

### The politics of distribution

An oath to “*Fatherland, Socialism or Death*” was mandatory for members of the Venezuelan armed forces, during the rule of President Hugo Chavez. (We too have enshrined socialism in our constitution.) Chavez died almost exactly a year back and, under his chosen successor, the country has been in turmoil for the last several weeks, with raging unemployment, roaring inflation (60% as per official data; more than 300% according to independent observers), shortage of essential goods and commodities, fuelling the anger. With one of the world’s largest oil reserves, the country had recorded a current account surplus of almost 15% of GDP less than 10 years back; with production falling, the county may incur external deficits in the next couple of years. In the unofficial market, the dollar fetches 14 times more than the official exchange rate!

Venezuela apart, one does not recall a time as volatile as the last few years in the global political economy. Currently, the Turkish government is confronting huge anti-corruption street protests; so is Thailand. Protestors succeeded in forcing a regime change in Ukraine, where the twenty-first century’s “*Great Game*” is being played amongst the superpowers. Several other countries have also experienced regime changes in recent years – for example, Tunisia and Egypt. And, many of these were not brought about by organised political parties but spontaneous street protests by the “civil society”.

Such activism has been another interesting feature of the recent political economy – in both developed and developing countries. Recall the Tea Party movement in the US (named after the Boston Tea Party which triggered the revolution in America in the 18<sup>th</sup> century): Tea Party adherents now dominate the Republican Party right wing agenda. At the other end was the “Occupy Wall Street” movement in the US and UK, sparked by Wall Street excesses which led to a global financial crisis and the largest drop in global output since the depression of the 1930s. The movement died achieving little. Closer

home, the Anna Hazare movement against corruption led to the formation of the Aam Adami Party which handily defeated the ruling party in the Delhi state election. Clearly, traditional political equations do not seem to be working.

In India, in the last five years alone, a hundred million people have been added to the electoral roll: this translates into 20 mn new entrants needing jobs every year. The actual performance over the last many years has been much poorer even when ill-paid, casual jobs are included. CRISIL estimates that just 38 mn non-agricultural jobs will be created between 2011-12 and 2018-19.

The backbone of rapid job creation common to all countries which succeeded – from post-war Germany and Japan to China -- has been fast growth in labour intensive manufacturing, an area where we lag badly. The last five years of UPA have stressed the politics of distribution, not of production. We tried this strategy for three decades to 1980: “*Garibi Hatao*” could not make any dent in the number of people below the poverty line which remained around 50%. It started coming down only with economic liberalisation and faster growth in the subsequent decades. Unfortunately, the last five years have witnessed our going back to the era of the senior Mrs. Gandhi, whether in the politics of distribution or in the return of the *License Permit Raj* through environmental and land-use regulation. The government has undertaken responsibilities which administratively it cannot fulfil even with a modicum of efficiency and honesty (the late Rajiv Gandhi once said that barely 15-20% of the subsidies reach the people for whom they are intended) – and is also increasingly straining financial resources. (As an old saying goes, the way to hell.....). In the process, growth has halved. The worsening quality of the fiscal deficit is even more worrying than its quantity, for future growth: are we inching towards the Hindu rate of growth? The other side is that a recent McKinsey study once again emphasises the importance of growth to reducing poverty. Meanwhile, income inequalities have grown rapidly and the increasing proportion of the population without access to reasonably paid permanent employment is adding every day to those with few stakes in socioeconomic stability. And, the quality of governance, so important to growth, has rarely been poorer!

Until elections were announced last week, one government advertisement was appearing repeatedly: how *hum* ("we") have started hundreds of thousands of schools, connected the nation by highways, built millions of homes for slum dwellers transforming their lives, built airports, etc. etc., -- and how 'you' (i.e. the people) have supported us. Every time I saw the ad, I have wondered who exactly the pronoun "we" stood for: the UPA government and its National Advisory Council? the Congress Party? or the "family"? Make your choice: "we" obviously did not refer to the taxpayer.

To quote from The Economist (February 15), "*Its politics was captured by the (family)... and focused on personalities and influence..... Graft is endemic: the country ranks a shoddy 106th in the Transparency International's corruption index. Building institutions is a dull, slow business.....Populism stalks many emerging countries.....In too many parts of emerging Asia,... crony capitalism remains the order of the day. Inequality is feeding the .. anger of the people...*". No, the paper was not referring to India but to Argentina, one of the world's richest countries a century back. And now?

The incoming government has a daunting task ahead!

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