
Populist policies : Implications and Ramifications

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We are extremely happy to see that this topic that has been doing rounds for many years among the academics, economists and intellectuals in hushed voices has finally attracted the attention of the public at large and now debated openly. Interestingly, everyone seems to have an opinion on this. News papers, magazines are filled with articles. TV, YouTube channels are holding high decibel debates. We read/see/hear arguments both supporting and opposing the populist schemes (now popularly called 'Revadis'). For us it is an old subject. Few years back we wanted to study the implications/ramifications of these populist schemes scientifically and approached a government promoted research institute in Hyderabad to check whether they would be interested to join us. The project went cold when they showed no interest since we felt that completing the project with our limited resources is difficult. Anyway thanks to those who have filed a Public Interest Litigation in the Supreme Court in this regard. Without getting into nitty gritty (facts and figures), we would like to summarize our views on this subject in this discussion paper.

Before getting into the subject, let us bear in mind following important points so that our understanding of the subject would be better and more nuanced :

- Politicians/Rulers are large-hearted when it comes to distributing wealth that does not belong to them (a popular saying).
- Out of every rupee spent by the government for the welfare of the downtrodden, only 15 paise thereof actually reaches the intended beneficiary (Late Shri Rajiv Gandhi's statement in the year 1985) - what happens to the remaining 85 paise is still a mystery.
- By design or by accident, whichever political party that comes up with the most generous 'public welfare' scheme would net the maximum number of votes.
- Nation State (Country) has a much longer lifespan than the elected government (So, decisions of the government of the day better be vetted/scrutinized by an independent authority).
- Successive Governments have spent enormous amounts of money on various 'public welfare' schemes year after year since independence. Yet India competes with sub-saharan countries on the human development index. Rulers seem to be not perturbed at all. (The definition of **insanity** is 'doing the same thing over and over again and expecting a different result'. These words are usually credited to the acclaimed genius Albert Einstein).
- In spite of all these 'public welfare' schemes malnourishment is rampant. (more than one third of the world's malnourished children live in India - Wikipedia) In the Global Hunger Index India ranked 94 out of 107 countries in 2020 - worse than many poor/developing countries.

- Government(s) need to balance between 'Public Welfare' and 'National Building'. But rulers in India (irrespective of the Political Party at the helm) seem to be in a tearing hurry to launch public welfare schemes one after another leaving precious little for nation building. It has serious implications in the long run.
- Public welfare schemes once started are almost impossible to discontinue.

What should India do?

The issue at hand is indeed very complex and sensitive. But it has to be addressed without any further delay because it is metamorphosing into a very dangerous and uncontrollable creature rapidly. It may be worth mentioning here the case Venezuela. Venezuela is an oil rich and an otherwise prosperous Latin American country that became bankrupt due to wrong/unsustainable economic policies (read unbridled 'freebies') followed by its rulers. Consequently, the economy collapsed, inflation shot up to about 10,000%, Bolivar, the local currency, became useless, crime rate shot up, food/medicines/essentials dried up and life became unbearable to ordinary citizens. As a result it is estimated that 5,000 Venezuelans (out of about three crore population) left the country every day during 2019/20 (UNHCR report). Interestingly, the rulers who have pushed the country into this abyss neither have a solution nor capability to bring it back to normalcy. Closer home, in Sri Lanka, when the economy imploded due to reckless/excessive borrowings Rulers simply fled the country. These are some examples we should learn lessons from.

