
- Another contributor is that the rich have huge properties due to less property tax rates, hence they rent it and receive large amounts of income from it. Which again transfers wealth from the poor and middle class population to the rich class.
- The recent challenges before the Russian government is the Recessionary phase due to steeply falling oil prices.
- Russia is also suffering recently from the sanctions that are put by the western countries on Russia as a result of annexation of Crimea by Russia in 2014.

## **POLICY MEASURE TAKEN TO TACKLE WITH INEQUALITY IN RUSSIA-**

The Russian government has resorted to inter regional budget transfers in order to treat the regional inequality which is very essential as it is one of the most important driver of inequality and unless all the regions progress in the same manner it is very difficult to inclusively treat inequality and poverty. Another initiative is increasing the minimum wages

and also giving away unemployment benefits. Which also includes increases public pensions. In the year 2012 "Provision of affordable and comfortable housing and public utilities" program was launched so that housing would be affordable to common man.

Apart from these the OECD countries have made certain recommendations for improvement of the condition of Russia, which includes increasing transparency in budgetary allocations and also avoid supplementary budgets. Russia should also introduce a mechanism which would enable better implementation of policy and programs. There should also be certain principles constraining the discretion in public administration. Another important one is that the government must make it mandatory that the wealthier population should contribute their share to the social protection cost.

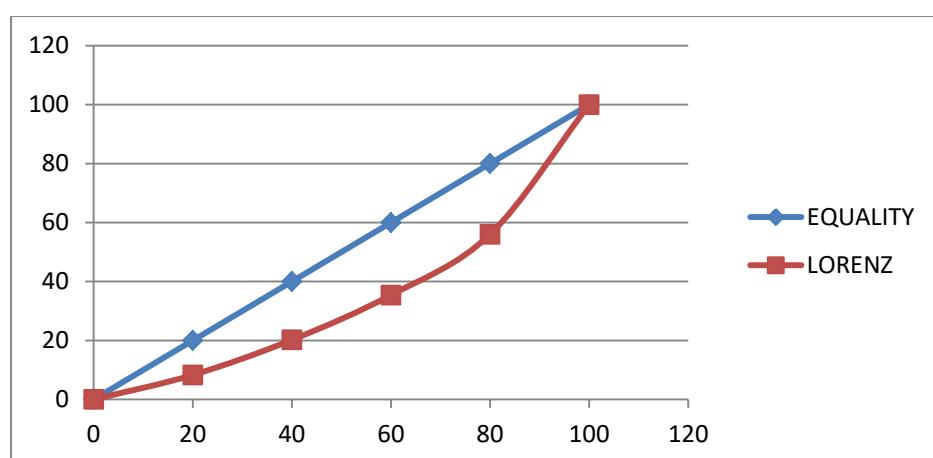
## **INEQUALITY IN INDIA-**

India has been plagued with inequality since history. The economic reforms carried out in 1991 have worsened them even further. The income is distributed very unequally among the people, thus filling pockets of very few while the others starve. According to the credit Suisse report top 10% of India's population has over 76% of its wealth and the bottom 10% owns 4.1% of the wealth, these numbers show the extent of inequality prevailing in India. The haves are being further empowered and the have-nots are being exploited. Sometimes this behaviour could also be traced to capitalist behaviour by the entrepreneurs. In Indian context we can see gender inequality very rampant in both rural and urban India. The caste system which has been deep rooted in the country has somewhere played the role of a catalyst when it comes to the income disparity that we see among Indians. India has always been a welfare country. India gives away huge number of subsidies also there are various poverty alleviation, employment generation and benefits transfer schemes that are undertaken in India. In spite of all this what is it that still makes India one of the most unequal societies to live in.

## **Some economic facts about India-**

1. GDP- \$2.1 Trillion
2. PCI- \$ 1600
3. POVERTY- 21.2%
4. POPULATION - 1311.1 Million.

## **LORENZ CURVE DIAGRAM FOR INDIA-**



The above figure depicts the inequality in India. The Gini coefficient calculated for the above figure is 35.1.

