

India: an advanced democracy?

It has been suggested that Indonesia may one day replace India in the famous acronym BRICS (see, for example, Is Indonesia gaining on India by V Anantha Nageswaran, Mint, 11 December). Viewed from the political economy perspective, today India finds itself resembling the league of rich democracies, particularly the Anglo Saxon ones, to a great extent. To start with, take the recent parliamentary debate on Foreign Direct Investment (FDI) in the multi-brand retail sector. Both the ruling and the principal opposition parties quoted what the other side had said when their roles were reversed. This is not very different from the way Mitt Romney criticized US president Barack Obama during the election campaign in that country for advocating policies which . Romney himself had embraced when he was the governor of Massachusetts.

As in the US our wealthy compatriots finance elections, displaying their commitment to democracy and the rule of law without any thought to self interest, of course. If the Republican Right is nostalgic about 19th century *laissez faire* capitalism, many of our political masters are equally nostalgic for “Garibi Hatao” and other economic policies of the 1960s and 1970s. And, like the Americans, we are suspicious about ownership and the hidden agenda of Chinese enterprises such as Huawei and ZTE.

Another area where we compare well with advanced democracies is growing income inequality, the gap between the powerful and the powerless and our inability to create jobs. As for the US, Jagdish Bhagwati has argued that the principal reason for its inability to create jobs is that its education system does not impart the skills needed by employers. As a McKinsey report illustrates, employers in India do not find many graduates fit for employment (*Hindustan Times*, 12 December). If the median wage has not increased in real terms in the US since the 1980s, real wages in India fell in 2008-11, after rising very slowly during the previous seven years (*Global Wage Report* of the International Labour Organization).

There are many other macro-economic parameters where we compare quite well with advanced democracies:

.While manufacturing as a percentage of the gross domestic product (GDP) in 2010 was 33% in China, it was just 13% in India (source: McKinsey Global Institute, as quoted in Mint, 20 November) compared with 12% in the US and 10% in the UK. Clearly, like them we have become a service economy, leapfrogging the manufacturing stage and hope to *hatao garibi* by serving *vada-paos* to each other.

.Our fiscal deficit as a percentage of GDP was the second highest in a group of eight large economies (Business Standard, 10 December), only slightly less than the US.,But we beat them in its twin: the current account deficit. Our negative net international investments are very close to those of the UK and Italy..

.We have also followed the Anglo Saxon economies in adopting a floating exchange rate regime which, to my mind, significantly increases the risk and competitiveness of the tradables sector. Perhaps we have adopted this out of our generosity: through our exchange rate (and land and environment) policies we create jobs in the rest of the world, rather than focusing selfishly on our domestic needs.

.The Economist carried a report earlier this year (18 February) criticizing the “excessive and badly written regulation” in the US. I think here again we compete with the second largest democracy very well.

.Mario Draghi, the president of the European Central Bank, spoke earlier this week about the sound fundamentals of the euro zone. Our leaders and official economists never tire of saying similar things about the Indian economy.

In the complexity of our governance structure, we give a run for its money to the European Union (EU). It has the European Commission, the Council of Europe, the ECB, the European Parliament, etc. In economic policymaking we have the ministry of finance, the Planning Commission, the Prime Minister’s Economic Advisory Council and the Reserve Bank of India. In other areas, we have an umpteen number of ministries and departments with each decision going through various stages: the Groups of Ministers, the Empowered Groups of Ministers, the Cabinet, and so on. And, in terms of policymaking, the most powerful personalities in the EU and India are two ladies who are not part of the formal governance structure.

Rachel Carson, who died recently, triggered environmental concerns in the US and brought them on the political agenda with her books. As a result, the Environmental

Protection Agency was created in 1970. We have pursued the environmental agenda with admirable zeal, closing down/delaying hundreds of major projects: iron ore, coal, aluminum, steel, etc. We have harmed thousands of innocent stakeholders in these businesses in the pursuit of our goals: a pristine environment and preserving the lifestyle of its inhabitants. If, for the Republicans, nostalgia for 19th century capitalism remains a distant dream, we are able to practice the license permit *Raj* though our environmental agenda—and we are happy to pay the price in terms of lost output and jobs without cribbing.

With so many similarities with the rich democracies, we should not really worry about minor differences such as per capita income, literacy, corruption—or, for that matter, Indonesia becoming the “I” in BRICS.

Happy New Year!

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