

Kall Keynes for Krisis

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The recent crisis has animated the imaginations of mainly those who are now left with the daunting task of having to redeem their country's economy and for the rest it was just a refresher course in Keynesian economics as we all candidly discussed it during our coffee breaks, spare periods, lunches, dinners etc; after all there were not many job losses in India or any violent out break that could have entered the living rooms of the Indian middle class city dweller (for the village dweller, it just did not exist).

One had witnessed the revival of faith in the Keynesian theories as a knee jerk reaction to the sudden bankruptcies of American banking and insurance giants; but now we see that the world policy makers, in peril, are chiefly resorting to stimulus packages (or bail-outs or whatever they have chosen to call it) to either save those firms in distress or bail the economy out; restructuring of the economy, changing a few rules, introducing certain norms and so on are nowhere to be seen.

Keynes chiefly advocated interventionist government policy, by which government would use fiscal and monetary measures to mitigate the adverse effects of business cycles. But is that what was resorted to? I think not. A series of major bail-outs and nationalizing of 2-3 institutions which were the key players of the US sub prime mortgage market does not quite vouch for a change in economic policy of a country.

What the recession ultimately succeeded in doing was defeating the faith one had in the dream of global free market capitalism. It is being argued that the current US stimulus package is too small as it does not take into account Keynes's insight on the importance of confidence and expectations in determining the future behaviour of businessmen and other economic agents but is largely trying to save a few CEOs.

So why is India called the relatively safe country?

It is largely because in India one has policies that are aimed at protecting the interest of its citizen. In China one can open up a firm, employ people and if situation requires, they can lay-off as many as they like but Indian policies will not let that happen so setting up a firm here is relatively tougher and the process, more detailed. Like the IRDA requires that 85% of any insurance firms' reserves to be invested in government securities thereby protecting the common man's money. But in an America insurance firms are free of such norms and therefore greedy motives cause them to run into trouble and also risk the country's economy.

So rather than dailing K for crisis, one sees prudence in restructuring the economy and making it, if not insulated then at least, well prepared.