## **THE MAJOR REASONS FOR INEQUALITY IN INDIA-**

- In India the most important cause of inequality is caste system, which prevails in India since ancient times. Particular castes have been affiliated with certain occupations and they are expected to pursue those for the rest of their lives, which stunts their progress thus keeping them downtrodden forever.
- Gender discrimination is another important reason for the inequality. Women are considered inferior to men and are not given any representation in decision making and other important decisions. They are also paid less compared to their male counterpart, thus giving way to wage inequality.
- The existence of parallel economy in India has also contributed to inequality. According to a report by Ministry of Finance US \$1456 billion are parked in Switzerland by Indian nationals which is a phenomenally big figure when we are considering India among the developing countries with massive levels of poverty and inequality.
- Illiteracy is a very big issue in Indian context. Article 21A of the Indian constitution mentions "Provision of free and compulsory education to all children between 6 to 14" as a Fundamental right, but we can see that the objective is far from realising. It is seen that if 100 students enrol in a grade 1 about 30 of the dropout before grade V, and over 40 leave before the grade VII. Due to this the skills are less developed thus giving them lesser opportunities and keeping them poor.
- Corruption is also very rampant in India. In which the poor people are the ones who suffer.
- In India regional disparity appears among several states. Some states like Maharashtra, Haryana and Gujarat are doing well, on the contrary Bihar Orissa and states likewise are suffering from great poverty and other issues. The opportunities available to them are also limited, this also gives rise to migration which has its own repercussions on the economy.
- Majority of the rural population is engaged in agriculture, which is mainly dependent on monsoon. Thus the income for them is uncertain, which makes this section vulnerable at times of drought.

- Inheritance of property from forefathers is another matter of concern as the property revolves around the same family. There is no scope for distribution.

### **POLICY MEASURES TO TACKLE INEQUALITY IN INDIA-**

India is considered to be a welfare state and every year spends a huge bulk of revenue on such activities. India has a PDS system which has supported many families. There are several poverty alleviation and employment guarantee schemes. In order to give equal opportunities to the lower section and women India has a reservation policy, which is bearing fruit but at a slow pace. India also has a minimum wage act which ensures a fixed minimum wage for workers, but there are several exploitations in this case. Even the Indian tax structure is progressive, which taxes rich heavily and poor less. The luxuries in India are taxed highly and the necessities marginally. The public services in India are filled in on a impartial and universal basis, no one exempt from that procedure. The 20 point economic programme has also done a lot for the poor. The Indian government also gives away lot of subsidies to the poor and the needy people. Even the banks provide credit to the poor and needy at low interest rates, there are also certain loan waiver schemes for the poor farmers. Very recently a scheme has been launched which is called the Garib kalyan yojana, under which the black money from the rich people will be taken and distributed among the needy and unequal in various forms.

## **INEQUALITY IN CHINA-**

China has a history of the Mao Revolution, and pro democracy riots. But today China stands tall and powerful in the world arena. Since it adopted the economic reforms China has never looked behind. Chinese goods flooded the world markets. China became the manufacturing hub for other countries. Even today majority of the good we use have a tag that says "Made in China". But for a year now China has seen a slowdown phase which has hit the growth in China.

## **Some economic facts about China-**

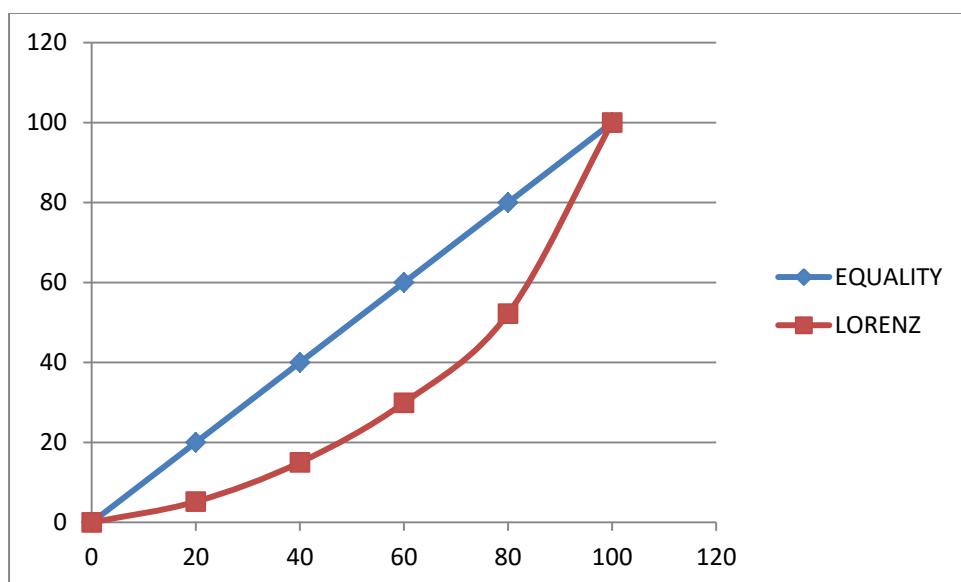
1. GDP- \$ 11 Trillion (2015)

2. PCI- \$7930

3. Poverty- 1.9%

4. Population- 1371 Million.

## **LORENZ CURVE DIAGRAM FOR CHINA-**



The above figure depicts the inequality extent of China in terms of distribution of wealth. The Gini coefficient is 42.2.

