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## *Global Economy in Crisis*

It is widely recognized, even within the international economic policy establishment, that the economic crisis which engulfed the global economy since mid-2008 is the biggest since the Great Depression of the 1930s. It has been over two years now that the crisis unfolded with the bursting of the real estate bubble in the United States, leading to widespread mortgage defaults and collapse of financial giants like the Lehman Brothers. Since then, the financial crisis developed into a deep recession in the US, eventually affecting the entire world economy by the end of 2008. In 2009, world output experienced a contraction, with GDP in the advanced capitalist countries taken together falling by over 3%.<sup>1</sup> This was the first annual decline in world output in more than fifty years, leading to its official characterisation as the ‘Great Recession’. World trade fell by over 10% in 2009 from the previous year, which was the sharpest annual fall since 1970.

CRISIS CONTINUES

In the first half of 2010, however, the IMF and the World Bank

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announced that the ‘Great Recession’ was over and the world economy was on the path of a ‘recovery’. The IMF’s *World Economic Outlook* published in April 2010 said: “The global recovery has evolved better than expected.” The IMF forecast was also upbeat:

Global growth is projected at about 4¼ percent in 2010 and 2011...Advanced economies are now expected to expand by 2¼ percent in 2010, following a more than 3 percent decline in output in 2009, and by 2½ percent in 2011. Growth in emerging and developing economies is expected to be over 6¼ percent during 2010-11, following a modest 2½ percent in 2009.

The World Bank’s *Global Economic Prospects* released in June 2010 noted that “the recovery is transitioning toward a more mature phase during which the influence of rebound factors (such as fiscal stimulus) fades, and GDP gains will increasingly depend on private investment and consumption.” Its projections were, however, less optimistic than that of the IMF.

The World Bank projects global GDP to expand between 2.9 and 3.3 percent in 2010 and 2011, strengthening to between 3.2 and 3.5 percent in 2012, reversing the 2.1 percent decline in 2009. Developing economies are expected to grow between 5.7 and 6.2 percent each year from 2010-2012. High-income countries, however, are projected to grow by between 2.1 and 2.3 percent in 2010 – not enough to undo the 3.3 percent contraction in 2009 – followed by between 1.9 and 2.4 percent growth in 2011.

The latest *World Economic Outlook* released by the IMF in October 2010, has turned cautious. It talks about “economic recovery...proceeding broadly as expected, although downside risks remain elevated.” The reason behind the ‘elevated’ downside risk becomes clearer in the IMF’s latest forecast:

...global activity is forecast to expand by 4.8 percent in 2010 and 4.2 percent in 2011, *with a temporary slowdown during the second half of 2010 and the first half of 2011*. Output of emerging and developing economies is projected to expand at rates of 7.1 percent and 6.4 percent in 2010 and 2011, respectively. In advanced economies, however, growth is projected to be only 2.7 percent and 2.2 percent, respectively. (emphasis added)

The signs of slowdown have already become visible in the

GDP Growth Estimates & Projections: IMF and World Bank

IMF World Economic Outlook, October 2010											
World Output				Advanced Economies				Emerging and Developing Economies			
2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
2.8	-0.6	4.8	4.2	0.2	-3.2	2.7	2.2	6.0	2.5	7.1	6.4

  

World Bank Global Economic Prospects, June 2010											
World Output				High Income Countries				Developing Countries			
2008	2009	2010	2011	2008	2009	2010	2011	2008	2009	2010	2011
1.7	-2.1	3.3	3.3	0.4	-3.3	2.3	2.4	5.7	1.7	6.2	6.0

Note: Figures for 2008 and 2009 are estimates, while that for 2010 and 2011 are forecasts

advanced capitalist economies. An assessment made by the OECD in September 2010 states:<sup>2</sup>

Recent high-frequency indicators point to a slowdown in the pace of recovery of the world economy that is somewhat more pronounced than previously anticipated...growth could slow in the G7 economies to an annualised rate of about 1½ per cent in the second half of the year...It is not yet clear whether the loss of momentum in the recovery is temporary...

