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**Redistribution and Social Protection: Experiences of Asian
Crisis in Thailand and Global Financial Crisis in India**

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Abstract

Given that stimulus measures are needed, what determines towards whom should they be directed? Comparing the experiences of India in the current crisis with that of Thailand in the 90s Asian Crisis, the paper argues that the relatively more important role of the rural population in the Indian electoral system was important in directing more of the stimulus measures towards the rural population, than in the case of Thailand. As growth rates recover attention will have to be paid to reducing growing urban-rural and gender differences. This would require, among other things, that stimulus spending result in an increase in rural productivity.

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1. Introduction

Given that stimulus measures are needed, what determines towards whom should they be directed? This is the political economy question this paper seeks to answer, comparing the experiences of India in the current crisis with that of Thailand in the late-90s Asian Crisis.

The paper begins with an examination of the transmission mechanisms of the global crisis to developing economies. The next section summarizes briefly the effects of the downturn on different sections of workers. This is followed by a discussion of the nature of stimulus and coping mechanisms. The differences in the stimulus or safety net packages between late-90s Thailand and current India are drawn out and the political economy basis of these differences discussed. The paper ends with a brief note on the challenges in the way forward out of the crisis.

2. Crisis Transmission Mechanisms

The current economic crisis, unlike the Asian crisis of the late 1990s, did not originate in Asia. It began in the USA with the sub-prime problem, which through the mechanism of securitization, developed into a full-fledged collapse of the US banking and financial system. The cross-border nature of securitization spread the banking crisis to European financial institutions, turning it into an Atlantic crisis. The financial collapse or degradation, in turn, led to a direct fall in employment in the financial sector. A credit freeze affected business across the board. The asset deflation raised the liabilities to assets ratio of even businesses with positive cash flow. The financial meltdown turned into an economic downturn, with increasing unemployment and a fall in demand.

The Indian banking system was not affected by the cross-border securitization, as the Reserve Bank of India (RBI) and the Government of India together adopted a policy of slow liberalization of the financial system, even while trade was opened up. Internally too the controls of the RBI did not allow securitization on the American model – the originators of securities were required to maintain a continuing financial interest in the securities, unlike in the American system where the originators of, say, mortgages earned the fees for issuing the mortgages, but then passed on the risk to those purchased these securities. Further, the RBI also took action to restrict credit to the housing sector, when it judged that a housing price bubble was developing. This too was quite unlike in the US, where the Federal Reserve (Fed) refused to intervene, claiming that it was not the job of the Fed to judge the quality of assets.

The limited globalization of the Indian financial system, the restrictions on the passing on of the risks in securitization and actions to restrict credit to housing sector when a bubble was developing together insulated the Indian financial system from the financial contagion that swept America and Europe (and, to an extent, Japan). But, as financial institutions in the

developed countries sought to repair their balance sheets, they withdrew some of their portfolio investments in India. This withdrawal was not related to any downgrading of Indian economic prospects, but basically to an attempt of the developed country financial institutions to repair their balance sheets. Asset values in real estate and shares had both fallen in value, while liabilities in money terms did not fall. This asset deflation thus substantially decreased the asset to liabilities ratio. Even with current revenues being greater than expenses, resulting in a positive cash flow, asset deflation pushed the financial (and non-financial corporations too) to the point of actually being insolvent; something that if it were public knowledge would have made them prime targets for takeovers. An infusion of cash was needed to shore up balance sheets. As a result the financial institutions did not invest their money where profits were higher, which they undoubtedly were in India at that time. Rather, as Richard Koo's (2009) analysis of balance sheet recessions predicts, they liquidated profit-earning investments in order to shore up their balance sheets.

The withdrawal of funds invested in shares by the Foreign Institutional Investors (FII) had its predictable effects on the stock market and foreign exchange rates. Indian share values fell sharply and the Indian rupee depreciated. The latter was not unwelcome, as it made Indian exports more competitive in a shrinking global market.

The fall in the demand for exports was one major transmission mechanism through which the Atlantic crisis affected India. This was compounded by a freezing of credit for international trade. The export-oriented sectors of the Indian economy were affected by this fall in export demand and freezing of trade credit. The diamond and jewelry sector saw a fall in demand of possibly more than 30%. Other sectors, such as garments and leather products, were not as badly affected and saw demand reductions of about 5 to 10%.

In many countries the banking crisis led to a freezing of credit, affecting all types of business. In India, even before the fall of Lehman Brothers in September 2008 heralded the unraveling of the US financial system, there was already a credit crunch, which had been operative for more than a year. In response to double-digit inflation in commodity prices and rising asset inflation in real estate, the RBI drastically increased the cost of credit. When the crisis struck this increase in the cost of credit was quite likely already having an impact in reducing investment. But more than the increase in the cost of credit, it was the uncertain global economic situation that affected investment in India, post-Lehman Brothers. In fact, post-Lehman Brothers the RBI moved quickly to ease credit. There would have been an effect of the RBI's credit squeeze, and gross capital formation in India did decline from 39.1% of GDP in 2007-08 to 37.5% in 2008-09 (RBI, April 20, 2009), with a little more than half of the latter financial year being post-Lehman Brothers. Gross capital formation is expected to decline even further to 35.4% in 2009-10.

