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RECYCLING INCREMENTAL SURPLUSES

A basic problem with any international financial system is that while adjustments should ideally be undertaken by the surplus countries, they are precisely the ones who are under no compulsion to adjust. If instead of maintaining balance of payments surpluses, the surplus economies expanded domestic demand, especially through enlarged domestic consumption, then all economies, both surplus and deficit ones, would be better off: the surplus ones would be better off since the people there would enjoy higher living standards, and the deficit ones would be better off since they would experience larger aggregate demand (because of reduced imports), leading to larger output and employment.

But whether due to excessive caution (warding off potential currency crises) or a mercantilist sense of "national power" (which holding claims upon other countries gives), surplus countries have always been loathe to make adjustments. The Bretton Woods system, despite Keynes' efforts, failed to set up a mechanism to force surplus countries to adjust.

Even though getting surplus countries to adjust must remain the objective of any international arrangement, a beginning can be made by ensuring that *increments in the surplus*, starting from the initial situation and arising as a result of simultaneous fiscal stimulus packages being undertaken by several countries in the context of the present recession, are put to use.

There is an obvious justification for this: in the absence of *simultaneous* fiscal stimulus packages, the increments in surplus would not have arisen at all. In other words, if a habitually-surplus country simply enlarged its own government expenditure to counter recession, then the most it can hope for is no worsening of its current account compared to the initial situation; it cannot hope to get a larger current account surplus. If it gets an additional surplus over and above what it had to start with, then *that is entirely because of the fiscal stimulus undertaken in other countries*. In short, its enlarged surplus is a booty that lands on its lap because of the actions of other countries.

If this surplus is taken away from it, *then its employment and output would still remain unchanged*, but it would simply have been divested of this booty. Of course, it is free to use this booty for raising the consumption of its own domestic population, but in that case, there would be no *ex post* surplus left. If there is a surplus, then *ipso facto,* it is holding on to the booty thrown on to its lap by the actions of other countries. A case exists for divesting it of this booty.

The obvious way of doing so is to make the countries with increased surpluses, on account of simultaneously undertaken fiscal stimulus efforts across several countries, give these additional surpluses as *grants*, either directly, or through some new (or existing, but reformed) international financial institution, to the less developed (or least developed) countries.

The latter, in turn, must not be allowed to keep these grants as mere accretions to reserves, but to spend them on imports. *In fact, they can enlarge their own fiscal deficits until the point where they can use up the entire grant given to them,* which would mean of course that the increase in fiscal deficit they can sustain on the basis of these grants would be several times these grants. For instance if their import-GDP ratio is 0.2 and private savings ratio is 0.2 (both ratios are assumed to remain constant), then a grant of $100 can sustain an increased fiscal deficit of $200. The coordinated fiscal stimulus provided by a group of countries initially can thus be generalized to become a coordinated stimulus for all countries of the world by the institution of such a system of grants.

With these grants, say of $100, the demand for imports, now emanating from the less (or least) developed countries will increase. Now, no matter which countries this import demand is directed to, it will succeed in eliminating all increases in surpluses and deficits. If this $100 given as grants is used to buy goods from the countries whose deficits had increased (and they would have increased by exactly $100 from the initial situation since, *ipso facto,* all the increased surplus is accruing as grant), then the increased deficit would have been simply wiped out. If, on the other hand, the grant of $100 is used to buy goods from the increased surplus countries, then, they would be redirecting their sales from the increased-deficit to the grant-receiving countries, which again would wipe out the deficit of the increased-deficit countries. Whichever way we look at it therefore, a system of such grants will not only raise world output and employment, but also *eliminate all increases in the net indebtedness of countries relative to the initial situation of recession.* The grant-receiving countries will not have any higher debt. What would otherwise have been increased-deficit countries, on account of the simultaneous fiscal stimulus, will have this increased deficit wiped out; so, *ipso facto,* would the increased surplus countries.[1]

Such a system of grants therefore can kill four birds with one stone: first, it can bring about an improvement in the conditions of the people in the less (or least) developed countries relative to what would have obtained without such grants, and hence reduce global inequalities; second, it would give rise to larger world output and employment *over and above what the simultaneous undertaking of fiscal stimulus packages alone would have achieved*; third, it would do all this without causing any increase in the net indebtedness of any group of countries relative to the very initial situation, i.e. prior to the undertaking fiscal stimulus packages themselves; and fourth, it can be used to promote world food security. Hence, simultaneously undertaking coordinated fiscal stimulus packages, combined with such a system of grants, must form the cornerstone of an anti-recession agenda.

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[1] These grants, and the larger fiscal deficits they can sustain in the recipient countries, can in turn be made the basis for promoting food security in these countries, and hence, by implication, food security in the world as a whole. The per capita cereal output in the world economy has declined in absolute terms over the last two decades or more, and this fact has been at the root of the growing world hunger. The recession, as long as it lasts, will entail a generalization of hunger among the world's population because of the generalized income contraction it gives rise to. But after the recession is over, since the increase in employment will mean that the newly employed would have shaken off the income contraction to which they had been subject during the period of their unemployment, the rest of the world's population will feel the impact of hunger even more acutely. To prevent this from happening, there has to be an increase in the rate of growth of world food output, which alone can promote world food security. The very mode of overcoming the recession therefore should be such that in the process food security is promoted. The system of grants should be used for this purpose as far as possible.