

The End of History?

Francis Fukuyama, the American neoconservative, in his *The End of History and the Last Man* (1992) argued that, after the fall of the Berlin Wall and the collapse of the Soviet Union, history had reached its end with the triumph of democracy as the political order and liberal capitalism as the economic order. To quote the theme of the book,

“What we may be witnessing is not just the end of the Cold War, or the passing of a particular period of post-war history, but the end of history as such... That is, the end point of mankind's ideological evolution and the universalization of Western liberal democracy as the final form of human government.”

Twenty years later, the forecast that “*the end point of mankind's ideological evolution*” has been reached seems pre-mature. Looking at the global economy, while Cuba, the diehard leftist country in the western hemisphere, has started liberalizing its economy, Venezuela remains committed to its socialist leanings. Argentina has attracted headlines by nationalizing a foreign oil company and, in the United States itself, President Obama has accused right-wing Republicans of propagating “Social Darwinism” (short form for *laissez faire* capitalism and the survival of the fittest). The ideological debate in that country is likely to heat up as we come nearer the Presidential election date: should fiscal correction take place through a sharp cut in social services, or through some reduction in social welfare accompanied by a hike in taxes of the rich?

In the euro zone, the fiscal austerity imposed by the European Union is creating major political problems and issues, and not only in the countries having unsustainable sovereign debt. To quote two recent instances, in the first round of the Presidential election in France, the extreme right and left parties won almost 30% of the vote. The candidate who got the maximum number of votes is a socialist, and

may well win on 6th May. In the Netherlands, the government fell on the issue of spending cuts needed to bring the fiscal deficit within the 3% ceiling mandated by the EU. Countries in Southern Europe, facing debt crisis, are of course having far bigger problems: to quote one instance, Greek GDP is forecast to fall by 5% in 2012. How debt servicing capacity will improve with falling output is beyond me. Or, do the policy makers believe in the thesis advocated by the proponents of rational expectations – that fiscal stimulus, whether in the form of tax cuts or deficit budgets, will not add to economic activity as the rational *homo economicus* will anticipate that taxes will have to be raised in the future and therefore save rather than spend the money put in his pocket by the fiscal stimulus! There is of course enough empirical evidence to suggest that fiscal austerity leads to slower growth – as, for example, Britain is experiencing right now. And, the 1920s depression required Keynesian medicines, not fiscal austerity!

Nor are the emerging economies in the east fairing much better. China recently sacked a rising star of the party from all his posts. He had become powerful through populism and propagating Mao's thought. (This was apparently no hindrance to his wife accumulating a lot of wealth – and his son living the high life in universities abroad!) The leadership of the party has warned of the possibility of another, disastrous "cultural revolution" if the needed changes in the economic, social and political institutions get delayed.

Nearer home, the debate over the choice between use of fiscal resources for investment, needed for future growth, or for social welfare schemes, continues. And, the good old license Permit Raj seems to be coming back in one form or another. Are we forgetting that it was the liberalization of the economy, after the 1991 crisis, that led to the highest ever growth rates and per capita incomes? Or, as James Lamont argued in a full page article on India in a recent issue of the Financial Times, is the Congress President more enamoured of the economic policies of her mother-in-law, rather than the instincts of her late husband?

Overall, the battle between the left and right continues in much of the globe. The basic problem perhaps is that liberal capitalism (in the “English” sense) does lead to faster growth but also to income inequalities. And, the government clearly has a major role to play in trying to reduce them. On the other hand, if this leads to ever greater power for the government, it creates parasitic, often corrupt, bureaucracies not accountable to anybody; slower growth; and ever more populist politicians, creating aspirations which outrun the capacity of the state to fulfill them, a culture of “entitlements” so counter productive in the long run. In the meantime, the extreme left in India does seem to be getting more powerful day by day.

In the debate between growth and investment, and social welfare, we need to remember Aristotle who advocated that extremism (whether of the left or of the right) is a vice and moderation the only virtue. Meantime, economic history has not ended!

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