### **THE MAJOR REASONS FOR INEQUALITY-**

- The rise in inequality is seen as an outcome of the economic reforms that China adopted in 1978.
- With the restructuring of state owned enterprises and development the returns to human capital and skills has seen higher inequality.
- In the rural areas post the reforms there was a rise in non-farm activities, due to this the inequality between farming and non farming population rose.
- During the reforms the monetary and fiscal policies had a urban bias, which left neglected the rural China.
- Lack of social inequality had further widened the gap between the unorganised and organised sector workers.
- Chinese government was very focussed on heavy industries oriented development strategy, which helped expand industry at a fast pace within cities, which adversely affected the agriculture sector and the labours.
- In China a trend is seen where a handful of elites have monopolized major bulk of the wealth, they get returns on these assets thus making them richer, and fuelling inequality.
- Corruption in China is very rampant, this is a loophole which should be treated as a priority.

### **POLICY MEASURES TAKEN TO TREAT INEQUALITY IN CHINA-**

In the year 2013 China launched a 35 point plan which mainly included boosting the minimum wages given, increasing the spending on education, and other essential services like housing and health care.

In order to develop the backward regions in the west, specialized taxation policies were adopted, foreign investment was encouraged and directed, provision for free public services were made, emphasis was given on transport, and infrastructure development. To reduce the urban- rural inequality agriculture tax was abolished. A policy named “DIBAO”

which means minimum living standard program. This program has uplifted the standard of living. This scheme has benefitted many people in China and has laid the brickwork for creating a social security net in the country. Certain other policies have been implemented in China for education and other welfare activities. China has to tackle not only with urban - rural inequality but also rural-rural and urban-urban inequality.

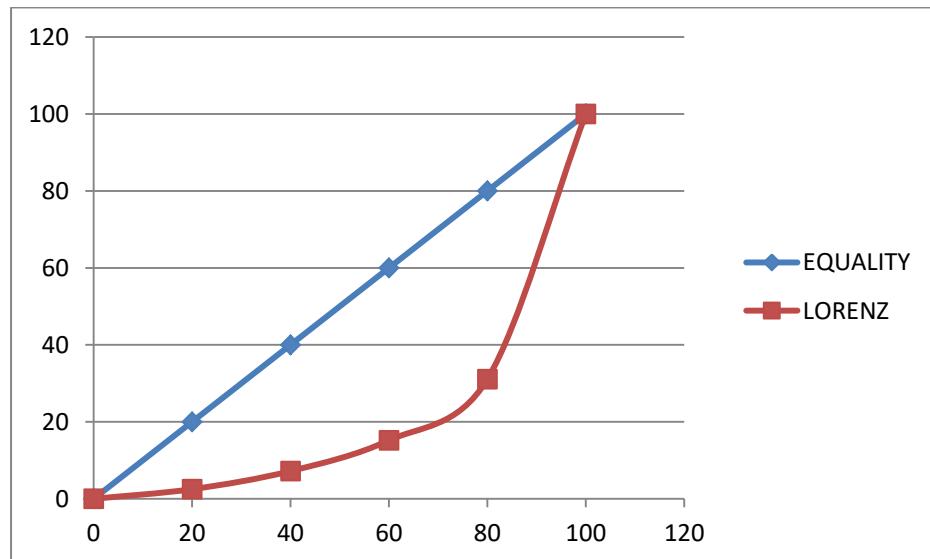
## **INEQUALITY IN SOUTH AFRICA-**

The history of South Africa is depicted by the word Apartheid. The movement against racism that was started by Nelson Mandela has received support and respect globally. Racism is deep rooted in this country due to which several other problems have arisen.

### **Some economic facts about South Africa-**

1. GDP- \$ 314.57 Billion
2. PCI-\$ 6080
3. Poverty- 16.2%
4. Population - 55 Million

### **LORENZ CURVE DIAGRAM FOR INEQUALITY IN SOUTH AFRICA-**



The bulge in the red line above shows that there is great inequality among the population in South Africa. The Gini coefficient is 63.4 which indicates greater inequality.

