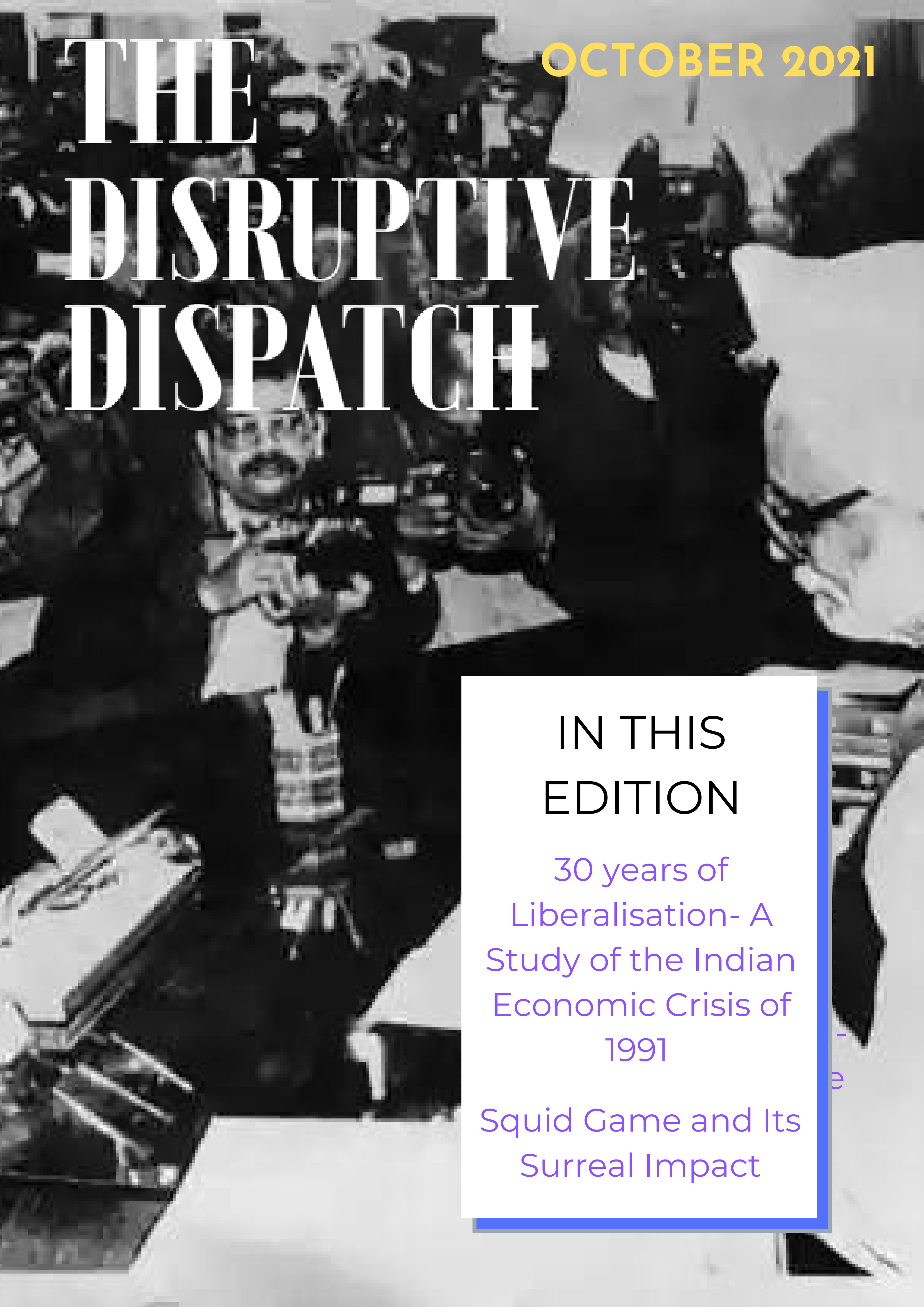


THE DISRUPTIVE DISPATCH

OCTOBER 2021

IN THIS EDITION

30 years of Liberalisation- A Study of the Indian Economic Crisis of 1991

Squid Game and Its Surreal Impact

CONTENTS

Edited by Avaneesh M

30 Years Of Liberlisation - A Case Study

India, the Land of Diversity, witnessed the unveiling of a new dimension to its economic policies subsequent to the disastrous crisis of 1991. British Economist R.H. Tawney rightly said—*“Mankind does not reflect upon questions of the economic and social organization until compelled to do so by the sharp pressure of some practical emergency.”* The nation’s growth shifted paradigm when its reforms transformed from debt and crisis to a stable, progressive system!