To steer clear of such dangerous developments, India should have a proper strategy in place and we have some suggestions in this regard. They are:

1. **Create/Appoint a Financial Authority:** First and foremost the government should create/appoint a Financial Authority to take care of government finances, preferably a constitutional authority like C&AG. At present Finance is the least important function for the government. This is diametrically opposite to that of the private sector which gives highest priority to Finance function. Not surprisingly government finances are always in a mess. The Government of India which aspires to become a five trillion dollar economy follows cash based accounting system, the one which is followed by petty traders, small time professionals and few others in the unorganized sector instead of a more scientific accrual (mercantile).accounting system (Book keeping and Accounting is an integral part of Finance). Just one small example to show how much importance the government gives to finance function. A skilled, qualified and appropriately trained person, like a CFO in the Private Sector, can improve government finances phenomenally (Here again let us not confuse finance with accounts or economics). We had written a letter to the Government a couple of years back in this regard (No response so far). We firmly

believe that such authority, among other things, would not only monitor the effects of populist schemes closely but also ensure that the governments follow FRBM Act and other prescribed rules/guidelines in letter and spirit.

2. Frame the guidelines that every political party should follow while declaring a public welfare scheme :

The next important step, according to us, is prescribing guidelines that every political party should follow while announcing a public welfare scheme. This would act as a check and bring in discipline and help in conserving national resources. What should such guidelines look like? Few suggestions in this regard are :

- Subsidies should be restricted to basic needs (Physiological needs as mentioned in Maslow's hierarchy of needs).
- Indiscriminate subsidies should be done away with. For example free electricity is given to all farmers, rich or poor.
- Wherever possible the government should adopt the concept of 'revolving fund' so that former beneficiaries support subsequent beneficiaries (by contributing to a revolving fund).
- Government(s) should not distribute/part-with the nation's wealth. Political parties should bear in mind that the government of the day has powers to manage the 'nation's wealth' but not to squander it. Government of the day is not the same as a King (or Queen). No political party should harbour such illusions.
- Political parties declaring public welfare schemes should come up with proper documentation/white-paper well in advance. The political party should clearly declare the purpose of the scheme, expected benefit to the nation/society, amounts needed for implementing the scheme, avenues from which it is proposed to raise necessary resources etc.,
- Subsidies that create enduring benefits should be encouraged and consumption oriented subsidies should be discouraged to the extent possible.
- To the extent possible the scheme should be for the benefit of the society (or a section of the society) rather than an individual.
- Populist schemes that benefit particular caste, creed, sect, religion should be prohibited.
- Finally it is always better to have a ceiling/limit that all populist schemes put together should not cross (say, as a percentage of GDP/SGDP).

3. Each scheme should be subjected to financial/social audit periodically (say, every year) and the audit reports should be made available to the public:

Since the government spends public money on these schemes people have every right to know the results of such schemes. The audit report should clearly show the benefits that have accrued to the society/nation due to a particular scheme. If a scheme is not producing the intended result or actually harming the country/society then the scheme should be discontinued after due process.

4. Introduce/use ‘special currency’ to meet the expenditure under public welfare schemes:

schemes: Finally we recommend introduction/use of special currency to meet expenditure under various public welfare schemes to the maximum extent possible. We have developed a community/local currency in this regard and named it 'Shree Currency'. Shree Currency is a specially designed and completely digital currency. Salient features of this currency are given in the Annexure - 1. Using this currency can be a game changer. This currency, according to us, can improve the effectiveness of the welfare schemes, check leakages, filter out ineligible people, bring complete transparency, empower the poor and instill self confidence in them and eventually transform them into confident citizens instead of the ones continuously seeking alms from the government . Some of the benefits the country can derive by using Shree Currency are given Annexure - 2.

We believe that with the above changes Government(s) can support 'genuinely' poor without compromising financial health of the nation.

Postscript:

1. We are not against the populist/public-welfare schemes. What we are against is their misuse by unscrupulous leaders to gain/retain power.
2. Argument that no one can fool the public forever is specious.
3. Some of the freebies are actually destructive but continue to be in use because they are 'immensely beneficial'.
4. We believe that unbridled freebies are a symptom. Deeply flawed political system that we follow is the disease. Until serious political reforms take place this problem will continue.
5. Freebies to Corporates are equally bad if they are not based on sound logic/reasoning. That we are not discussing here.

