

### **Democracies and fiscal deficits**

As the Finance Minister puts his final touches to the budget which will be presented to Parliament later this week, he must surely be pondering over the fiscal problems being faced by Greece and many other countries in the world – from PIGS (Portugal, Italy, Greece and Spain) to STUPID (Spain, Turkey, U.K., Portugal, Italy and Dubai) to the United States, which was recently threatened with a downgrade of its AAA rating thanks to the huge fiscal deficit.

Problems in some of the Eurozone countries have undermined the single European currency in recent months. It has dropped from just about \$ 1.51 to a euro in December to \$ 1.38 last week. Speculators have made billions in shorting the euro (and government bonds, through the CDS market -- buying credit protection without having a credit exposure is equivalent to shorting the bond). The biggest fiscal crisis right now is of course in Greece, an ancient civilization which gave birth to democracy. (To be sure, Plato's *Republic* advocates rule by a philosopher king and, in some ways, is more radical and commune-oriented than Marxism!) What is amazing is that such a small economy – Greek GDP is just 2% of the Eurozone's – can undermine the euro, hitherto a very successful manifestation of a supra-national central bank and currency. What the recent changes in exchange rates have also manifested is that, whatever the fate of the dollar in the long run – and I have been a dollar bear for quite some time now – the fact remains that, at least today, it remains the safe haven currency notwithstanding the U.S.'s own financial and fiscal weaknesses.

A bigger question for political economists is whether, by their very nature, democracies have become ungovernable and the fiscal deficits in many of the countries are more a reflection of this fundamental issue, as much as of the global financial crisis and recession. (To be sure, there are exceptions: countries like Germany continue to limit fiscal deficits even while financing a strong social safety net, next perhaps only to Scandinavia's.)

One reason why democracies are becoming more difficult to govern, unable to undertake fundamental reforms except when faced by crisis, is the unwillingness of the political leadership to actually “lead” – too many of them prefer to make policy by holding a wet finger in the air to see which way the wind is blowing. Yes, in a democracy, the will of the people should prevail – but does that mean that political leaders should not “lead”, merely follow the vocal minorities, leaving the inarticulate majorities to fend for themselves? The answer, in theory, is “no” but, obviously, in practice it is too often “yes”. Perhaps too many of our political masters have no deep convictions (the ease with which even senior leaders move from “communal” to “secular” parties is but one example) -- or time horizons extending beyond the next election, hoping to win it by provision of free/subsidized goods and services. Back in 1961, President John F. Kennedy called upon Americans not to ask what America can do for them, but to ask themselves what they can do for the country. I have been scratching my head to recall an Indian leader calling upon the people to tighten their belts, to pay more taxes, to consume and waste less, etc.

The situation in terms of vocal minorities determining policies is not very different in other democracies: consider the way a few million Jews in the U.S. determine the blatant double standards of its policy in the middle-east, which has fertilized decades of Islamic terror, led to huge fiscal deficits and inflicted untold miseries on millions; consider again the way a small number of farmers dictate the agricultural subsidies in the EU, Japan and the U.S., undermining the Doha round of world trade talks, etc.

But to come back to our budget, there are a lot of similarities with Greece: fudged deficit figures to hide the true deficit; public sector pay rises unrelated to productivity growth; subsidies to the better off; etc. Greece at least was hit by the recession. We are on a weak fiscal wicket after five years of unprecedentedly fast growth. If banks are supposed to build capital when times are good, should governments not be doing the same? Winston Churchill once described democracy as the worst form of government, but for all the others: is the latter really true?

Tailpiece: One of the arguments of the opponents of the Bt brinjal seeds, and indeed the Minister himself, is that the research was not publicly funded. The assumption obviously is that only publicly funded research can bring to bear the required degree of objective outlook and honesty to the research. This is an uncalled for slur on the honesty and professionalism of 99% of our countrymen who do not serve in “publicly funded” institutions: while the faith in the integrity of the public sector is touching, the fact is that “publicly funded” organizations have become far more corrupt -- from the judiciary to defense forces to police and civil administration.

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