In reality, economic forecasts by the international economic policy establishment in the recent years, particularly those by the IMF, have turned out to be entirely bogus. For instance, the IMF forecast of world GDP growth for 2008 was 4.8% in October 2007, 3.7% in April 2008 and 3.9% in October 2008. It actually turned out to be 2.8% as per IMF's own estimates, and 1.7% as per the estimate of the World Bank. Similarly, the IMF forecasted 3.7% world GDP growth for 2009 in April 2008 and 3% in October 2008. World GDP growth actually turned out to be negative in 2009, - 0.6% by IMF's estimate and - 2.1% by World Bank's estimate.

The reason why the IMF has been behind the curve as far as its growth forecasts are concerned is not difficult to understand. Blind ideological commitment to neoliberal orthodoxy coupled with pressures from vested interests, which seek to preserve the status quo, have overwhelmed its apparatus. Providing over-optimistic growth forecasts serve the important purposes of generating the 'feel good' factor in financial markets on the one hand and jettisoning any attempt to question or change the dominant policy paradigm on the other.

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This has, however, considerably eroded the credibility of these growth forecasts.

The divergence between the GDP estimates and forecasts of the IMF and the World Bank is also telling. It is noteworthy that this divergence is not so much for the advanced economies. That is because data collection and estimation methodologies in the advanced capitalist countries are fairly robust, which does not provide room for much manipulation.

For most developing countries, however, data collection and estimation are not carried out as rigorously, on account of both institutional weaknesses as well as resource constraints. As a result, there is a pronounced bias towards overestimating GDP growth in developing countries, especially since such growth is viewed as an exclusive indicator of economic success in the neoliberal era. Many of the optimistic growth forecasts for the global economy are therefore based on this overestimated GDP growth in developing countries. The IMF is clearly overestimating the GDP growth in the developing countries compared to the World Bank, which also accounts for its overestimation of world output growth as a whole.

In this backdrop, the 'temporary' slowdown currently being projected by the IMF for the second half of 2010 and first half of 2011 is nothing but an admission of the fact that the global economic crisis is far from over. The myth of 'recovery' has been blown. The fact that this slowdown in 2010/2011 is being projected primarily for the advanced economies, on top of the deep recession of 2009, further testifies for the depth of the crisis in the advanced capitalist world.

### IMPACT OF THE CONTINUING CRISIS

The burden of this severe crisis has mostly fallen on the workers and the poor, both in the advanced capitalist countries as well as the developing countries. The average unemployment rate in the 33 advanced economies of the OECD rose from 6% in 2008 to 8.3% in 2009 and stood at 8.5% in August 2010.<sup>3</sup> OECD's *Employment Outlook 2010* released in July 2010 reports 47 million people to be officially unemployed in OECD countries, with 17 million more people out of work from the beginning of the crisis in 2007. It further states that taking into account those who have given up looking for work or are

working part-time but want to work full-time, the actual number of unemployed and under-employed in OECD countries could be about 80 million.

Unemployment rates in the US and Europe touched 10% in 2009 and has continued to remain at those high levels in 2010. The US Bureau of Labour Statistics reports 14.8 million unemployed persons in the US in September 2010, with the unemployment rate remaining at 9.6%. Unemployment rate in the 16 countries of the Eurozone was 10.1% in August 2010, with 15.8 million persons being unemployed. Unemployment rate has climbed above 10% in several European countries like France, Portugal, Hungary, Ireland and Slovak Republic in 2010 and has crossed 20% in Spain. Such high levels of unemployment currently being witnessed in the advanced capitalist countries are unprecedented in the post-war period. The ILO's *World of Work Report 2010* paints a grim picture of the global unemployment scenario:

...new clouds have emerged on the employment horizon and the prospects have worsened significantly...In many other countries in which employment growth was positive at the end of 2009, more recent trends suggest a weakening of the job recovery or even a "double dip". The longer the labour market recession, the greater the difficulties for jobseekers to obtain new employment...In the 35 countries for which data exist, nearly 40 per cent of jobseekers have been without work for more than one year and therefore run significant risks of demoralisation, loss of self-esteem and mental health problems. Importantly, young people are disproportionately hit by unemployment and, when they find a job, it often tends to be precarious and does not match their skills. Because the labour market has been depressed for so long, many unemployed people are getting discouraged and leave the labour market altogether. Already, close to 4 million jobseekers had stopped looking for work by the end of 2009 in the countries for which information is available.

