

ECONOMICS THAT LOOKS AT LOWER HALF OF THE PYRAMID

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'All Indian political parties must concentrate on the economy for the sake of the people' | Photo Credit: Getty Images/iStockphoto

"It's the economy, stupid," Bill Clinton said in the 1990s. "While politicians and political analysts are focused on communal polarisation and caste cleavages, a deeper divide amongst classes is silently reconfiguring the Indian electorate," says the psephologist, Yogendra Yadav. The numbers of Indians left behind by the growth of the economy now exceeds 50%, with reservations in employment for "economically weaker" sections of Indian citizens regardless of caste and religion now necessary. Most Indians, whatever their religion or caste, have a felt need for a new paradigm of economics.

The theme at the [Global Solutions Summit in Berlin](#) on May 15 and 16 this year, was a new paradigm for the economy. Its backdrop was the rising tensions in the east between the United States and China, and the war in the west between the North Atlantic Treaty Organization (NATO) and Russia. Military wars are being couched as wars between democracy and autocracy. The G-7, representing 15% of the world's citizens, who are ostensibly on the side of democracy, are autocratically and undemocratically twisting the arms of other governments (representing 85% of the people) to take their side. The think tanks of the G-20 and other countries at the summit called attention to global problems of climate change, increasing economic inequalities within and among countries, and the effects of the financial and trade sanctions imposed by the most powerful nation, which are affecting the other 85% most of all.

Divisions among the economic "haves" and "have nots" are shaking up politics around the world, and forces on both the left and right of the political spectrum have gained strength in all countries. The extreme left wants revolutionary change in both economic and social power structures. The extreme right, fearing instability with threats from the left, wants to protect established social and economic systems. Economic liberals in the middle are muddled. They fear a concentration of political power, but allow a concentration of wealth.

Economies were reformed towards "socialism" in the last century, after the global depression, to rebalance incomes and wealth. Many European countries adopted a socialist model while maintaining their cultural traditions. Further east, communism brought about a revolutionary reform of economic and social power structures. In the West, the U.S. introduced social security,

increased taxes to raise resources for the government, and introduced laws enabling labour unions within enterprises.

The tide turned in the 1980s, stirred by an economic ideology of free markets, and spurred by the policies of Margaret Thatcher and Ronald Reagan. Thereafter, the objectives of reforms imposed by the International Monetary Fund and the World Bank on countries whenever they needed economic assistance required undoing of socialist reforms made earlier. Any government that tried to strengthen the social safety net was declared as socialist and anti-reform.

Governance of all countries, whether its leaders are democratic or autocratic, must be for the benefit of common citizens — not to benefit financial investors. Ease of living of the poorest citizens and reduction of precarity in their lives must be the principal measures of good governance; not ease of doing business and reduction of risks of financial investors.

The new concept of reforms, following Reagan's dictum that "government is not the solution..., it is the problem", required governments to down-size their budgets and reduce taxes to make more room for capital markets. "Subsidies" for the poor became bad, while "incentives" for investors were good. The private sector, with its focus on the bottom line, can be more economically efficient than the public sector. However, the private sector is not expected to subsidise the cost of its services. Therefore, economic reforms favouring the private sector have increased economic precarity even in rich countries.

Financial capitalisation spread around the world with the globalisation of economies from the 1980s, with finance flowing freely across national borders. An elite class of global citizens and multinationals emerged, who were comfortable everywhere but did not seem to belong anywhere. Resident in many countries, they avoided paying taxes in any. Tax rates raced to the bottom to attract their investments. Reacting to these trends, both Donald Trump on the right and Bernie Sanders on the left demanded that global corporations contribute to the well-being of common citizens — Mr. Trump by bringing jobs back for Americans, Mr. Sanders by increasing taxes and expanding social security. Mr. Biden, in the middle, is struggling to pass economic reforms through a divided Congress.

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"Liberty, Equality, Fraternity" are universal essentials of democracy. With "Justice" for righting historical social wrongs (particularly casteism), they are also objectives of India's Constitution. Free market capitalism is founded on the principle of liberty in the economy, with rights for everyone to use their properties as they will.

Free market economies grow with competition among individuals, firms, and nations too, all desirous of more wealth and power than others. Free market economy models do not have much place for "socialist" values of equality and fraternity. Property rights trump human rights in capitalism. Therefore, free market capitalism and liberal human democracy find it difficult to co-exist in any country.

The size of the GDP, a quantitative aggregate of all economic activity, whether it improves or harms people and the planet, became the overall measure of progress in the 20th century. Twentieth century economics is founded on a model of an economy as a system of materials and energy in general equilibrium. In this model, supply and demand are balanced by prices set by an invisible hand. It presumes there are no powerful monopolies that set the rules of the game. In an economists' mathematised model, politics interferes with good economics. Its mathematics has no place for human aspirations for social equality and political forces fighting

for justice.

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The model of economic growth that has guided national and international policies since the 1990s will not create healthy democracies. Economics needs urgent reform to guide progress towards universal social, and ecological well-being. All Indian political parties must concentrate on the economy for the sake of the people. Indian economists too must rethink the paradigm of economics and concentrate on the requirements of the lower 50% of the pyramid, and not trust wealth to trickle down on its own.

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