**International Business**
**Prof. J. K. Nayak**
**Department of Management Studies**
**Indian Institute of Technology, Roorkee**

**Lecture – 23**
**Income Distribution, Poverty, Productivity**

Welcome friends. So, welcome again to the course International Business. I think you must be doing pretty well at the moment and you are following the course well. So, let us start from where we had left in the last lecture. So, in the last lecture we had discussed at you know we were continuing with the economic factors and how economic factors what are the components in the economic factors that affects you know the economy at large and the international business firms.

So, what are they basically? So, there we discussed about few like inflation being one of them debt you know and the role of debt in any country and then we talked about employment and our unemployment right. So, when we talked about inflation, we realize that inflation is not to be always treated badly. Sometimes inflation is very dangerous; obviously.

So, if there is a case of hyperinflation like it happened in Argentina or Venezuela or Zimbabwe you know it the economy completely crashed. So, that is a very difficult time for any country, but some inflation is also moderate inflation or slight inflation is good right. On the other hand if there is a you know negative inflation that is not a very ideal situation also for a country right.

So, neither it should be a hyperinflation nor a deflation situation none of them is good, but rather a small amount of inflation is desirable to some time right because what is inflation it is basically the rise of goods, the price of the rise in prices of the basic goods right which we are using.

So that means, there is a this is basically an equilibrium between the demand and the supply. If demand is growing too much and supply is less automatically inflation will grow. So, there has to be some balance between the two, right. And then we talked about how unemployment is a we talked about the misery index right which talks about how inflation plus unemployment taken together besides the economic health of a country.

So, that is another factor we discussed. And the third we talked about what is debt and how debt is also to be seen. Again debt sometimes people take it as a very negative in a general terms, but if you talk to a finance guy or somebody well learned about economics he would not see debt only as a negative in the negative way rather debt has some positive impact.

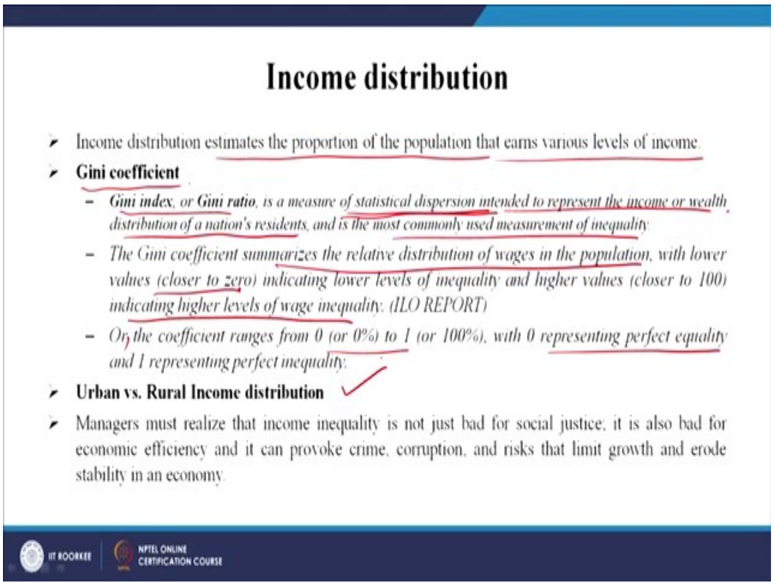
And we saw how some of the top countries in the world they accounted for about 65 percent of the world's total debt and we saw that all these countries were developed countries right.

On the other hand we saw some you know another situation where we compared. For example, Japan versus you know Greece and we found Japan has a you know debt to GDP ratio of 240 percent, but still Japan is doing well, but on the contrary Greece had only 160 percent, but Greece was doing very badly.

So, what is the reason? Because Japan is developed 90 percent of its debt is internal debt. So, which is that is why it is not a very dangerous situation with Japan. And they are utilizing this debt in a very you know positive sense and they are using for the betterment of the economy.

So, all these factors are very important and today we will continue from there right. Now, another important point that is connected with the economy and you know where international firms need to understand is a income distribution.

