

The End of Globalization*

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In an editorial on April 3, The Financial Times of London wrote: “Radical reforms in reversing the prevailing the policy direction of the last four decades will need to be put on the table. Governments will have to accept a more active role in the economy. They must see public services as investment rather than as liabilities and look for ways to make the labour market less insecure. Redistribution will again be on the agenda... Policies until recently considered eccentric such as basic income and wealth taxes will have to be in the mix.” One generally associates such views with Left economists from my University; but here is the most “prestigious” financial newspaper of the world articulating a similar position, which is intriguing. The reason is that the policies of the “last four decades”, which we call “neo-liberal” policies and associate with globalization, have become unsustainable.

The most significant feature of the current globalization, which constitutes its *differentia specifica* is the globalization of finance. It is not just “capital-in-production” that has become internationally mobile, shifting activities to low-wage third world countries to meet global demand, but above all “capital-as-finance”. An immense amount of finance is moving around at a dizzying pace across country borders, which had never happened before.

This has important implications. Since we live in a world of nation-States, finance becoming globalized means that the government of each nation-State must bow before the caprices of globalized finance; if it does not, then finance will leave the country en masse causing a crisis. All governments, therefore, unless they put controls on capital flows, pursue similar economic policies, viz. those demanded by finance, irrespective of which political formation they belong to. Now, if all formations follow similar economic policies, then the people are denied any meaningful choice when they exercise their franchise, which profoundly abridges democracy. But the policies demanded by finance also increase economic inequality and even make State intervention to overcome an economic crisis impossible.

These policies include keeping the fiscal deficit restricted under all circumstances, not taxing the rich, and hence stinting on government expenditure and investment. This in turn entails the privatization of essential services like education and healthcare, and a whittling down of the public sector. Since in a situation of recession, government tax revenue languishes and the fiscal deficit too is limited to a certain percentage of the Gross domestic Product, government expenditure becomes in effect “pro-cyclical” rather than “anti-cyclical”.

For countering any recessionary tendency, apart from using monetary policy (which is blunt anyway), the government tries to boost capitalists’ “animal spirits” *inter alia* through measures like labour-market “flexibility” which, by giving absolute power to employers to sack workers, reduces trade union strength and hence real wages. But this has the opposite effect of further lowering the level of economic activity, since a shift from wages to profits reduces consumption without raising investment. Under a regime of finance-led globalization therefore a government, even with the best intentions, can do little to arrest recession and unemployment.

John Maynard Keynes, who had strongly advocated State intervention to reduce mass unemployment, for fear that capitalism would not survive the socialist challenge otherwise, had anticipated what would happen if the nation-State faced globalized finance. He had therefore wanted finance to be “national”; and the international monetary system he had helped to co-found at Bretton Woods after the second world war, allowed nation-States to impose controls on capital flows so that the domain over which finance was free to move and the domain of the jurisdiction of the State could coincide. Countries accordingly imposed capital controls and retained them until about four decades ago, when under pressure from finance these controls started getting lifted in one country after another, ushering in the era of globalization.

The pro-cyclicality of government expenditure, the privatization of essential services, the tax concessions to the rich, and the growing wealth and income inequality, all of which are a fall-out of the regime of globalization, basically make the interests of the common people subservient to the caprices of finance. This contradiction between the demands of finance and the interests of the people, which characterizes the globalization phenomenon as a whole, comes to a head during the pandemic, because during a pandemic the interests of the people cannot be given the short shrift that they otherwise get. Adhering to the dictates of finance can have heart-rending consequences during a pandemic, as is evident from our own experience.

India’s drastic lockdown, more drastic than in almost every other country, was announced with four hours’ notice, and it suddenly left millions of workers with no income, no food and no roof over their heads. Their one thought was to go back to their villages where there would be some support for them. When the government did announce a relief package, it was paltry beyond belief; leaving aside old programmes repackaged, it involved fresh expenditure of only Rs.92000 crores, which is less than 0.5 per cent of the GDP. When the lockdown that was supposed to be over on April 14, was extended for another three weeks, no second relief package was announced. The working people were supposed to make do with the same paltry package for a much longer period.

Behind this niggardliness there was no doubt callousness on the part of the government; but there was also the structural constraint imposed by the regime of globalization: the government feared the consequences of not conforming to a fiscal deficit limit. It is a clear example of the conflict between the demands of finance and the interests of the people, where the consequences of acceding to the former can be inhuman for the latter.

Other countries have been much less niggardly. In Germany there has been a fiscal package amounting to 5 per cent of GDP, in Japan 20 per cent of GDP, and even in the United States about 15 per cent of GDP though it includes economic “rescue” measures. These countries being richer than India is irrelevant here, since GDP percentages are being compared. Basically, unlike India, they have not bothered about fiscal deficit constraints (the U.S. of course does not even have any deficit-constraining legislation).

It is clear that the hegemony of finance cannot be sustained against the interests of the people during the pandemic, and not even afterwards, within the framework of genuinely democratic political institutions. The two divergent paths followed by different countries represent two alternative ways of coping with this impasse. One is

to undermine democracy, follow an authoritarian trajectory and repress people, while maintaining the hegemony of finance that characterizes globalization. The other is to attempt a new regime by going beyond the confines of globalization as we have known it till now.

One is an authoritarian-fascistic path; the other seeks to revive the class equilibrium underlying the welfare state of the earlier years. BJP-ruled India alas is following the first trajectory which will only bring hardships to the people. But the second trajectory, endorsed by the Financial Times, will face the opposition of financial interests. The struggle against financial interests which are much stronger today than earlier, may carry these countries beyond the class equilibrium visualized by the Financial Times, in the direction of socialism.

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