Working Paper No. 151

THE GLOBAL SLUMP AND "RULES OF THE GAME"

K.N. Raj

Centre for Development Studies
Ulloor, Trivandrum 695011

November 1982
THE GLOBAL SLUMP AND "RULES OF THE GAME"

Whether we call it a recession, a disorder or a slump does not really matter very much; what is important, and beyond dispute now, is that it is global in its reach and has assumed serious proportions. I propose to address myself therefore to two questions: first, what does this slump signify? and second, what are therefore the "rules of the game" in international economic relations today and the implications for the policies we follow in India?

If we go by the recorded trends in growth rates, the socialist countries have been evidently affected no less than the capitalist. According to a recent United Nations estimate, the average rate of growth of output in the middle of the 1960's was nearly 7\% per cent per annum in the former (i.e. in the so-called 'centrally planned economies') and 5\% per cent per annum in the latter (i.e. in both the 'developed market economies' and the 'developing economies'). By the latter half of the 1970's these rates had fallen in both to around 4\% per cent per annum; in 1981 the increase in output was below 2\% per cent in the socialist countries, less than 1\% per cent in the advanced capitalist countries, and just over 2\% per cent in the developing countries.

The sharp decline in growth rates in socialist countries is certainly significant, and needs to be investigated and studied very

* This is the script prepared for the Sir Purshothamdas Thakurdas Memorial Lecture ("in honour of an eminent banker, statesman and patriot") to be delivered under the auspices of the Indian Institute of Bankers at Bombay on December 6, 1982. It is not to be released or quoted from before that date - K.N.Raj.
carefully. It would be however a mistake to infer, from the more or less parallel movement in the growth rates observed, that the reasons for the deceleration have been the same as those that have brought it about in the capitalist market economies. The available literature on the Soviet Union points to some of the possible reasons for deceleration such as shortage of manpower, obsolescent technology, shortfalls in agriculture, and insufficient motivation for raising labour productivity; but we do not still know enough to be able to offer any firm hypotheses with adequate empirical foundation.

The economic response to such deceleration in growth rates could also be very different in socialist countries. For instance, while standards of consumption may be allowed to suffer, it is highly unlikely that either the levels of employment or rates of investment are cut down. In an effort to raise growth rates, the rates of investment may even be raised and imports increased to the extent necessary to sustain them. What repercussions all these will have on countries like ours is therefore by no means clear.

For these reasons I shall leave out of account the slow-down in the socialist countries and confine the rest of my observations largely to the slump in the capitalist world. Here we are on more familiar territory, though the characteristics of this slump are in some important respects very different from those associated with slumps earlier.

A broad historical interpretation of the slump in capitalist countries is that it marks the end of a period of unprecedented growth in productivity made possible by a special set of circumstances following
the Second World War. Essentially this was a period during which the technological and organisational advances made earlier in the United States, and the patterns of consumption so fostered, got transmitted to and widely spread in about 10 to 15 countries.

These countries, mostly in Western Europe but including also others such as Japan and Australia, were already developed industrially and had most of the prerequisites for achieving high levels of productivity; but their further progress had been retarded by the two World Wars and the political and economic upheavals in between. After 1945 they were brought together in a variety of political, economic and military arrangements under the leadership of the United States, and this provided the framework in which rapid gains could be made, spurred forward by high rates of investment and phenomenal growth in inter-country trading opportunities. The high tide of this great post-War boom was in the first half of the 1960's.

We have some broad dimensional estimates of the productivity gains achieved by these countries in this way in the course of two decades. In 1950 the average output per worker in ten of them (including Japan), valued at the relative prices prevailing in the United States, was only about half as much as in that country. In the following period productivity rose as fast as ever in the United States, but the rate of increase was so much faster in these countries that by 1970 their mean output per worker was 70 per cent as high. Actually in some of them, such as in France, West Germany and Japan, where extensive technological upgrading and modernization were undertaken along with the rebuilding of industry after the War, the differences in productivity were narrowed
even more. On the other hand, the gap was evidently narrowed very much less in the case of Britain, which did not raise its rate of investment to the extent required and lived joyfully through the good times of the boom, only to find itself handicapped with an increasingly obsolescent industrial structure.

