Frontier
Vol. 44, No. 47, ~~May~~ June 3-9, 2012

COMMENT

Business As Usual

THE CRY OVER THE REDUCTION OF interest rates by the corporate business lobby, euphemistically called the 'industrial lobby' by the so-called mainstream press has revealed once gain the weaknesses of the economy. It may be recalled that when the new economic policy was launched, the rates of interest were higher than they are now. The corporate tycoons, however, went on receiving large doses of freebies in other forms. These forms include various tax concessions, privatization of public sector units, which often went as far as selling these units for a song, forcible acquisition of land and other resources by the state in order to hand them over to corporate business interests, and so on and so forth. The problem of the rate of interest did not matter much to the captains of industry. What is noteworthy in this respect is that they often did not repay their loans from the public sector banks and other financial institutions. And as mainstream economics had as its target not reduction of unemployment, but containing inflation, keeping the rate of interest high did not confront much opposition from the academic circle of economists.

The demand for reducing the rate of interest however began in the early part of this century, and the monetary authorities were only too obliging. Benefits from the reduction of the rate of interest were only marginal to the companies compared with other forms of official patronage, but they were not willing to forego even these benefits.

With the recession, however, everything went haywire. India, however, was not as export-oriented as China, and whatever the intentions of the economic arbiters, India could not fully globalize its economy, the popular resistance was a strong factor. Yet the impact of global recession was not insignificant, and the monetary measures like the revision of REPO rates failed to deliver the goods. One economist observed that the economy was caught in something like a 'liquidity trap'. The Government took some fiscal measures, the most glaring of which was to increase enormously the salaries of government employees of various categories, school, college and university teachers, bank officers etc. This was some sort of a Keynesian type demand management, from which the vast majority of people were excluded. It is true that a lowering of the rate of interest triggers inflation. In a less developed economy like India, where monopolistic elements in trading are strong, such a causal relationship does not always operate via a rise in aggregate effective demand through some sort of an investment multiplier. Lowered rates of interest give big traders easier access to credit, which they use for speculative purposes. The ruling party, only for the sake of electoral purposes—if not for anything else—cannot afford to allow the phenomenon of inflation to soar too high. Yet the faltering growth in manufacturing continues to provide an argument in favour of a lower interest rate, because other monetary measures are not considered too insufficient. Thus the debate has laid bare the weakness, not only of the economy, but of the ruling politicians as well. □□□