European crisis and India

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The third world scholars and thinkers like Edward Said and Samir Amin have raised the issue of Euro- centrism in history, culture and political economy. Economists on the other hand have developed theories of export led growth or import substitution strategies of development for developing countries. The euphoria of Washington consensus that has guided globalization seems to have slowed down due to the failure of market supported theories in most of the countries where there is gloom now. It is in this context, we need to look at the European economic crisis may be political turmoil in this region and its broad implications for India. Dr Man Mohan Singh as an economist in his recent visit to G20 and Rio has strategically used the situation in appealing to the West to invest in infrastructure projects as they were searching for investment destinations in the background of economic crisis. The economic predicament emanated with subprime crisis in the USA and is spreading to rest of the world. Interestingly, Dr Singh seems to have realized that the solutions to our economic setbacks are to be sought within.

One may ponder over here that USA is not an isolated newfound land any longer. It is an extension of Europe. We will find that all the European nations are represented in the USA, but the population data does not speak about them and only lists Asians, Hispanics, African Americans and undocumented immigrants. The OECD and European Union are economic blocks of the Anglo-Saxon or occidental nations that have colonies in the present third world including India. The desire to continue the past hegemony and the lifestyles based on plunder appears to be haunting them unconsciously through the policies and strategies recommended by them to the third world. The nations that have seriously taken their advice are now in jitters despite of their sovereign entities. It is due to the fact that their economies have been deeply engaged with them and the contagion is suspected to be imminent.

The European crisis has been discussed whenever there was an economic slowdown in recent months and particularly with reference to Greece, Spain, Portugal etc. The economic crisis in Greece once seriously talked about as a failed nation in the media has suddenly disappeared once the right wing New Democracy took the reins of power in recent elections. The political economy of Greece is a very interesting case study to understand some of the contemporary issues. The political atlas of Greece was dominated by two political parties, PASOK, socialist party and N D, new democracy , the former a left oriented party and the latter a right wing group. There are several formations like the Euro communists and others playing second fiddle in the coalitions. It appears that the Indian political drama is enacted in Greece or vice versa. The successive governments, some of them called themselves as socialist, have expanded public sector and helped to improve the fortunes of interest groups. The system has acquired the character of according to some scholars, 'bureaucratic clientalism' , serving the interests of the political parties in power. This has facilitated the country to raise loans to tide over their economic needs. As a result, the fiscal deficit of the country has reached 15 percent of GDP and forced it to approach IMF, for a loan. The IMF has granted loan on very stringent conditionality that peeved the political establishment. It seems that was beginning of the crisis in Greece. Interestingly, two of the Greek innovations, democracy and tragedy are being performed live.

The GDP of the country according to World Bank data in 2010 was $302 billion. It has a total public debt of $481 billion, almost one and half of its GDP. It is a serious problem. The crux of the European crisis is that they have barrowed mostly from European Banks at an exorbitant rate of 18 per cent interest. It is reported that out of $2.84 trillion of the European Central Bank capital, $ 637 billion are given as loans to Portugal, Ireland, Greece and Spain. The problem of Spain is not public debt but private debt where fiscal deficit has reached a peak at 8.9 percent of GDP in 2011. The private debt of Spain is alleged to be having links with real estate bubble that may go around 90 per cent of its GDP. The implications of the Greece profligacy according to some scholars is that, it has helped distrust on political parties that led to change of governments in quick succession. Rampant corruption seems to be both cause and consequence of demeanor of public servants. The popular Vatopedi land scam during the period of New Democracy in power is a case of how public properties were converted as private estates. The socialist party is also not impervious from this. As in India, the Parliamentary committee appointed to enquire in to the allegations has failed to reach any conclusion except naming five ministers who were involved in the land scam.

The unemployment rate ranges between 16 to 19 per cent during the last few years. There are reports of riots by the unemployed groups and the emergence of a new movement called 'I don't pay tax'. The rate of growth of the economy has dropped to less than 0.5 per cent and to negative rates in recent years. Then why the Europeans and the Americans and therefore the world are worried about the events in Greece and other European countries noted above. As I pointed out earlier, the USA is not an autonomous sovereign country, it is an extension of the Europe and has been sustained by few families led MNCs that control the economic fortunes of the World. More than 50 percent of the World's GDP is from USA and E U. Interestingly, out of 500 billionaires of the World (Forbes) 425 originate in USA and the exclusive share of Greece is 12 including the World's richest person John Paul De Joria. The billionaires have accumulated the wealth through Banking, Oil and Gas, Pharmacy and Real Estate. One may notice that banking, real estate and related fields like cement and concrete mixture are the sectors in which Greece was deeply involved both within and outside the country. It is conjectural to say that the money must have gone in to the pockets of super rich that had political connections. Who knows, it may be a political game?

There is lot of discussion in India about the fall out of European crisis. It appears that India has very little connection apparently through trade. It is found that our trade balance with Europe is negative except for the year 2011. In fact, China along with Hong Kong has higher proportion of trade with India much higher than USA. Our trade with Middle East is very significant in terms of exports, imports and in proportion to our total value of trade. It is alleged that the real estate bubble is an artificial opportunity created for the Europeans to exploit the situation with their hedge funds to amass huge profits through financial and banking maneuvering. The Financial Crisis Inquiry commission USA 2011, has said that "the crisis was avoidable and was caused by widespread failures in financial regulations… to stem the tide of toxic mortgages, dramatic breakdowns in corporate governance…in accountability and ethics at all levels". Why should India bother about it?

It is strange to find a country that boasts of a high foreign exchange reserves and an overall positive balance of around $ 55719 million in the year 2011-12 and a positive trade balance with European Union is behaving wobbly to look at the European crisis. What could be the reason? It is a known fact that 60 percent of the global currency reserves are in US dollars. It is said that the persistent current account surpluses of China and other Asian economies would serve to finance the US current deficit at favorable terms. This must have made some of the financial institutions in the US to act recklessly and have taken too much risk at others peril. Some analysts allege that the exchange rate and the dollar reserves are positioned in proportion to the strength of the military power of US. India is an open economy now and amenable to all kinds of investments including the toxic derivatives through the share and money markets route. It is perilous in view of the fact that the market capitalization in India as per SEBI data by the end of December 2011 was Rs 1.05 crore crores. It means that the value of the capitalization is one and half times that of our GDP. We do not know how the channels are operating in manipulating the markets despite of our sincere watch dog RBI. Those who are in the policy making with intimate connections with the markets and international agencies would alone know about the future of the Indian economy and may be politics in the months to come?