This assessment suggests that the actual level of unemployment prevailing in the world today is much higher than what official estimates show. The global economic crisis has also increased poverty across the developing world. The *Millennium Development Goals Report 2010* released by the UN in September 2010 notes:

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Newly updated estimates from the World Bank suggest that the crisis will leave an additional 50 million people in extreme poverty in 2009 and some 64 million by the end of 2010 relative to a no-crisis scenario, principally in sub-Saharan Africa and Eastern and South-Eastern Asia. Moreover, the effects of the crisis are likely to persist: poverty rates will be slightly higher in 2015 and even beyond, to 2020, than they would have been had the world economy grown steadily at its pre-crisis pace.

This increase in poverty rates is indeed alarming, because the World Bank poverty estimates grossly underestimate actual poverty. The MDG targets, based on these poverty estimates are equally absurd. For instance, the UN claims that the MDG target would be met even as the absolute number of people living in extreme poverty (i.e. below \$1.25 a day) is projected to be 920 million in 2015. It now appears that even this abysmally low and virtually meaningless MDG target of poverty reduction would also not be met, because of the continuing crisis.

### WHY DOES THE CRISIS CONTINUE?

Following the severe recession in 2009, governments and central banks across the world initially adopted coordinated fiscal and monetary measures. These mainly comprised of cutting interest rates to near zero levels, bailing out failing banks and financial institutions and substantially enhancing public spending. Realizing that the major capitalist economies (G 7) were incapable of meeting the crisis alone, some developing countries were also included in the efforts to rescue the global economy in the form of the G 20.<sup>4</sup> As per IMF estimates, the fiscal stimulus measures (increased public spending and tax cuts) adopted by the G 20 governments taken together amounted to \$820 billion in 2009, equivalent to 2% of the combined GDP of the G 20 countries. China, South Korea, Japan, Russia and Saudi Arabia adopted the most extensive stimulus programmes among the G 20 countries in 2009, amounting to over 3% of their GDPs.

The fiscal stimulus measures had some impact in reviving output growth by the beginning of 2010. The G 20 summit held in end-June 2010 at Toronto saw world leaders patting on each others' back:<sup>5</sup>

Our efforts to date have borne good results. Unprecedented and globally

coordinated fiscal and monetary stimulus is playing a major role in helping to restore private demand and lending... Strengthening the recovery is key. To sustain recovery, we need to follow through on delivering existing stimulus plans, while working to create the conditions for robust private demand. *At the same time, recent events highlight the importance of sustainable public finances and the need for our countries to put in place credible, properly phased and growth-friendly plans to deliver fiscal sustainability*, differentiated for and tailored to national circumstances. (Emphasis added.)

Thus, by mid-2010 the focus started shifting to fiscal consolidation and neoliberal orthodoxy. This was not surprising, since the forces which precipitated the crisis in the first place had come out relatively unscathed from the crisis. International finance capital – the bloc of giant global banks and financial companies – which created the speculative bubbles in real estate and asset markets in the advanced capitalist countries, secured massive bail-out packages from the governments after the bubbles burst. As long as such state-funded bailouts were being administered, expansionary fiscal policies in the shape of greater public spending were tolerated. Once international finance regained its muscle, it started applying pressure on governments to stop the drift towards Keynesian policies within the advanced countries.

The most strident opposition to Keynesian policies was raised by the European governments, as a fallout of the sovereign debt crisis in Europe in early-2010. The outbreak of the European crisis occurred in Greece, whose economy suffered gravely from the impact of the 2008-09 recession because of its over dependence on sectors like tourism and shipping. As growth collapsed, dwindling government revenues pushed the fiscal deficit in Greece to 13.6% and overall public debt to 115% of GDP by the end of 2009, spreading panic in international financial markets over a sovereign debt default and making it impossible for the government to borrow from the market anymore.

Eventually the Greek authorities entered into an agreement with the European Union and IMF in May 2010 to implement a drastic austerity programme in exchange of international assistance worth •110 billion (\$145 billion) to meet debt obligations. The austerity measures involve massive cuts in public spending through cuts in

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government salaries, freeze in wages and pensions, raising the retirement age etc. alongwith raising indirect taxes like VAT and excise duties, in order to bring down the fiscal deficit to below 3% by 2014. The IMF itself recognizes that unemployment in Greece will grow from the current levels of 10-11% to about 15% in the next two years as a result of these austerity measures. Yet, these deflationary neoliberal policies were imposed on Greece by the EU-IMF combine, utilizing the debt crisis.

