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Calcutta Notebook

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ROOTS MATTER, NOT offshoots. Yet nobody is really attacking the roots of the ensuing global financial crisis. All are beating around the bush only to 'confuse the confused'. Ever since the breakout of the economic crisis in the United States of America and its rapid spread almost all over the globe much has been written about it. Except for some rabidly biased persons who have an almost apocalyptic faith in the ability of US capitalism to get over the crisis by its own internal strength and to save all the countries that are now paying the price for opening themselves to globalization, nobody is able to sight an imminent end to the misery. It cannot however be gainsaid that in many cases, their presentation of the subject lacks proper clarity. In this respect, the monograph [*The ABC of the Economic Crisis. What Working People Need To Know*, Aakar Books, Delhi 110091] prepared by Magdoff and Yates fills up a gap, because the authors lucidly and logically lay bare all the chains that finally merged into the crisis, which is in all probability more acute than the Great Depression of the 1930s, and which shows no sign of abatement as yet.

The authors' mode of exposition of the present crisis acquires a special favour when earlier crises are discussed as points of reference. For example in 1982, there was high unemployment, but that was the result of a record-high interest set by the Federal Reserve in order to tame inflation. Once this objective was achieved, the interest rate was lowered, the Federal Reserve pumped a lot of money into the economy and recovery began. But this time lowering the interest rates and helping the corporations with money are hardly enough and economic activity continues to decline. The authors go into the very roots of the crisis. "If workers make cars, houses, or meals or teach children, and when farmers produce food, they are producing something that the people need and can use. But those who sell complex financial instruments don't produce anything tangible at all. Something doesn't seem right about making money without producing a useful goods or service. And no society can survive if the only economic activity is lending and borrowing money."

The authors note mature capitalism's two tendencies, concentration of production and stagnation, the latter being the outcome of accumulation of surplus without suitable outlets of investment. In order to counter these tendencies, capitalists try to devise ways of utilizing this surplus without producing any goods and services. But this quest leads to recurrent crises. Here the authors provide a neat picture of the state of the US economy, supplemented by statistics for the decades following the Second World War.

The USA could never match the growth rate she had attained during those War years, and here the authors make a pertinent observation that seems worth quoting, " From the time in which the economy began to slow down in the mid-1970s, no technology or other force has come along with the transformative effect like the railroads in the nineteenth century, the Second World War in the 1940s, or the automobile in the immediate postwar era. Nor the US

wars in Afghanistan and Iraq take up the slack, although the massive resources, including the workers employed in war production and in carrying out the wars have certainly helped keep the economy growing. However, these have not stimulated economic growth anywhere close to what occurred during the Second World War…"

The authors observe that financial markets grow in importance when the real economy shows signs of stagnation, and when prices of assets are on the rise, they have a wealth effect stimulating consumption and production. But the reverse process occurs when prices of assets begin to fall. They provide a graphic account of the entire process of the growth of the financial sector, and of how mortgages and bets continued to dominate the economy. It is clear that the financial sector reached a saturation point, and the excessive growth of household debt was largely an outcome of the deliberate policy of promoting inequality in income and wealth. The relative decline in workers' income led them to incur more and more debts in order to maintain their standards of living, and the corporate sector too, unable to find outlets of productive investment of their enhanced income shares, found it more worthwhile to invest them in finance. Here the authors successfully establish the link between growing inequality and the growth of household debt with concrete data, a topic which the general literature on the subject has ignored. They succinctly conclude, ''There was so much money in the hands of the wealthy that they had no productive way to use it. If a greater share had been in the hands of workers, this money would have been spent on the commodities of all kinds, generating output and employment without such a massive accumulation of household debt.'' The book also contains a serious indictment of neolibe-ralism from economist's point of view.

In the end, the authors rightly conclude that the current stimulus packages are too inadequate, and even if some more sensible proposals, e.g. strict regulation of the financial system and creation of a national health care system, are put forward, they will be opposed by big business. ''We can't have a true national health care system because the insurance and drug companies, plus their allies in medicine, won't stand for it and have the power to prevent it. The government cannot get the financial system in order because the politicians are much too cozy with the bankers they regulate. Private housing interests; stand ready to stop public housing." The authors have correctly pointed out that the New Deal measures introduced by Franklin D Roosevelt did not end the Great Depression. The US economy was saved because the Second World War broke out, creating a huge demand for war materials on the part of the allied forces. Right now here is no such prospect in sight, and even if the US engages in such a gamble, the human cost will be too heavy. ☐☐☐