Globalization and the Pandemic

Prabhat Patnaik

Abstract
The conflict between the interests of the people and the dictates of finance, which underlies the entire phenomenon of globalization and characterizes the entire era of globalization, has come to a head with the current pandemic. The need to reach help to the working people during the pandemic, when they are without employment and income owing to the lockdown, is urgent; but the dictates of finance, which frowns on taxing the capitalists or resorting to an enlarged fiscal deficit, stand in the way of doing so. The contradiction between the dictates of finance and the interests of the people has thus become absolutely acute during the pandemic.

Keywords
Neoliberalism, crisis, pandemic, unemployment, India

I
The differentia specifica of the current globalization, I believe, is the globalization of finance. In earlier episodes of globalization, for instance, in the period before the First World War that Lenin had written about, each metropolitan power had a finance capital based within it, which was

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1 Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi, India.

Corresponding author:
Prabhat Patnaik, Centre for Economic Studies and Planning, School of Social Sciences-II, Jawaharlal Nehru University, New Delhi 110067, India.
E-mail: prabhatptnk@yahoo.co.in
linked to its industry and had been mobile to a large extent within the ‘economic territory’ of that particular power. Now we have globalized finance whose country of origin is of no great significance and which goes all over the world looking for opportunities for gain unrelated either to the industrial capital or the strategic objectives of any metropolitan power. The fact that less than two per cent of cross-border financial flows is trade-related, is indicative of this dizzying movement across the globe of finance per se.

This globalization of finance in a world of nation-states, such as what we have, has profound implications. If the government of any nation-state pursues policies which are not to the liking of globalized finance, then the latter simply leaves the shores of that nation-state en masse, causing a financial crisis for it and acute hardship to its people. Every government, therefore, as long as it lacks the gumption to take the country out of the web of global financial flows when necessary, feels the need to retain the so-called confidence of the investors by pursuing policies to the liking of globalized finance.

This means in a fundamental sense an abridgement of democracy: all political formations when voted to power pursue more or less the same economic policies; and if perchance some formation with a different agenda happens to get elected (which itself is difficult because capital flight begins even before it comes to power, at the very prospect of its coming to power), it too soon falls in line and betrays its own earlier agenda (unless it has the gumption to delink from global financial flows). The people, in short, are denied any choice between different alternatives in the matter of economic policy. Or put differently, the sovereignty of the people on which democracy is founded is replaced de facto by the sovereignty of global finance. And this is inevitable when the domain over which there is free movement of finance is not exactly co-terminus with, but rather goes well beyond, the domain over which the jurisdiction of the nation-state runs.

This per se would not matter much if the interests of the people coincided with the dictates of finance. Such, however, is not the case. Let me give an example to clarify the point. To overcome unemployment which has been growing in the capitalist world for some time now, what is required is state expenditure to stimulate demand, since monetary policy remains a blunt instrument. But such expenditure to be effective must be financed either by taxes on capitalists or by a fiscal deficit: financing state expenditure through taxes on the working people who spend much of their incomes anyway, simply substitutes state demand for that of the working people, without generating any net addition to


aggregate demand. But finance is opposed both to taxes on capitalists and a fiscal deficit; hence, the dictates of finance prevent any amelioration of unemployment. Likewise, all transfers to the working people and all welfare expenditure of benefit to them, unless they are to be financed at the expense of the beneficiaries themselves (which therefore bring them no net benefits), get ruled out because of the dictates of finance.

Keynes, who had advocated state intervention for reducing unemployment, for otherwise, he feared that capitalism would not be able to meet the challenge of socialism, was aware of this problem, that is, the problem of the state being rendered incapable of fulfilling this task if finance were globalized. In 1933, in an article in *The Yale Review*, he had written: ‘above all, let finance be primarily national’ (Keynes, 1933, p. 758). And the Bretton Woods system he had helped to found after the Second World War had allowed member countries to impose capital controls to ensure that finance remained ‘national’. In the 1970s, however, with the collapse of the Bretton Woods system, the world got opened up for freer financial flows, ushering in the current era of globalization. Within this regime of globalization, we are confronted with the problem of nation-states having perforce to kow-tow to the dictates of finance, and hence giving short shrift to the interests of the people.