Annexure - 1

Basic features of Shree Currency (a community/local currency) :

- 1) Shree Currency is not a substitute to Indian Rupee (INR). It is to complement INR.
- 2) Shree Currency is not a cryptocurrency.
- 3) Shree Currency is for the proletariat/common-man. It would be created and consumed by the proletariat.
- 4) Some of the important features of Shree Currency are given hereunder
 - It comes with an expiry date - each unit is time stamped and has an expiry date (on expiry it reverts to the issuing authority).
 - However it does not age when it goes into hibernation (explained later)
 - Hibernation is a period when Shri Currency is invested in 'eligible projects' to meet the project/fixed cost.
 - It does not earn interest. It has no 'time value' in the conventional sense.
 - It is freely transferable among the members.
 - It comes with usage restrictions (like, say, alcohol can not be bought with this).
 - It can be converted into INR (conditions apply) but not vice versa.
 - A central authority would be in place to implement and monitor the scheme in a transparent way.

What is the purpose?

- It is to empower the proletariat.
- It is to insulate the proletariat from sudden, unpredictable shocks that may arise in the macroeconomic environment for whatever reason. (There are plenty of reasons to worry about and there are plenty of imponderables both domestic and international).
- It is to check the exploitation of the proletariat by the rich, influential, powerful and well connected.
- It is to take care of the very basic needs of the proletariat like health, hygiene, nutrition, shelter and education.
- It is to check migration of poor people from villages to the cities for economic reasons.
- It is to make the Indian economy more stable - a bicycle is more stable than a monocycle, right?
- It would focus on both rural and urban poor.
- It has the potential to create employment and business opportunities in unorganised sectors, both in rural and urban areas.
- It will, incidentally, also check fake & counterfeit currency notes in its area to an extent.

Shree Currency **(A Community/Local Currency)**

We have been working on a project for some time to develop a community/local currency which can be used as a tool to eradicate poverty by networking the proletariat (people at the bottom of the pyramid like marginal farmers, artisans etc.,). We have named this currency 'Shree Currency'. Shree Currency is a specially designed, completely digital currency backed by Indian Rupee (INR) on a one-to-one basis, that is each unit of Shree Currency is backed by one INR. Let us see quickly how the Shree Currency works and how it can reduce poverty through empowerment of the proletariat/common-man.

1. **Creates a nationwide network** : To start using the Shree Currency all eligible beneficiaries are identified and registered into a network. Technically everyone is connected with everyone in this network. This, when completed, creates a large network of the proletariat. This network is like an artificial isle, a separate economic entity within the overall economy. This network has its own dynamics, its own characteristics and its own peculiarities. With this one step the entire population of the proletariat is brought on to one single platform. With this Governments are in a better position to plan, design different welfare schemes with greater precision and efficiency. Further this process is more efficient in preventing ineligible beneficiaries from getting into the network because of its transparency and working mechanism.
2. **Makes the proletariat self sufficient** : It is true that the proletariat suffer from inadequate resources. But, we think, such inadequacy is more than compensated by their numbers. Population of the proletariat is huge and when their resources are pooled and properly channeled into productive schemes, exceptional results can be expected. Allow us to explain. Most of the goods and services required by the proletariat can be produced within the community. Food grains, cooking oils, clothes and even daily needed items like bathing soaps and tooth powder and whole ranges of products can be produced in cottage/small scale industries owned and run by the local modules within this network.
3. **Rejuvenates community's economy** : As explained above when the proletariat starts sourcing goods and services required from within, it creates income generating opportunities for the members which in turn create demand and then consumption and so on. This entire process when picked up revs up the local economy leading to better standards of living to its members.

