NOTE

Karl Marx Returns

Bharat Jhunjhunwala writes :

Present global meltdown is being seen by many economists as coming true of Marx's prediction that capitalism is destined to crash. Marx pointed out that the capitalist produces to make profits. It is not so in other economic systems. The feudal system produces to fulfil the needs of the royals. The communist produces to meet the needs of the workers. Personal quest of profit is the defining feature of capitalism alone. This quest leads the capitalist to reduce the wages of workers as much as possible. Strangely enough, even Japanese are ''looking to Marx for answers to the problems with the capitalist society''. Recently the fictionlised Japanese volume of *Das Kapital* hit Tokyo bookstores and sold about 6000 copies in its first few days.

The reduction of wages has grave consequences for the economy. The demand for goods is less in the market. Replacement of an American- by an Indian worker leads to reduction in global demand. The American worker loses income of Rs 5,000 per day while the Indian worker gains income of only Rs 500 per day because of the difference in their wages. The use of cheap labour leads to global reduction of demand. Workers do not have the purchasing power to buy goods like cars, scooters, clothes and kerosene. This is recession. Car and scooter manufacturers are shutting down their plants across the world because there is less demand.

This global tendency towards reduction of wages is partly cancelled by increase in wages in low-wage countries like India and China. Demand for skilled workers in India is ircreasing at present because American companies are outsourcing legal work to Indian lawyers, for example. However, such increase in demand is country-specific. It comes parallel with a global reduction in demand.

Question arises as to why Marx's prediction has not been proven correct in the last 150 years and why is it coming true now? The underlying tendency of crisis described by Marx was very much present throughout this period but it was suppressed by other short term tendencies in the opposite direction. First short term source of demand came from the development of new technologies. The last 150 years have seen the development of steam engine, telephone, internal combustion engine, nuclear power and internet. New demand is created for products as like servers and integrated circuits due to such inventions. Second source of demand was from wars. The Great Depression of the 1929, for example, was broken by the demand generated from Second World War. One factor behind the huge demand of goods from America in the last two decades has been the war expenditures undertaken by that country in Iraq and Afghanistan. But America's ability to bear these expenditures has been exhausted while other countries are refusing to join the war. Third source of short term demand is advancing of future consumption by use of fiscal policies. The Government of India, for example, has decided to increase investments in highways and other infrastructure. The RBI will print notes to make these expenditures possible. This will lead to increase in demand for steel and cement. But a government cannot print notes endlessly because the currency is devalued. Soon the purchasing power of the citizens is reduced.

Governments can shift future consumption to present through such stratagems but they cannot create true new demand in this manner. America increased present consumption by Americans by providing cheap housing loans. But this same excessive consumption has now become the cause of America slipping into a recession.

The basic tension between reducing wages and increasing production that was explained by Marx is very much true. This tendency was suppressed in the past by war expenditures and the like. These have ceased to be effective now hence the crisis is manifest. □□□