The reduction in investment meant a fall in imports of plant and equipment, also affected by the difficulties in international credit. As a result, the year 2008-09 ended with a current account surplus, something not seen for a long time in the Indian economy. In fact, Indian investment has usually been more than domestic savings, with the gap being largely covered by remittances from the large Indian diaspora. As seen in the table below, the gap between capital formation and domestic savings has narrowed over the last three years. The current account surplus in 2008-09 means that the Indian economy in that year exported some of its total investible funds (domestic savings plus remittances), as a result of the fall in domestic investment.

INDIAN ECONOMY	2007-08 Actual	2008-09 Estimated	2009-10 Expected
Growth rate of GDP	9.0	6.6	5.7
Industrial growth rate	7.4	4.1	4.1
Gross domestic capital formation (as % of GDP)	39.1	37.5	35.4
Gross domestic savings (as % of GDP)	37.7	35.3	34.6

Source: Reserve Bank of India, 20 April 2009

N.B. The growth rate for 2009-10 has been revised upwards to between 6.5% and 7% for 2009-10.

An important transmission mechanism, one that is not much discussed, is the spread of uncertainty about the economic future. Investment is essentially an act dependent on how the investors expect the future to be. The collapse of the Atlantic financial system and the subsequent decline in exports, led to doubts about future demand. There were doubts about whether there would be fiscal stimulus packages and, even if there were such stimulus packages, what the impacts of these packages would be. This led to an overall loss of confidence in short-term economic growth. This quickly resulted in a postponement of investment. Business expansion usually requires investment in buildings and other infrastructure. One of the first sectors to be expected by the loss of confidence was the construction sector. Office building, malls and residential construction were all put on hold and new projects postponed.¹ Newspapers reported falls in the Purchasing Managers' Index (PMI), an index of orders for new equipment. As the former Governor of the RBI pointed out, "The domestic credit markets were affected due to the reluctance of banks to lend and the *reluctance of borrowers, because of the considerable*

¹ The area where the authors live, Gurgaon, which is virtually an extension of Delhi, has been one of the centers of a construction boom. But after the collapse of Lehman Brothers in end 2008, one could see a definite change in the landscape. Many construction projects were stopped. The slums of migrant, casual workers in construction soon disappeared. Of course, these effects were in private sector construction projects.

uncertainties in the level of economic activity" (Reddy, 2009: 355, emphasis added).

The erosion of confidence in the short-term economic future affected even consumer spending. Many in the middle and salaried classes were not sure of their earnings or even their jobs, even if they had not actually seen earnings fall or lost jobs. In such an uncertain future, commitments requiring the ability to make monthly payments on mortgages and other forms of bank loans, are surely likely to be put on hold. These effects were not the result of any actual falls in business. There were balance sheet stresses in some Indian majors who had gone in for substantial expansion just before the meltdown, Tatas being the most prominent of them. Closures were serious in the diamond and gems polishing industry – and this depended on a fall in orders, a fall in current demand. But what we are referring to is the slowdown in construction, which is very much due to uncertainty over the near future, rather than any actual fall in demand. There was an expectation that the global and the Indian economy would slow down and this expectation led to a postponement of various construction projects. Gross capital formation in India fell from 39.1% of GDP in 2007-08 to 37.5% in 2008-09 (RBI, 20 April 2009).

This decline in global confidence as a key transmission mechanism is not much discussed in the literature on the crisis. George Akerlof and Robert Shiller (2009) is quite the exception. But the general panic in world markets, following the implosion of the Atlantic financial system, was a key transmitter, besides the fall in export demand from the Atlantic economies, of economic effects to the developing economies.

Why was the fall in international trade, of the order of more than 10%, so much more than the fall in global GDP? This amplified decline in international trade is only the obverse of the earlier greater increase in international trade than global GDP. From at least the mid-70s trade has been growing faster than GDP. The simple reason for this is that there has been a process of splitting up of parts of a production process, with these parts being located in countries across international borders. As a result components produced in one country and exported for use in assembly in another country, enter twice into international trade figures – once, as an export from the component manufacturing country, and then again as part of the value of the full product when exported from the assembling country.

To give an example. A lot of electronic equipment, including PCs, are assembled in China; but the circuit boards may be manufactured in South Korea, the flat screens in Taiwan or the hard disks in Singapore. The value of all these components enter into international trade figures of these countries; and then again as part of the value of the assembled PC, when exported from China. This globalization of a production process or the globalized value chain (GVC) means that trade grows faster than global GDP in an expansion. It also means that trade falls faster than global GDP in a recession.

This splitting up of production processes among various countries, the spread of GVCs, is likely to be the single factor that made it virtually impossible for

the world to move in the direction of protectionism, as appeared in the Great Depression of the 1930s. There were minor protectionist moves – greater inspections of goods, hold-ups at ports, etc. But nothing like the Protectionist Smoot-Hawley Tariff of Depression Era USA, which had a major role to play in transmitting the US Depression to the rest of the world.

Here it should be noted that even while the US administration, President Obama included, have at various times made noises about 'Buy American' and 'Invest in America' big US corporations, like IBM, have continued to make fresh investments in countries, such as India. In some quarters these have been branded 'Un-American' actions. But global corporations, in search of cost minimization, continue to locate their production and research facilities wherever it is most advantageous for them to do so.

3. Effects on Workers

The effects of the global recession on workers in India is described and discussed in detail in the paper by Seeta Prabhu and Indira Hirway (2009) presented in this seminar. Here we briefly summarize these effects, in order to lay the ground for subsequent discussion.

As is well-known the export sector most affected was that of diamond cutting and polishing. Indira Hirway's study showed that in the main centre of Surat, Gujarat, about one-third of workers lost their jobs and most were in small units, of which there are a large number in this sector. Large numbers of the unemployed workers returned to their rural origins, as that is relatively cheap – one might add, they could share in the 'family rice bowl'.