This conflict between the interests of the people and the dictates of finance, which underlies the entire phenomenon of globalization and characterizes the entire era of globalization, has come to a head with the current pandemic. The need to reach help to the working people during the pandemic, when they are without employment and income owing to the lockdown, is urgent; but the dictates of finance, which frowns on taxing the capitalists or resorting to an enlarged fiscal deficit, stand in the way of doing so. The contradiction between the dictates of finance and the interests of the people has thus become absolutely acute during the pandemic.

In this situation, many countries have ignored the dictates of finance and have provided succour to the people by going back on the neoliberal policies favoured by globalized finance. Spain has commandeered private hospitals to treat COVID-19 patients free of charge, exactly as they would be treated in government hospitals. In most advanced countries, there have been substantial relief packages for the people, which have entailed enlarged fiscal deficits, far in excess of the limits imposed by finance capital. Thus, Germany has a fiscal package of five per cent of Gross Domestic Product (GDP), Japan has a fiscal package of 20 per cent, and the United States has a fiscal package, consisting of rescue and relief assistance, amounting to 10 per cent of GDP. Since, in most countries, the fiscal deficit is limited by legislation at the behest of
global finance to around three per cent of the GDP (barring the United States which has no such legislation), these fiscal packages clearly entail a substantial violation of the dictates of globalized finance.

Some other countries, on the other hand, among which India is included, have been extremely miserly in providing assistance to the working people. The plight of the migrant workers in India, whose number is 80 million even by the government’s own admission but is actually much higher, closer perhaps to around 140 million, is utterly heart-rending. Made jobless, incomeless and homeless because of the lockdown announced with just four hours’ notice, they poured into the streets to start moving toward the only refuge they knew, namely their village homes. Millions of them were on foot since no transport was available during the lockdown; and they were hungry. Many economists asked the government to provide free food to every individual and an income transfer to every family amounting to ₹7,000 per month, covering the migrant workers’ families as well but not confined to them, for a few months in order to tide over the crisis of the pandemic; the government, however, having reduced the migrant workers to their miserable plight, scarcely offered them any assistance. Its total relief expenditure for all, not just the migrant workers but the entire population, comes to a mere one per cent of GDP.

This miserliness no doubt is an expression of the complete lack of humanity on the part of the government; but its roots also lie in the pusillanimity of the government vis-à-vis globalized finance, its unwillingness to place the interests of the people over the dictates of finance.

The pandemic, in short, has brought out two contrasting responses from governments around the globe: with the contradiction between the dictates of finance and the interests of the people coming to a head, some governments have prioritized the interests of the people while others, including India, have prioritized the dictates of finance.

II

This contrast, however, provides a clue to what lies ahead. Globalization under the hegemony of finance, or what is generally called neoliberal globalization, has now reached a dead-end. The crisis that capitalist economies were caught up in, even before the pandemic struck, was not just a cyclical downturn or a passing phenomenon from which there would be an automatic recovery. It was a prolonged, protracted structural
crisis, whose origins lie in the immense increase in income inequality in the world, or, as I would prefer to put it, in the increase in the share of the economic surplus in output in the world economy as a whole, as well as in individual economies.

The reason for this has to do with the very logic of globalization. The globalization of capital has meant the outsourcing of a whole range of activities from the advanced countries to the Third World, especially to Asia, for meeting global demand. This has made the workers in the advanced countries compete against the low-wage Third World workers; put another way, it has exposed advanced country workers to the baneful effects of the massive Third World labour reserves. This has not only weakened the trade union movements in the former, it has also meant a virtual stagnation in the real wages of the workers there. Joseph Stiglitz, for instance, finds that the average real wage of a male American worker in 2011 was no higher than in 1968; indeed, it was marginally lower.

