

The Political Economy

It is just about a year since 14 highly respected business leaders and others addressed a letter to the government expressing concern about governance issues, and their impact on economic growth. They followed up with another letter three months back. If anything, the numbers and investment climate have worsened since then. And, nothing may happen on the issues raised at least until the end of March with elections in five states.

If too many of our citizens believe that all politicians are corrupt (just recall the response Anna Hazare got), the other side is that the election propaganda reminds us that most political parties and their leadership reciprocate the sentiment: the only way they seem to know of getting elected is to “bribe” the voter through reservations, quotas, subsidies and other populist measures. (To be sure, culturally, we have nothing much against corruption: just look at the number of people who offer *mannat* to the gods for getting a son, a daughter married, or a promotion in job!) The end result of populism has been that the finances of every segment vital for a modern economy are at a crisis point: railways, power, other infrastructure, etc. And, the government lacks the will to resist any organized group, to enforce its own rules and laws.

Overall, as one looks forward to 2012, it is very difficult to discern a white lining to the gathering clouds on the balance of payments, the fiscal deficit, the efficacy of most social programs, and the lack of investments – and hence the growth prospects. In many ways, a global slowdown/recession would be extremely useful for our political masters as the domestic problems can be attributed to that phenomenon over which we obviously have no control.

The fact, however, is that most of the problems are home grown. The question is whether they have become increasingly insoluble because of our democracy, as Lee Kuan Yew and, more recently, Mahathir Mohammed, former Prime Ministers respectively of Singapore and Malaysia, have argued. On this subject, it has become almost *de jure* to self-righteously praise ourselves for being a democracy for 60 years – and pay tributes to the sense and wisdom of the voter. How true are these self-righteous assumptions? Winston Churchill once called democracy as the worst form of government – except for all the others. (Even Mr. Lee has remarked that, whatever our democracy's weaknesses, there is no other way to govern such a diverse country!) The other side, however, is that most Asian economies from Korea and Taiwan at one time to China more recently have grown fast under authoritarian regimes: they also seem to have done better than us in providing basic social services to all their people – education, healthcare, etc. And, as I argued in my last article (January 5), the West grew and industrialized under democracies which had no adult franchise. Nor did it need to face the holy cow of environmentalism when it was developing.

To be sure, many philosophers from Socrates downward have not had great faith in democracies. Socrates questioned, *"Is it not a base superstition that mere numbers will give wisdom?"* And, Plato's *Republic* argues that *"The state is what it is because its citizens are what they are."* If the voter is so wise as claimed, how is it that he elects criminals; gives the divine right to rule to dynasties; does not see reservations and quotas as bribes aimed at perpetuating differences? 65 years after independence, are our caste/communal identities stronger than our identities as citizens of a democracy? To be sure, some state leaders and many "bottom up" development efforts in rural India have demonstrated that democracy need not be a bar to good governance, growth and social justice.

What is more worrying for future growth is a sharp turn to the left, reminiscent of the 1970s, with industrial licensing replaced by the umpteen environmental regulations and land allotment issues. The ruling party remains more comfortable

with a dirigisme regime, where the businessman has to come and ask for favours. Not that we are uncomfortable with this: we as a people remain suspicious of entrepreneurs, attributing their wealth and success to malpractices which we, the less successful, are too honest, too moral to adopt! But it will be foolish to forget that we need entrepreneurs, that 7% growth just may not be enough to finance all the needed social programs.

I am not an admirer of Ayn Rand, the high priestess of unrestrained individualism and *laissez faire* economics (Alan Greenspan was a chela). But I am tempted to quote her on our *neta-babu raj*. *"When you know that in order to produce, you need to obtain permission from men who produce nothing, when you see that money is flowing to those who deal not in goods but in favours, when you see that men get rich more easily by graft rather than by work, and your laws no longer protect you against them but protect them against you, you know that your society is doomed"*. What could be the tipping point for a crisis? BoP? Fisc? Inflation? Infrastructure?

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