4. **Stops migration of poor to cities** : More and more people are leaving villages and migrating to cities in search of livelihood since the rural economy, across the country, is not supporting them. There are instances we have come across that entire villages migrated. As explained above if income generating opportunities are made available locally most of these people would prefer to stay back in their respective villages. This in turn can be expected to reduce the load on already overburdened urban infrastructures.
5. **Builds eco friendly economy** : India follows an economic development model (largely borrowed from the west/developed world) that is energy intensive, capital intensive, consumption driven and urban centric. This model, according to us, is not suitable and unsustainable for India with serious environmental, social consequences in the long term. When part of the production/consumption 'shifts back' to cottage/small scale industries as explained above we expect some relief.
6. **Shree Currency can not be hoarded/cornered by anyone** : Shree Currency can not be hoarded by anyone since it comes with an expiry date. Each unit/batch of Shree Currency is time stamped and comes with an expiry date. On expiry it reverts to the issuing authority. However this expiry can be kept on hold when it is invested in certain 'eligible projects'. This we call hibernation of Shree Currency. Effectively one has to either consume/spend it or invest it in certain prescribed/eligible projects. It means Shree Currency is always in circulation revving up the local economic activity. Since the marginal propensity to consume is high among the poor, such expiry dates should not bother them.
7. **Helps in development of rural/social infrastructure** : As stated above Shree Currency expires unless invested in certain 'eligible/prescribed projects'. Here eligible projects means certain local infrastructure projects that are hitherto neglected by the authorities for whatever the reasons. For example many water bodies in rural areas, often centuries old, are degraded/destroyed for want of proper upkeep and maintenance. Local Government Bodies like Gram Panchayat and Municipalities who are responsible for maintenance of this infrastructure lack resources. Now, these 'Local Government Bodies' may be allowed to borrow Shree Currency under certain specific schemes. This in turn not only develops rural/social infrastructure but also encourages the proletariat to save and invest their hard earned money. These projects also create employment opportunities to the local population. Similarly local modules of the Shree Currency network may develop infrastructure to facilitate storage/process of commodities produced by its members.
8. **Good Governance at the grassroot level!** : As stated above when local government bodies become active and take up the local infrastructure projects with the funds mobilised from the local population governance at the grassroot level like Gram Panchayat will certainly improve. Public participation will increase. Distance between the rulers and the ruled will decrease. Wastage of resources on irrelevant projects stops. All

this can make the governance at the grassroot level very vibrant and make India strong eventually.

9. **Reduction in corruption and leakages** : Shree Currency works in a very transparent manner. Since this can be transferred among the networked members only, its movements are traceable and with this one can expect considerable reduction in leakages and also reduction in corruption.
10. **Discourages bad habits like alcohol consumption** : Often beneficiaries under different government schemes use the money received by them from the government on vices like alcohol. Since Shree Currency can be spent only at accredited vendors such possibility will come down drastically.
11. **Government's burden will come down** : Finally when a large section of the population moves out of poverty and becomes self-sufficient, their dependence on government will come down. This in turn relieves the government from the burden of supporting such people and can concentrate more on nation building. This, of course, will happen over a period of time.
12. **Balanced growth and better utilisation of natural resources** : In this model of development local modules of the network and local government bodies are expected to participate actively in planning resource allocation. Authorities/people at the local level know better what they want and allocate available resources accordingly. This will lead to more balanced development.

Conclusion :

To conclude, we think, if properly managed, Shree Currency can produce exceptional results. This not only improves the economic condition of the poor but also leads to a better society, better environment and stronger 'Bharat'. Eventually this may even reduce burden on State and Central Governments.

We are aware that many details need to be worked out and we are ready to do our bit.

Postscript:

We wish to clarify that Shree Currency is not a substitute for INR. Further as of now Shree Currency is a concept that is yet to be tested. To the best of our knowledge no country ever tried such currency till now. However we strongly believe that benefits that India/Bharat can derive by introducing Shree Currency, if managed well, far outweigh risks, if any.

Proletarian Power (proletarianpower.org) is a 'not-for-profit' entity primarily engaged in analyzing the macroeconomic environment in India from 'Public Interest' angle.