The Politics of Distribution II

Last week, I argued that the politics of distribution can be afforded only with equal emphasis on the politics of production, particularly industrial growth, which creates the resources needed for distribution. Since independence, the share of industry in India's GDP has gone up, but nowhere near as much as one often tends to assume from recent numbers: it was 12.5% in 1950-51 and a little less than 20% last year!

The environmental and land policy agendas are by no means the only impediment to manufacturing growth and employment. So is the exchange rate policy: as President Obama said in Mumbai, each billion dollars of exports generates thousands of jobs in the U.S. We, on the other hand, seem blissfully unconcerned, in our exchange rate policy, about the need to keep the tradeables sector competitive in the global economy. Indeed, after the Obama visit it was left to the filmy couple, Shabana Azmi and Javed Akhtar, to raise a very pertinent question: feeling great about having created thousands of jobs in the U.S. is fine, but what about creating the jobs here where they are needed even more?

As for industrial growth, there is also the question of interest rates and the availability of money. Inflation is a problem, but primarily driven by food and commodity prices; the latter are determined globally, and the former are a reflection of the successive increases in minimum support prices, and of the impact of NREGS on agricultural labor costs. Indeed, the price rise is a relatively painless way of transferring income (as Keynes described it) from urban to rural India.

And, such transfer is needed, if disparities are to come down. Back in 1950-51, agriculture accounted for 52% of our national income and employed perhaps

$2/3^{rds}$ of the workforce (Ramachandra Guha, *India After Gandhi)*. In other words, even then, agricultural per capita incomes were lower than in the remaining economy. But the disparity has grown dramatically since then: presently, agriculture accounts for just 17% of national income, but provides employment to 45%, as per the recent Report on Employment of the Ministry of Labour!

It is the responsibility of the leadership to explain to the (vocal) urban population the need to increase rural incomes and the role inflation is playing in it. Leadership, as Jawaharlal showed in the late 1940s-1950s on the Hindu Code Bill, to which a vast majority of Hindus was opposed, requires a leader to persuade people, even the political opposition, to agree to do what they are unwilling to – if that is what is right for the country –, not always s make policy by holding a wet finger in the wind. The other side of course is the need to create more jobs outside the agricultural sector, once again emphasizing the need to practice the politics of production, of fostering fast industrial growth. And, deflationary monetary and exchange rate policies are not the way to do this. Policy rates have already been hiked six times this year!

Can the services segment, which has grown the fastest over the last 60 years, not do the trick? Unlikely, in my view. It is difficult to imagine that the services sector will keep growing at the rate it has, and keep producing reasonably paid jobs, unless supported by fast industrial growth.

Today's Europe is a good example of what happens when entitlements become no longer affordable to the fisc. In country after country, there are public sector job cuts, benefit curtailment, delayed pensions and the social unrest these steps are generating. Even Cuba, one of the last bastions of socialism, has recently cut half a million public sector jobs because the "state cannot keep maintaining ……bloated payrolls." (China realized this a long time back; its public sector today is highly profitable and generating huge surpluses.) In fact, Cuba has unveiled a capitalistic revolution after 50 years of socialism, a road taken by

China three decades back, and Vietnam a decade later. The experience of Asia over the last 60 years emphasises the crucial role of growth in excess of 7% p.a. in poverty removal. And, it is worth remembering that *"we cannot take our high growth for granted*" as the Finance Minister himself said in an interview in the Hindustan Times (September 25). Indeed we cannot!

The politics of distribution can sometimes end up harming exactly the people it is supposed to benefit. The recent financial crisis leading to the deepest global recession for 70 years was as at least partly the result of housing loans to "sub-prime", i.e. poor, borrowers. Who suffered most? The poor, the less qualified, the people being evicted from their houses.

Coming back to NREGS, a subcommittee of the Central Employment Guarantee Council has recently reported that the work performed under it was not productive; if so, why not direct, preferably electronic, cash transfers, saving so much in administrative costs and leakages? This issue leads to the other input of the politics of distribution, namely governance. I hope to return to the topic in a later article.

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