But this is only the beginning of the story. We are interested in what brought this great post-war boom to an end, and above all with the reasons for the inflation that set in soon afterwards, the continuing stagnation and decline in economic activity, and the apparent inability of the leading countries in the capitalist world to act in concert and reverse these trends.

Many explanations have of course been put forward. Some of them blame the trade unions in these countries for hiking up wages unreasonably and the monetary and fiscal authorities for following policies that made it possible for prices and wages to rise cumulatively. Among them, the 'monetarists' believe that the original sin was in letting the stock of primary money supply increase at a faster rate than output, and that everything will be all right once control is achieved over this crucial variable. Some hold the OPEC countries responsible for unleashing waves of price and cost increases through sharp and successive hikes in the price of oil. Some others take the view that, below all these phenomena on the surface, are the uncontrolled activities of oligopolistic enterprises (including multi-nationals) seeking higher profit margins regardless of what happens to prices, output or employment.
A simple interpretation of all this could be of course that they reflect the magnitude and complexity of the crisis now afflicting the capitalist world. And no doubt such an observation is not unwarranted. However it would be an explanation of only the current differences in perception, and of the confusions and uncertainties surrounding them, not of the underlying trends in the capitalist economies which have given rise to these phenomena. And certainly it offers no clue to what the future holds and what its possible implications are.

Only fools rush in where angels fear to tread, so the saying goes. One has to be therefore very circumspect in offering any alternative explanation. Certainly we are too near the events to be able to comprehend them fully and understand their meaning and significance in proper historical perspective. At the same time it is essential to have some kind of a working hypothesis, consistent with whatever we know; and it is therefore in this spirit, with all the due qualifications and reservations, that I shall present such a hypothesis here.

This hypothesis is simply that, for a variety of reasons, there has developed a basic incompatibility in the United States, the leading country in the capitalist world, between the policies it needs to follow for maintaining and improving its competitive position as an industrial power and the policies it finds compelled to follow for strengthening its financial hegemony and its investment activities abroad. It rests essentially on the following propositions for which considerable empirical evidence is available:
However, not only has there been no consensus of opinion among professional economists on these different diagnoses of the malaise but even practical men of affairs, who are credited with greater intuitive understanding, have failed to show much coherence and consistency in their pronouncements. This has been the case particularly in the United States in recent years. What is one to make, for instance, of President Reagan coming out this year with the largest budget deficit in the history of the United States after proclaiming that the total elimination of such deficits was the centrepiece of his anti-inflationary programme? Or how is one to interpret the oracular observations of Chairman Volcker of the Federal Reserve on money supply and interest rates in the United States?

There are several other mystifying features in the global scene today which seem to defy any logically consistent explanation. For instance, why has the exchange value of the dollar remained so high in the last two years when the United States has had large deficits in its commodities external trade and the probability of a downward drift in its value has been not inconsiderable? If this was an account of the very high interest rates maintained in the United States during this period, stimulating large inflows of capital from abroad, why did not its value drop when these interest rates were recently allowed to fall quite sharply? What can explain the considerable decline in the value of the yen precisely at this point, even though Japan has been piling up an enormous trade surplus? And what meaning is one to see in the political crisis in Japan over apparently nothing more than the continuing deficit in the government budget (absorbing hardly one-sixth of the country's gross saving, which itself is as high as one-third of its gross national product)?
(i) the industrial dynamism of the United States, hitherto resting heavily on steel and cheap sources of energy, has been seriously undermined by both the obsolescence of the earlier steel technology* and by the more recent rise in energy costs;

(ii) in the absence of a compensating technological break-through, not only has industrial productivity ceased to grow at the same rate as before, but the trend of rising wages, set moving in the period of rapidly increasing productivity, has raised unit labour costs and cut quite significantly into the relative share of profits in U.S. industry;

(iii) since the newer industrial structures of countries like Japan have incorporated the more efficient steel technology,+ and are moreover better designed to save energy and other input costs, American industry has also suffered serious setbacks in its competitive strength, and has been therefore unable to maintain its position without the support of extraneous measures such as devaluation of the dollar and various forms of preference and protection;

(iv) at the same time, the decline in the profitability of industry within the United States, together with the prospect of earning higher returns abroad opened up by American multi-nationals, have stimulated a considerable outflow of capital, particularly after

* In popular literature, Peter Drucker was perhaps the first to point out very clearly towards the end of the 1960's that the steel-making processes embodied in the existing industry had become grossly uneconomical. Nothing was more expensive, he observed, than creating high temperatures, and yet these processes involved such creation of high temperatures three times over, only to quench them immediately thereafter (which was just as expensive as heating). No less expensive in terms of cost and effort was moving of heavy weights, and yet in steel-making hot melted steel in highly corrosive form had to be moved again and again over long distances. To regain its growth dynamics, he added, the cost of steel would have to be lowered by at least one-third, and such a technological revolution in steel making had only just begun. Cf. Peter Drucker, The Age of Discontinuity (1968).