TENACIOUS PREDICAMENTS

Post-independence, India followed a mixed economic system—a framework that incorporated the advantages of both capitalist and socialist economic systems. The nations’ elected leaders implemented protectionist, regulatory, and interventionist economic policies, which curbed its overall progress and development. In the 1970s, the Balance of Payments(BoP) crisis emerged and eventually got aggravated towards the end of the 1980s, triggering an acute economic crisis in 1991.
This catastrophe can be attributed to the occurrence of certain events:

- Within the country—There was instability due to the failure of three coalition governments 1989-91. Alongside this, improper management of policies by previous governments had excessively increased government expenditure compared to revenue leading to a high fiscal deficit and a rapid surge in inflation levels. According to Indian economist I.G. Patel, the lavish spending of dollars or rupees as if there was no tomorrow (by the five years of the Rajiv Gandhi government) left behind a burden on the country in terms of fiscal and short-term debt causing the crisis. Investment in stagnant or non-performing public sector units(PSUs) led to further escalation in expenditure, and foreign exchange reserves reduced exorbitantly to meet “consumption needs.” This steady decline since the beginning of the 1980s eliminated a significant source for funding the country’s current account shortfalls and external debt.

- Outside the country:-The Gulf War began in August 1990, causing oil and petroleum prices to rise rapidly. Iraq and Kuwait being India's primary source of imports, made it necessary to purchase oil and petroleum products from the spot market accounted for the sharp rise in imports and the trade deficit.
- The breaking-up of the Soviet Bloc and the introduction of Glasnost and Perestroika did three things:
- Terminated several rupee payment agreements
- A decline in the flow of new rupee trade credits
- The decline in exports to Eastern Europe
- An overall increase in import rates by 2.3 percent of GDP compared to export rates (only 0.3 percent of GDP) increased the GDP ratio and adversely affected investor interest (India's long term foreign debt rating had been downgraded to the bottom of investment-grade by The International Credit Rating agencies Standard & Poor's, and Moody's before march 1991) graph attached at the end and making the economic situation critical. Thus, India approached the World Bank and the International Monetary Fund (IMF) and received a loan of a whopping $7 billion (by pledging 67 tonnes of its gold reserves as collateral) to manage the crisis.

This crisis marked the origin of economic liberalization with the launch of a multipronged reforms agenda. It ignited growth and aided the repair of the country's macroeconomic balance sheet.

Oil and Non-Oil Imports (In Rs. Crores)

Period	Oil Imports	Non – Oil Imports	Total Imports
1981 - 82 to 1985 - 86	26041.61 (32.00)	54491.03 (68.00)	80532.64 (100.00)
1986 – 87 to 1990 - 91	28299.75 (19.00)	120796.18 (81.00)	149095.93 (100.00)

Note: Figures in brackets are percent to total .

Source: Reserve Bank of India – *Handbook of Statistics on Indian Economy, 2005 – 06*

Table 3. Performance of foreign trade, investment and exchange rate.

Foreign Trade Indicators and Exchange Rate	Average of 1985–90	1990/91	1991/92
Export growth (%)	11.4	9.0	−1.1
Import growth (%)	9.4	14.4	−24.5
Foreign investment (USD million)	279.2	103	133
Exchange rate (Rs./USD)	13.82	17.94	24.47

Source: Reserve Bank of India, 2001.

