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Some global perspectives on the political economy

By now the Finance Minister will be busy with putting finishing touches to his budget and budget speech due next Monday. One often wonders whether Mr. Mukherjee gets adequate time to ponder over the broader issues, as distinct from the urgent ones. He is a workaholic, but even in normal circumstances, the budget is a time consuming exercise. This apart, as compared to other finance ministers, Mr. Mukherjee bears a much heavier burden as the chairman of various groups of ministers, “empowered” or otherwise, to whom knotty issues are referred. He is also the UPA’s trouble shooter in Parliament and for the unusually large number of sensitive issues currently in the lap of the government.

As it happens, the budget is scheduled at a time of great uncertainty in the global political economy. There is also a growing debate on issues of growth and distribution (Jagdish Bhagwati Vs Amartya Sen?), a point I will come back. Recent events in several Arab countries clearly have implications for the global economy in terms of the oil price, the continued availability of the Suez Canal for global shipping – even food prices, as The Economist (February 5) recently argued. And, the developed world is having its own, increasingly intractable, fiscal and growth problems.

I find the recent events in Tunisia, Egypt, and neighbouring countries. as another manifestation of the well known “chaos theory” in physics which, some time back, was also fashionable amongst analysts of financial markets. The theory argues (of course with a large number of equations) that the origin of a major event can sometimes be very insignificant – the standard example used is that the fluttering of a butterfly over the island of Fiji could well be the root cause of a cyclone over the West Indies a couple of months later. Take Tunisia – the civil unrest started with a policewoman seizing the hand cart of a vegetable seller and slapping him. The humiliation resulted in his suicide, and that triggered street protests which ultimately led to the president of 24 years abdicating and running away. And, the peaceful revolution in Tunisia triggered unrest which has led to ouster of the Egyptian President, and unrest in other neighbouring countries (Jordan, Yemen, Syria, Algeria etc). Will it spread to Saudi Arabia which produces one out every four barrels of oil consumed globally?

To be sure, minor events trigger major consequences only when other, more fundamental conditions exist. As Prof. Fouad Ajami of the Johns Hopkins University School of Advanced International Studies argued in a brilliant essay on developments in Egypt published recently in Newsweek (February 14), these included

⇒ “fabulous wealth side by side with mass poverty” (recent analysis and research suggest strong correlation between income inequalities and economic crises, see Finance and Development, December, 2010);

⇒ “the vanity of the rulers and their wives and their children” (to quote a very mundane example, how many of our VIPs follow, for example, security procedures at airports?);

“The fortunes of the rulers….. are the real weapons of mass destruction in the region” argues Prof Ajami. Add to this crony capitalism, an alliance between rulers and rich capitalists, to loot the people; unemployment; high food prices and corruption; the unaccountability of the ruling class; and you have an explosive combination. As Tunisia and Egypt show, it does not even take organized opposition to bring down governments. Social networks like Twitter and Facebook, the power of the internet, are often enough to bring people to the streets!

One is struck by the fact that practically all of these factors seem to be present in our own country. To be sure, we are a (non-functioning?) parliamentary democracy, unlike the Arab countries. But can this, by itself, compensate for all the other weaknesses? For how long? Is 8.5% p.a. rate of GDP growth assumed to be the new Hindu Rate of Growth (as Raghuram Rajan questioned in an interview); that it will hold irrespective of what we do – or do not do? As stubborn as 3% once was? What happens if growth falters? While food price inflation makes headlines daily, unemployment could well be an even bigger issue. To quote three recent instances: when the Mumbai Mahanagarpalika advertised for 700 school teachers' jobs, it had 70,000 applications; CIDCO's 40 jobs attracted 17,000 applications; and ITBP's 416 vacancies attracted 1.5 lacs at the recruitment centre! Tragically, many died in the travel rush.

In the face of the dire need for jobs, we seem to have become a people who spend far more time and energy in blocking any change – a new factory or power station or seeds; GST; bureaucratic ways; labour laws – than in pushing for or adapting to it. Too many social activists, concerned, well-meaning people, have become extremely adept at this – and take pride in it. Can we create jobs without change? The song and dance over Incredible !ndia in Davos are over; the hard task is just beginning.

Tailpiece: Is our government in Delhi any more popular on the streets of Srinagar than President Mubarak was on the streets of Cairo?

A. V. Rajwade
Email avrajwade@gmail.com