(Refer Slide Time: 03:55)




Now, when we talk about income distribution, what it says is it estimates the proportion of the population that earns various levels of income. Now income distribution like, knowledge distribution is a very key variable. Similarly, income distribution is a very key variable. Now if the income distribution is not in a proper way it cannot be equal, but that should not be too much of a difference right.

If the difference is too large in any economy; that means, some people are extremely poor and are in a poverty situation; some are extremely rich and they are having a very you know lavish lifestyle. Now, this kind of situation is not a very desirable situation because it might lead to conflicts in the society right. It might lead to increase in crime. It might lead to increase in attacks on the richer people.

So, as somebody had said rightly in such a situation it will be the responsibility for the rich to take care of the poor. Otherwise they would not be in a very safe zone. So, to understand income distribution there is something called the Gini coefficient right. Some pronounced Gini some pronounce Gini.

So, the Gini ratio is a measure of statistical dispersion. What it is saying is a measure of the statistical dispersion how much it is dispersing right intended to represent the income or wealth distribution of a nations residents and is the most commonly used measure of inequality.

So, the Gini ratio is used to measure inequality and it helps to represent the income or wealth of the nations people, right. Now, it summarizes the relative distribution of wages in the population with lower values closer to 0 indicating lower values of inequality and higher values closer to 100 indicating higher levels of wage inequality; that means, more the value more it is closer to 100 the dangerous it is right.

That means there is a high inequality in the nation, but if it is close to 0 it is a good sign right. Or the coefficients range from 0 to 1 right; with 0 representing perfect equality and 1 representing perfect inequality which is an ideal situation. It does not happen. You know it is a kind of a is only a situation which you can think 0 and 1 does not happen, absolute 0 and 1 does not happen.

Now, when we talk about income distribution, we will talk about the urban versus the rural income distribution. Now, this is very important for you know for a country like India. For example, let us say now the urban rural income is in a different you know level and the rural income distribution is in a different level. So, if companies do not understand this distribution of urban and rural income well then what would happen is most of the products would be made for only maybe the urban people and the rural would be left behind.

But, actually the rural income distribution if you look at the rural incomes they also have a capacity to buy. The rural people also have a capacity to buy although yes its very less, but still they have and because of the volume of the rural people the you know the mass of people in the rural areas in India for example, gives an opportunity for the companies to try out new products for them. And this is what Gary Hammer you know C. K. Prahalad Dr. C. K. Prahalad has said in his bottom of the pyramid concept right.

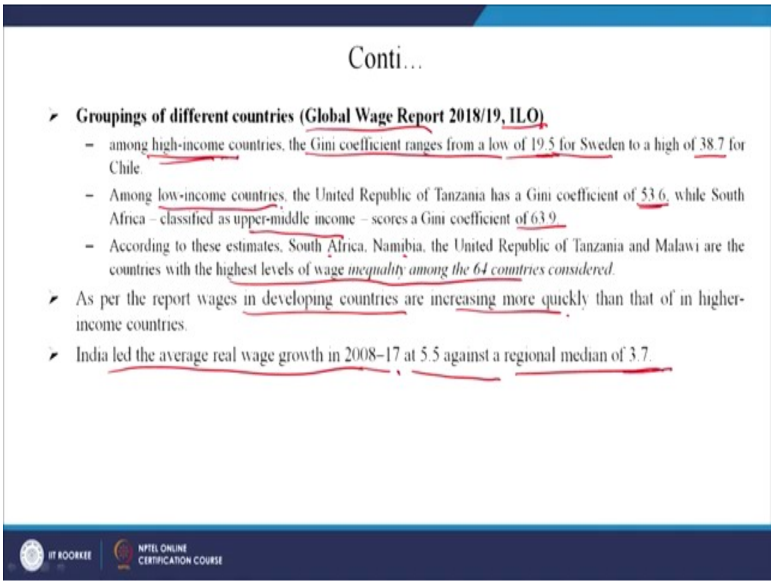
So, how this urban and rural income distribution is there in a nation it is very important. So, it should not be very high. Now, you see if there is a high difference in the urban and rural income distribution what will happen? The resultant is that people will migrate from the rural to the urban right which will lead to development of slums, you know kind of colonies which are not very desirable and again there will be lot of crime, theft and all these things.