+ Since Japan began the phenomenal expansion of its steel industry rather late, it has been able to adopt the new oxygen process (a major step, as Peter Drucker pointed out, towards converting steel-making from a mechanical to a chemical industry) as well as the new technique of 'continuous casting' ("which eliminates wastes of temperature and substitutes gravity flow of raw steel to and through the finishing equipment for the expensive and dangerous lifting, hauling, and moving of individual batches"). Moreover the new gigantic steel plants of Japan are located near deep-water ports where iron ore can be transported to and unloaded at relatively low cost.
the middle of the 1960's; and this process has been enormously helped by the unquestioned position of the dollar as reserve currency after the liquidation of the Bretton Woods regime in 1971, the rapid growth of the Euro-currency markets in the following years, and above all by the ability of the United States with its political, military and financial power to attract and recycle through American banks a very high proportion of the dollars paid out to OPEC countries;

(v) consequently, while gross corporate profits from domestic manufacture in the United States amounted to less than $75 billion in 1980 (just about 5 per cent of its gross national product), the gross profits of financial companies (excluding Federal Reserve Banks) were nearly $19 billion and the corporate profits earned abroad amounted to over $31 billion; the last two added up therefore to as much as two-thirds of the first in 1980 (while they amounted to only one-fifth in 1950 and about one-quarter even as late as 1965), reflecting the considerable growth in importance of financial and external business interests relative to that of manufacturing interests within the country during the last decade and a half; and lastly,

(vi) in the light of these developments, there has evidently emerged in the United States a fairly sharp conflict of interests between those who are primarily concerned with manufacturing within the country, for whom a much depreciated dollar and lower interest rates would help greatly to improve their competitive position and promote the urgently required increases in investment, and those whose concerns are primarily linked with the supremacy of the dollar in the financial markets of the world for which it is highly desirable that it retains a high and stable external value.

This interpretation of recent developments in the United States over the last decade may appear rather esoteric and strange; but they are basically not very different in character and direction from the developments in Britain a century ago when the innovations which had propelled its industrial revolution got exhausted. The already low rate of net investment within the British economy at that
timo (no higher than 5 per cent of its national income in the last quarter of the 19th century) dipped still further, while savings began to flow abroad in growing dimensions till the rate of foreign investment rose to nearly 8\% per cent of the national income in the years immediately preceding the First World War.

It was against this background that the Bank of England, with its close association with the financial interests in the City of London, was inclined to keep changing its Bank Rate in quick response to gold movements without much concern for the consequences on the domestic economy. It was also on account of this earlier tradition, and external orientation, that Britain was so anxious to restore the old par. value of the pound sterling in terms of gold after the First World War, despite all the serious deflationary consequences in the 1920's Keynes had warned against.

There are of course some important differences between the situation then and now, and these differences are perhaps crucial for understanding the complexities and confusions that are so obvious now. The United States commands in the first place a much wider range of natural and scientific resources than Britain ever had, and therefore, even though the problems it faces in rebuilding afresh the earlier industries like steel appear to be formidable, the prospects of a new generation of industries emerging, based on new technology and new sources of energy, and providing large and highly profitable investment outlets within the economy are very much greater. It still retains leadership in several industries such as in the chemical, machine-manufacturing, electronic and aero-space industries.
For these reasons, the possibility of investment in domestic manufacturing industry declining in the United States and a high proportion of savings seeking foreign investment is rather remote. The role of American foreign investment, through its multi-nationals, will be essentially to provide a complementary and supporting role to the manufacturing industries within (though, in the case of some of the industries that are not being restructured, renovated or otherwise revived, there could well be conflicts of interest).

