

THE ECONOMIC PLAGUE

Recession : Global and Indian

Anirban Biswas

The recession that has been haunting a considerable part of the globe has now become the subject of regular talks and gossips by all sorts of literate people in India. The recession has started in the USA and has spread to Europe and soon has come to affect the Asian countries. There is no news of recession, however, from countries like Venezuela, Iran and Cuba etc.

The crisis of the US economy, which has revived the memories of the Great Depression of the thirties, is by no means an accidental phenomenon. It was simmering and growing, before taking a sudden leap forward from the depression of the house-building industry, and the impossibility of repaying the mortgages. Every year the USA was having huge trade deficits. Last year, this deficit rose to near \$850 billions. These deficits have been sustained by massive foreign investments and bank deposits on the part of foreign creditors. Investments from Europe and China have been massive, and also significant was the contribution from the oil-rich Asian countries like Kuwait and Saudi Arabia. There was also some inflow of capital on account of debt-servicing charges from the peripheral countries.

It is clear that domestic spheres of private productive investment were drying up and the house-building industry served as a last resort. The foreign trade multiplier was operating in the opposite direction. The papers of financial institutions that had extended credit to the house building industry as some kind of sub-prime loan, and built up a financial interdependence among themselves have turned useless, when mortgages became impossible to repay. It is not known whether there was any investment by large Indian corporate groups in these papers, but it is highly probable that there was some. It is a crisis of over-accumulation of capital. The USA has a comparative advantage in the production of armaments, and it has been investing heavily in this sector. These are, however, investments by the state.

On the causes of the weakening of the US economy over time, there is curiously a convergence of views among some neo-liberals and some Marxists. Samir Amin wrote quite a few years ago, "The mediocrity of general education and training system, and a deep-rooted prejudice systematically in favour of the 'private' to the detriment of the public service, is one of the main reasons for the profound crisis that the US economy is going through.¹ On the administration of Bush junior, Joseph Stiglitz, the Nobel winning economist formerly associated with the World Bank, has to say, "Americans have not been educating enough engineers and scientists, people with the skills America will need to compete with China and India. Americans have not been investing in the kind of basic research that made them the technological house of the late twentieth century."²

Now the million-dollar question is if Barack Obama, the new elected president, whose election has provided the food for a vast amount of speculation and commentaries, will be able to lift the US economy out of crisis. Historically, Franklin D Roosevelt is credited with such an achievement, because it is thought that his New Deal, which aimed at raising the scope of public expenditure, injected fresh life into the economy. But a careful scrutiny should reveal that the recovery of the economy owed less to the New Deal than to the Second World War. The rate of unemployment in the USA was not insignificant even in 1940. The War brought about new avenues of state expenditure, and this had a multiplier effect on the economy. As a competent observer, while acknowledging the contribution of the New Deal in leading 'one section of the employers to accept the concessions which would allow for the integration of the working class as a whole into the system of consumption' and opening the way for a 'fruitful cooperation between government and finance', was still constrained to suggest "American capitalism, this enormous machine for accumulation, could not be started up again by the New Deal: only the war could accomplish this task." This underscores the limitations of the Keynesian mechanism.

What will Barack Obama do? His election indicates a sign of awareness among the American electorate about the crisis of jingoism and the self-defeating nature of expansionist wars abroad. He has promised more jobs in the face of the mounting unemployment problem. But will some public works projects suffice to generate internal demand on a scale that will reverse the situation and lead to a new boom? Quite unlikely. Granting concessions to workers and elimination of profit enhancing methods like business process outsourcing are also most likely to come up against the barrier of resistance against the corporate sector, and the cost of providing enough subsidy to this sector will be huge. Right now the budget deficit of the government has exceeded one trillion dollars. So, how can the government meet the demands from the corporate sector and also the demands for better education, health care and health insurance?

The cost of Iraq war has been enormous, and the old American objective of controlling Iraq's oil

resources has not been realized. Hence the USA is now planning a phased retreat. It should be remembered that much of the expenditure incurred for financing a war abroad does not have any multiplier effect on the domestic economy. On the contrary, they represent a huge drain on the public exchequer. But what will happen to Afghanistan? What-ever the colour of the President, Republican or Democratic, black or white, the basic character of the ruling class remaining the same, the bid to control the resources of distant countries will remain unabated. The planned retreat from Iraq has come as the necessary consequence of a battle in which the USA cannot hope to win as far as its dream of capturing the oil resources is concerned. But the battle of Afghanistan is not yet considered lost and its connection with Central Asian resources makes it unlikely that the USA may give up the battle. The 9/11 incident, as is now revealed, was anticipated by the CIA but the US government did not try to stop it. They used it as a bogey to invade Afghanistan. The aim of war is not only to boost domestic investment activity, but also to control the resources of others' territories.

The impact on the economies of India and China is natural. China has long been pursuing a strategy of export-led growth with the USA as a major customer, and the Chinese manufactures have been flooding the US market. Now, with the fall in income in the domestic economy, US imports of goods and services are falling and the export-oriented industrial sector of China has received a severe blow, the consequence, being massive cuts in production and employment. Now the Chinese government has decided to spend 586 billion dollars for over five years for economic revival. If it is spent for the expansion of the internal market with a view to increasing the purchasing power of the broad masses of the people, particularly the lower income and entitlement groups, the impact on the economy will definitely be beneficial.

The crisis in the Indian share market is there for all to see, and suicide events are reported. The recession has already hit industries like the automobiles, export-based textiles, airlines, manufacture of diamond jewels etc. The export of information technology has already received a shock and business process outsourcing is certain to receive a blow if the US government decides to stop it. Recession reduces the capacity to import and in this respect the maximum loss has been suffered by the US economy. From June to November, there has been a reduction in India's foreign exchange reserves of the order of 50 billion dollars. If depletion of reserves continues on this scale, which is not unlikely, if the current recession continues like a trade cycle, India will within two years exhaust most of these reserves, because she has all along lived with current account deficits. The Chinese are more fortunate in this regard, because they are consistently enjoying a surplus on this account, and are far less dependent on foreign portfolio investment.

It is now apparent that the corporate lobby of India is not satisfied with the measure of enhancing the liquidity of the market through increased supply of money, because it is feeling the problem of effective demand. There are in this case two options before the Government of India and the Prime Minister. They may try to increase the buying power of the already affluent through a further reduction in taxes and offering more liberal doses of subsidies to the corporate sector in the form of tax cuts and reduced excise duties. Alternatively, they may initiate a nationwide programme of enhancing the productive capacity of the economy by employing the vast army of under employed manpower at decent wage rates, and involving the lower-level institutions in this work. Indications are that the government's emphasis will be more on the former because it is difficult to hurt those who thrive on growing inequality.

The alternative approach, which some are suggesting and advocating, is repugnant to the ruling politicians. So the crisis will remain and continue to plague the country. One ray of hope is that the neo-liberal orthodoxy has fallen flat, and those who were lured by the dazzles of globalization have got their complacency rudely shaken.

Footnotes :

1. Samir Amin : *The US imperialism and the Middle East*, in Chandra, Ghosh and Kumar (ed) : *The Politics of Imperialism and Counter Strategies*, Aakar Books, Delhi, 2004, p-165
2. Joseph Stiglitz : *Of Bush and Economic Nightmare*, Frontier, January 6-12, 2008.
3. Michel Beaud : *A History of Capitalism*, Aakar Books, 2004, p-186.