So, this would make the for a tourist purpose also that the cities would look very odd like which has happened in you know India. For example, if you see Bombay which is

Mumbai today or even Calcutta, if you see all these places because of the income distribution a lot of people have stopped their work in the rural areas and they have migrated towards the urban in search of job and wages.

Managers must realize that income inequality is not just bad for social justice, it is also bad for the economy as we said and it can provoke, crime, corruption and risk that limit growth and erode the stability in an economy ok.

(Refer Slide Time: 08:32)



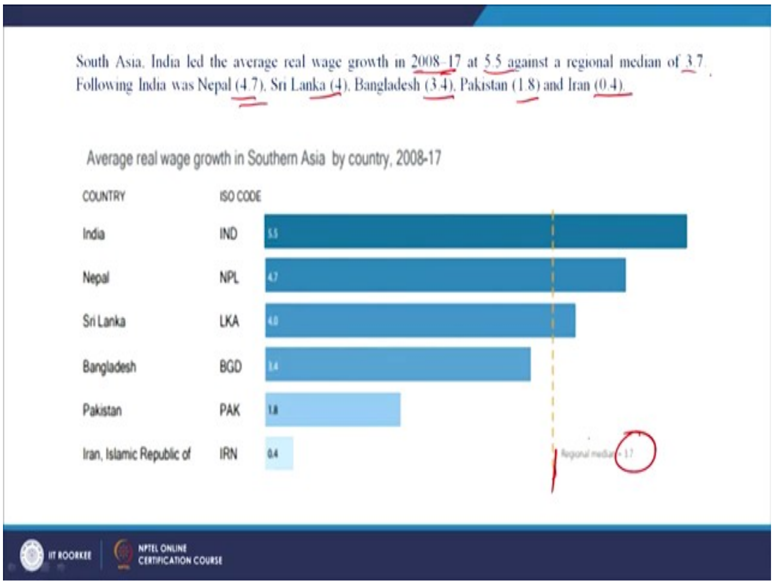

So, let us continue with that. Groupings of different countries. Now, this is the global wage report of ILO right for 2018-19 among the high income countries. The Gini coefficient ranges from a low of 19.5 for Sweden to a high of 38.7 for Chile right.

So, as we said the lower it is closer to 0, it is better right. Among low income countries this is for high income right. For low income countries the united republic of Tanzania has a Gini coefficient of 53.6 while South Africa which is classified as the upper middle income scores 63.9 right.

According to these estimates South Africa, Namibia, the United Republic of Tanzania and Malawi are the countries with the highest levels of wage inequality among the 64 countries they have considered right. As per the report wages in the developing countries are increasingly increasing more quickly than that of in the higher income countries that is very interesting and very nice. What it says that in the developing countries the wages are increasing more quickly than that of in the higher income countries.

India for example, led the average real wage growth in 2008 to 17 from this period of 10 years at 5.5 against a regional median of 3.7 that is too good for India right. So that means, a lot of people have moved from a low wage and low income to a higher side right. So, since the median was 3.7 and this is 5.5 ok.

