

Barack Obama's green smoke and mirrors. By Henry Ergas, The Australian, 24 November 2014

AIN'T love grand! Spell-bound, you see what isn't there. But though it made the cow-eyed audience at the University of Queensland swoon, virtually none of the \$US3 billion Barack Obama pledged for the Green Climate Fund is new money.

Rather, as an analysis by the Brookings Institution shows, Obama simply shifted earlier appropriations for the World Bank to the UN, whose share of American climate aid would rise from 2 per cent to nearly 30 per cent.

Hats off: without wasting an additional centime, Obama wowed the dumb greenies Down Under, and their even dumber fellow-travellers. And he poked congress in the eye, since Republicans distrust the World Bank but detest the UN. That he offended his hosts, who are putting Australian lives on the line to clean up his mess in the Middle East, must seem a small price to pay.

Not that any of that plays badly with the constituencies Obama cares about. True, Obama's rhetoric no longer resonates in Middle America, with only 16 per cent of Americans (down from 40 per cent in 2009) believing opportunities will be better for the next than for the current generation. Nor does it cut the mustard in the rapidly growing energy-producing states, three-quarters of which voted solidly Republican at the mid-terms. But it works a treat with the billionaires Obama courts, who helped the Democrats outspend the Republicans by some 35 per cent in last month's elections.

It is a sad day when the leader of the free world seems, at least to those who refuse to check their mind in at the door, both petty and grandiloquent. And it is even sadder when it is his Chinese and Indian counterparts who project a politics of aspiration, rather than of moral posturing.

Their focus is on prosperity, not the apocalypse. It is the "pursuit of happiness", whose boundless possibilities are celebrated in America's Declaration of Independence, that shines through in the Australian speeches of President Xi Jinping and Prime Minister Narendra Modi, not the anxious sense of limits so dominant in Obama's.

And understandably so: for in both countries, the rise of the middle class is reshaping the substance and language of politics. That creates enormous opportunities for Australia; but it would be a mistake to underestimate its messiness, risks and complexities.

Nowhere is the change clearer than in India, where according to the National Election Study, 52 per cent of support for Modi's BJP's in the 2014 election came from middle class voters, especially the young, who were one-third more likely to vote BJP.

Those voters know what they want: rapid economic growth. The potential is obvious: India's per capita income is only half China's. To catch up, India's growth in per capita income must go from its 4 per cent average since 1980 to above 6 per cent.

That won't happen unless Modi tackles pervasive economic distortions. Large firms are reluctant to hire workers because labour laws stop them firing workers. Central government

spending on subsidies for petrol and fertilisers is about four times spending on public health. And the Public Distribution System provides rice and wheat to up to 75 per cent of rural households, while the National Rural Employment Guarantee Act gives them a legally enforceable right to a publicly subsidised job at regulated wages and conditions.

In addition to fuelling a persistent fiscal deficit, the myriad, discretionary, handouts create enormous scope for corruption, with some 30 per cent of the previous parliament facing criminal charges. So far, however, Modi has made few inroads into this morass. And despite 90 per cent approval ratings in urban areas, his caution is understandable. In India's fiercely contested first-past-the-post elections, in which electoral turnout by the often illiterate rural poor (who account for nearly 40 per cent of the electorate) matches that in more affluent areas, political competition centres on providing highly visible income transfers to marginal rural voters. Moreover, the rural electorate is notoriously unforgiving: India, V.S. Naipaul famously wrote, is the "country of a million little mutinies".

With 90 per cent of BJP seats coming from the Hindi belt and western states, which hold only 60 per cent of the population, Modi is worried his mandate may prove narrower and more brittle than it seems. That nearly half the middle class voters work in the public sector, and stand to lose from desperately needed administrative reforms, only accentuates his caution.

Even so, by combining a pro-business emphasis with the BJP's ethnic appeal, Modi may be the first Indian leader to forge a durable reform-oriented coalition on a strong middle class core.

But he will be walking a tightrope. Australia has a vital stake in his success, with the Bureau of Resource and Energy Economics estimating that India's imports of thermal coal could rise to 300 million tonnes by 2020, which is one-third more than Australia's current total exports.

Tony Abbott's strategy of promoting growth in our region through trade and markets therefore makes perfect sense. And so does the commitment to rapidly include India in an emerging network of trade agreements, while doing whatever one can to also promote trade liberalisation on a multilateral basis.

As for Obama, his election was a genuine landmark. But by replacing the promise of growth with the mantra of redistribution, he narrowed his base to those who have given up on aspiration and those who no longer need it. As he stood at the University of Queensland, peddling his prematurely aged platitudes, he was yesterday's man, not tomorrow's.