On the other hand, with the dethronement of gold from the international monetary system, and the considerable economic, military and financial power of the United States, the prospects of its gaining command over the entire world economy through the dominance of the dollar are now greater than they ever were for Britain. In fact, in the case of Britain, it was so rigidly tied to the gold standard, and the system was operated with such small gold reserves of its own (no more than about £ 12 million in the last quarter of the 19th century), that it enjoyed very little flexibility. The so-called "rules of the game" of the international gold standard trapped the dominant power at that time almost as much as those who were being dominated; Britain realized it much too late, in 1931, by when its position as an industrial power had been so totally eroded that it was not able to regain its supremacy.

The United States has learnt this lesson quite well and, when President Nixon became a convert to Keynesianism and completely de-linked the dollar from gold in 1971, what he was declaring in effect was its determination to make its own rules and change them as and when it suited
its national interests. Gold was dothroned and in its place was enthroned the dollar which by then, rather like President Nixon himself, had developed ambitious imperial interests. It is not perhaps an accident that this was the year when he also called on Chairman Mao and started forging a new political alliance that was to have far-reaching consequences on the balance of power in the world.

All this gave the United States a high degree of manoeuvrability in economic and political affairs. It is not therefore surprising that after agreeing in the late 1960's to the creation of SDFs (as a major reserve asset that countries could hold alternatively to the dollar) — this was perhaps only a tactical concession, in response to the strong French advocacy of an international monetary system based on gold — the United States has since then shown no great enthusiasm for building up an alternative international monetary regime based largely on SDFs. The International Monetary Fund could become a serious embarrassment if given an opportunity to turn the tables and enforce "conditionalities" on the United States; so it was better to keep it in an essentially subservient positions, only enforcing the changing rules of the game as required by the United States.

The United States used its improved manoeuvrability, gained by the dethronement of gold, first to devalue the dollar a little and then to launch such a free float of its external value that within two years it was further devalued by nearly 40 per cent in relation to the deutsche mark. This improved the competitiveness of American manufacturing industry so considerably that, along with the other measures
taken at that time (such as increased government spending), there was a phenomenal increase both in the exports from the United States and in the quantum of corporate profits earned from manufacturing.

Thus, the value of American merchandise exports, which never exceeded 4 per cent of its gross national product all through the 1960's, rose steadily from 1972 and touched nearly 8 per cent of the gross national product by the end of the 1970's. Corporate profits from manufacturing, which had fluctuated around $40 billion per annum between 1965 and 1974, rose sharply thereafter to nearly $90 billion by 1979. The consequent upswing in the American economy increased also its imports and thereby helped to revive economic activity the world over in the second half of the 1970's.

The contribution that the devaluation of the dollar made to the sharp inflationary pressures that developed during this period has not been however sufficiently highlighted in the literature on this subject (except in the writings of Professor Robert Triffin). Since external payments on both current and capital account could be freely made in dollar (with all controls on outflow of capital removed early in 1974), and such dollar outflows became the basis of the phenomenal growth in euro-currency markets over which no control could be exercised by anyone, they have been a major factor stimulating and supporting waves of speculation in the commodity markets all over the world. To the extent they also increased the foreign exchange reserves of other countries there have been secondary effects of enormous dimensions accelerating the upward movement of prices.
In fact, it is the very large rise in prices so induced all along the line that neutralized a substantial part of the gains of the OPEC countries from the first hike in oil price and provoked them to go in for another sharp hike in price in 1979. It needs to be mentioned here that since imports of oil by other countries were almost universally invoiced in dollars, and the dollar prices were raised as the dollar got depreciated, the devaluation of the dollar brought really no relief to the oil-importing countries. In due course this method of pricing was adopted by exporters of many other commodities. The belief that a system of floating exchange rates would insulate countries with appreciating currencies from the impact of inflation elsewhere has therefore been disproved in practice to a very considerable degree.