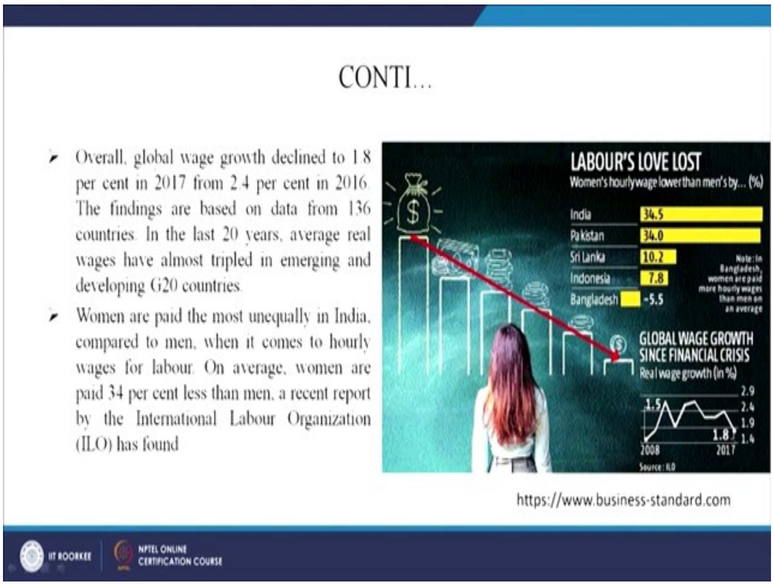
(Refer Slide Time: 10:13)




Let us see this diagram. South Asia in you know India led the average real wage growth rate from this period at 5.5 against this right. Following India was Nepal which is at 4.7, Sri Lanka 4, Bangladesh 3.3, Pakistan 1.8 only and Iran 0.4 right. So, you can look at this and this is the median right, median value 3.7 right.

So, this shows that Indian government has been acting very good and working very nice because of some of our policies. For example, the MGNREGA policy and all these which I have been for the you know to increase the wage or the purchasing power or the income of the poor, the government did. They have acted positively right, we can we can claim that.

(Refer Slide Time: 11:00)



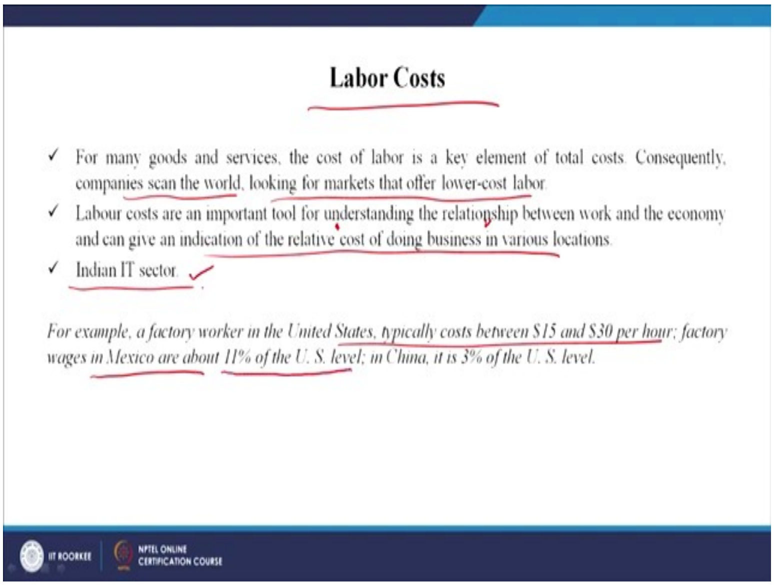

Let us look at what has happened overall the global wage growth declined to 1.8 percent in 2017 from 2.4 percent in 2016. The findings are based on data from 136 countries. In the last 20 years average real wages have almost tripled in emerging and the developing G20 countries.

Now, that is look at this diagram. If you see labours love lost, what it says woman's hourly wage lower than men's by what percent? India men have a 34.5 percent higher hourly wage than woman. Pakistan 34. So, almost 34 and 35 is as close as possible. Sri Lanka the difference is less; that means, men and women earn little closer Indonesia 7.8, this is a good sign I would say this is a good healthy sign for any economy lower the difference better.

On the contrary you see Bangladesh has got a negative; that means, women earn more than men in Bangladesh right. So, this is what it says right and if you look at this the global wage growth since financial crisis that had happened right in the 2008. If you see 2008 from there it started growing right and there has been changes spikes and in 2017 now, when we are here it is 1.8 percent of the growth rate right what we have said here.

