

The revolt against elitism

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IN 1999, in my book *The Economy of an Elitist State*, I attempted to substantiate the argument that the Pakistani economy had been captured by a narrow elite consisting of the top one to two per cent of the population.

Markets allocate resources efficiently, but only those that possess assets benefit from this efficiency. The state, therefore, has to intervene by taxing the rich and spending on those who are bypassed by economic efficiency and thus promote equitable distribution of national income. In Pakistan's case, the markets were rigged by the elites while the state was politically controlled by the same elite for promoting their parochial agenda. Thus, the country ended up with an inefficient allocation of resources and inequitable distribution of income.

I maintained that the form of government — elected, autocratic, military, quasi democratic — did not matter. The same small group circulated across different regimes and took turns in the game of self-enrichment at the cost of the public at large. It is a fallacy that this happens only under democratic regimes. Military regimes start on the right footing with their zeal to reform society and the economy, but in their quest to assert their 'legitimacy' and power they co-opt the same elite.

The tactics adopted by a large segment of the elite are well known and well documented. They obtain bank loans from nationalised commercial banks and never repay, get choice urban land allotted at concessional prices and secure permits and licences to set up factories, as well as oil and gas concessions and other lucrative noncompetitive businesses, without paying a single paisa themselves.

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They indulge in over-invoicing imports and under-invoicing exports, and keep foreign exchange thus earned abroad. They understate and conceal income to evade taxes, misclassify the value of imports and real estate in connivance with government officials, sell wheat and sugar to public procurement agencies at prices higher than market rates, divert government subsidies granted in the names of small farmers for

their own use, regulate higher tariffs to protect their inefficient industries, etc. This thesis was criticised by many.

Little did I realise then that the US — among the most liberal, competitive and democratically strong countries and a citadel of innovation, entrepreneurship and meritocracy — would one day witness a revolt against elitism. The recent election of Donald Trump — a complete outsider to politics — is a testimony to the overthrow of the entrenched elites in the US who have concentrated political and economic power in their hands.

Trump energised and mobilised neglected Americans — those without college degrees, who had lost their jobs in steel, auto and other traditional manufacturing industries to international competition, whose skills and training were no longer needed by the new economy, and whose towns and communities were denuded of modern amenities and facilities for a decent life.

A city such as Detroit — the world's automobile capital at one time — had to file for bankruptcy as it was abandoned by its residents for lack of jobs. At the same time, these deprived, forgotten people were aware of young kids on Wall Street in their late 20s and mid-30s becoming millionaires by working in hedge funds, private equity and financial services industry and in Silicon Valley by starting their own tech firms.

The chief executives of a large number of big companies and firms took home 250 times as much as their average worker, compared to 20 to 30 times in the 1970s. The top 1pc of the population owns as much wealth as the remaining 99pc. In 1953, just 3pc of men in the age group 25-54 were out of the labour force. Today, as many as 36 million or 12pc are no longer looking for jobs as they have become redundant or irrelevant for the active labour market.

Involuntary joblessness takes a toll on life, satisfaction, self-esteem, health, social standing and longevity. Studies have shown that the highest incidence of suicides is among the cohort of men in this age group. One of the richest countries and the largest economy in the world could not take care of the health needs of 41m of its poor as they were unable to afford medical insurance.

US tax laws have become so complex and full of anomalies that Warren Buffet, the second richest billionaire in the world, has publicly declared that his secretary pays more taxes as her income falls in the labour income category, compared to him as his income falls in the capital income category.

US multinationals such as Apple, Microsoft, Google, etc have parked their profits abroad in Ireland and other countries that have relatively less onerous taxation rates. After the global financial crisis of 2008-09, public policy bailed out big banks and businesses by providing billions of dollars of public funds instead of house owners who could not pay their mortgage loans and, in many instances, had to foreclose their homes.

It was, therefore, natural that this working-class squeezed by the elite found in Trump an ally and champion who could empathise with their plight and voice their concerns across the globe. Their anger, disillusionment and helplessness, ignored until recently, were finally recognised, listened to and placed at the top of the political agenda. This neglected working-class, living outside the well-to-do coastal states, exercised their votes in the hope they would be relieved of stress and see their dignity restored. It remains to be seen whether or not such hopes are realised.

What lessons can Pakistani elites — more powerful, influential and rich than they were in the 1990s — learn? They must realise that an impartial system in which all citizens have equal access to opportunities on the basis of hard work, rather than connections and class, has a much better chance of survival in the long run. In a polarised multiethnic, multilingual society like ours, we have to make extra efforts to ensure that the markets work openly and competitively and the state distributes the gains from such an economy by taxing the rich and building the capacity of those who are less endowed, marginalised, live in remote areas and to help those who require social safety nets and transfers to sustain themselves.

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