

War, economy, and the people

US President Donald Trump wants war fever to boost America's domestic economy. High defence budget to be used to sell more weapons, writes Nilanjan Banik

Data suggest that there are four headwinds: demographics, education, debt, and inequality, that is hitting the US economy. Trump chose protectionist strategies taking into account these factors. Clamping down on skilled labour immigration may dent productivity. It will also hurt participation of skilled labour force

US President Donald Trump has put the world on edge. The recent spate of events - the bombing of Syria, sending the US carrier strike group towards Korean peninsula, dropping 'mother of all bombs' on ISIS in Afghanistan - indicate his love for war. In fact, recent US budgetary documents suggest that for fiscal 2018, the Trump administration has allocated the most towards defence and the least towards protection of the environment. Compared to 2017, defence and homeland security have seen an increase in budgetary allocation by 10 per cent and 7 per cent, respectively. Environmental protection agency saw budgetary allocation declined by 31 per cent. The US has allocated \$654 billion towards defence, the highest in the world. This is much greater in comparison to India's \$53.5 billion and China's \$152 billion.

With so much money geared towards defence spending, it is evident that Mr Trump needs a way to utilise this defence spending. Post Second World War, the success story of the US economy is partly explained by its ability to sell weapons. Till date, the US remains as the largest exporter of conventional weapons.

There are, however, two other ways to strengthen the economy - increase labour productivity, and innovation. However, none of these is likely to happen. Data suggest that there are four headwinds: demographics, education, debt, and inequality, that is hitting the US economy. Trump chose protectionist strategies taking into account these factors.

Consider demography. The high growth of the US economy during the seventies and eighties was because of a younger working-age population, and women were entering the labour force. But now, with the retirements of baby boomers and smaller number of working-age population, labour force participation has fallen. This means lower US real income but more government spending on account of welfare activities. The elderly population need protection concerning greater social security, specifically lower medical costs, something that Trump promised.

About education, the costs of US



US President Donald Trump

College education are higher, and there are many dropouts. College completion rate in the US is around 15 percentage point lower than its neighbour Canada. Increased costs of education have been reasons for many young Americans to quit education in between, with a negative impact on productivity.

A fall in labour productivity has led firms to hire fewer people. Recent data suggest hourly wage rates of contractual factory workers has decreased. The promise about imposing 35 per cent tax on American businesses outsourcing jobs or building factories outside the US, signalled that Trump cares about unemployed American. By targeting China, Trump was able to woo voters from the Rust Belt states such as Michigan, Wisconsin, and Iowa, who believed that their jobs are lost because of cheaper Chinese imports and Mexican labours, and not because of a fall in labour

productivity.

In reality, this fall in labour productivity and jobs loss are fuelled by a paradigm shift in technology. Technological innovations are no longer inclusive. The innovations that happened during last 150 years were inclusive. For instance, in travel, the economy graduated from horse driven buggy to Boeing. In computing power, the present day mobile phone handsets have more computing power than the computer that launched a rocket to the moon. All this was instrumental in improving productivity, and real income growth in the US, in a way that no one has ever imagined before. But no longer.

In this age of data algorithm, 3D printer, and tech start-ups, wealth is getting cornered in the hands of the select few. The US regulators have already approved smart pills which send highly accurate diagnostic information from inside patient's body to doctors via Bluetooth. Very

soon, the computing power of mobile handset will equal that of a human brain. A significant societal dislocation is waiting to happen as machine and robots take up jobs once worked by people. In this lower interest and highly automated manufacturing regime, firms and start-ups owners, are likely to corner a larger share of wealth, but not low-skilled labours. The USA has already been transformed into a gig economy where the labour market is increasingly characterised by the prevalence of short-term contracts or freelance work as opposed to permanent jobs. This will hasten income inequality. The US labourers are without jobs and becoming poorer not because their jobs are taken away by the foreign cheaper labours but because of advancement in technology.

Trump cannot increase US growth, particularly, with a lower labour productivity. In fact, growth in government spending with lower

tax collection from corporations means a higher fiscal deficit. Tax collections are falling because of technological nature of business with companies like Google, Facebook, Netflix, etc., paying lower tax in comparison to manufacturing firms. Federal government debt as a share of GDP is growing very rapidly: from \$ 5 trillion in 2001 to around \$ 20 trillion at present.

Debt in private sector is also increasing. The promise of a lower tax regime, and hence potential future profits have led many fund managers to start buying US junk bonds, taking the US stock market to an all-time high. In the longer run, without inclusive innovation, rising fiscal deficit cannot be sustained. In fact, higher fiscal deficit without a concomitant increase in productivity will lead to an increase in interest rate. This may set back investment and future employment generation. What about trade? The biggest

categories of US exports are aircraft, automobiles, and pharmaceutical - predominantly high-skilled manufacturing items. To an extent, it was possible because of US open arms policy, welcoming global talents. Clamping down on skilled labour immigration may dent productivity. It will also hurt skilled labour force participation.