Women are paid the most unequally in India now that is the clay that is a statistics which is not very desirable for the Indian government to be you know and they should take it very seriously compared to men. When it comes to hourly wages for labour on average women are 34 percent less than men this is what ILO has found.

(Refer Slide Time: 12:43)




Now, what a labour cost; another component that affects the economy. For many goods and services, the cost of labour is a key element for many goods and services the cost of labour is an integral component right it is a major part. Consequently companies scan the world looking for markets that offer lower cost labour. You see the whole world after the trade has really opened up.

Companies are looking at the factors of production in which labour is one of the factors of production very important one. So, they would like to see where labour is cheaper and they would try to start their factories or their operations in those places where raw material is available and, but labour is also cheaper right.

So, for example, you see labour costs are an important tool for understanding the relationship between work and the economy and can give an indication of the relative cost of doing business. This is a very important term right, the cost of doing business in various locations.

So, let us look at the Indian IT sector for example. Why do many companies want to come to India? It is not only the market, but Indian labour is cheaper much cheaper to the western in compared to the western ones and more than that they also know speak English and they are very flexible to the you know different time zones that is prevalent in the world.

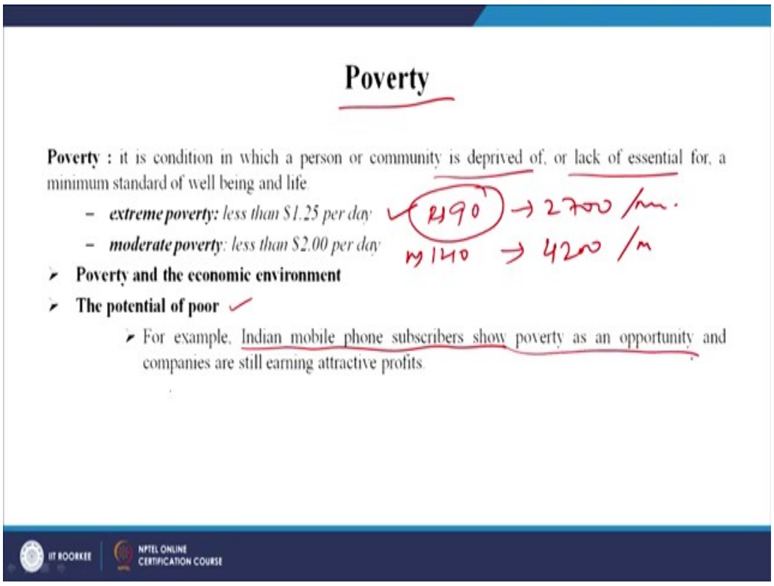
So, looking at all this labour costs are considered to be much cheaper in India and therefore, many companies have set up their show offshore you know units out in India right.

You see and even the it services in for companies like Infosys, TCS, Wipro and all they provide lot of labour and they you know send them to the other countries where these people go and work at a better salary what they would have earned in India and, but it is for the foreign firms, it is a quite a lesser amount in comparison to what they would have to paid to the local workers.

So, now when the some of the political leaders talk about stopping outsourcing which is this example right. At that time it becomes a headache for the business firms to realize whether this would be economically viable or not. A factory worker in the United States typically cost between 15 to 30 dollars per hour right looking at a skill. Factory wages in Mexico which is close to US is about 11 percent of the US level.

In China it is 3 percent only right. So, you can understand that how effective it would be for somebody to start an operation in China no wonder China has become the manufacturing you know hub of the world right.

(Refer Slide Time: 15:25)



Another important you know component is poverty. Now, poverty is a condition in which a person or the community is deprived of or lack of essential for a minimum standard of well being right and life.

So, there are two definitions; extreme poverty and moderate poverty. Poverty is below a certain standard. So, below you know extreme poverty says when people are earning even less than 1.25 dollar per day. So, if I make a simple calculation somewhere it will be around let us say around you know 90 rupees.