While the real wages of advanced country workers have not gone up, the real wages of the Third World workers have not done so either. This is because such relocation of activities to the Third World has not dented the extent of the labour reserves that exist there. There are two basic reasons for this. One is the fact that the rate of growth in labour productivity in the Third World has been much higher than before, so that even in countries where higher rates of GDP growth have occurred, the growth rate of employment, which is the difference between the rate of growth of GDP and the rate of growth of labour productivity, has been even lower than under the earlier dirigiste regimes, and even lower than the rate of population growth.

The second reason for the non-exhaustion of Third World labour reserves is the slowing down of the growth of peasant agriculture which makes it even lower than the rate of population growth. This slowing down itself is because of the withdrawal of support by the state from the peasant agriculture sector, a phenomenon associated with the neoliberal regime of globalization. It forces a migration to cities from the rural areas, which, in the context of the sluggish rate of growth of jobs in the urban economy that we just discussed, simply swells the labour reserves in the cities. Of course, these reserves do not appear only in the form of open unemployment; rather, employment rationing takes all sorts of complex forms, which, besides open unemployment, include underemployment, disguised unemployment and casual employment. Such swelling of the labour reserves (relative to the workforce) exerts a drag on the real wages of all workers including of that small minority which constitutes the organized workforce.
Globalization, therefore, keeps down wages everywhere both in the advanced countries as well as in the Third World. At the same time, however, it unleashes an increase in labour productivity everywhere which results in a rise in the share of economic surplus in output. The observed increase in income inequality is an expression of this rise in the share of economic surplus.

This rise in the share of economic surplus, within countries and hence in the world as a whole, however, has a demand-depressing effect. Since it entails a shift from wages to surplus, and since consumption by the working people out of a rupee of income is greater than that of the surplus-earners, this shift slows down the growth of consumption. For any given time-profile of investment, therefore, aggregate demand tends to slow down with the rise in the share of the surplus, which in turn has the effect of reducing the time-profile of the investment itself, since investment responds to the growth of demand.

There is, therefore, a tendency for a slowing down of aggregate demand and hence of output in the world economy as a whole and individual countries. This tendency was countered for some time by the formation of major asset price ‘bubbles’ in the US economy, first the ‘dot-com’ bubble of the 1990s and then the housing ‘bubble’ early this century. But after the collapse of the housing bubble, no similar bubble has appeared on the scene, since bubbles cannot be made to order; and the world economy has entered a protracted period of stagnation.

The tendency toward stagnation arising from the rise in the share of the surplus could be countered in a more enduring manner by state expenditure, as Keynes had suggested, provided such expenditure was financed either by taxes on capitalists or by a fiscal deficit. But both these modes of financing state expenditure being anathema for globalized finance, no state can pursue such demand-increasing policies, not even the United States. In the case of the United States, of course, there is the additional fear that in normal circumstances (i.e., in the absence of protectionism of the sort that Trump has introduced) such state-induced increase in demand would largely leak out abroad, generating little employment at home but increasing the external indebtedness of the US economy.

Neoliberal globalization, therefore, has run into a dead-end. It has entered a period of prolonged stagnation, with little possibility of any counteracting measures within the constraints imposed by this arrangement. The pandemic, of course, has added immensely to this crisis, but the crisis is not just the result of the pandemic that would disappear when
the pandemic finally abates; it reflects deeper tendencies of the economic order with nothing to counteract them within the hegemony of globalized finance.

Even the more perceptive segment of the financial press is aware of this. It would want finance to be less exacting in its dictates, more accommodative of changes in the neoliberal paradigm, in order to preserve the capitalist system itself, which it recognizes as being subject to immense strains. Just as during the Great Depression of the 1930s, Keynes had suggested repairing the capitalist system through state intervention, which had been unprecedented till then, in order to preserve the system itself, and Roosevelt had introduced the New Deal for this very purpose, a similar moment, it is believed, has once again arrived now. Capitalism, according to *The Financial Times* of London, is once again facing a Keynes–Roosevelt moment.