In contrast to the scattering of skilled diamond workers, skilled workers in the automotive sector in the city of Rajkot, Gujarat, (see study by Amita Shah of GIDR) were retained by large and medium units in the sector, as they expected export recovery to begin in July 2009. This is an interesting contrast between small and medium to large units. The former let go off their skilled workers and then found it difficult to get them back when export recovery began in mid-2009; the latter retained their workers and thus had them on hand when recovery began. The study does not mention it, but it is likely that the retained workers would have had to accept income cuts during the retention period. A study of the automotive parts sector (Santosh Kumar, EDII) in another town (Ludhiana in Punjab) found that 19% of workers who continued with their jobs had to accept new terms and conditions with income cuts, bearing out the above point.

Construction was the major economic sector affected by the downturn, not because of a fall in export orders, but because of the overall uncertainty in the economic situation and the pre-Lehman credit squeeze. This sector employs a core of skilled, and likely permanent workers, along with a large number of casual workers, many of whom are women. As pointed out, the hutments in which these casual and temporary workers disappeared as construction projects were put on hold.

Studies of garments and leather (Sarkar, 2009) also point out that the fall in export orders of about 10% led to a laying-off of casual and temporary workers, a large number of whom were women. With a fall in economic activity, the amount of waste generated would obviously fall and so also the economic activity of those involved in waste sorting. SEWA's study of waster pickers in Ahmedabad, Gujarat, shows a fall in the volume of work; but, since the workers, largely women and children, were organized in cooperatives, there was not a reduction in their margins. This shows the role that the organization of small producers can play in supporting margins even in a period of downturn.

The major service sectors such as call centers of Information Technology (IT) or IT-Enabled Services (ITES) saw a sharp change from almost 20% or more growth per annum, to about 5% growth. With this new recruitment was frozen and whatever additional work there was undertaken with the same labour force, obviously with additional work burdens.

Initially the business slowdown reduced overall work in financial analysis and other parts of ITES. But this revived very quickly with new forms of work, such as the processing and analysis of the types required for the various bailout packages. Some units, such as those of Lehman Brothers closed down, but they were bought over by other units in the industry – consolidation took place, with smaller units being taken over by large units. A study of the cities of Wen Zhou (garments) and Shenzhen (electronics) shows some interesting forms of consolidation and upgrading. In Wen Zhou there were moves by larger units to bring under direct control various parts of the supply chain, to shift from outsourcing to local supply. Along with this, among some of the largest units there was a shift for original equipment manufacture (OEM) for large Atlantic buyers to promoting their own brands (Original Brand Manufacture, OBM) for the domestic market. In the electronics centre of Shenzhen, on the other hand, the major shift up the value chain was a movement into more R&D by large units, while many small units closed down (Zhang, 2009).

The recruitment freeze led to a fall in attrition rates – earlier call centre employees, for instance, could just walk out of one job, knowing that they could walk into another job. This attrition stopped. Along with that there were also freezes in incentive payments. The changes in the IT were so dramatic that the major IT companies (Infosys, TCS and WIPRO) all decided not to participate in the 2009 survey of employment conditions, a survey they had proudly been part of in earlier years. Given the large number of number of women in the ITES sector, women were also the main employees affected by the recession. The employment survey found a drastic fall in the number of people who felt that their jobs are secure within their companies (15-09-09, MSN News, Dataquest-IDC Best Employers Survey).

To summarize, as casual and temporary workers in some affected sectors, such as garments, construction and ITES and in the informal sector, such as waste-picking, women were over-represented in the workers affected by the

downturn with either loss of work or lower incomes. Men, on the other hand, were the majority of those losing jobs and incomes in the diamond and automotive component sectors.

In coping with the downturn, however, reports show that more women and children entered into paid work. More girls than boys were withdrawn from school. And women put in longer hours in low-earning jobs in the informal sector. As seen in the earlier Asian crisis, the bulk of coping with the income losses was borne by women, who worked longer hours for lower returns.

4. Fiscal Stimulus

After initially denying that the Atlantic financial crisis would have much of an impact on India, the Government of India went about putting together a fiscal stimulus package in December 2008. Monetary policy was also brought in, with lowered credit costs. But, as pointed out above, in a period of uncertainty over the immediate future of economic activity, private sector investment is not likely to be increased or even maintained. The reduction in demand due to the fall in exports and the fall in investment together needed to be made up by a fiscal stimulus.

The government's original budget estimate for 2008-09 was a deficit of 2.5% of GDP.² But with the revised estimates for the year, the deficit went up to 6.0% of GDP. In fact, the deficit was kept lower than it would have been by issuing bonds for food, fertilizer and petroleum companies to the tune of 1.8% of GDP. All this together would mean a stimulus of close to 7.8%, above the pre-Lehman expected deficit of 2.5% of GDP.

What was this stimulus composed of? As Shetty (2009) points out, most of it was due to uncovered expenditures relating to: pay and pensions for the government staff as per the Sixth Pay Commission's recommendations; funds for the continuing food and fertilizer subsidies; the agriculturists' loan waiver scheme; and additional funds for schemes under the National Rural Employment Guarantee Act (NREGA). The announced stimulus included additional government spending, government guaranteed funds for infrastructure, cuts in indirect taxes, additional support for exporters, increased guarantee cover for credit to micro- and small-enterprises, and reduction in indirect taxes. These, however, together only amounted to less than 1% of GDP, and were much less than the stimulus provided by the already in place through increases in government salaries, agriculturists' loan waiver and NREGA.