## **THE MAJOR REASONS FOR INEQUALITY IN SOUTH AFRICA-**

- Africa was subjected to racism for several years, which has adversely impacted the country. This has thrown behind generations of the blacks to such an extent that the revival of them will take a very long time
- The gender inequality in Africa has prevailed for many years just like that of India.
- Education among the South Africans is extremely poor and needs to be given a priority in order to get rid of inequality in the long term.
- The global financial crisis have affected the labour market badly, thus leading lakhs of Africans to unemployment. And it has also been seen that the top 5% of workers earn 50 times more than the bottom 5% workers.
- The growth dividends of South Africa have been misdistributed, which has further increased inequality.
- Another major issue is that the people who are employed do not have a regular income source , which puts the above the poverty line when employed and below the poverty line when unemployed , leading to uncertainty, thus making it difficult to formulate policies.
- A parasitic accumulation of South Africa by a few capitalists is seen, this has lead to exploitation.
- Increasing corruption is acting as a catalyst to fuel inequality further.

## **POLICY MEASURES TAKEN TO TREAT INEQUALITY IN SOUTH AFRICA-**

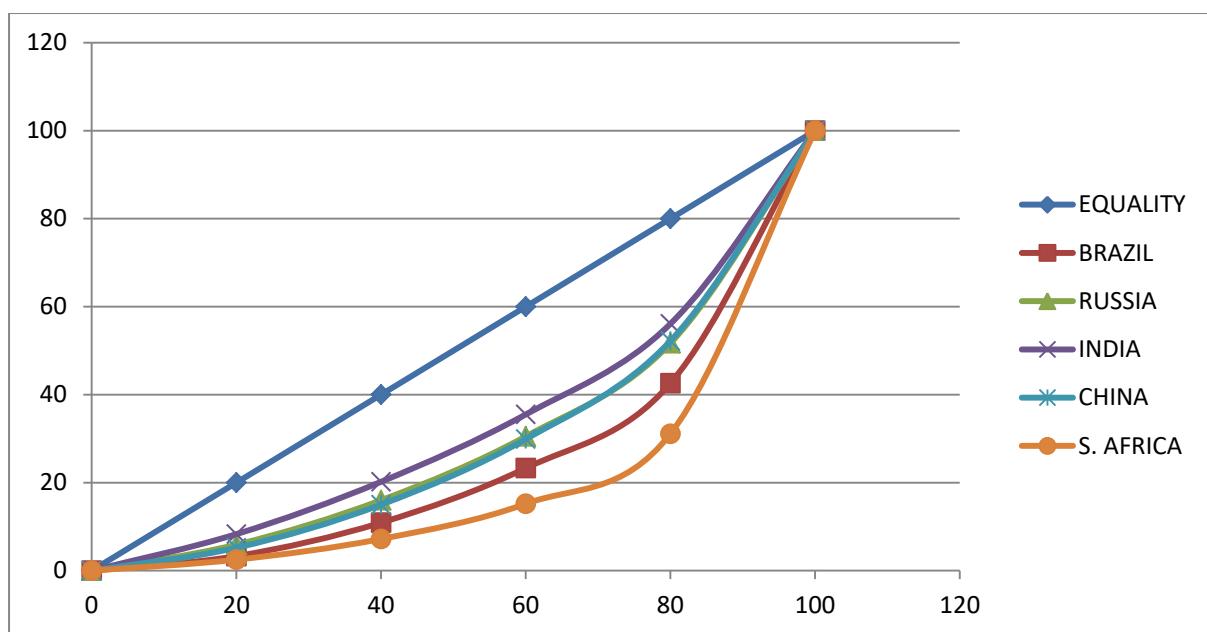
The government has progressively spent on education and healthcare especially on public hospitals and public schools. As the poor are the ones that use these facilities who are the Africans majorly. Statistics state that the increase in education spending is increasing by 5.5% annually. But it is seen that there is a skill deficiency that still prevails. There is a Unemployment insurance fund, but its coverage is very poor. Upto 2010 it had covered barely 10% of the unemployed. The government is corrupt and has not succeeded much in taking firm steps against inequality. Also the crime rate is on a rise in the country due to extreme poverty and inequality. Economists have suggested to draw programson lines of the Bolsa Familia of Brazil as a policy solution.

According to Piketty Africa needed a national wage policy which would be more efficient because wage gap is a severe problem in Africa. He also states that the government should take certain measures in order to harness the investment both foreign and domestic to productive sectors like industry and infrastructure that would prove beneficial for development in the long term. Also provide subsidized credit and make changes in the monetary policy of the country. He suggested a heavy wealth tax on the people that concentrated wealth.