The debt crisis then spread to other European countries. Following the sharp downturn in economic growth in 2008-09, the average budget deficit of the 16 countries of the Eurozone had increased from 0.6% of their GDP in 2007 to 6.3% in 2009. While this was far less than the near 12% of GDP budget deficit incurred by the US and the UK to fight the recession, the total public debt of the Eurozone countries as a proportion of their GDP stood at much higher levels. Speculators in the international financial markets used this to create pressure on the European countries to cut down on deficits and public spending. Countries like Portugal, Spain, Ireland, Italy, Hungary and Latvia, which witnessed widening fiscal deficits and sharp increases in public debt to GDP ratios since 2008, bore the brunt with severe public spending cuts imposed by their governments, irrespective of whether they were rightwing conservative or social-democratic.

The major economies of Europe, like Germany and France, also started advocating public spending cuts from mid-2010. With the advent of the Conservative led government in the UK in May 2010, the austerity drive gathered further momentum. The June 2010 G 20 summit in Toronto saw European leaders strongly advocating a global shift towards fiscal austerity, with the German Chancellor Angela Merkel leading the charge. Among the advanced capitalist countries, only the US administration under Barack Obama remained lukewarm towards this aggressive austerity trend.

However, the fiscal stimulus in the US has itself proved to be inadequate. 55% of the \$787 billion stimulus plan launched through the 2009 Recovery Act was actually devoted to tax relief for individuals and companies as well as fiscal relief for state and local governments. The federal spending plan amounted to only around 45% of the total stimulus amount. Moreover, relief for the state and local governments

did not compensate for the plunging tax revenues at the state and local levels. Overall, given the depth of the recession, and the recovery plan in the US has fallen between two stools. Its inadequacy prevented any major dent in unemployment. And the persistence of high unemployment has been used by the rightwing conservatives to launch a tirade against any further fiscal expansion.

The only way for the advanced capitalist countries to come out of the economic crisis was through a coordinated reflation of the economy through enhanced public spending. While this trajectory was initiated in 2009, the developments since early-2010 have reversed this course. European governments are currently implementing drastic cuts on public spending in order to curb budget deficit, at a time when high levels of unemployment persists in all advanced economies. The initial fiscal stimulus in the US has also run its course and no further fiscal expansion seems to be on the offing. This prepares the ground, not only for prolonging the crisis but deepening it considerably.

#### POLITICAL ECONOMY OF CRISIS

This return to neoliberal orthodoxy in the advanced economies signifies the undiminished power of international finance capital, which is intrinsically hostile towards any effort to enhance economic activity and employment through public spending. This hostility arises because of two reasons. First, an increase in public spending also enhances the intervention and role of the state in the economy. Enhanced state intervention implies redistribution of income from the rich towards the poor on the one hand and greater state regulation and control over resources on the other. If policy is to move in this Keynesian/social-democratic direction in the advanced economies far enough, the power and mobility of finance capital will come under threat. Thus, finance capital views increasing state intervention as fundamentally antithetical to its interests.

Second, the smooth operation of globalised finance capital across asset markets requires monetary stability, which in turn requires price and wage stability across borders. This stability is ensured only through the persistence of unemployment, which helps to depress the value of labour and wages. A regime of low real activity and employment

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alongwith stable commodity prices is therefore preferable from the financial point of view.<sup>6</sup> It is precisely because of these imperatives of international finance capital that the growth regime in the advanced capitalist countries in the 1970s witnessed a shift from Keynesian demand management to the neoliberal trajectory of debt and asset-price bubble induced and export oriented growth.<sup>7</sup>

The growth regime under globalisation had predictably given rise to significant global imbalances. The current account deficit in the US had increased from around \$400 billion in 2001 to reach record levels of over \$800 billion in 2006, accounting for 6% of US GDP. The massive expansion of US imports during the first half of this decade provided the market for successful exporters from Asia and Europe. Such huge external deficits could be run by the US on the basis of dollar hegemony, whereby countries across the world held their wealth in dollars and finance flowed into the US to fuel the asset bubbles in its economy. With the bursting of the bubble, however, these imbalances have kicked in. Following the crisis, the US current account deficit fell sharply to \$378 billion in 2009, squeezing the market for exporters of goods and services across the world. In the absence of growth revival in the US economy, the prospects for the export oriented growth across the world look grim.