So, I am not exactly in Indian currency if I say if I take it 70 rupees per dollar, so, 1.25 into 70 will be almost 90 rupees; so, 90 rupees per day right. So, that is around 2700 rupees per month right and moderate poverty says less than 2 dollars. So, 2 dollars means around 140 right. So, if take it 70 again for a easier calculation. So, that is around 4200.

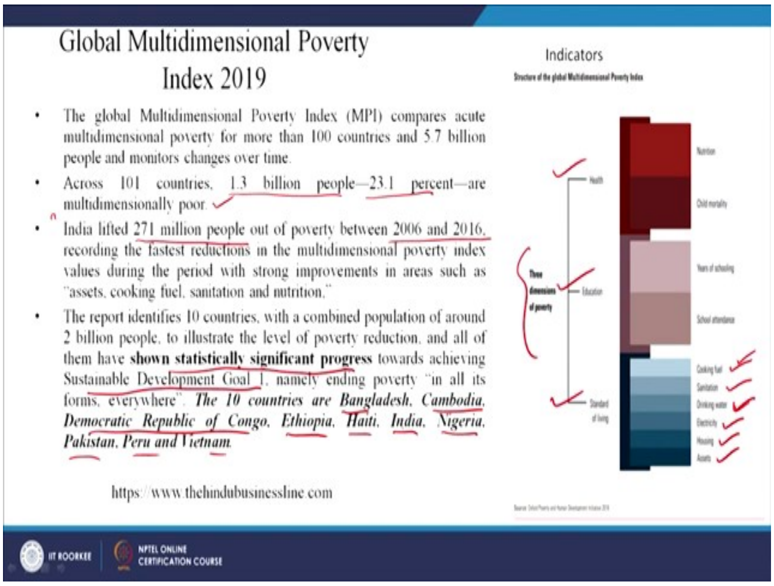
So, anybody who lives below this level would be considered moderate or a extreme poverty case right. Now, what is the relation between poverty and the economic environment? See if most people are there in poverty as I have been saying right, so, there would not be very you know happy situation right and peoples buying power is also poor.

So, all these will not lead to a you know the circulation of money which is a very very key you know component. If money does not circulate it is a very dangerous thing. So, people will tend to hoard money they would not invest money they would be scared of their future. So, all these things will lead to a very bad situation right, but interestingly the potential of poor.

For example, this example we have brought that Indian mobile phone subscribers used when they understood the lot of people in India are in the poverty line below the poverty line so, they use this as an opportunity and companies are still earning profits. So, they what they made was they made the cost of a call so low by using the latest technology and all that even the person who was who comes under the poverty also was able to use the services of these telecom companies, right.

Now, that is an opportunity they could use, but then it does not mean that is the people should live in the poverty lane right. And the India has done a excellent job in a country where it has transferred lot of people from the poverty to a better condition right.

(Refer Slide Time: 18:04)




Now, this is the global multi dimensional poverty index of 2019 if you can see from here. The dimensions of poverty have been taken as to be health, education and living standards right.

So, when it comes to health, its nutrition you know level of nutrition, the child mortality and when it comes to education it is years of schooling, school attendance. So, for example, if you see in India there are lot of mid-days meal schemes which are prevalent to encourage students to come to the school to attend school because they are given free meals right.

So, these experiments have been done in India from the past have been the government has been doing and because of this India's education system has been strengthening, India's economic condition has been strengthening below the you know the people below the poverty line this number has been decreasing ok. Standard of living when you talk about for example, you know some others parameters are cooking fuel, sanitation, drinking water, electricity, housing and assets.

Now, if you look if I am not praising any government, but to my knowledge the present government has started working on let us say the cooking fuel where they have started giving the LPG right.

So, they are now working on the water condition. So, what they are doing is now, the government every government does it right this is no special for any government, it is their job to do, but the government to improve Indian government what whoever they were whichever government was there at the time yes the present government has been little better than that in terms of these issues.

So, what they have tried to do is they have tried to improve upon the standard of living education and health of people by having you know like for example, insurance for you know for health related insurances and all so that people can afford they do not worry about their health. So, all these things has led to a better situation for Indians at least.

