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Calcutta Notebook

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The world Bank has estimated in the recently released 'Global Economic Prospects' report that the growth rate of developed countries is likely to increase from present 2.2 percent to 2.5 percent in 2012. Growth rate of the developing countries is likely to remain firm at the respectable 6 percent. The Bank, in the same breath, has cautioned that the problem of government debt of the developed countries can become dangerous. Other analysts have expressed concern that inflation in the developed countries can become a major problem. There are actually two contradictory scenarios. Economic growth rate is slated to rise but debt and inflation problems loom on the horizon. The question is which of these tendencies will be dominant?

The developed countries were growing robust before the crisis hit in 2008. Wages of their workers were high. An unskilled worker in the United States earns about Rs 4,000 a-day against Rs 300 earned by his Indian counterpart. People of the developed countries were consuming large amount of goods on the back of these high incomes. Developing countries were supplying goods for their consumption–China was supplying footwear, toys and electronics while India was supplying basmati rice and software. New technological developments like personal computer, internet and hybrid cars were being commercialized by the developed countries. The developed countries were earning huge amounts by selling these high-tech goods to the developing countries. They were paying high wages to their workers on the strength of these incomes.

This happy circumstance of the developed countries has come under severe pressure during the last few years because commercially profitable advanced technologies have been few and far apart, if at all. The last such technology, perhaps, was the *internet*. No major profitable technology has been developed thereafter. The problem has been further aggravated by the developed countries speedily transferring their advanced technologies to the developing countries through Foreign Direct Investment. Hybrid cars, for example, are now being manufactured in India. The special advantage enjoyed by the developed countries has, therefore, eroded slowly but steadily. They are being forced to reduce the wages of their workers as seen in the recently concluded agreement entered into by General Motors with its workers. These wages will have to decline much more for the developed countries to reestablish their competitiveness vis-a-vis the developing countries in the global markets and maintaining reasonable profits.

The developed countries implemented huge stimulus packages and encouraged people to continue with their high levels of consumption. They borrowed heavily from the world financial markets for providing loans to their people. They also loosened the purse strings. They printed notes to support the already bloated government expenditures. They printed more money to make up for the tax cuts given in the stimulus packages. This printing of money has led to inflation. The developed countries are now mired in the double problem of debt and inflation. This policy would have been successful if a major technological innovation-say, a personal helicopter-had happened. The same policy has become their undoing in absence of such innovation.

The outlook for 2011 can be made on this background. The pressure on wages in the United States and United Kingdom will persist. They will have to withdraw their stimulus packages because of increasing inflation and debt. This withdrawal will further exacerbate the downward pressure on wages. Citizens will be up in arms. In that event these countries will have to adopt protectionist policies. But this will not provide them much relief because they are dependent on imports of textiles, oil, food and minerals from the developing countries. This will push them into a deeper crisis. The unanswered question is exactly when the withdrawal of the stimulus package will begin. It is possible this may happen in 2012. In that case situation in 2011 will remain as it is. □