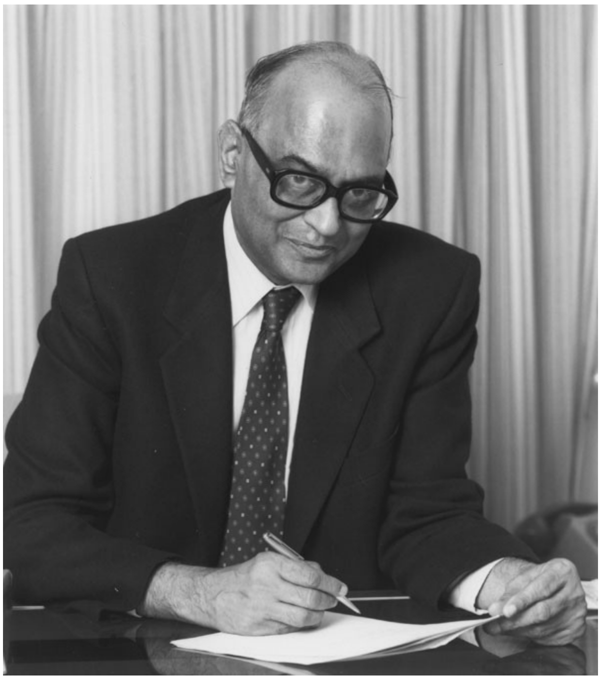
TURNING A BLIND EYE

In their study of the Indian economy, Joshi and Little called the 1991 crisis a "policy-induced crisis par excellence."

As discussed above, the massive fiscal and persistent macroeconomic imbalances that can be traced back to the 1980s set the crisis in motion. Governors of the RBI, over multiple tenures, have issued warnings to the government. They have drafted countless notices about the rising external deficits and the rapid increase in the amount of money in circulation due to government spending. The Economic Survey- the main annual report of the Finance Ministry, is a detailed report of the country's economic performance over the past year and is generally released the day before the General budget. They highlighted the then ongoing gulf oil crisis and repeatedly raised red flags about the spending habits of the country and misallocation of capital. Not only national agents, but international institutions like the IMF had also been keeping an eye on India's growing debt since the mid-1980s. In fact the Debt Predictions that the IMF released for the year 1988, was very close to official numbers The IMF had also been worried about the situation since the mid-1980s - their 1988 debt predictions were only a few points off.

However, members holding office during the period refused to acknowledge the steadily growing budgetary stress. Budget speeches in the 80s were tastefully embellished with words of reassurance — signaling that the problems were growing exponentially and seemed necessary for a country like India so that it fully understood the gravitas of the situation.. V.P Singh, the finance minister back then, said that the Indian economy is immune to the alarming levels of deficit financing than what "traditional economic theories and analysis would permit" in 1985. Rajiv Gandhi maintained that India has been book-keeping prudently, and despite the high deficit, there was no need for panic.

The government's relatively composed demeanor may have been because of its incoherent functioning and decision-making—like when it chose to depend on inflation rates to indicate fiscal stress. Inflation still remained subdued in that decade and the price rise was aggressively kept in check by the monetary policy— essentially making credit inaccessible for everyone except the government.



I.G. Patel, RBI governor from 1977 to 1982: *"Rather than take any remedial action, we went merrily along, borrowing more and more at home and on shorter and shorter terms abroad....our response was not to strive harder for self-reliance but to increase the amount as well as the proportion of short-term debt in our total external indebted"*

Article dated July 8th 1991

INDIAN EXPRESS

Secret sale of gold by RBI again

21,000 kg of metal airlifted to coded destination

Indian expatriates workers board a flight from war torn Gulf

By 1990, it had become evident that the rising deficit had to be discussed. A new government was now holding office, and the finance minister Yashwanth Sinha remarked that "maybe V.P. Singh ... could have done more, and gone immediately to the IMF, but there is a very strong opinion in this country against the Bretton Woods institutions.". He presented the Interim budget instead of the full budget mainly due to political pressure, which unfortunately was not enough to stave off the crisis.

IMMEDIATE REMEDIES

Merely weeks away from defaulting on its loan, the Chandra Shekhar Singh government had decided that a viable immediate measure would be to secure an emergency loan of $2.2 billion from the IMF by mortgaging 67 tonnes of gold as collateral. This measure was met with immense scrutiny back home but managed to gain the confidence of lenders abroad, mainly Japan. The government and the RBI undertook a 2 step devaluation of the Rupee- around 9% and later 11%.
One of the most significant changes that took place was the trade policy revamp and the new industrial policy.
Trade policy revamp:
Essentially streamlined the licensing process, did away with unnecessary controls, and abolished export subsidies in light of the rupee devaluation.
New Industrial Policy:
To allow easier entry and restructuring of enterprises, they aimed to open chosen areas to foreign investment, eased some requirements of the trade practices act, and eliminated the license raj in most industries. According to the administration, partial stakes in public sector firms would be sold to state-controlled mutual funds and financial institutions.