Now, what it says is this MPI compares acute multi dimensional poverty for more than 100 countries and 5.7 billion and monitors the changes over time. Across 101 countries 1.3 billion people 23.1 percent are multidimensionally poor.

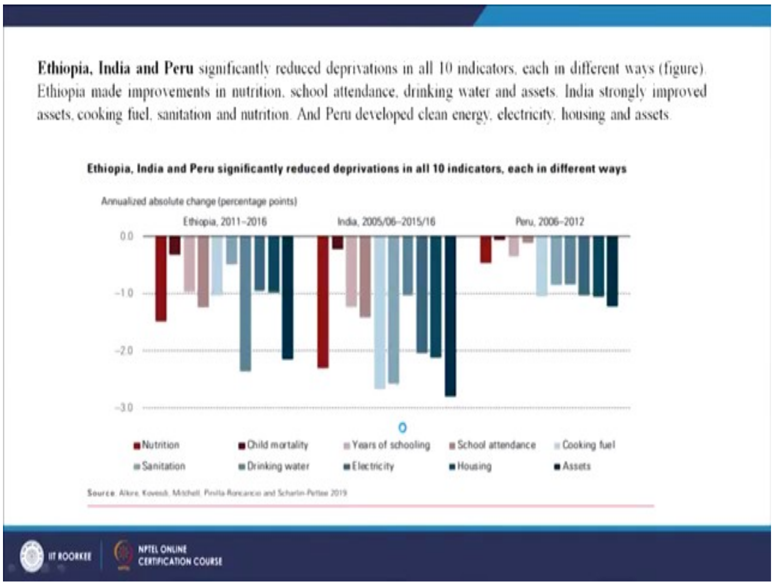
India lifted now this is this is something I am very happy. India lifted 271 million that is 27 crores out of poverty between this 2006 and 16 right, recording the fastest reductions in the multi dimensional poverty index right.

Values during the period with strong improvements in areas such as assets, cooking fuel, sanitation you know nutrition. So, this is something the government has been working giving you know children’s iron tablet us at school free midday meals you know free schooling for the not so, privileged class of people, now, gas cylinders all these things right.

The report identifies 10 countries with a combined population of around 2 billion to illustrate the level of poverty reduction and all them have shown statistically significant progress towards achieving the sustainable development goal 1, namely ending poverty in all its forms everywhere.

The 10 countries are Bangladesh, Cambodia, Democratic Republic of Congo, Ethiopia, Haiti, India, Nigeria, Pakistan, Peru and Vietnam right. I am not very happy that at least my country is in this list, but so, if we are there, but India has done definitely a good job in you know lifting 27 crore people or 271 million people out of it, which might be even larger than some of the population of even some of this countries right.

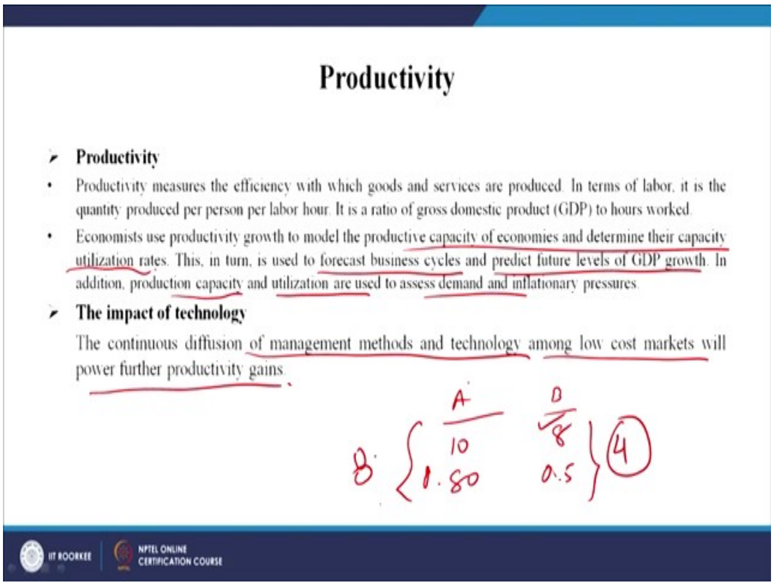
(Refer Slide Time: 21:43)