In an editorial on 3 April 2020, it wrote:

radical reforms—reversing the prevailing policy direction of the last four decades – will need to be put on the table. Governments will have to accept a more active role in the economy. They must see public services as investments rather than as liabilities, and look for ways to make labour markets less insecure. Redistribution will again be on the agenda… Policies until recently considered eccentric, such as basic income and wealth taxes, will have to be in the mix.

One generally associates such views with Left economists from the Jawaharlal Nehru University; but here is the most ‘prestigious’ financial newspaper of the world articulating a similar position, which is a matter of great significance. The reason is that the policies of the ‘last four decades’, that is, the ‘neoliberal’ policies associated with the phenomenon of globalization under the hegemony of finance, have become palpably unsustainable, in the sense that *their continuation henceforth is scarcely possible within a broadly democratic polity*.

The breakaway from the dictates of finance in implementing relief packages in several countries by enlarging the fiscal deficit acquires a deeper significance in this context. Though devised to meet the exigencies of the COVID-19 crisis, it could mark a more enduring change of course. But finance of course will not give up its hegemony so easily. Effective class intervention by the working people would be required if the new course, of prioritizing the interests of the people over the dictates of finance, is to be pursued in a more enduring manner. One must not forget in this context that Keynes’ ideas were unacceptable to the capitalist
establishment in the 1930s; they could be implemented only after the war under a Labour government enjoying the overwhelming support of the working class and that too at a time when the victory of the Red Army in the course of the war had brought the so-called socialist ‘threat’ to the very doorsteps of Western Europe.

Likewise, Roosevelt’s New Deal, once it had succeeded in reducing unemployment to a certain extent, was slackened under the pressure of finance which plunged the US economy once again into a recession in 1937. The US emerged from the Great Depression only when it started arming for the war; and state intervention in boosting demand and that too through arms spending, or what some have called ‘military Keynesianism’, became an accepted phenomenon only after the war, again under the socialist threat.

Once working-class intervention is perceived to be necessary for changing the direction of development even in the manner suggested by The Financial Times, then one must accept that new possibilities get opened up with regard to where these countries would be heading: whether toward altered capitalism or further, through a sequence of developments, toward a socialist order. That becomes a matter to be decided by the course of class struggle in the coming days. Let us, however, turn now to the case of the other countries, including India, where there has been no effort to shake off the hegemony of finance.

III

The fact that the Indian government in the midst of one of the worst humanitarian crises in our post-independence history has been utterly miserly in its assistance to the distressed, has been already highlighted. This, as suggested earlier, is partly no doubt a result of its own inhumanity; in addition, it has also been affected by its timidity vis-à-vis globalized finance. In fact, finance capital prefers such regimes, which faithfully obey its dictates even by sacrificing the interests of the very people they are supposed to represent. It is not surprising that the domestic corporate-financial oligarchy that is closely integrated with global finance capital, funds the Bharatiya Janata Party (BJP) generously, to a far greater extent than it funds any other political formation.

Naturally, the Modi government’s obeying the dictates of globalized finance to the exclusion of the people’s interest is made possible by suppressing their democratic rights and civil liberties; using draconian laws to
put political opponents and spokesmen for the poor in jail; subverting the
independence of the judiciary and the media; and creating an atmosphere
of dread which makes the practice of normal democratic politics impossi-
ble. We have been seeing such a tendency in the country of late.

