

5. The Myth of the Trickle-Down

Prelims Syllabus: Economy

Mains Syllabus: GS-III Inclusive Growth and Issues arising from it.

Why in News?

- There is fear that the way the money will be used by the Centre will disempower the states further, just when they must do most of the heavy lifting on Public Welfare.

Wealth Creation and Trickle-Down:

- Failure of trickle-down: Evidence from around the world is that the economic policy paradigm, of first increasing the overall size of the pie by reducing taxes at the top and then “redistributing” the wealth, has not delivered benefits to people.
- Gandhiji had declared that he was not against wealth creators. He lauded wealth creation.
- However, it must not be at the cost of workers and welfare.
- Wealth creators must be trustees of the wealth they create, not its exclusive owners.
- The demand-side problem of the Indian Economy
- The Indian economy is suffering from a chronic “demand-side” problem that is becoming worse with Misguided Economic Policies.
- Young people who have been getting educated in larger numbers than before, even learning vocational skills, cannot find jobs.
- If people don’t earn, demand will not increase, and investments in businesses will not be attractive.
- Moreover, frustrated youth are tinderboxes for social unrest.

Financial Globalization and its Impact on India:

- Around the world, there is reaction to the Financial Globalisation of the last 30 years.
- In his book, Davos Man, Peter Goodman Explains how the wealthiest people have influenced economic policies in democratic countries from the 1990s to make themselves wealthier.
- Thomas Piketty has documented how wealth inequalities have increased alarmingly.
- Wealth has accumulated at the top, with regressive tax policies along with deregulation.
- Government expenditure on social reforms has been crimped.

Way Forward:

- The Global Economy must move on from hyper-financial, deregulated capitalism, which has given Easy Money too much Freedom.
- They must move out from their Ideological Ruts.
- **Invest in Human Capital:** That until the economy grows there will be no resources to invest in Human Development – whereas China invested in human development before its Economic take-off.
- **Protection to Industrial Sector:** That an unprepared industrial sector will thrive in Global Free Trade – whereas the UK and US (and Japan and China too), grew their industrial sectors behind walls of protection, and then demanded that the rest open their markets to the might of their Enterprises.
- **Inclusive Growth:** Political divisions by religion and caste are tearing India's social fabric again. The Indian economy must grow inclusively to repair it.

Conclusion:

- Indian Policymakers must urgently discover India's own, Contextually appropriate model of Development and shed Defunct Economic Theories.