Now, if you can see this, this is a comparison of Ethiopia, India and Peru, significantly reduced the depravations in all the 10 indicators. What the 10 indicators? Nutrition, child mortality, up to assets right. In different ways, Ethiopia made improvements in nutrition, school attendance, drinking water and assets. India strongly improved in assets, cooking fuel, sanitation and nutrition and Peru developed clean energy, electricity, housing and assets right.

So, this is something which has what it says? If you see it is a it downward looking, so, why it is because it has improved. So, what it has done is it says Ethiopia, India and Peru significantly reduced the deprivations right. So, they have reduced, so, that is a very positive think right.

(Refer Slide Time: 22:29)




So, and lastly another important component that is part of the economy is the productivity. Now, what it says is productivity measures the efficiency with which goods and services are produced.

In terms of labour, it is a quantity produced per person per hour labour hour. It is the ratio of gross domestic product to hours work. Now economists use productivity growth to model, the productivity capacity of economics and determine their capacity utilization rates right. This in turn is used to forecast the business cycle, predict future levels of GDP growth.

In addition production capacity and utilization are used to assess the demand and inflationary pressures. So, what it is saying is basically? Productivity is used to measure the efficiency with which the services and goods are produced right. So, it says they the economists use this productivity growth to model the productive capacity of economists. So, what could be the you know productive capacity, how much they can produce right?

So, and determine their capacity utilization. How? If they have some capacity if so, let us say the some factories are being built or some you know there are some stores some distribution how they are being utilized how much they are being utilized. So, is it 100 percent utilization, is it 60 percent utilization, what is the level of utilization?

So, that talks about our productivity. This in turn is used to forecast the business cycle. So, what would happen if there is this is the condition at the moment then what would be the future? So, this forecasting becomes easier and this is in addition, the production capacity and utilization are used to assess the demand also of the products and you know inflationary pressures that can come on the economy.

So, that helps the companies to understand what they should produce, how much they should produce and how they should be going ahead. Here technology makes a very large impact. So, the continuous diffusion of management methods and technology among the low cost markets will power further productivity gains.

So, now, technology has played a very vital role in improving the productivity right. For example, you have different methods. For example, just you know human skill to improve the process through which you are making by using maybe you know machine you are using different processes, you are reducing the you know time required to make a product.

So, all these things and you know the efficiency is increased. So, the productivity tremendously grow by using technology more effectively, ok. So, today we will stop here and we will not go further because let us understand this thing. Today what we have explained is to you is so, we talked about the productivity.

So, we have now understood how productivity; for example, let us say let me give an example. If a country is let us say now contrast between these two. Let us say there are two countries A and B. A has a labour rate of 10.

Let us say I am making unit list. B has a labour rate of 8 ok, the labour rate is this one. The this here the productivity is let us say working a productivity is let us say 80, let us say 80 percent or 0.8 right and here the productivity let us say is 0.5. Now which is a cheaper, which where is the labour actually cheaper if you talk about this is as a human labour right, then labour wage and all?.

Now, if you see this is 10.8, the overall score is let us say; that means, 8 and when I am multiplying this it is giving me a score of 4. So that means what? If I take these two countries then although the cost of production looks from the face of you know from directly it looks cheaper here, but when I am multiplying with the productivity labour productivity this is 200 percent more efficient than this one right.

So, this is something which you know the companies also need to understand and then decide which countries are actually having low cost labour not in direct way, but through an overall means right.

We understood also you know the effect of poverty and then we effect understood labour and we understood the effect of you know how income distribution effects. So, all these things we discussed today and we have a mix made some understanding about how economy is getting affected by these measures right. So, in the next lecture we will continue from here. So, this is all for today.

Thank you very much.