

Learnings from Brexit

James Carville, lead strategist of the successful Presidential campaign for the then Arkansas Governor Bill Clinton, had displayed “The economy, stupid” in the war room to highlight the importance of the economy as an election issue. These innocuous words turned out to be the most lethal in delivering an election victory for President Bill Clinton against a sitting US President George Bush.

Little do we seem to learn from history and thus witness history repeating itself time and again.

The EU referendum results, while bringing out the stark economic reality to fore, call for some serious introspection. Broadly it shows that the affluent and the highly educated British have voted in favour of ‘remain’ whereas the poor voted in favour of exit EU. While England and Wales decided on “Brexit”, big cities like London, Manchester, Liverpool, Leeds, Cardiff and world famous education centres like Cambridge and Oxford voted in favour of “Bremain”. The youth voted in favour of remain whereas the pensioners voted in favour of exit. Even the Indian community based in UK was split and displayed voting behaviour similar to the rest of UK.

The results again point to discontent and disenchantment among the poor or the marginalized sections of the society. Job losses and lower wage growth are hurting and have found an expression through Brexit.

Let us look at the undercurrents which many may have missed and hence the surprise element with the results. The world clearly stands divided into 2 main classes - the rich and the poor. If you look at any society or Government, it is the rich or the fortunate or the highly educated who are in the higher echelons of power and dominate policy making. Most of these policies are either not in sync with the needs of the poor or in some cases policies are made not keeping the poor in mind at all. Someone tweeted “Londoners woke up to realise that there was also a country out there that does exist.” There couldn’t be a better way to sum up the malaise which is plaguing the entire world.

The plight of the weaker sections doesn’t end with the EU referendum results, in fact it opened a new cottage industry of ridicule and cynicism by the elite - including the media and the intellectuals. The media took pot shots on news of the highest Google search by the British on the question “What is the EU?” Media also called a democratic outcome called Brexit as anarchy. The intellectuals couldn’t be left far behind and some even proposed that there should be maximum voting age (like there is minimum age for voting) or the uneducated should let economics make the choice for them or some even going to the extent of calling them “morons.”

Must admit that every decision has its positives and negatives. In our desire to move ahead with globalization and liberalization we always count the benefits of the decision without bothering that unless we are prepared to transfer or share the gains of globalization and liberalization with those who will suffer its consequences, they will end up becoming bad words. For example, automation in manufacturing is a reality and also a necessity. While this leads to productivity

gains and also profits for some but it also results in job losses or lower wage growth or both. It is incumbent on those beneficiaries to transfer or share these gains with those people or employees who lost out in the process.

Hence, it is important that those who are responsible for implementing these reforms also concentrate on –

- i. imparting world class training in technical, personality development and management skills to the weaker sections,
- ii. ensure or support initiatives which help the weaker sections access basic banking, credit, insurance, micro finance etc.

In this regard, Mudra Bank and Skill India initiatives of Government of India are steps in right direction.

While it is commendable that common man across India is eagerly awaiting GST and has his hopes pinned on the bill getting passed in the Rajya Sabha (Upper House of India's Parliament), it is equally important that the benefits of GST are transferred, by the State Governments, to the poor and weaker sections. Failure to do so can also lead to negative response to any reform in the future and GST runs the risk of becoming a bad word for reforms.

Ever since the world adopted globalization this has led to challenges, to Governments in power, in terms of ability to get re-elected. Democracy provides people with an avenue to express themselves at least every 4 or 5 years through elections and reprimand the non-performers. Democracy also presents solutions to the challenges presented by globalization. Unfortunately countries like China, which are not spared by the forces of globalization, do not have this institutional framework to provide a vent to its people. China which followed a high growth trajectory in last few decades by building a high cost (hence inefficient) infrastructure, faces severe challenges due to a slowing global growth. Won't be surprised if China were to launch its own version of social benefit scheme - DNREGA (Deng Xiaoping National Rural Employment Guarantee scheme) modelled on India's MNREGA.

To sum it up, we, who are the beneficiaries of globalization need to start supporting initiatives which are being taken for the benefit of those who have been left out. Directed subsidy should be supported. Let us understand why there is a global slowdown and why most countries are busy revising their growth trajectories downwards. Well, one of the major causes can be seen in the concentration of wealth with a few who are no more consumers whereas a much larger section with low purchasing power. We all know that the marginal propensity to consume is higher among the poor than the rich.

Till such time the benefits of globalization are not shared, by the beneficiaries, with those who are suffering its consequences, till then it may remain a challenge for global growth revival. Governments, world over, run the risk of anti-incumbency or being overthrown every 4 or 5 years despite massive doses of money supply and zero or even negative interest rates.

- Aashish Wakankar (*Views expressed by are personal*)