At the heart of the crisis in Europe also lies the imbalanced nature of development ushered in under the European Union. Germany, with its superior technological capacity has emerged as the clear beneficiary of the EU regime over the years, capturing the markets of the poorer Eurozone countries. Rather than sharing the benefits of productivity growth with their workers, Germany used it to cheapen its exports vis-à-vis other countries and generate large export surpluses, which were then used to export capital to other countries. This meant that growth in the relatively backward countries of the Eurozone was increasingly based on capital inflows from the surplus countries like Germany, which financed booms in real estate, construction and other sectors. As a result their current account deficits widened. With the onset of the global recession, growth in these countries collapsed, leading to shrinking government revenues, widening budget deficits and enlarged public debt.<sup>8</sup>

Having adopted the Euro as a common currency, the relatively backward countries of the Eurozone have already given up the option

of devaluing their currencies to increase exports and reduce their current account deficits. Rather than helping these deficit countries by restructuring their public debt and allowing them to maintain or increase public spending to revive growth, the European Commission and the IMF, at the behest of the German government on the one hand and international financiers on the other, have imposed austerity measures across the Eurozone. Besides aggravating the crisis, squeezing the incomes of working people and increasing unemployment, these measures have led to disillusionment with European integration.

The continuing economic crisis in the advanced economies along with the persistence of high levels of unemployment is having significant political impact. The failure of the recovery plan in the US to reduce unemployment has severely affected the popularity of President Obama and the Democratic Party. The Republicans have cashed in the rising discontent through the ‘Tea Party’ movement, a rightwing backlash against state intervention and expansionary fiscal policies with strong racial undercurrents. The half-hearted Keynesianism of Obama, reflected in his ambiguous posturing on crucial issues like healthcare and job creation, seems to have already paved the way for the Republicans to stage a strong comeback in the congressional elections of November 2010.

The political shift to the right is more pronounced in Europe. Not only have the governments converged on the pursuit of rightwing austerity measures, but increasing joblessness is also providing fertile grounds for the rise of the far right and neo-fascist forces. Most governments in major European countries are led by rightwing conservatives today. These rightwing conservative governments are also playing upon the racist, anti-immigrant hysterias and Islamophobic agendas of the far right forces in order to consolidate their support. Policy decisions like restrictions on immigrants and bans and prohibitions on cultural symbols of religious minorities, particularly Islamic symbols like burqas, mosques, minarets etc. are becoming common in the European countries.<sup>9</sup>

The leftwing forces have tried to effectively intervene in some of the European countries. The KKE (Communist Party of Greece) and the PAME (trade union organisation) have launched militant mass struggles against the anti-people austerity measures imposed by

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the social-democratic PASOK Government in Greece. A series of strikes and demonstrations have taken place there since mid-2010 with impressive participation of the workers and the youth. The Portuguese Communist Party (PCP) along with the trade union CGTP/IN is also leading the movement against the austerity measures in Portugal, where massive protest actions have been held over the past few months across the country. Countries like France, Spain, Italy and Romania are also witnessing massive strike actions against the anti-worker austerity measures. Success in resisting the rightwing austerity measures is crucial for the advance of the Left and progressive forces in Europe today.

### UNFOLDING CONTRADICTIONS

The G 20 replacing the G 7 in the wake of the economic crisis, as the premier global forum to deal with the crisis, reflected a relative decline in the power of the US and other advanced capitalist countries. Although the G 20 does not represent the interests of all the developing countries with the absence of major economies like Iran, Venezuela and other countries from Africa and Asia, its growing importance does reflect an increase in the weight of some developing countries in the international economic order. The share of some of the major developing economies in world output has risen steadily in recent times compared to the G 7 countries. Given the relatively higher growth rates being witnessed by the developing countries, the share of the developing countries in the total GDP of G 20 is projected to increase from 35% in 2008 to 50% by 2020.<sup>10</sup> A Policy Brief of the Carnegie Endowment titled *The World Order in 2050* goes even further to argue:<sup>11</sup>

The economy of the G20 is expected to grow at an average annual rate of 3.5 percent, rising from \$38.3 trillion in 2009 to \$160.0 trillion in 2050 in real dollar terms. Over 60 percent of this \$121 trillion dollar expansion will come from six countries: Brazil, Russia, India, China, Indonesia (the traditional “Big Five” economies), and Mexico. U.S. dollar GDP in these six economies will grow at an average rate of 6 percent per year; their share of G20 GDP will rise from 19.6 percent in 2009 to 50.6 percent in 2050. By contrast, GDP in the G7 will grow by less than 2.1 percent annually, and their share of G20 GDP will decline from 72.3 percent to 40.5 percent.