## COMPARITIVE ANALYSIS OF THE INCOME INEQUALITY AMONG BRICS NATIONS -

In the above section the inequality among all the BRICS nations is seen. All of them have been suffering from great inequality issues. As their patterns are different in the same way the policy implementation differs. Out of these Brazil has really shown a positive change in the inequality figures. The most unequal among these is South Africa. Some common threads in the inequality causes for all these countries were education, corruption, economic reforms, political will and so on.

### LORENZ CURVE FOR BRICS -



The above figure includes the Lorenz curves of all the economies. They have been drawn from the data for the year 2013 from the World Bank data book. The wealth distribution table is as follows.

Country	Gini	Lowest 20%	Second 20%	Third 20%	Fourth 20%	Richest 20%
BRAZIL	0.515	3.3	7.6	12.4	19.3	57.4
RUSSIA	0.416	5.9	10.1	14.5	21.2	48.3
INDIA	0.351	8.3	11.9	15.3	20.66	44
CHINA	0.422	5.2	9.8	14.9	22.3	47.9

SOUTH AFRICA	0.634	2.5	47	8	15.9	68.9
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Source- [www.worldbank.org](http://www.worldbank.org)

The closer the value of Gini to 0 more equal is the distribution in that country and more closer it is to 1 more is the inequality. This table show us how the wealth has been distributed among these countries, we see that in case of South Africa the situation is alarming. The Gini figures for Russia and China are close. India shows the lowest figure of Gini but the recent data states that the inequality has gone up by leaps and bounds. Unless the huge amount of wealth held by the rich is redistributed development of the economy is difficult. Inequality, illiteracy and poverty is a vicious circle which will continue unless the root cause is eliminated. One of the most important common feature in all these countries is that the level of corruption is very high. According to the Transparency International corruption perception index, South Africa ranks 64th, Brazil, China and India rank 79th and Russia ranks 131st. This shows high amount of corruption which pulls down the economy's welfare. Apart from this the Social Progress Index that measures the basic human needs, foundation of well being , opportunities etc, the ranks of these countries are Brazil ranked 46th , South Africa ranked 59th, Russia 75th, China 84th and India 98th. India lags behind in providing social infrastructure to its population. The crime rate in Brazil and South Africa is a matter of concern. When BRICS was formulated these five economies were booming and the world looked at these economies as the ones with great potential and ambition to change the world order. Standing by that the economies performed very well, but for a couple of years now there is a slowdown in these economies except India. The GDP growth of Brazil was -3.8%, of Russia -3.7%, for South Africa it was 1.3%. For China it was 6.9% which is relatively better but when compared to Chinas Growth in the past this figure seems low. For India it was 7.6% highest of all the other economies in BRICS. Also the PCI of India has seen an upward trend continuously, whereas for Brazil and South Africa it has declined.

## **CONCLUSION-**

BRICS no more remains powerful and attractive to the extent at which it looked when formulated. But as Kuznets Hypothesis states that in the early development stages generally the ones with more money benefit and can invest, the country goes for industrialization and the agriculture is either neglected or mechanized, which in turn gives rise to internal migration, and as this goes on there is a huge increase in the urban rural wage gap. And

inequality further rises, when the industrialization matures and welfare state creeps in and through trickle down the problem of inequality becomes narrow. Also then the PCI rises, he depicts it with a inverted "U" shaped curve which states that as the PCI increases the inequality rises, and again the inequality falls with rise in PCI. This hypothesis if applied to the BRICS fits appropriate because all these countries are infants when it comes to policies like industrialization. But the situation should be taken in control before it makes an irreparable loss to the economy. These countries have to seriously think over spending more on education and making sure it is efficiently utilized, because only skilled labour force is the driver for an economy to develop. It also should provide with a social security net for its population like insurance and pensions. There should be a remodelling in the tax structures of these economies, so that the rich get taxed heavily and the poor get some relief. The solutions thought for these countries should not be temporary in nature but instead should be over a long term. The social factors in these economies also seem to be very dominantly contributing to the inequality like gender, caste and creed. These social factors have sustained in the economies for decades now and it is high time they have to be uprooted from the country in order to lay the foundation of equality and welfare. Corruption should be checked in these countries as it has created a havoc and the poor are the ones that are suffering due to this. BRICS thought weak and vulnerable today, if work and make co-ordinated efforts there is hope that they could reconcile to the position from where they began.

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