The Kazan Summit of BRICS*

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The Kazan summit of the BRICS countries was a historic one for several reasons: first, it created a new category called "partner nations" as a step towards full membership, and accepted 13 such new "partner" countries, among whom were Cuba and Bolivia. Second, it came out against unilateral economic sanctions that the US-led imperialist powers have been imposing on countries that dare to assert their independence from imperialist hegemony. Third, it suggested a programme of reform for the International Monetary and Financial System. The Kazan Declaration itself was brief in outlining measures to overcome the hegemony of the dollar, while emphasizing the need for it; but a background paper by Russian government bodies provided more details.

These are important developments that must be welcomed; yet, one cannot remain oblivious to the basic limitations of the approach adopted by BRICS towards the problems of the global south. The essence of this approach lies in making existing institutions like the WTO and the Bretton Woods twins more representative, while the problems of the global south go much deeper. To be sure, BRICS remains a heterogeneous bloc that cannot be expected to adopt a radical agenda; the problem I am referring to however is not whether it is feasible to adopt a radical agenda, but to what is a radical agenda.

The BRICS declaration presumes that the international institutions in their current state are flawed because they are dominated by imperialist countries and are not representative enough; but they are flawed because their very essence is flawed, no matter how they are governed. To use an analogy, the BRICS position amounts to saying that the exploitation of workers under the current system is because of cartels and monopolies, and that it would disappear if free competition replaces monopolies.

Take for instance the WTO. The Kazan Declaration talks about advanced countries practising protectionism by moving away from the WTO spirit; it asserts that this moving away is discriminatory for the global south and can only be rectified through better representation of the south in WTO administration. But the problem is that the free trade argument upon which the WTO is founded is itself flawed. It assumes the validity of Say's Law (see People's Democracy October 30) which states that there is never any deficiency of aggregate demand, hence never any struggle over markets: every country has full employment of all its resources both before and after trade; the only difference is that the resources are deployed differently after trade to produce a different bundle of goods.

This however is an absurd claim far removed from the reality of capitalism, because of which subjecting countries of the global south to free trade or even liberal trade amounts to pushing them into Darwinian competition with one another; it amounts in short to a subversion of any form of cooperation. The WTO philosophy in practice ensures not cooperation between countries, including between countries of the global south, but a cut-throat competition between them.

Likewise, the WTO rule that a country cannot give price support to farmers such that the subsidy it offers is in excess of 10 per cent of the value of that particular output, quite apart from the question of whether India violates it or not, is a deeply flawed one: the very distinction between "market distorting" and "non-market distorting" subsidies on which this rule is based, assumes the "efficiency" of the market, a throwback to pre-Keynesian economics; it has no raison d'etre outside the imaginary world created by the WTO though its absurd assumptions.

The thrust of the BRICS Declaration is also on removing the hegemony of the US dollar and having more international trade in national currencies that have fixed exchange rates vis-à-vis one another. Removing the hegemony of the dollar is undoubtedly a laudable objective; but it is not enough. What is also required is the elimination of the hegemony of finance. And for this, at least three conditions are necessary: first, adjustments to remove current account imbalances must be made by countries with current surpluses, rather than by countries with current deficits; second, until imbalances are eliminated, surplus countries should be willing to hold all the IOUs of deficit countries that come their way; and third, there should be no asset transfers ("denationalisation") to settle outstanding debt.

Surplus countries making adjustments rather than deficit countries is desirable not just for eliminating dominance, but also from the point of view of world output and employment, and hence the welfare of the world's working people. If the surplus country has to adjust, then it will raise its domestic absorption of goods and services, which, since its own output will be close to full capacity, will reduce its exports. The deficit country, even if it keeps the same level of domestic absorption as before, will, since its imports have fallen, experience a larger output and employment. Hence, taking the two countries together, there would be an increase in aggregate demand, resulting in larger output and employment. And if the surplus country's increased absorption takes the form of larger consumption by its working people, then the benefit of the working people in the two countries will be even greater: in the surplus country through larger consumption and in the deficit country through larger employment.

In contrast, if the deficit country has to make the adjustment, as is the current practice, then there has to be a reduction in its domestic absorption, which will create a recession within it. The overall level of world aggregate demand will go down at the expense of the working people of the world, especially of the deficit country. Eliminating current imbalances by making deficit countries adjust is thus inferior to making surplus countries adjust, though admittedly the latter is more difficult to enforce.

In addition, the elimination of dollar hegemony without an arrangement to make surplus countries adjust, will also give rise to some other currency's hegemony, not to the elimination of hegemony altogether. Assume for instance that BRICS countries trade only among themselves and in national currencies that have fixed exchange rates between them (otherwise rampant currency speculation will make any trading arrangement unsustainable). If a country has a persistent current account deficit vis-à-vis another, then either it reduces its domestic absorption to remove this deficit, which is the current practice, or keeps supplying IOUs to the surplus country until pressure builds up against its currency, and it can no longer maintain a fixed exchange rate. In the latter case, some currencies, namely those of the surplus countries, will acquire hegemony over the others; the replacement of the dollar, no doubt highly desirable, will only have led to its substitution by some other currency, not to the elimination of currency hegemony.

The Kazan Declaration seeks to alter the mode of governance of the Bretton Woods twins, to make them more representative, and thereby make finance available to countries of the global south more cheaply and with less strict “conditionalities”; the BRICS bank is also supposed to contribute towards this end. But all this, though highly laudable, will not solve the problem of countries of the global south. Even if finance is available more easily and more cheaply, that only lengthens the rope available to these countries to hang themselves; it does not eliminate the fate of hanging, which can happen only if the need for finance disappears altogether.

Such disappearance is by no means a utopian idea. In the days of the Soviet Union, several countries including India had entered into bilateral trade agreements with it, where the exchange rates were fixed. Trade surpluses and deficits were carried over from one period to the next and were settled through mutually agreed exchange of goods and services. There was no question of any specific need for “finance”, of any exercise of hegemony, or of adjustment through reducing the level of activity of the deficit country by imposing “austerity”. To be sure, the Soviet Union was a planned economy which could carry off such an arrangement. But if BRICS is to provide a genuine escape route to the global south from imperialist hegemony, which the Bolivian president’s speech at the summit hoped it would, then it must devise arrangements that constitute adaptations of such non-oppressive ones.

At any rate, the inherent danger in merely endorsing the current international institutions devised by world capitalism, after making them somewhat more representative, must not be lost sight of.

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