Thus, the stimulus provided by measures already in place pre-Lehman Brothers was much more than the deliberate stimulus measures formulated post-Lehman Brothers. These measures were taken up through the working

² All data from S. L. Shetty, 2009, "Need for a New Medium-Term Fiscal Strategy," in *Economic and Political Weekly*, September 5, Vol. XLIV, No. 36, pp. 47-52, on which this section is based.

of the mechanisms of the Indian politico-economic system and just fortuitously happened to place when the crisis hit.

Government Salary Increases: Of these, the increases in government salaries is a periodic measure undertaken through the regular Pay Commissions' system. More important than the boost to demand through salary increases was the arrears government employees got. With secure pensions (even if they may not be sufficient) savings of government employees would be less than those of, say, similar earning employees in non-pensionable jobs in the private sector. Thus, their spending on consumer durables out of arrears would be quite high. For weeks after the new scales were announced, sales of small cars, two-wheelers and domestic equipment received a considerable, if one-time, boost.

As in other countries, government employees have substantial influence. Over the last two decades or so the Pay Commissions decisions also seem motivated by the need to increase incentives to government staff, as an anti-corruption measure and, in the process, close the gap between government and private sector remuneration. Coming in early 2009, the arrears received by government employees served as a boost to the flagging automobile sector, which had been affected by the earlier credit squeeze.

Fertilizer Subsidy: Subsidies to farmers, meaning mainly to middle and big farmers, for buying fertilizers is an old policy of the government dating back to the mid-70s Green Revolution period. At that time, in support of Green Revolution agriculture, it was necessary to boost fertilizer use. But fertilizer has become a regular practice and irrigated farming with High Yielding Varieties (HYVs) could not be continued without it. Further, subsidy in the pricing of inputs clearly promotes over-use of these inputs.³ No government has had the political courage to remove the fertilizer subsidy. More than with government employees, middle to big farmers in irrigated areas are an important political lobby, quite critical in gathering the votes of the rural electorate.

The extent of the fertilizer subsidy depends on the international price of oil. The high price of oil for the whole year and more preceding the crash, meant that there was a higher subsidy than budgeted. This added to the fiscal deficit, becoming an additional stimulus measure which boosted the profits of fertilizer producers. To the extent that higher fertilizer prices were reflected in higher prices of agricultural commodities, which was the case in the inflation immediately preceding the crash, there was a boost to rural demand. In fact, the pre-crash inflation in commodity prices was concentrated in food prices and thus was a boost to rural incomes, while it reduced the incomes of the urban poor and fixed income earners.

³ Under-priced inputs also include irrigated water and electricity. With a low price of electricity there is no premium on utilizing energy-efficient pumps. Similarly, there is no incentive to adopt either less water-intensive crops or less water-using methods of irrigation.

Loan Waiver: The loan waiver for agriculturists was a response to the agrarian crisis of cash-crop farming in the semi-arid areas of the Deccan Plateau of India. This crisis, possibly brought about by increasing input prices and declining yields, was manifested in numerous suicides by male farmers. The suicides were not by the landless or even the poorest, but those facing the distress of mounting debt burdens with falling net incomes. After numerous small steps, the government announced a waiver of farm loans in the affected regions. Of course, the waivers were of loans to the largely government-owned commercial banks, which are the only commercial banks that operate in most rural areas. Farmer debts, however, were, most often, not just to commercial but even more to moneylenders. The debts to moneylenders were not covered by the waivers. But given that most of those with commercial bank debt were also indebted to moneylenders, the waiver of commercial bank debt would have been a clearly felt relief to these farmers.

Initially when the waiver was being discussed, there were the usual complaints about the 'moral hazard' involved in the action. If debts could be written-off would there not be a perverse incentive for farmers to take up even more risky debt without heed to the likely consequences? After the multi-trillion dollar bailout of the banking system such moral hazard questions were not heard anymore.

But an important difference and similarity between moral hazard in the two cases can be pointed out. In the case of banks, it is the 'too big to fail' syndrome that promotes moral hazard. In the case of farmers' loans it is the 'too many to fail' factor that seems to work. In the former case an individual financial corporation may undertake overly risky actions, knowing that it will be bailed out. In the latter case, however, it is a matter of actions of possibly millions of farm households, too many for any manner of collusion. It is only ex post facto that a 'too many to fail' syndrome might work. This is the difference between the two cases of moral hazard.

The similarity, however, in that in both cases there is a matter of macro-regulations. As has been pointed in the case of banks, there were micro-prudential regulations, such as reserve ratios, in place. But there was no macro-prudential regulation that could deal with a situation where the entire financial system faced systemic collapse. This possibility of systemic collapse was in addition to the 'too big to fail' syndrome. There is not yet a set of regulations to reduce the risk of such systemic collapse.

In the case of farmers' loans too there is a problem of systemic collapse, that of a whole farming system. Here it is not a matter of regulation as of promoting a transition to a more viable farming system. But this too is a macro- and not a micro-problem. An orderly transition, with a minimum of human suffering, has yet to be worked out.

