Finance Capital and the World Economy*

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The period of neo-liberalism witnesses an increase in the share of economic surplus in total output both in individual countries and also for the world as a whole. This is because the "opening" up of the economy to freer trade in goods and services leads to a rapid introduction of structural-cum-technological change, which, because of its labour-displacing character, keeps down the growth rate of employment, to even below the natural growth-rate of the work-force. The resulting increase in the relative size of the reserve army of labour restrains the level of real wages everywhere, even as labour productivity grows massively, causing a rise in the share of economic surplus.

Such a shift from wages to surplus depresses the level of consumption demand, and hence aggregate demand, and causes a tendency towards an over-production crisis. Since fiscal conservatism at the insistence of finance capital, prevents any offsetting of this tendency through State spending, the only possible counter to it within a neo-liberal economy, is provided by asset price bubbles that also have the effect of boosting demand. But even if such a bubble perchance gets generated that keeps at bay the over-production crisis for a while, its collapse again pushes the economy into a crisis.

The collapse of the housing bubble in the US in 2008 has had this effect on the US, and the world economy. In fact the decade 2009-19, i.e., even before the onset of the pandemic, was marked by a prolonged crisis; the world economy saw during these years the lowest decadal average growth rate in the entire post-war period.

The pandemic, and the lockdowns associated with it, led to an absolute fall in world output, whose relative size across countries depended inter alia on the magnitude of the rescue-cum-relief packages handed out by the various governments. In the United States where the package was almost 10 per cent of GDP, the decline in GDP was relatively small (3.5 per cent for 2020), while in India where the government's relief-cum-rescue package was less than 2 per cent of GDP, the fall in GDP was as much as 7.3 per cent in 2020-21. But in most advanced countries there was a clear going back on the neo-liberal policies being pursued over the previous four decades: there was a substantial and deliberate jacking up of the size of the fiscal deficit, with the European Union even temporarily removing its statutory ceiling on the size of the fiscal deficit relative to GDP.

The question that arises is whether there would be a going back to neo-liberal policies now that the intensity of the pandemic has lessened, assuming of course that there is no fresh upsurge in it. The new US administration under Joe Biden is clearly against such a going back, at least as far as the US is concerned. (It has not made any general declarations about what it believes the world should do and hence any general declaration of opposition to neo-liberalism in principle.) Apart from providing a further $2 trillion relief-cum-rescue package to follow the $2 trillion package that had been announced earlier by Donald Trump, it has planned a similar order of State expenditure over the coming few years on infrastructure projects.

Apart from the policy-position that wants an outright and universal rejection of neo-liberalism (which Biden has not yet fully endorsed), one can discern two other positions. One wants a complete return to neo-liberalism which means fiscal orthodoxy, the pursuit of a near-zero interest rate policy for promoting private investment, a dismantling of the public sector, and a squeeze on the wage-share through an attack on labour. Such a position, though shelved in the US for the present, enjoys support within the European Union.

The other position is that of the IMF which, though not theoretically then at least practically, follows a differentiated approach. While it seems to be in favour of fiscal "liberalism" for advanced countries, it insists on fiscal "orthodoxy" in the case of third world countries. For instance, in almost every case where it has provided debt-support to third world countries during the pandemic, it has made the pursuit of fiscal "austerity" a condition for such support.

The IMF's strategy is one that is in complete conformity with an imperialist perspective. Fiscal "austerity" in third world countries has the effect of keeping down aggregate demand in these countries and releasing primary commodities for the advanced countries without any threat of inflation. Since the prospect of inflation is one of the arguments advanced by finance capital against fiscal "liberalism" in the advanced countries, such a differentiated approach removes its fears and provides an apparently "ideal" solution for the metropolis, reminiscent of colonial times (though under colonialism the metropolis got its primary commodities from the colonies not just without inflation but actually free, as the commodity equivalent of the "drain" of surplus).

The UNCTAD's Trade and Development Report 2021 makes a calculation of how the world economy would look if neo-liberal policies are resumed after the pandemic. The assumptions behind the exercise are: fiscal deficits are kept below 3 per cent of GDP; labour market "deregulation"; continuing injections of liquidity by central banks; and continuing "liberalisation" of capital markets. These are the very measures that were in vogue under the neo-liberal regime before the pandemic intervened. If these measures are re-adopted, then it turns out that the growth of the world economy over the period 2023 to 2030 would be even slower than it had been over the period 2010 to 2019. While the growth of the world economy for 2010 to 2019 had been 3.13 per cent per annum, the growth rate for 2023 to 2030 under the assumed neo-liberal dispensation would be 2.54 per cent per annum. The corresponding figures for South Asia (no separate figures are given for India) are 5.89 and 3.64 per cent respectively.

Even as the GDP growth rate will come down, the growth rate of labour productivity will continue to remain high because of competition among countries under the neo-liberal regime, each open to freer flows of goods and services, to introduce labour-saving technological-cum-structural change. This means that the growth rate of employment, which is simply the GDP growth rate minus the growth rate of labour productivity, will be even lower than during the entire earlier period. With the GDP growth rate coming down sharply and the growth rate of labour productivity remaining relatively unchanged, employment growth will be much lower than before, in fact in the negative zone.

Even before neo-liberalism ran into a crisis, when the world economy had been sustained by two asset-price bubbles in the US one after another, first the dot-com bubble and then the housing bubble, the rate of growth of employment in India had fallen way below the natural rate of growth of the work-force. As a result, the working population had witnessed an increase in absolute poverty, as a growing proportion of this population did not have the purchasing power even to buy an amount of food that would give it the minimum daily calorie intake that constitutes the benchmark for poverty. All this was before the pandemic intervened which further worsened the magnitude of poverty. With the continuation of neo-liberal policies, which India unlike advanced countries never abandoned, the prospects of even a return to the pre-pandemic levels of poverty appear non-existent.

The Modi government however is hell-bent on pursuing a neo-liberal policy regime. Bereft as much of any ideas on economics as of any concern for the working people, it simply follows the dictates of international finance capital to privatise the public sector, to stick to fiscal austerity, to attack labour-rights with the aim of pushing down the share of wages, and to use monetary policy as a means of inducing monopoly capitalists to undertake investment. This is going to extract a heavy toll from the working people in the months to come.

The need of the hour instead is to build a post-pandemic growth strategy centred on an increase in public investment, and an increase in public spending on a host of essential services, above all education and health, financed by a wealth tax, or higher corporate taxes. An increase in the fiscal deficit cannot substitute such taxation but it can be an interim measure until these taxes are put in place; an increase in fiscal deficit is certainly preferable to fiscal "austerity".

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