Similarly, for the same reasons, it is not true that it is the unreasonable wage demands of labour that have been the main force behind the inflationary movement in prices either within the United States or elsewhere. In general even the organised labour in the advanced capitalist countries have sought no more than rise in wages to compensate for rise in consumer prices, and still not quite succeeded in maintaining their real wages. What has basically created the problem is that productivity has ceased to grow in a wide range of industries; and under such conditions wage increases (whatever the underlying reasons) do tend to affect profits adversely even after part of the increases in cost are passed on through rise in product prices. Naturally, in countries like Germany and Japan, where there have been continuing productivity increases, these problems have been very much under control.
It is the cumulative inflationary movement caused by all those factors within the United States and outside, and above all the doubts that began to develop the world over about the stability and reliability of the dollar as a reserve asset (as its external value continued to drift downwards), that caused a sharp reversal of policies in the United States around 1980. It was all right to let the external value of the dollar drop as long as it helped to improve the competitive position of American manufacturing industry at practically no cost to the United States. But when the external value of the dollar slid so low as it had by the end of the 1970's (reflected, for instance, in the deutsche mark-dollar exchange rate falling to 1.8 in 1979 from its earlier level of 3.5 in 1971), and moreover the price of gold suddenly shot up to over $800 per ounce (reflecting the apparently growing preference of holders of financial assets for gold), the signals were clear and unmistakeable. Unless something very drastic was done to restore confidence in its stability and integrity, there was a real danger of the dollar getting dethroned in favour of either gold, the monarch dethroned earlier still waiting in the wings (like some other dethroned monarchs), or a democratic and republican candidate in the form of SDRs within a full-blooded and truly international monetary system. This was obviously too terrible a prospect for any patriotic American to view with equanimity, particularly since it would have struck a body blow to the financial and political power wielded by the United States.

The only way of preventing such a catastrophe was to make it clear by any means whatsoever that the dollar was at least as stable as,
if not more than, any other financial asset including gold. This required getting price rises within the United States under control, regardless of the impact that the measures taken for the purpose might have on either manufacturing industry or employment within the country. Naturally, at this stage, the 'monetarist' prescriptions had great appeal, for what could be a more obvious solution than the traditional one of raising interest rates sharply as the Bank of England would have done if it had been forced into a similar predicament in the late 19th century? Somehow the very simplicity of 'monetarism' makes it politically very saleable, despite its totally fallacious premises.

* Henry Kaufman, who is supposed to be the Guru of the New York Stock Exchange, was content to go along with monetarism till he discovered recently a conceptual problem and made the following observations: "Perhaps the most significant conceptual problem with 'monetarism' is the continuously changing nature of what we regard as money. Financial innovation, which is primarily responsible for these changes has been encouraged by the monetarist approach. That is, monetarism has raised the opportunity costs of remaining within the confines of regulation. Money, moreover, is always redefined by the Federal Reserve well after any financial innovation has occurred. The central bank, consequently, is always playing catch-up. Since November 1978, the definition of money has been altered four times, and the original concept expanded by $90 billion. Nevertheless, this constantly redefined entity continues to be a declining fraction of nominal GNP". Cf. "Danger: Too Much Turbulence", Challenge, May-June 1982. This little bit of economic wisdom was in fact known to Henry Thornton, who was closely associated with the City of London nearly two centuries ago. As an active participant in the monetary controversies of that time he had explained this very clearly in a famous treatise published in 1802: ".....if bank paper were abolished, a substitute for it would be likely to be found, to a certain degree, in bills of exchange .....if bills and bank notes were extinguished, other substitutes than gold would unquestionably be found... Banks would be instituted, not of the description which now exist, but of the kind and number which would serve best to spare both the trouble of gold, and the expense incurred by the loss of interest upon the quantity of it in possession..... Credit would still exist; credit in books, credit depending on the testimony of witnesses, or the mere verbal promise of parties". Cf. An Enquiry into the Nature and Effects of the Paper Credit of Great Britain. Unfortunately, when reason is replaced by faith cures, such lessons have to be learnt over and over again at the expense of millions of innocent people.
With the sharp upward adjustment of interest rates in the United States the movement of funds away from the dollar did get reversed, and not only was there a quick drop in gold prices but the external value of the dollar rose perceptibly (with the deutsche mark-dollar rate going up to nearly 2.3 by the end of 1981). Since high interest rates checked speculative holdings of commodities the inflationary movement of prices was also checked to some extent. However, at the same time, high interest rates had the effect of precipitating the collapse of business enterprises all over and deterring the required investment in manufacturing industry; moreover, the rise in the external value of the dollar adversely affected the competitive position of many traditional American industries.