NREGA: The National Rural Employment Guarantee Act (NREGA) came into effect much before the Atlantic financial crash. It provides for up to 100 days of employment for a poor, rural household; with an emphasis on the employment of women, who must constitute at least one-third of those

employed under the scheme. Given that before the crash, NREGA days were not fully utilized, the scheme provided an automatic stimulus – the number of days of employment sought in areas affected by the economic crisis, chiefly return migrants who had lost their urban jobs, could increase with demand until the full 100 days were used up. The amount spent on NREGA can increase or decrease depending on the demand for rural employment. In the event, the amount on NREGA in 2008-09 was double that originally provided in the budget. The total number of days of employment under NREGA in October 2009 reported as 32,924,495 households (<http://www.nrega.nic.in/>).

Employment provided to households: 3.12 Crore

Persondays [in Crore]:

Total:	122.45
SCs:	36.61 [29.9%]
STs:	26.7 [21.8%]
Women:	62.18 [50.78%]
Others:	59.14 [48.3%]
<u>Total works taken up:</u>	26.14 Lakhs.
Works completed:	7.32 Lakhs.
Works in progress:	18.82 Lakhs.

Source: <http://www.nrega.nic.in/>

The multiplier effects of NREGA were seen to be significantly contributing to long-term development of agriculture and effectively reducing poverty. Though the number of people who depend on NREGA employment would steadily rise over time, the expenditure incurred on NREGA, however, “would be non-inflationary because it will spur agricultural growth upon whose foundation a whole range of sustainable livelihoods will be built” with private investments leading to secondary employment opportunities (Shah, 2007: 46).

India’s Ministry of Rural Development appreciates the fact that NREGA programme that was launched three years ago has “created 3.5 billion days of work” and “90 million individuals (50 percent of them women) have been collectively paid Rs.282 billion (over Rs.28,000 crores) in wages”. The programme has also been successful in addressing “ the problem caused by reverse migration as thousands of unskilled workers return home due to slowdown in infrastructure and other sectors” (Indo-Asian News Service, 2009, February 9). Our analysis of the 1997 Asian Economic Crisis showed that there was no such support provided to those who lost their jobs and therefore returned to rural areas. Importantly women had to bear the burden of providing food to additional members in the home and for the household maintenance, in the absence of any rural employment programme (Kelkar and Osawa, 1998).

The automatic stimulus mechanism of NREGA came into play as the downturn took effect. Reports (Hirway, 2009) however, show that not all return migrants were willing to take up the low-skilled, manual labour jobs being offered under NREGA. Workers in the diamond industry were not willing to

take up the NREGA jobs on offer, and preferred to take up other urban jobs, which paid less than what they had earned in the diamond sector; though there are also reports (*The Economist*, September 2009) that laid-off diamond workers did take up NREGA work. What is likely is that rural migrants workers in construction, the other sector that suffered a major downturn, were the ones who largely took up the manual construction labour jobs that NREGA offered.

5. Dimensions of Responses – Redistribution and Social Protection

As pointed out above, the stimulus or safety net interventions in Thailand were basically urban, leaving returning rural migrants out of their scope. Since women were more represented among the temporary or casual workers, they more than men in permanent positions, lost their jobs. Further, even in the case of women who did not return to their rural villages, they could not really get into the new jobs on offer. Most of the new jobs were machine-operating jobs in urban infrastructure construction. Not that women could not do these jobs, but in the usual manner, women had been excluded from these skilled jobs and remained out of the ambit of the new jobs created. This was so not only in Thailand, but also, for instance, in Indonesia, where, “During Asian crisis Indonesian policy had a public works program more suited to men,” (Mariano and Hung, 2009:17).

But in what way was the ‘employment policy more suited to men’? It would be more suited to men only if the ‘normally’ occurring division of labour in infrastructure work were taken to be the only socially possible division of labour. A deliberate gender-sensitive policy on infrastructure construction could, however, change the usual division of labour and the same construction jobs could be carried out by women, as by men. This requires a deliberate policy of gender equality and the subsequent training of women to take on skilled jobs in construction.

That such gender-sensitive construction policy is possible is seen by the experience of Bangladesh’s Local Government Engineering Department (LGED). In a number of road and market construction projects women have been trained to carry out jobs of making pre-cast concrete blocks, doing most marker shed construction works and generally being part of some infrastructure projects, including those in projects financed and designed by IFAD and others. Of course, the critical jobs of masons have still not been carried out by women. But, what the example shows that it is not that some types of construction policies are suited for men, but that without a conscious gender equality policy these jobs ‘naturally’ fall to men. Thus, a stimulus policy needs a conscious gender policy to be able to bring women into its ambit.

With return migration to rural areas where it is virtually impossible to increase the area of land under cultivation (or at any reasonable cost) the effect is to increase the numbers working on the land, but with a zero marginal productivity of the increased labour. In terms of the production system the effect is what Clifford Geertz first analyzed as ‘agrarian involution’ in the case

of Java. It results in a sharing of income and work, which without any increase in income, means a sharing of poverty. This is what Pasuk Pongpaichit and Chris Baker (1998) call the 'family rice bowl' as against the collective 'iron rice bowl' of Mao's China.

Of course, women did the majority of work on this 'family rice bowl.' Why is that so? Here again it is related to the generally-prevailing social convention about gender relations – that women are responsible for food provisioning or food security in the family. Despite the idea of men as the 'bread winners', it is really women's job to see that there is food for the family. This social responsibility has two consequences, different for women and men. In the case of women, it means that they take up any kind of income earning activity, even if it is something with very low returns, in times of stress. Men, on the other hand, are unwilling to take up such low-paying jobs and thus maintain a high reservation wage, even in times of stress. Reports point out that men would rather spend their time looking for non-existent work than doing whatever little they can to augment the family rice bowl (see Nathan and Kelkar, 1999, for Thailand). When China's late 1990s ban on logging led to a sharp recession in forested areas of Yunnan, families reported that young women, rather than young men, were willing to shoulder the burden of supporting the family, even taking up jobs in the entertainment industry, which often shaded into commercial sex work (see Nathan and Yu Xiaogang, 2004).