Trade and economic power matter. Russia is a waning superpower, but China is not. Things would have gone for a toss if the spying allegation was raised against China. It is quite unlikely that the US economic protectionist policies are going to lift the US economy. Trump may have to engage militarily to regain America's lost pride. The free trade policy was able to prevent war for decades but may be no more. We have already started seeing that to happen.

(The author is a Professor at Bennett University. The views expressed are strictly personal.)

Poverty is real, acknowledge it

Recent Snapchat controversy highlights how deeply uncomfortable many Indians are about the realities of poverty in India, writes Debdeep Chakraborty

It needs to be understood that the growing number of billionaires and the expanding urban middle class in the country do not in any way prove that India has been able to combat poverty. On the contrary, these are signs of flaws in redistribution of income and expose the prevalent economic inequality in the country

Despite being close to marking 70 years of Independence, India remains far behind with regard to poverty eradication. Poverty continues to maintain its grip on a considerable number of Indians, depriving them of basic necessities such as food, shelter, drinking water, power, sanitation, health care, education, and social security. Many of us, however, find it difficult to accept this ugly reality, and when confronted with it, either conveniently point to the achievements of those Indians who feature on the Forbes list of the world's billionaires or highlight the country's rapidly expanding urban middle class and its growing economic power. The objective is to shift focus away from the issue considered unpleasant and perceived as detrimental to the country's image.

Most urban middle-class Indians would rather not even acknowledge that poverty exists in the country. Instead, they get highly defensive if someone calls India poor and make every effort to stray from the discussion. Take, for instance, the recent Snapchat controversy. The Los Angeles-based social media company and its CEO Evan Spiegel had to face the wrath of Indian users, and also many non-users after media reports quoted a lawsuit filed against the company by one of its former employees in the Superior Court of California for the County of Los Angeles.

Back in 2015, it was alleged that at a company's meeting to discuss growth Spiegel had commented that the multi-media mobile app Snapchat was meant only for rich people and he did not want to expand into poor countries like Spain and India. It further alleged that Snapchat, which



Representational Image

went public in March this year, had exaggerated user data and the company's top executives were misinformed about key metrics.

Immediately after the media reports, Snapchat issued a statement denying the allegations made in the lawsuit but by then many Indian users on social media, in a show of misplaced patriotism and ignorance, had gone on the overdrive, uninstalling the company's app and asking other users to do the same. Some even went to the extent of uninstalling the app of an Indian e-commerce company having a partially similar name.

The emotional and immature outburst against Snapchat on social media brings to the fore three essential questions. First, don't companies have the legitimate right to choose their target markets? Second, even if a company considers India to

be a poor country, is it right to call for a boycott of its products and services? Third, shouldn't social media users exercise restraint when embarking on a campaign against an individual or an organisation without verifying facts?

It can be said without an iota of doubt that the outburst on social media against Snapchat was a knee-jerk reaction, and also unfair and irresponsible, causing more harm than good to India's image. For those that indulged in it, or even supported the attack, a 2016 World Bank report titled 'Poverty and Shared Prosperity 2016: Taking on Inequality' can be an enlightening resource.

According to the report, India is among the top ten countries in the world in terms of the number of poor people. It also has the largest number of people (224 million) living under the international \$

1.90-a-day poverty line, more than 2.5 times more than the 86 million in Nigeria, the country with the second largest population of the poor worldwide. While Sub-Saharan Africa has one in two of the poor worldwide, India accounts for one in three. The report points out that 30 per cent of the world's poorest children live in India.

It needs to be understood that the growing number of billionaires and the expanding urban middle class in the country do not in any way prove that India has been able to combat poverty. On the contrary, these are signs of flaws in redistribution of income and expose the prevalent economic inequality in the country. The International Monetary Fund has already expressed concern over the growing inequality in Asia, particularly in India and China. Between 1990 and 2013, the rise in inequality in

India was one of the highest in the world.

For a country such as India, having a population of more than 1.2 billion, fighting poverty poses a humongous challenge. It requires long-term strategies and policy interventions by the government coupled with strong support from political parties, social organisations, economists, and other experts in the field. To make the fight effective, we must first acknowledge that poverty exists in the country and then accept it as a major challenge. When we claim that India is not a poor country, we actually deny the very existence of those millions of lives that have limited or no access to essentials. Social media can certainly play a significant role in India's fight against poverty, but that role must not be overplayed.

(The views expressed are strictly personal.)

tweet
RETWEET

MAMATA BANERJEE
@MamataOfficial

Saddened at the tragic death of CRPF jawans in Sukma, Chhattisgarh. Strongly condemn violence. My sympathies with the bereaved families

NARENDRA MODI
@narendramodi

Panchayats are effective ways to fulfil aspirations of people in rural India. They are playing a vital role in India's transformation.

RAMACHANDRA GUHA
@Ram_Guha

Let's please stop dignifying murderers with the term "Rakshaks". The appropriate term is Gau Gundas, or Gau Goons if you prefer.

SANJAY JHA
@JhaSanjay

A fractured society takes long to heal. But some of it could be irreparable damage. Future generations will pay for our terrible sins.