The basic problem with such projections, however, lies in their assumption of the current GDP growth differential between the G 7 economies and the 'Big Five' economies persisting for four long decades without any interruption. Such unrealistic assumptions and over-optimistic GDP projections are then used to arrive at dramatic conclusions about an imminent 'power shift' in the international order. This story of the emergence of a new post-crisis world economic order under the aegis of the G 20 seems to have captured the imagination of international and national policy establishments in recent times.<sup>12</sup> However, there are three obvious problems with this story, all arising from a gross misunderstanding of the neoliberal growth regime underlying globalisation.

First, the neoliberal growth regime essentially ushers in jobless growth. The high GDP growth rates experienced by some of the developing countries in recent times have not led to any commensurate growth in employment generation, so as to absorb the enormous pool of surplus labour existing in these countries. The stubborn persistence of unemployment, under-employment and informal employment in these countries has prevented wages from rising at any meaningful rate, to catch up with the earnings of the workers in the advanced capitalist countries. In fact, one of the reasons why some of these developing countries have been able to attract private investment including FDI from the advanced economies and experience export-led growth is the availability of super-cheap labour. This pattern of growth, however, does not raise real wages, living standards or domestic purchasing power of the masses, precisely because the cheapness of labour is the very prerequisite of this investment and growth regime. Conversely, any trend towards convergence of wages between the developing countries and the advanced economies would discourage FDI and private investment and undermine the growth regime in the former.

Second, since the purchasing power of the masses remains restricted under the neoliberal growth regime, demand is generated either through an export-oriented strategy or by promoting asset bubbles and debt induced elite consumption or a combination of both. However, given the dependence of these exports to import demand from the US, the export successes of the developing countries have come under increasing strain in the backdrop of the continuing

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recession in the US economy. With the domestic unemployment rate rising to near 10% levels, protectionist pressures have increased manifold in the US in recent times. This is getting manifested in the pressure being built upon China to appreciate its currency in order to reduce US imports from China and export some US unemployment to China.<sup>13</sup> New restrictions on outsourcing are also affecting Indian services exports. With expansionary fiscal policies facing a backlash within the US, beggar-thy-neighbour trade policies on the part of the US are bound to intensify, making the export performance of developing countries tenuous in the near future.

Third, the unsustainability of a growth trajectory based on asset bubbles and debt induced elite consumption has been borne out by the experience of the US economy itself. India has been particularly prone to this pattern of growth in the past few years, with bubbles building up repeatedly in the equity and real estate markets. The recent surge in FII inflows into India have once again created an equity bubble and led to an appreciation of the currency.<sup>14</sup> The Indian government is directly contributing to this bubble through its disinvestment programme, offloading chunks of equity of profit-making public sector enterprises in the stock market. There are reports of a housing bubble in some cities of China too.<sup>15</sup> Like all bubbles, these will also burst at some point, adversely impacting the growth prospects of the developing countries.

The parable of developing countries of the G 20 growing at a fast pace to join the ranks of the US and other advanced economies over the next few decades, is therefore an untenable one. If the developing countries continue in their present trajectories, the more likely outcome seems to be a repeat of what eventually happened in South East Asia in the late 1990s and Latin American countries in the early 2000s.

## CONCLUSION

The global economic crisis has persisted precisely because the coordinated expansionary fiscal strategies adopted by the advanced capitalist countries in the immediate aftermath of the crisis have given way to the neoliberal orthodoxy of cuts in public spending and balancing budgets. International finance capital, which received a

setback in the aftermath of the crisis, has reasserted its hegemony. The expectation of recovery under the aegis of the G 20 is premised on continued high growth in developing countries like China and India, along with other countries like Brazil, Russia, Mexico, South Korea etc. These economies will find it difficult to sustain their growth if the US refuses to keep its domestic market open for their exports. It is unlikely that the US will continue to run current account deficits of the order seen over the past decade and be the engine of global growth in the near future. The growth pattern of the developing countries is also not immune from speculative asset price bubbles in real estate and financial markets, which precipitated the crisis in the US economy. The prospects for the global economy therefore remain highly uncertain today.

