SOCIALISM WITHOUT BUREAUCRACY

Bharat Jhunjhunwala

Former Chairman of US Federal Reserve Bank, Mr Alan Greenspan, has suggested in his recently published memoirs that India should give up Nehruvian socialism and embrace free markets to lift her people out of poverty. Mr Greenspan has successfully steered the US economy from 1987 to 2006 through turbulent years of globalization and IT bubble; hence his views need attention. Greenspan says that government intervention in fixing minimum wages, creating import barriers to protect inefficient domestic industries and legislation of myriads of laws ostensibly to protect the poor has actually dampened economic activity and led to the opposite result. Indian economy failed to ride on its latent entrepreneurial talent and got entrapped in inefficient production. There is partial truth in this observation. Truly bureaucracy, even in welfare-oriented sectors like health and education, has become a burden on the people. But to give up this bureaucratic intervention and to embrace free markets would be like falling from the frying pan into the fire because the market is as cruel towards the people as bureaucracy.

Mr Greenspan says that simplification of labour laws will make it profitable for businesses to employ workers in larger numbers and solve the problem of unemployment. But it is unlikely to be so in India with a huge backlog on unemployment. It is profitable for businesses to employ less labour and more machines because capital is available cheap. Thus it will be necessary to provide explicit incentives to businesses to employ more labour. This can be done variously such as by imposing lower rates of taxes on businesses employing greater number of workers, exempting businesses from certain labour laws if the share of wages in value added is above a certain level, providing protection to native labour-intensive industries from cheap machine-made imports by imposing high import duties, and honouring businessmen who create more employment with Padma awards. Such positive intervention by the government in the market is required along with simplification of labour laws.

Question arises how the US is creating jobs without such intervention? It seems that jobs are created in the US from incomes brought by their companies by extracting high prices for their high-technology products. For example, Microsoft is selling Windows software at high price in India by thwarting free trade and using state intervention in the market to protect its monopoly. The profits from this sale are sent to the US and taxes paid out of them. These monies are used to build highways and create other employment. The US government need not intervene to create jobs because it has already intervened in the global markets to implement patent laws has thus ensured this inflow of money. In other words, the US can adopt *free market* policies in employment only because it has adopted *unfree market* policies in patents. Clearly, this will not work in India in absence of similar income from patents. Just as one switches off the ceiling fan in an air-conditioned room but not in a slum, similarly one can switch off employment incentives in an economy that has income coming from patents but not in an economy that is losing its income to the same patents. Mr

Greenspan is correct in pointing out that jobs cannot be created by legislation but he is incorrect in implying that absence of all intervention will create sufficient jobs.

Mr Greenspan castigates the protectionist policy adopted by India. He suggests India should open all sectors of the economy for global competition. This will enable Indian businesses to manufacture goods of global standards and create wealth for its people, he says. Here again Mr Greenspan is caught by an America-centric view. The fact is that free markets are creating a race to the bottom in wages. Take the case of edible oil imports. India has allowed imports of palm oil from Malaysia. This has led to lower prices of edible oils in India and Indian farmers are getting lower price for the mustard and groundnuts produced by them. Their income is less due to adoption of free markets. It, therefore, is necessary for India to impose high import duties on palm oil to increase incomes of Indian producers. The same logic applies to low-cost manufactured goods flooding the world from China. Workers in countries like Thailand and Indonesia are finding their wages reduced because of competition from Chinese goods produced with low wage labour. In a global market the wages in all countries have to necessarily move towards the global minimum. A government will have to adopt the policy of protectionism if it wants to raise the wages of its workers above this global minimum. But Mr Greenspan has no need to understand this because he is attributing the creation of jobs in the US economy to free trade while actually they are created due to monopoly incomes obtained from patents. The removal of patents laws may lead to a huge decline in the wages and employment in the US economy. One can see the trailer of this tendency in the hue and cry over outsourcing that was seen during the 2004 presidential election in that country. India and the US are nearly equal in the IT technologies, hence the US, is unable to extract technological rents and consequently the wages of its IT professionals are falling to Indian levels. The American people are thus correctly demanding protection from outsourcing to protect their jobs.

India's problem is that it has adopted the policy of government intervention not to provide benefit to its workers but to provide opportunity to politicians and bureaucrats to extract monies from corruption. The benefits of protection were skimmed off by the bureaucracy. This type of government intervention was indeed faulty as pointed out by Mr Greenspan. But this does not mean that dismantling of all intervention will lead to the creation of jobs. It only means that protection should be combined with good domestic governance to secure a rise in wages.

Mr Greenspan is correct in stating that labour laws are eating jobs in India and that bureaucracy is flowering under the umbrella of protection. But the solution is not to embrace unfettered markets. It's better to adopt Mr Greenspan's suggestions along with positive state intervention to promote employment and simplification of laws to prevent appropriation of benefits of protection by the bureaucracy. □□□