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Is democracy killing Indian growth? [1]

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Lord Desai, former LSE prof and expert on Marxian economics, seems to have lost any faith he once had in the ability of governments to manage an economic system. Talking of his home country, India, at an Adam Smith Lecture in Edinburgh (organised by the Asia Scotland Institute), he complained that the country's growth was being held back by 'policy paralysis'. After some major reforms in 1991 and opening up to world trade, India has been growing at 8% or so until the last couple of years, when the rate has fallen to 5% ? something that UK Chancellor George Osborne would dream of, but not great for a large, developing economy. Inflation, meanwhile, has hit double digits. Interest rates have been raised to over 9% in the attempt to control it. Public spending is high, and the current account is in deficit. A third of government revenue goes on debt repayment.

India has had coalitions for quarter of a century, which does not help. Nor does the fact that the Congress Party has been dominated by the Ghandi family for all that time. In a country where two-thirds of the population are under 35, one would expect to see a less patriarchal (or occasionally matriarchal) form of politics. The BJP, for its part, is more ideological and its candidate for PM is a popular outsider. But both parties are statist and neither is fiscally responsible: cronyism and corruption is rife, and with two-thirds of the population getting food subsidies in one form or another, India's welfare state spending is getting even harder to rein back.

And, for a time after 1991, it was all going so well. Perhaps the difference between India and China is that India is a democracy. So Indian politicians are always keen to make promises and give favours to electors at the expense of other people, including future generations who are yet unborn and so cannot complain. No surprise then that its welfare state and public spending are expanding ? and, though the economy is still growing, the wealth-creation engine is starting to slow. China, less troubled by such things, might well become wealthy before democratic pressures for redistribution start to do the same. Fine institution though democracy is, it works only if the powers of government, and the potential exploitation of wealth-creators, are strictly limited.

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[3] http://disqus.com/?ref_noscript
[4] http://disqus.com