If, therefore, high interest rates and a much appreciated value of the dollar become a more lasting feature of U.S. economic policy it could lead to a process of "de-industrialization" in the United States over a period, much as in Britain where this process has resulted in widespread closure of industrial enterprises and drastic reduction in industrial employment from nearly 12 million in 1966 to well below 8 million by the middle of 1981. Of course, well before such a development, the powerful interests that are hurt by the policy may well bring about its reversal, in the United States.

There is much more that can be said and developed on this theme, but I shall refrain from doing so for lack of time. All I need to add are a few observations about the future of the apparently contradictory, policies that are being followed by the United States, since that is what matters most to us at present.
In the first place, it would be clearly rather naive to take literally the policy pronouncements of President Reagan or assume that, when he seeks to raise defence outlay and cut taxes while talking of doing away with big government and budget deficits, he does so out of ignorance or stupidity. He must know that, when total government expenditure is as high as one-third of the gross national product of the United States, it is not going to be easy doing any of these things. He must also know that such spending is now essential to keep alive a large part of American industry (which is vital for continuing political support in the country) and build up some of the new generation of industries with the R & D and other funds provided through the defence budget (since they are vital for the future). All he is attempting to do therefore is probably to reassure some of the concerned sections of American big business, in language they understand, that they need not worry; this may seem contradictory to others, but it has its own internal political logic.

Similar considerations are perhaps also valid in the case of the pronouncements of Chairman Volcker of the Federal Reserve. If high interest rates in the United States are striking at the root of American financial interests (as they were beginning to recently in Mexico) they will of course be brought down, irrespective of what it costs and what rules and conventions have to be changed. But please do not let us say that too loud, in case others think that inflation will soon be out of control in the United States and the confidence in the future of the dollar is thereby shaken.
This confidence is a very fragile thing that depends largely on what the big business and financial interests in the world think of it and does not always have necessarily any other objective or rational basis to it. This is so particularly because they in turn depend for their guidance on all kinds of barometers in highly sensitive and essentially speculative markets (including the stock exchanges); and here New York is particularly notorious for its propensities. As Keynes pointed out long ago, "even outside the field of finance, Americans are apt to be unduly interested in discovering what average opinion believes average opinion to be; and this national weakness finds its nemesis in the stock market....Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation". Unfortunately for the United States, from time to time Keynes like Marx turns out to have been perfectly right.

What I am trying to suggest therefore is that the political and economic leadership in the United States is now walking on a tightrope trying to reconcile powerful conflicting interests within the country and outside; that in spite of the doctrinaire cloak they wear they are perhaps, like the leadership now in socialist countries, essentially pragmatic in outlook; that they understand very well that the confidence in the dollar is essentially a matter of providing the right psychological and political appeal to those with large financial interests; and that they will change the rules of the game or bend any rule (as they have done many times over and now again in the aftermath of the Mexican crisis) in support of their national and international objectives.
At the same time, the game that is being played is a very risky one. It is not only that in the present maze of international finance, based on an enormous and over-bloated structure of debts, something untoward can always happen. That may appear now to be the most serious threat, but the United States has perhaps enough resources at its command to be able to scrape through such crisis. A much more serious cause for alarm is that the game includes also playing with armaments of all kinds, setting people against each other, and profiting from that too. Armaments are indeed the biggest business now.

We know at our own cost the implications of this game in South Asia, and we continue to pay a high price for it. The pressures now being applied on Japan to devote a larger proportion of its resources for armaments and defence, and not to protect its farm products so heavily (so that Japan becomes very much more dependant on imports from the United States), are also part of this game; and this is no doubt a major factor in the emerging political re-alignments in Japan. In fact, since the stakes of the game are very high, there could even be strong temptation to start an open global conflict in which the United States and the dollar can be symbolized as the defenders of "democracy" and "freedom".

There are of course sufficient conflicts of interest between the United States and even its closest partners for them to see through this game and frustrate its realization to the extent that it suits them. The manner in which countries of Western Europe have defied the United States in the matter of their agreement with the Soviet Union on natural gas on pipelines is ample evidence of such in-built correctives within...
the existing frame of international political relations. Japan could also prove to be a tougher nut to crack than some in the United States now imagine, particularly if at an opportune time the Soviet Union were to make some political and economic moves attractive to Japan (which it is in fact well placed to do).