Sustainable growth alongside balanced and equitable development are possible only if the global economy moves away from the paradigm of imperialist globalisation and export oriented growth, and refocuses on state intervention within individual countries to expand domestic demand by enhancing the purchasing power of the working people. That would also entail an end to the unbridled cross-border flows of speculative finance capital, which has caused the financial meltdown and precipitated the crisis in the first place. US and EU led imperialism, backed by international finance capital and the elites within developing countries, continues to be the biggest roadblock to this paradigm shift, which can restructure the global economy in a sustainable direction.

#### NOTES

<sup>1</sup> As per the World Bank's *Global Economic Prospects*, Summer 2010, world output fell by 2.1% in 2009. IMF's *World Economic Outlook*, October 2010, estimates the decline in world output in 2009 to be 0.6%. But both agree that the contraction of output of the advanced or high income economies in 2009 was over 3%. The Advanced Economies as defined by the IMF includes 33 countries: Australia, Austria, Belgium, Canada, Cyprus, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong SAR, Iceland, Ireland, Israel, Italy, Japan, South Korea, Luxembourg, Malta, Netherlands, New Zealand, Norway, Portugal, Singapore, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Taiwan Province of China, United Kingdom, and United States.

<sup>2</sup> 'What is the economic outlook for OECD countries? An Interim Assessment', Organization for Economic Co-operation and Development, Paris, 9<sup>th</sup> September 2010.

<sup>3</sup> Data from OECD database, <http://stats.oecd.org> (accessed on 13<sup>th</sup> October 2010)

<sup>4</sup> The G 20 comprises of the US, Japan, China, Germany, France, UK, Italy, Russia, Brazil,

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Canada, India, Mexico, Australia, South Korea, Turkey, Indonesia, Saudi Arabia, Argentina, South Africa and the rest of the European Union (EU).

- <sup>5</sup> The G 20 Toronto Summit Declaration, June 26-27, 2010
- <sup>6</sup> The role of unemployment in providing monetary stability is discussed in Prabhat Patnaik, *The Value of Money*, Tulika, New Delhi, 2009.
- <sup>7</sup> For a detailed discussion on the shift in the policy regime in the advanced capitalist countries, see Prasenjit Bose and Rohit (2008), 'Global Financial Crisis: Lessons in Theory and Policy', *The Marxist*, Volume XXIV, No. 3.
- <sup>8</sup> See C.P.Chandrashekhkar and Jayati Ghosh, 'The New Mercantilists', <http://networkideas.org/>, 7<sup>th</sup> September 2010.
- <sup>9</sup> For a recent account of political developments in Europe, see Hasan Suroor, "Alarm over Europe's lurch to the Right", *The Hindu*, 9<sup>th</sup> October 2010.
- <sup>10</sup> See Sarah Boumphrey, *G 20: In Focus*, April 2009, Euromonitor International, <http://www.euromonitor.com/> (accessed on 13th October 2010)
- <sup>11</sup> Uri Dadush and Bennett Stancil, *The World Order in 2050*, Policy Outlook, Carnegie Endowment for International Peace, April 2010
- <sup>12</sup> Vijay Prashad, 'Global Bonapartism', *Counterpunch*, <http://www.counterpunch.org>, 21<sup>st</sup> June 2010, provides a critical account of the evolution of the G 20 process and its implications for developing countries.
- <sup>13</sup> For a detailed analysis of the ongoing currency conflict between the US and China, see Prabhat Patnaik, 'The Currency War', *People's Democracy*, Vol. XXXIV, Nos. 42, 17<sup>th</sup> October 2010.
- <sup>14</sup> FIIs have pumped in over \$21 billion into Indian equity markets till mid-October 2010, out of which \$9 billion came since September 2010.
- <sup>15</sup> The IMF *World Economic Outlook*, October 2010 notes in Ch. 1, Box 1.2, p. 24: "...reports of speculative activity, rising vacancy rates in commercial property, sizable mortgage credit growth, and massive capital inflows, especially in China - suggest that these real estate markets may be overheating. In China, deviation of house prices from fundamentals is estimated to be higher in Beijing, Nanjing, Shanghai, and Shenzhen than in other cities..."