The sharing of the family rice bowl was mitigated, but possibly not eliminated, in the case of India, by the presence of NREGA. This was additional work, providing income that increased the size of the family rice bowl. It allowed for 100 days of employment in government works for a household. As mentioned, the demand for employment grew with the export and construction slowdown, such that finance for NREGA doubled the budgeted amount for 2008-09. The legal requirement that the government provide up to 100 days of employment for any rural household, registered as being below the poverty line (BPL) meant that there was an automatic stimulus element in the scheme. Return migrants, in particular, could take up work under this scheme.

Besides the above, NREGA also has a number of gender-sensitive elements in the legal and implementation framework. It requires that at least one-third of persons employed (days of employment) be women. It, very importantly, provides for equal daily remuneration for women and men. It also makes it compulsory for the administration to provide crèches and drinking water facilities at the work site. However surveys and social audits of NREGA works have shown that the provision of facilities, such as safe drinking water, child care, shade for periods of rest, and first aid are reported to be largely absent from worksites (Kelkar, 2009). Surprisingly, a recent statement by Planning Commission admitted "Women's empowerment was not among the original considerations or intentions of the NREGA". At the time of debating over the Act, certain safe guards (one-third employment for women, provision of crèches and equal remuneration) for women were included so as to ensure that NREGA Scheme would be gender neutral in its outcomes. (Workshop NREGA and Women's Empowerment, August 31 2009, New Delhi).

Contrast with Thailand, 1997

At the time of the late 1990s Asian Crisis the Washington Consensus still held sway over policy makers. Stimulus packages were shunned, though some manner of safety-net action was allowed. But the budget was not supposed to go into deficit to stimulate the economy. In sharp contrast, in the current recession “We [truly] are all Keynesians now” and the stimulus packages have been as much as 11% of GDP in the case of China and, as we saw earlier, 6% in the case of India. In fact, the former Washington Consensus institutions, the IMF and the World Bank, are both, correctly, arguing that countries should not stop their stimulus measures now as that would very likely bring about a double-dip recession.

Despite the requirement of not having fiscal deficit, the Thai government undertook a number of safety net measures. These were basically for the urban-based workers who had lost their jobs. Those who had lost their urban jobs and returned to their villages were not covered by the safety net measures. Thus, whatever limited safety net measures undertaken they were basically for urban workers.

In contrast the Indian stimulus measures were mostly rural-centered. NREGA is, so far, a purely rural scheme. The loan waiver was for farmers as also the fertilizer subsidies. Only the government employees pay increase was somewhat urban-centered, with some limited rural impact. The supports given to exporters were urban-centered. But, as pointed out above, the money spent on fertilizer, loan waiver and NREGA measures was much more than that on direct support to exporters. There was a rural bias in India’s stimulus measures, as against the urban bias in Thailand’s safety net measures.

It is worth going into the nature of these differences and similarities too. The first similarity is that the Lewis-type unlimited supplies of labour, that fueled much of the manufacturing boom across Asia, has depended for its cheapness of labour on the rural subsistence economy, both in maintaining workers for that part of the year when they were not needed in urban industry and for maintaining the part of the migrant workers’ families (women and children) left behind in the countryside. This is a continuing relation of low manufacturing wages on part of the costs of reproduction of labour being borne by the rural subsistence economy, largely comprising of women left behind.

But what both crises have revealed is that the rural economy plays yet another role – that of providing the cushion in the event of an urban downturn. The Thai government had, even in recessions before the Asian crisis, relied upon the village to act as a cushion. “Most of the people still lived on the land and grew their own rice. Many in the cities retained links to the village. If the deflationary policies depressed the urban economy, they could still go back home and share in the family rice bowl” (Pasuk and Baker, 1998, 74-75).

In India too the large number of temporary and casual workers who lost their jobs in urban construction and other sectors affected by the downturn, moved back to their villages. The rural economy did, in the case of India too, act as a cushion. This was also the case in China, where tens of millions are reported to have returned to their villages. The difference with Thailand is that stimulus responses in the case of India, and perhaps China too, were substantially rural based.

6. Why the Difference between India and Thailand?

The first difference between the Asian Crisis and the present global crisis, is the shift from a Washington Consensus policy of 'let the market takes its course' and the insistence on not allowing deficit budgets to one of a massive government- stimulus and regulatory package. As is well documented, the restrictive fiscal and monetary policy during the Asian crisis intensified the human suffering, through job and income losses. It also made companies affected by the downturn prey to takeover by other capitals from other countries. On the other hand, the current policy regime is all in favour of fiscal stimulus and specific bailouts, not just of the financial institutions but even of manufacturing corporations, including American icons, such as GM.

At one level, there is no doubt that the end of the dominant role of the Washington Consensus is to be welcomed. If the fiscal stimulus and bailouts of the financial companies had not been carried out, there can be little doubt that the Atlantic financial meltdown would have pushed the world economy into a global depression. But why did the Washington Consensus not end at the time of the Asian crisis but ended now? One reason is that the Asian crisis did not turn into a global crisis, like the Atlantic crisis did. Asia, at the time, was not as important to the world economy as it is now.

