Discussion

Keynes with or without Capital Flows

PULAPRE BALAKRISHNAN

S Krishnakumar's (SK) intervention 'Keynesian Policy in a Borderless World' muddies the waters by ascribing to me some of his own imaginings. My short piece 'Globalisation and Keynesian Reach' may be open to several charges, but "... having just invoked Keynes and the Keynesian success story of the 1960s ..."(SK: 4746) and "idealising on the good old days of the golden age of capitalism or the way out of the great depression ..." (SK: 4747) are not some of them! In fact, the historical role of Keynesian policy was not even referred to by me. On the other hand, two very recent experiments in the US were considered in passing. I had referred to the record of the Reagan presidency as in my view the interpretation accorded to this in the piece that I was addressing – Swaminathan Aiyar's 'Globalisation Undercuts Keynes' – is false. (Incidentally, my piece was submitted to the *EPW* only after it had failed to elicit a response from the editor of *The Economic Times* where Aiyar's piece had appeared.) Secondly, I had referred to the stimulus package of George Bush in late 2001 as it serves as a reminder that "... the proof of the potency of Keynesian reasoning is evident in the alacrity with which governments turn towards it to steady their sagging economies" (PB: 3413). Krishnakumar cavils at my looking at the US, insisting that the discussion ought to be focused on the developing economies. I do not see why. However, far less credible is his annotation, so to speak, of why I refer to the Bush episode at all: "This, he considers to have been done for what is at stake is much more than before, due to the integrated nature of the global economy" (SK: 4747). Here he is either simply naive or plain tendentious. The final passage in my essay had read: "As the world economy integrates Keynesian reach multiplies, for, stakes in compensating for aggregate demand swings are now commensurately higher and spread over a wider area of the globe" (PB: 3413). It was intended to focus on the claim that globalisation voids Keynesian possibilities. There is no reference here to any episode whatsoever. However, and come to think of it now, I do not share Krishnakumar's squeamishness for history and am not unwilling to recognise the Keynesian contribution to the economic health of the 20th century west. But this is another matter, and never was part of my case.

Working from opposite ends, Aiyar and Krishnakumar suggest that the Keynesian policy perspective is made pretty much irrelevant by the emergence of cross-border capital flows. What impresses me most is that a discussion of the putative role of such flows in killing-off fiscal expansion may be conducted without any consideration of the theory or practice. Within the Mundell-Fleming model, it can be demonstrated that perfect capital mobility per se does not neutralise activist macroeconomic policy. The outcome hinges upon the exchange-rate regime, and accordingly either monetary or fiscal policy can work in each of the two instances.True, in the case of the flexible exchange rate regime fiscal policy is shown to be impotent. However, 'Mundell-Fleming' is an overly stylised story, intended as such. In an imperfect world, wherein interest rates are not equalised, capital mobility actually enables fiscal expansion, for the consequent external deficit may be financed via capital inflow. I am grateful, without implicating him in my argument, to Meghnad Desai for this clarification. Interestingly, he had made this, to a group of economists including the current and former chief economic advisers to the government of India, in July 2002 when being debated in the British parliament was the biggest Keynesian thrust in the history of one of the most open economies of the world today. Either the fiscal pessimists are out of touch with events or they are privy to information, and dare I say foresight, to which the world's finance ministers are not! At least, one hopes the India's economic-policy establishment remains well tuned.

On to practice. First, for recession in an highly integrated world economy global collective action in the form of a co-ordinated reflation has long been seen as the only answer. It is odd for the pessimists to allude to an inevitable capital outflow, for capital would have nowhere to flee to in such a scenario. One could of course conceive of it fleeing to some isolationist enclave, but this would be such a boring end to the story. Secondly, the power of mobile capital to constrain policy is very likely insignificant even across large swathes of the non-western world. Observe the steady fiscal expansion during the 1990s in Japan or the current fiscal-stance of the Chinese state. Of so much greater importance to us in India is the autonomy from international capital of our state governments which spring deficits as if there was no tomorrow. India has states with populations the size almost of Indonesia and much larger than of Peru. To suggest, as Krishnakumar does, that the principal constraint on growth in the developing world is the regime of international capital is also to apologise for the monumental misgovernance of our states. Note that the argument cuts both ways. Scepticism regarding the alleged omnipotence of capital flows may be combined with incredulity towards euphoric claims for economic growth following from the adoption of a policy of capital account convertibility. However, along with India the developing economies do have the option to reject international advice on this matter. With hindsight, Indian policy-makers have done right to prevent domestic residents from borrowing dollars in the international money market, a freedom extended to the Latin American elites by their governments. There, in the ensuing crises that inevitably followed the almost predictable misuse of funds, or even speculation against the national currency by residents, that subcontinent's poor have paid a heavy price. India's record is hardly without blemish though. Her own weakness has been towards the NRIs who, despite being pampered by preferential interest rates on withdrawable dollar deposits, precipitated the balance of payments crisis of mid-1991. Clearly, 'national autonomy' does not extend to poor macroeconomic management, with or without capital mobility.