Above all, the moves the Soviet Union and China have made recently to come closer together are full of possibilities for the future. It is in fact not impossible to visualize ways of reconciling conflicts of political and economic interests within East Asia that could become increasingly acceptable to the Soviet Union, China and Japan in the face of some of the policies now being followed by the United States. This has the potential also for removing the sharper edges in some of the conflicts that have been plaguing both South-East Asia and South Asia.

On the present outlook, the factors underlying the global slump seem unlikely to fade away in the near future. The conflicts of interest between the older industrial structures of United States and Britain and of the newer and more efficient structures of France, Germany and Japan can get resolved only over a fairly long period of time, particularly since most of them do not believe in the kind of planned investment programmes that could have otherwise helped to accelerate the process. Within the framework of relations in which they are now operating, no one of them except the United States to some extent enjoys the flexibility essential for following independent policies. President Mitterand is now discovering this at his cost. Since major changes in policy require much more agreement between them than their interests now
permit, the process of fundamental restructuring of the kind required
to revive their economies in a sustained manner is likely to take a
fairly long period, with many ups and downs, lasting at least a decade
but more probably the rest of this century.

The internal conflicts of interests within the United States,
though perhaps easier to be resolved because there are very strong
commonality of interests as well (as reflected in the traditional
notion of 'finance-capitalist'), may also take time to get sorted
out. In any case this depends on various political processes that
would be affected considerably by what happens meanwhile both in the
United States and in the rest of the world.

It is certainly in the interests of the rest of the world,
including us in India, to see that these various conflicts of interest
in the United States and outside find some kind of resolution that
would effectively stop the drift to war in the various continents now
in evidence, and create over a period of time a new international
framework in which all countries, particularly those belonging to the
Third World, can develop rapidly without being suffocated and suppressed.
It is towards this end that every effort has to be made now.

The New International Economic Order, which the countries of the
Third World have been trying to promote over the last decade (with little
success), is too romantic in its conception to be realizable in the
near future. It is at best a slogan for mobilizing political opinion
at the global level. There are however other possibilities, based on
self-interest
more realistic recognition of the elements of power and ideology in the
world at its present stage of development. Some hints of these possibilities have been already given, but they need to be carefully thought out in more concrete detail and above all made into an acceptable political and economic agenda for a large number of countries, including not only those in the Third World who are able to stand up to the United States but also Soviet Union, China and other socialist countries, and hopefully also some countries in Western Europe such as France, Sweden, Norway, and Italy. (West Germany and Japan are perhaps still too closely tied up with the United States to contemplate a serious break with it at this stage; however Canada may well be more responsive).

Perhaps a first step in this direction could be mobilization of political support in favour of a new Organisation of Non-Aligned and Allied Countries (on the lines of the earlier Organisation for Economic Cooperation and Development set up in Europe after the Second World War). India can play a major role in such a cooperative endeavour; and this could give a new and very relevant economic dimension to our traditional policy of non-alignment.

The fact that we are now getting heavily indebted to the International Monetary Fund (which has taken the place of the Bank of England in the old British Empire) need not really matter all that much, provided we know how to play the game according to our interests and, to the extent possible, get the rules changed through collective action. However that way does not lie in splendid waste of resources on the Asiad or in being taken in by the promise of the wonders of modern
technology and marketing that multi-rationals can bring (whether in the form of television sets and low-cost baby cars or through the large foreign markets they will open up for us.). These are the kind of games that the present rulers of the United States would love to see us get lost in, and they can only lead to our ruin as heavy debtors pulled by our nose.

To avoid this, we shall have to have a close look at some of our policies to cut out all the frills and frivolities (not to mention the political and economic corruptions) through which a high proportion of our scarce resources is now being frittered away; and concentrate very much more on self-reliant development based mainly on our own capabilities in science, technology and organisation. In other words, we need to have a more mature understanding of our weaknesses and strength. The choice is there for us to make and act upon if we have the political understanding and foresight to do so.

December 11, 1982.

K.N. Raj
Centre for Development Studies
Trivandrum.
This work is licensed under a Creative Commons Attribution – NonCommercial - NoDerivs 3.0 Licence.

To view a copy of the licence please see: http://creativecommons.org/licenses/by-nc-nd/3.0/