Whom Are We Addressing?

When economists criticise a particular economic policy measure, they generally do so on the implicit assumption that the rulers *could* have acted differently. But unless their criticism is minor, this assumption is questionable. While some 'tweaking' is always possible within a given policy-frame, are rulers really free to change their economic policies drastically, i.e., change the policy-frame? And if they are not, what is the point of criticism?

Take the question of Government spending. We have written many times about the Indian rulers' refusal to step up Government spending, even when the Indian people are facing a dire crisis, and a deep depression of demand. This is indeed true of most Third World economies: their fiscal responses to the Covid-19 crisis were several times smaller (as a proportion of their GDP) than the responses mounted by advanced economies.[1]

The proponents of these policies – the international credit ratings agencies such as Moody's and Standard & Poor, the International Monetary Fund, the World Bank, etc – claim that increased Government spending would lead to a crisis. It would fuel 'excess demand', and thereby inflation; further, it would cause runaway growth of Government debt. Hence they stress that countries like India have 'limited fiscal space', they need 'fiscal consolidation' (i.e., restraint on expenditure), etc.

Critics of these policies refute these arguments. They correctly point out that there is a severe *paucity* of demand in India. That is obvious from the fact that real wages are stagnant or declining, large capacity in industry lies unutilised, and vast numbers of workers are unemployed or underemployed. The current inflation has been powered not by excess demand but by cost-push causes, such as high fuel prices, which could be reduced by cutting the exorbitant taxes on fuel. Instead of taxing fuel, resources could be raised by taxing corporations and the rich. (The Government's decision to slash corporate tax in 2019 has already cost more than Rs 4 lakh crore in lost corporate tax revenues.) As for the feared threat of Government debt ballooning, critics point out that it is in the Government's power to determine the interest rates on its borrowings, and thereby control the growth of its debt.

The arguments made by critics of the Government's policies are valid in those limited terms. But they fail to note that, for a *very different reason* from the official argument, it *is* true that a sharp increase in Government spending, or any other such deviation from the instructions of international capital and its agencies, might cause a crisis.

Arguments in favour of increased spending ignore the extent of India's integration with international capital flows, and the nature of class rule in India. India is highly dependent on international capital flows. It routinely runs a large deficit on its external current account, which means that in a normal year it spends more foreign currency than it earns. It can afford to do so because foreign lenders and investors bring foreign currency (such as dollars) into India as investment or loans. In fact, when the projected returns on foreign investment in India are attractive, they bring in much larger amounts than are needed for payment of India's external deficit. The excess inflows are held by India as foreign exchange reserves. Thus, while India is able to boast large foreign exchange reserves at the moment, they remain smaller than its foreign liabilities, and can fall rapidly in times of stress. This persisting pattern of dependence on foreign capital itself *reflects* the distorted structure of the Indian economy.[2]

The Indian big bourgeoisie too are integrated with international capital flows. They have borrowed vast sums abroad: corporate sector external debt was $489 billion at end-June 2022, which is more than 15 per cent of India's GDP. The existence of India's large foreign exchange reserves, though made up of borrowed money, reassure foreign lenders that the Indian corporate sector can make payments on loans, and enable Indian corporates to take additional loans. These large foreign inflows also enable Indian corporate giants to invest abroad, as they have done in the last two decades ($134 billion in equity to date). Top Indian firms receive very large investments from foreign firms (for example, Google and Facebook recently bought large stakes in Reliance Jio; and now the Adani group is planning to raise up to $10 billion from foreign investors in order to reduce its giant debts), or enter into joint ventures with them (e.g., Adani Wilmar or Adani Total Gas). Foreign financial investors hold large stakes in Indian corporates on the stock market. All this means that the Indian big bourgeoisie has a big stake in the continued integration of the Indian economy with such flows, and the international bourgeoisie has a big stake in the operations and flourishing of the Indian big bourgeoisie.

If the Indian government were to ignore the policy rules laid down by international capital, international agencies like the IMF would issue stern warnings about the absence of 'fiscal space', and international credit rating agencies such as Moody's and Standard and Poor would downgrade India's debt. Inflows of foreign capital might experience a 'sudden stop'; maturing foreign loans may not be 'rolled over' with new loans; the share market might crash; the rupee's exchange rate might slide, as investors and others try to take out their wealth; some firms in the financial sector might collapse suddenly; in such an uncertain economic environment, private corporate investment would grind to a halt; and so on.

Opposition to the defiance of international agencies would not be solely foreign. Indian big business itself would raise its voice in condemnation, for the reasons mentioned above. The Indian media too are dominated by corporate sector interests; Ambani, Birla, Jain and Chandra are major owners, and Adani has just made an entry. Foreign firms such as Google and Facebook dominate the digital media.[3] All the major parliamentary parties (prominent members of which control several media outlets) are in favour of the existing policy framework. The vast majority of academic economists are trained in the same framework, and are unable to envision anything beyond it. Thus a powerful chorus would protest any attempt to make a break from it.

However, the disruption described above, while severe, would not be fatal to the economy *of the people*. A share market crash would directly affect only a tiny minority of India's citizens. A stop to foreign financial inflows would relieve India of the burden of servicing these parasitic liabilities. The bloated financial sector, engaged in unproductive activities, could do with a drastic shrinking, so the collapse of a few such firms is hardly to be mourned. Trade credit might suffer temporary disruption, but eventually could be revived, especially in the present world situation, in which there may be scope for new arrangements for trade and payments. While the private corporate sector would go on an investment strike, that would only strengthen the case for releasing its stranglehold on the economy. Independence from foreign capital inflows is a prerequisite for autonomy in monetary and fiscal policies, with far-ranging significance. Thus, while the upheaval may be severe and immediately painful, it would carry large potential benefits for the majority of people, *if the economy were to move onto an alternative development course.*

In other words, if we stop up our ears against powerful chorus of foreign and domestic class interests who support the existing framework, there is scope to develop along a different path. However, given the highly organised and mobilised class base of the existing policy framework, change would be impossible unless there existed an even more organised and mobilised class base for the alternative framework. While the numbers of that latter (latent) class base are vastly greater, they are today unorganised and under the influence, to one extent or the other, of the ruling forces.

Hence any serious criticism of the existing policies ought to be addressed not to the managers of the existing set-up, but to that potential democratic base for an alternative path of development.

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[1] Yan Islam, "Macroeconomic policy responses to the Covid-19 crisis in emerging market and developing economies: Current outcomes and evolving challenges", International Labor Organization, November 2021.

[2] At times the real considerations are quite bluntly stated. For example, during the Covid-19 crisis, three former governors of the Reserve Bank of India (RBI) warned that, while advanced countries could afford to massively expand their spending at a time of crisis, countries like India "don't have that luxury": "Our macroeconomic management should not be the driver to spook investors". See statements by D. Subbarao, Urjit Patel, and Raghuram Rajan, quoted in RUPE, *Crisis and Predation: India, Covid-19 and Global Finance*, pp. 48-49.

[3] Vibodh Parthasarathi and Simran Agarwal, *Media Influence Matrix: India. Funding Journalism*, Published by CEU Center for Media, Data and Society (CMDS), Budapest, 2020.