But it still needs to be asked whether the fact that the financial meltdown and economic downturn enormously affected both the Atlantic economies and Atlantic peoples, did not in fact have a major role to play in enabling a move away from the Washington Consensus? The financial system of the countries that were at the forefront of formulating and pushing the Washington Consensus were themselves affected by the Atlantic financial crisis. Without the bailouts, not only would the crisis have spread drastically around the world, but the capitals that had not been devastated (for instance the Sovereign Wealth Funds of many Asian and other countries) would have been the ones buying up Atlantic capital at fire-sale prices. There surely was a realization in policy circles in the Atlantic economies that 'letting the market takes its course' would have meant a large-scale sell-out to Asian and OPEC capitals. Along with stopping the slide towards world-wide depression, the bailouts also prevented the fire-sale of Atlantic financial institutions. Historians of economic policy will surely analyze the factors that led to the demise of the Washington Consensus and the timing of its demise.

The second point of difference between responses to the Asian crisis and now is the specific rural orientation of a substantial part of the stimulus packages. The two measures in India with a rural orientation are the loan waivers for

farmers and the employment guarantee for poor rural households. Both of these measures were formulated well in advance of the global downturn, though they came in handy as automatic stimulus measures after Lehman Brothers. Both of them were responses to the growing agrarian crisis and the resulting unrest.

These measures were also part of what the ruling Congress Party has been portraying as 'inclusive growth'. This slogan itself is a result of the realization that India's rapid economic growth has not translated into somewhat equal benefits for all sections of the population, that there is a growing rural-urban inequality. The study by Sandip Sarkar and Balwant Mehta (2009) demonstrates the growing rural-urban inequality in the post-reform period in India. As Branko Milanovic points out, urban India and urban China are pulling closer to the developed countries in terms of income; while the inequality between these two and their respective rural counterparts is now the crucial factor in world inequality (Milanovic, 2005). With the increasing feminization of agricultural work in India and in China too, contemporary rural-urban inequality in these countries is a matter of gender inequality.

The growing rural-urban inequality in both these Asian countries has been manifested in various forms of unrest. In China this has taken the form of tens of thousands of incidents of rural protest, including attacks on state and Communist Party officials. In India there is the spread of armed agrarian movements (the so-called Maoist movements) in areas largely populated by the indigenous peoples (or, Scheduled Tribes as they are known in India) who have not only not benefited from India's rapid growth, but have been the sufferers in terms of being losing their livelihoods through losing their lands and forests for the mineral-based industrialization. In the vast semi-arid regions of the Deccan Plateau agrarian distress has been manifested in the large number of suicides of farmers, which directly led to the farmers' loan waivers.

Along with the agrarian protest movements, there is an important political economy factor that differentiates India from, say, Thailand. This is the role of the rural electorate in India's political system. More than half of India's electorate is rural. Thus the rural vote counts in determining the fate of political parties. Failure to take some measures, or to be seen as taking some measures, to support rural livelihoods, can result in what is known as the 'anti-incumbency' factor leading to a ruling party losing the elections. The Congress party seems to have definitely realized the importance of the rural vote in winning elections and thus deliberately set out on the path of 'inclusive growth'.

Further, the getting the rural vote is no longer a matter of just securing the support of rural bosses (landlords or the upper caste elite). Various sections of the rural population have also been asserting their distinct interests – farmers, middle and low castes, the dalits, adivasis or indigenous peoples, and women too among all of the above. Consequently, there have been a number of policies to take account of varied interests. Some of the most prominent of these are – the loan waivers for farmers, NREGA for the rural

poor, the Forest Rights Act (FRA) for adivasi rights in agricultural land and village common forests and the recently declared 50% reservation of seats in village administration (gram panchayats) for women, the equal right of women in ancestral property, including land, in Hindu inheritance laws and joint titles for women and men in the FRA.

All of the above are measures of distribution – economic distribution with the loan waivers, and NREGA; and of economic and political rights, with regard to FRA, reservation for women in local administration and women's economic rights within the family. These measures show a recognition of the problems of various sections of the rural population; it is not our argument that they are adequate or represent a solution to the problem of growing rural-urban inequality, or will really bring about inclusive growth. But there is no doubt that they are real steps, even if limited steps forward, with some potential for benefiting the rural population.

The FRA, for instance, is a landmark measure in that it provides not only for tenurial security of forest-dwellers' agricultural lands; but also recognizes the important category of village common forests, which constitute a key resource of forest dwellers' livelihoods. These rights are a major step when compared to the long-prevailing situation in which the forest-dwelling adivasis were literally legal interlopers on the lands and forests they utilized, with absolutely no secure of tenure. Granted that security of tenure is a necessary step for investments in agricultural improvement, the FRA is a beginning in this direction. It still, however, has yet to be implemented; and this implementation will surely see numerous attempts by sections of the bureaucracy to prevent a substantial measure of implementation. But the legal rights have been recognized and that provides ground for movements of the adivasis to press for an adequate implementation.

In contrast to the Indian political situation, in Thailand the rural vote has yet to be articulated in the political arena. Industry and the urban professional classes have dominated the Thai political scene. The former Prime Minister, Thaksin Shinawatra, made an attempt to mobilize the rural vote. Industry and urban professional interests have opposed this with demands to limit the extent of election-based seats in parliament. The rural vote in Thailand has still to put its impress on Thai politics and consequently on economic measures too.