In addition, however, since mere suppression of democratic rights
cannot garner a political mandate for the ruling dispensation in any country,
it tries to do so by other means, by shifting the discourse from economic
issues to the threat from the ‘other’, typically a hapless minority group,
which is blamed for all the ills of the nation. It divides the people along
religious or ethnic lines, generates hatred for the minority among the
majority and thereby tries to obtain a political mandate by whipping up a
phony majoritarian sentiment which cares little for the genuine interests
of the population belonging to the majority group itself.

We have seen in front of our eyes the Muslims being explicitly treated
as the ‘other’ and hatred being generated against them within the Hindu
majority in our own country. Even in these distressing times, the pan-
demic itself was portrayed as a Muslim conspiracy by various votaries of
Hindutva with no discouragement from Narendra Modi himself. All this
represents the strategy of the ruling dispensation here to obtain majority
electoral support, so that it can continue in power and yet pursue its
policy of kow-towing to globalized finance.

This second trajectory that is followed by some countries in the
context of the dead-end at which contemporary globalization has arrived
is what I would call a fascist trajectory. It has all the essential features of
classical fascism, namely the support it enjoys from finance capital, the
creation of hatred against a hapless minority and the suppression of civil
liberties and democratic rights. At the same time, of course, the vastly
changed historical context makes this fascism different in important
ways from classical fascism, just as it makes contemporary globalization
different from the earlier one and contemporary finance capital different
from its earlier incarnation; but this difference must not make us lose
sight of the basic fascist nature of several Third World regimes, including
the regime in India, which are currently busy kow-towing to globalized
finance even in the midst of the pandemic.

Let me sum up. What I am suggesting is that from the response of a regime
to the pandemic we can surmise its response to the general phenomenon of
the dead-end of neoliberalism itself. The former prefigures the latter. From what we observe during the pandemic, we can therefore discern two different approaches or trajectories, which are currently being considered for coping with the dead-end of neoliberalism. One is a welfarist trajectory, or rather a revival of the welfarist trajectory that had been pushed to the background ‘four decades’ ago by neoliberal globalization; it visualizes, implicitly if not explicitly, restricting the hegemony of globalized finance in some ways. The second is a fascist trajectory which keeps the country trapped within the hegemony of globalized finance, but which ruthlessly suppresses the people in the process.

There is, however, one important difference between the 1930s and now which must be remembered. In the 1930s, before large-scale military expansion by fascist powers had started, there had been substantial military expenditure undertaken by governments in those countries, which was financed largely by borrowing and which had quickly got those countries out of the Great Depression. Japan, incidentally, had been the very first country to come out of the Great Depression, entirely because of its military spending. That recovery, however, had been made possible by overcoming whatever objections that the largely home-based finance capital had put forward against fiscal deficits.

The current context being vastly different, kow-towing to the dictates of finance also means being fiscally conservative; hence, the fascist regimes of today are utterly incapable of overcoming the crisis within their economies which the system has generated. Even after the pandemic is over, therefore, the crisis of the system that had existed prior to the pandemic and that would have got aggravated because of the irreversible effects of the pandemic itself, cannot be countered by the existing fascist regimes.

This only means, however, that such regimes will have little to show, unlike classical fascism, by way of economic achievements, not just during the pandemic but even after the pandemic abates. This, in turn, will necessitate their becoming even more authoritarian, even more anti-worker, even more antiminority, even more antiwomen, and even more ruthless, in the days to come, in order to continue and camouflage their subservience to globalized finance.

The fact that the very period of the pandemic, and the lockdown generated in response to it when no normal political activity is possible, has been used in India as an occasion to put anti-Citizenship Amendment Act activists in jail under the draconian Unlawful Activities Prevention Act, the fact that labour laws, which represent the achievement of the
trade union movement after centuries of struggle are being abrogated in BJP-ruled states, are all indicative of the shape of things to come.

But precisely because this regime can achieve little by way of overcoming crisis and unemployment, it cannot also be a long-lasting one. Its historical potential is absolutely nil. Resistance to this regime and this trajectory will build up over time to bring about a very different denouement in our country to the crisis of contemporary globalization.

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