Finally, Krishnakumar's observation that Marxian political economy recognises conflict as central to capitalism even as Keynesian economics, to its detraction, does not. In the face of this assertion, it is interesting to note that the Keynesian dismissal of wage cutting as a solution to unemployment was based on the premise that it lowers aggregate demand by worsening the distribution of income. (Michal Kalecki had independently discovered this relation, but writing in Polish had not received wider attention.) The significance of the Keynesian solution is that, under certain conditions, it can raise the level of output leaving its distribution intact, thus overriding class conflict. This is likely to be welcomed by most. Except, perhaps, by moneybags who relies on Keynesian unemployment as a worker-disciplining device and romantics who would rue any postponement of the socialisation of the means of production. Both are likely to invoke the bogey of capital flows to further their cause.

In conclusion, on the relevance of the Keynesian perspective in a globalising world, I would like to reproduce a passage from Joseph Stiglitz's (JS) recent work. Perhaps the man has written an angry book, but no one can accuse him of being ignorant of the role of capital flows when he speaks: "Almost three quarters of a century ago, capitalism faced its most severe crisis to date. The great depression enveloped the whole world and led to unprecedented increases in unemployment. At the worst point, a quarter of America's workforce was unemployed. The British economist John Maynard Keynes, who would later be a key participant at Bretton Woods, put forward a simple explanation, and a correspondingly simple set of prescriptions: lack of sufficient aggregate demand explained economic downturns; government polices could help stimulate aggregate demand. In cases where monetary policy is ineffective, governments could rely on fiscal polices, either by increasing expenditures or cutting taxes. While the models underlying Keynes's analysis have subsequently been criticised and refined, bringing a deeper understanding of why market forces do not work quickly to adjust the economy to full employment, the basic lessons remain valid" (JS: 11).

Beware of premature obituaries of the future! EPW

References

Aiyar, S S A (2002): 'Globalisation Undercuts Keynes', *The Economic Times*, June 12.

Balakrishnan, P (2002): 'Globalisation and Keynesian Reach', *Economic and Political Weekly*, August 17-23.

Krishnakumar, S (2002): 'Keynesian Policy in a Borderless World', *Economic and Political Weekly*, November 23-29.

Stiglitz, J (2002): *Globalisation and Its Discontents*, Penguin, London.

Letters to editor

(Continued from p 86)

career advancement scheme in university departments has to be that the minimum of five best research publications (as he/she defines) out of which two could be books have to be submitted by the candidate for evaluation/assessment (be done by the three eminent experts) before the interviews. What does it mean? Does the best paper mean that any paper (i) presented at the seminar/conference or (ii) published in any journal or (iii) published in the standard and refereed journal or (iv) papers included in the edited books? Which of the above is considered? I would say that of all the papers published in the refereed journals/books edited by the eminent scholars whose research contribution in the discipline is vastly regarded, the candidate has to select/define the best five research papers.

M Upender
Hyderabad

Bias against the Accused

In your editorial 'Trivialising Justice' (November 30, 2002), an impression has been given that every complainant of rape is a 'victim' or 'survivor' and every accused is a perpetrator of crime. I wonder if every complainant is a victim and every accused is a perpetrator of crime then why do we need this ritual of a trial. Let us punish every accused without trial.

In fact our criminal justice system is doing exactly the same. In our system prosecution is in itself a punishment for the accused. There is only one bias in the justice system and it is the bias against the accused. It is this bias which results in the incarceration of lakhs of persons in jail for long periods without any proof of their guilt. It is this bias which results in the murder or forced suicide of large numbers of persons either in custody or in encounters every year. And the fortunate ones who survive the custodial torture and death trap face the unending humiliation and stigma of having been an accused and having been prosecuted.

We are worried, rightly, about the survivors or victims of crime but have we ever thought about the victims of malicious prosecution? Have we ever thought about the fate of the family and children when the sole breadwinner of the family is behind bars facing a concocted charge, sometimes even a charge of rape? In our criminal justice system where about 25 lakh people are arrested every year, have we ever heard about a case when some person was punished for causing false imprisonment? Where 93.5 per cent of the accused are found innocent, have we ever heard about a case where a complainant was ever punished for levelling a false charge? While considering amendment of the law to protect the reputation of the complainant, have we thought about the reputation of the accused facing a malicious prosecution? Have we thought about the reputation of a person falsely accused of rape?

An accused is not entitled to file a complaint against the person who has caused his malicious prosecution. An accused is not entitled to claim the cost of legal proceedings from the state even after being acquitted. The whole system is full of bias against the accused and its working is even more biased. This bias is likely to survive because an accused is a scapegoat in the hands of the corrupt state to show that it is fighting crime and criminals.

Law is the path of justice and if abused it is an engine of oppression. Justice cannot be obtained for anybody by doing injustice to innocent persons.

Rajesh Kumar
Mumbai