In India the importance of the rural vote and the various class and other interests constitute the rural vote are now quite well-recognized in political analysis. Not only is the rural vote important, but within that women have emerged as an important constituency. Women's interests have been articulated in a number of ways – the numerous women's rights NGOs and the organization of poor women in micro-finance groups, called Self-Help Groups (SHGs) have resulted in a substantial articulation of women's interests in policy formulation.

Nature of Stimulus Measures

That fiscal stimulus measures are needed is not the end of the story of stimulus measures. Two further questions need to be resolved in deciding the nature of the stimulus package. First, is that of the particular interests towards which the stimulus would be directed. Second, what is done with the stimulus funds.

To take up the first question, once the extent of the stimulus is decided, where, or towards which classes should it be directed? In India it was directed more towards the rural population, not just to farmers but also to wage labourers and women among them. Urban workers were not specifically targeted. As a result, when diamond workers lost their jobs they moved away. Earlier in 2009 when there was a revival in the demand for diamonds, enterprises found it difficult to get enough skilled workers, who had moved away and could not be traced. This results in a loss of skill and a waste of productive capacity. More recently, the government of India, has been considering setting up an urban employment guarantee scheme, on the lines of NREGA. The role and possible use of skilled workers in such a scheme would have to be considered.

With political economy interests influencing if not determining which classes would benefit from the stimulus package, it is also necessary to see what activities will be undertaken. This is particularly important in an open economy. In a closed economy, Keynes famous quip that stimulus funds could be used to employ workers to dig holes and fill them up again, was valid since there was no particular compunction to take account of productivity. The important thing was to keep employment going, till the market revived and businesses took up accumulation and growth once again. In an open economy, however, the necessity of sustaining international competitiveness means that productivity considerations need to be taken into account.

Both the waiver of farmers' debt and NREGA are transfers of income. As transfers of income there is no further income or productivity effect that would be manifested, other than the likely improvement in health status of the poorest rural labourers, which might itself increase productivity. But, like other income transfers, there is no further incentive effect on productivity. On the other hand, the FRA is definitely productivity enhancing. By providing tenurial security, it increases the returns to productivity increasing investments, thus promoting investment and productivity.

NREGA could have a productivity increasing effect only if the assets built through NREGA work are such as to increase productivity. Many of the NREGA schemes are for improved water retention and storage. To the extent that the schemes are well executed, there could be productivity enhancing effects. But the question is whether the schemes are well executed or approached as merely income-providing schemes. It remains to be seen whether NREGA schemes are of sufficiently good quality as to increase productivity in agriculture.

There could be yet another productivity enhancing effect of NREGA. If they have the effect of reducing gender inequality, that could be beneficial to

productivity, both by increasing women's health status and by giving them an incentive to perform more and better quality work. This is a conjecture, but it is likely that a reduction in gender inequality will give women more of an incentive to improve their work contribution. This however requires that NREGA be backed up with unmediated asset management by women; a process to enhance agricultural management skills and knowledge; a widespread gender sensitization of rural institutions through information and communication technologies, which would help in developing the social understanding of women as workers, farmers and economic contributors. In other words, unmediated control rights to productive assets created under NREGA, new technologies and management skills are most likely to provide them and their households a livelihood with equality and dignity. At the same time this is a stronger measure in overcoming poverty and social inequality (Govind Kelkar, 2009).

7. A Way Forward

The world economy has stabilized, in the sense that it has stopped contracting. Of course, it is the Atlantic economy that has stopped contracting, while Asia as a whole, and China and India in particular, have continued to grow, albeit not yet at pre-Lehman trend rates. In the Atlantic economy, more so in the US, households are in the process of correcting their balance sheets. From a low household savings rate of just about 2% it has now recovered to something like 7% in the US. This development while in the interests of American households, however, does mean that American, or more broadly Atlantic demand, cannot play the same role in the pre-Lehman world. The 'new normal' in the world economy will see less prospects for rapid growth in exports to the Atlantic economy. Consequently, domestic demand and intra-Asian trade, along with trade with Latin American and Africa, in consumer goods and other manufactures, will play a greater role in the coming years.

At the same time, in the more competitive markets of today, there will necessarily be greater pressure to save on costs. This means that outsourcing per unit of output in the developed economies will increase and not decrease. Of course, the total volume of outsourcing will depend on the per output unit rate of outsourcing and the volume of production; but the rate of outsourcing will increase and not decrease. Given the importance of export of services in India's economic growth, it might even mean that the Indian economy could, within a couple of years, recover the current shortfall of about 2% per annum in growth and return to the pre-crisis trend growth rate – even before consumer demand in the Atlantic economy revives to its pre-crisis level.

Private investment in India, as in China, however, will also take sometime to recover from the uncertainties of the global crisis. Some companies would be trying to repair their balance sheets, e.g. such as Tatas, which had expanded very substantially in the immediate pre-crisis period. But even those who have sufficient cash reserves are affected by the uncertainty in the market. Of

course, in the Atlantic economies the shortfall of corporate investment compared to savings, is even greater; as many corporations would be trying to repair their balance sheets.

What the above means is that it is critical for public spending, fiscal deficits by the G-20, which in the current year is close to 15% of their GDP, be continued – until corporate investment revises sufficiently. Any move to reduce the fiscal stimulus would only lead to another dip in the world economy.

As the Indian economy recovers its growth rate it, however, is necessary to pay attention to the growing forms of inequality that have characterized the just-ended period of growth – of rural-urban inequality, inequality in wages between skilled and low-skilled workers, inequality between women and men. Further, the stimulus packages themselves need to target these inequalities and to increase the post-stimulus productive base of the economy.

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