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Column : Who are the friends of the poor?

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The publication by NCAER of its new income survey has shown unsurprising results. The top quintile has increased its share of income while the bottom three have seen their share fall. The debate has had a familiar ring. Liberal reform is to blame. Stop it soon and get back to the good old socialist ways.

Of course, incomes have gone up across the board but at a faster rate in the top quintile and not the bottom ones. The reason for this is simple. It shows that liberal economic reform has worked. But it has been applied only to the private sector corporations in services and manufacturing so far. Productivity has gone up in services and manufacturing faster than in agriculture and this is where employment has gone up as well. But even so, 57% of the labour force is still stagnating in agriculture. Liberal economic reform has not touched this sector at all. If anything, this sector still suffers from restrictions on sales of output, from inefficient and wasteful warehousing, and is prevented from obtaining a good price through forward markets. The farmer gets a lousy return because public policy is an obstacle to his getting a maximum return.

Much worse than that are the impediments to labour mobility from agriculture to manufacturing. The rural sector has an oversupply of labour and slow growth of labour productivity. Agricultural policy (such as it is) worries about enhancing productivity per acre rather than productivity per worker. What is needed is removing excess labour from low productivity agriculture to higher productivity manufacturing. This is the surest way of enhancing incomes of the poorest.

This is not rocket science. It requires a policy of massive investment in low-tech manufacturing that can employ unskilled manual labour and give it round the year employment. This, in turn, requires reform of labour laws and of the laws governing land sales. China has done this, Malaysia has done this, and this is indeed the classical Lewis model of development. India, on the other hand, has made cheap labour expensive by enhancing the transaction costs of hiring and firing, so the Indian manufacturing sector has been capital intensive and employs highly skilled labour force.

Alas, the so-called 'friends of the poor' will not countenance reform of labour laws. They will go on denying that this is the problem. Thus, they will offer palliatives like NREG, which gives on average up to 50 days' work and then the 'friends of the poor' lie back in satisfaction that they have done good. Income from 50 days of casual work is around one-third of what 250 to 300 days factory work will pay the poor. But no. The socialist policy of protecting jobs of the employed must come before employing the jobless.

The sadder story concerns land laws. We know that the buying and selling of land is governed by the 1894 British colonial legislation. It should be reformed. There is draft legislation, which, while not perfect, will make matters better. But it is held up in the Cabinet because the 'Revolutionary Maoist' Mamata Banerjee will not let it go forward. Bloodshed in the tribal areas will give her a better chance of winning West Bengal than mere land legislation. So land cannot be obtained to start factories that will employ the poor rural workers who cannot have round the year jobs otherwise.

It has taken 60 years to legislate RTE but even there the sinister intention is to close down private schools that provide education with teachers present in classrooms actually teaching, under the excuse that they don't have large enough play grounds and do not pay teachers the salaries the public sector pays. The public sector in many states, especially in BIMARU states, fails to perform the minimal task of educating the poor children. But dogma must win. Public is better than private, even though experience says otherwise.

The rich are getting richer because they benefit from liberalisation, which releases their enterprise, lowers the cost of doing business and allows them to recruit the best. The poor must stay in the unreformed public sector, because that is what their 'friends' consider is best for them—part-time casual employment, low price from agriculture output and much loss due to bad warehousing, low quality education because public education is all they should have. But then the fact that the poor remain poor while the rich get richer proves the failure of liberal reform. So the poor must never enjoy the fruits of liberal reform.

Of course, with some noble and notable exceptions who are honest and uncorrupt (the Left mainly), the people who advocate public sector provision benefit from the flow of funds that they pocket before it gets down to the poor. They are, of course, among the top quintile who have got richer. They also enjoy the moral superiority of denouncing liberal reform and applauding Socialism. Best of both worlds!

The author is a prominent economist and Labour peer