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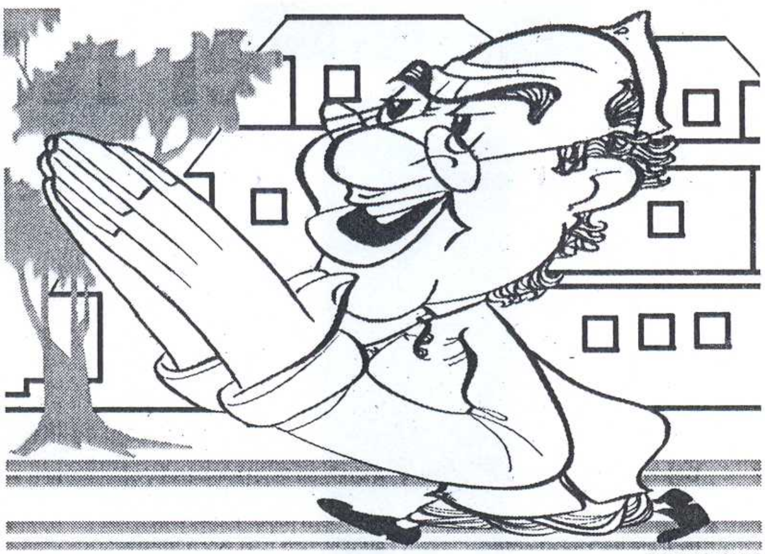
THE ECONOMIC TIMES

THURSDAY 17 MAY 2007

Electoral compulsions vs growth

The events of the past twenty years show that the political class in India is not only uneconomic it is also ahistorical. It is time to break the mould, says **Sanjay Sinha**



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THE recent moves of the government vis-à-vis economic policy have done a fine job of puncturing the growing euphoria about the economic resurgence of India. At a time when The Economist remarks that the only thing in India growing faster than in China is optimism this is, perhaps, timely. The only problem is that the puncturing effect is accidental, rather than intended, and the economic effects of that puncturing are all too real.

While many argue that the current inflation problem reflects long term shortfalls in productive investment (particularly in agriculture) and the limitations of infrastructure, the government chooses to control inflation via higher interest rates/tight money supply, a tinkering and brow-beating approach to price control (petrol/diesel and cement respectively) and a failure to signal further reform through increasing disinvestments, removing the surcharge on income tax (given the burgeoning tax kitty) and an appropriate legislative programme.

The result of this situation is likely to be precisely the opposite of the protection of the interests of the poor that the government claims to want. First, increased EMIs on housing loans will lead to a reduction in construction activity resulting in reduced employment for unskilled labour. Second, the increasing losses of the petroleum price stabilisation account will increase the deficit in the government's finances and necessitate an increase in money supply increasing inflationary pressure in the medium term (while reducing it only in the short term). Third, tight money supply will both increase interest rates for the farmer and reduce the availability of farm credit, generally perceived as high risk lending by the financial sector. Coupled with the continuing lack of attention to public sector agricultural investment, this will only aggravate the ongoing agrarian crisis.

There is, of course, nothing unfamiliar about this behaviour pattern. The government has passed the middle of its term, it has lost a couple of states and could not make much of a mark in UP. And elections in other politically important ones are in the offing. In this situation, the conventional reaction of the Indian politician is to undertake populist measures in an attempt to cool prices and give the impression of great concern for the interests of the poor.

The past two decades have seen this pattern repeatedly: governments come to power with great reforming zeal and make some changes in the first two years of their term, thereby providing a significant stimulus to economic growth. Usually, by this time, there are reverses in state elections leading to hesitation and introspection in economic policy making in the third year (if the government lasts that long) and finally to putting the lid on reforms in the last two years. This stop-go (or rather, 'go-stop') pattern started with the hesitant reform agenda of the Rajiv Gandhi government, continued through the Narasimha Rao years, the third front's forays into government making, then the BJP's six year tenure and now the Sonia-Manmohan UPA government.

The pattern has become so familiar that the public has come to take this behaviour of the political class for granted. It is almost as though populism is a minimum condition of democratic governance (at par with elections, for instance) and no other mode of behaviour is possible; politicians must act to preserve their governments and populist measures are the only means to do so.

EVEN accepting that, in a politician's mind, self-interest precedes the needs of the country, experience shows that populism in economic policy does not achieve even the limited end of self-preservation. Since the mid-1980s, all three governments that have lasted the full term have been voted out by the electorate at the end of it. Indian democracy is at the maturing (rather than mature) stage at which removing the government in power has become as much a part of the political experience as has 'go-stop' economic policy making. Yet, like clockwork, the go-stop cycle continues. Populist, economic measures of the sort recently taken by the UPA government dominate the latter half of a government's tenure and, like clockwork, the electorate turfs the government out at the end of the term. The apparent failure of the political class to see and break this cycle shows that they are not just uneconomic in their thinking but also ahistorical.

So what is the benefit for parties in power of following the traditional mould? Clearly, populist measures traditionally taken in the latter half of a government's term are not particularly effective in preserving governments. Perhaps it is time (and not too late for the UPA in this term) to try something different: reverse the populist elements in its economic policy; focus assiduously on such fundamental reforms as improvements in the financial system, public-private partnerships in health, education and infrastructure, and reform of labour laws. Focus also on such direct poverty reducing and inflation controlling measures as agricultural investment.

Since the effects of such measures are usually a long time coming, none of this is likely by itself to win the UPA the next election. What it will do is provide an additional, long term fillip to economic growth. As the recent National Sample Survey results show, economic growth has done more to reduce poverty in India than all the populist measures of the 1970s and 1980s put together. A long term impact on poverty is precisely what the UPA seeks to achieve. The reward for breaking the go-stop cycle will be the certainty of winning the election after the next one.

Even more importantly, a truly reformist government today could create the growth momentum that would win it the election after that as well resulting in a single government in power for a whole decade (2014 to 2024). If this phenomenon of re-election of a national government is achieved, the path-breaking effort of sustained vigour in economic reforms throughout the term of today's government would truly break the traditional mould of electoral compulsions restraining economic growth. But do we have politicians with the foresight to take the measures that will secure them long-lasting rewards seven years hence? Unfortunately, unlikely; we can but hope.

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