

No dearth of democratic deficits, at home and abroad

The Budget shows how India's democracy is becoming dysfunctional in its reckless expansion of the state

ILLUSTRATION: BINAY SINHA

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Pranab Mukherjee's "do nothing" budget is only notable for heralding the return of India's predatory state — with retrospective taxation of direct foreign investments, and reintroduction of various notorious aspects of Fera — and for confirmation that India is continuing along the primrose path of creating a premature welfare state.

With falling domestic savings, the gap with domestic investment (mirrored in the growing current account deficit) is to be filled by increased private commercial foreign debt. With promises, but no plan, to correct the burgeoning fiscal deficit, India is on the path to another 1991-style fiscal-cum-balance-of-payments-cum-growth crisis. The dysfunctional democratic politics behind this impending crisis mirror those in its richer democratic counterpart, the United States, faced by its own intractable fiscal crisis.

In both countries, a weak and seemingly incompetent central government finds itself hamstrung by an implacable opposition with which it is unable or unwilling to negotiate the necessary legislation. The Indian situation is made worse by many of the government's opponents being within its own ranks. In both countries, fiscal looseness due to unsustainable entitlements threaten both their future prosperity and national security, in the face of a resurgent and rising Chinese military threat.

In both countries, the existing entitlements disproportionately benefit their middle classes, rather than the "poor" in whose name they are created. This is virtually an iron law of the welfare state — which is better termed the transfer state. Given the preponderance of middle-class beneficiaries, success in democratic politics — dependent on wooing the "median voter" — makes it difficult to rescind these entitlements. Both the US and India face a virtual impasse: whether in reforming social security and health entitlements in the US, or fuel, fertiliser, power and food subsidies in India, which most informed observers (including in the government) know are unsustainable.

The creation of the US' welfare state goes back to Roosevelt's New Deal and the social trauma from the Great Depression. Its subsequent expansion owes more to the populist dynamics of wooing the median voter than any deep-seated egalitarian impulse. But what of India? Why has it gone down the transfer state route when there is no obvious groundswell for equality of outcomes (as opposed to opportunity) in the country?

The answer lies in terms of a distinction made in an earlier column on the two wings of Macaulay's children. They were the inheritors of Macaulay's famous 19th century "Minute on Education" seeking to create an English-speaking middle class. The two wings were the Nehruvian wing, for whom English became their first language, and the Gandhian wing, for whom English was an instrumental second language. As the primary language group determines what I call "cosmological" beliefs (see my Unintended Consequences), i.e., the world view of the speakers, the Nehruvian wing came to mirror those of their European cousins, which was infected with various forms of *noblesse oblige* disguised as egalitarianism.

By contrast, the Gandhian wing, still wedded to their native tongues, subscribed to tradition — which, following Gandhi's lead, they saw being threatened by the modernisation that the Nehruvian wing sought to promote. The major change, whose political consequences are visible in recent elections, is that the Gandhian wing, consisting of the Jan Sangh resurrected as the BJP and the Lohia socialists in the numerous regional parties, have realised that modernisation does not necessitate Westernisation. Globalisation, the computer and English



as an instrumental second language are no longer seen as a threat to tradition.

As the Indian electorate consists largely of the aspiring Gandhian wing of Macaulay's children, even the Lohia socialists — who were the last holdouts to believe that modernisation threatened tradition — have now embraced the computer and the English language: witness the new Yuvraj of UP, Akhilesh, who has repudiated his father's longstanding stance on these issues. Moreover, being closer in their cosmological beliefs to the electorate, they have seen that good governance and development is what aspiring Indians desire and not government handouts to beggars — as the Nehruvian wing still seems to believe.

This contrast was visible in the UP election: Rahul Gandhi, the dynastic flag-bearer of the Nehruvian wing, extolling the various handouts by the Central government; against Akhilesh Yadav, the dynastic flag-bearer of the Gandhian wing, besides repudiating the *goonda raj* of his father's previous administration, promising a developmental agenda to provide worthwhile jobs rather

than handouts. Whether he will be able to fulfil these promises remains to be seen. But he is hopefully conscious of the electorate's power to evict non-performing incumbents. This remains the great strength of democracy: the electorate can always "throw the rascals out."

Whilst both in India and the US this corrective seems to be working at the sub-national level of the states of the union, the electoral alternatives at the federal level are less compelling. In America, the Republicans seem unable to coalesce around a candidate who could convincingly beat the president; and the increasingly left-wing Democratic Party is dominated by Blue-state liberals who want to turn the US into Sweden. In India, the BJP, which should be the flag-bearer of the aspiring classes of the Gandhian wing of Macaulay's children, seems to be brain-dead, locked in internecine battles. So by default, the incumbents in both countries will probably continue to preside over dysfunctional democracies until fiscal crises compel reform. Given its wealth and reserve currency status, there is still a lot of ruin left in the US. No such comfort is likely to be available to India.

With the budget signalling a continuing expansion of the entitlement economy, it would be ironical that the epitaph of the reformers who seized a fiscal crisis to move India out of the Nehruvian rut of the Permit Raj, could be that they presided over the generation of a subsequent fiscal crisis through their creation of a Nehruvian entitlement economy.