AN ERA OF TRANSFORMATION

The World Bank and International Monetary Fund (IMF) lent money to India upon its agreement to comply with specific prerequisites, which required the country to be subject to economic liberalization. The New Economic Policy constituted the economic reforms that India was obliged to follow to avail their sovereign debt waiver.
The policies under the Structural Adjustment Programme advocated by the World Bank and IMF were categorized under two domains based on short-term or long-term measures:

- Stabilization Reform Propositions: includes short-term resolutions to

- maintain foreign exchange reserves while keeping inflation in control to neutralize the Balance of Payment Crisis.
- Structural Reform Propositions: long-term statutes to liberalize the economy by removing restrictions on trade and reducing government involvement in private sectors (increase their frequency), enabling their international competitiveness and efficiency to improve.

The reformations were initiated in multiple domains—

Fiscal Policy:

To lower the burgeoning fiscal deficit, the government took measures to reduce expenditure (e.g., cutting down the budget on subsidies like fertilizers and sugar), implement disinvestment in selected PSUs, and a transparent, stable tax structure to increase revenue.

Monetary Sector:

The government implemented efforts to increase liquidity by reducing reserve requirements. In the span of three years:

- Statutory Liquidity Ratio dropped from 38.5% to 25%
- Cash Reserve Ratio was cut down from 25% to 10%

Administrative constraints were eliminated by the entry of private sector banks and increasing flexibility of existing banks by executing relaxed bank branch licensing policies and liberty to relocate/open other branches.

Capital Markets:

This sector's reforms included implementing minimal government intervention by installing a regulatory framework—The Securities & Exchange Board of India(SEBI). SEBI's mandated to devise a suitable setting to assign and mobilize adequate resources through the securities market efficiently.

THE EPOCHAL BUDGET

With a decent base to start recovery, India laid down plans to rebuild under the PV Narasimha Rao government with Manmohan Singh at its helm as the finance minister.

A speech heralded by many as a watershed moment in Indian history, the Budget of 1991 mainly aimed to build upon the administration's recent advances for crisis aversion.

Some of the main features of the same were:

- SEBI (The Securities and Exchange Board of India) was given statutory authority to regulate India's financial markets efficiently.
- Investment laws for non-resident investors were liberalized

- Mutual funds were made available to the private sector.
- Proposed tax incentives for exports to stimulate them
- Raised the corporate tax rate from 40% to 45% while keeping the personal income tax brackets.
- Taxes of dividends from offshore funds were decreased (to draw FIIs- Foreign institutional investors. They are institutional investors who invest in assets that belong to countries other than the country in which they are located)
- Prices of cooking gas, petrol, and fertilizers were increased. Sugar was no longer subsidized.
- Changes in import-export policies, reduction in import licensing
- Proposed that up to 20% of government equity in selected PSUs will be offered to the public sector's mutual funds/investment vehicles.
- Tax concession for export of software.
- Emphasis on direct taxation- increased rates, better tax compliance, etc., while making the system more accessible and plans to bring tax rates across incomes to an appropriate level.
- Introduction of packages for the comprehensive development of village-level enterprises.

The opposition slammed the budget— they were very critical about the withdrawal of fertilizer, petrol subsidy, increase in the prices of essentials and called it a "command" budget from the IMF.

However, the budget and the aforementioned policies managed to turn the tide around.

1991 marked the end of licensing raj; companies were freed from quantitative restrictions, and importing machinery and consumer goods became easier. Export concessions enabled

Indian software become more cost-effective, and over the years, India's export volume of goods like chemical products and agro-produce also increased. Foreign companies entered into joint ventures with domestic companies and were easily integrated into the market as well. Profitable PSUs were liquidated, but the revival of poorly performing PSUs did not happen as expected. Peak income tax rate came down over the years to 30% and the number of slabs to 3.

THE CRISIS THROUGH A GLOBAL LENS

Many pro-free market enthusiasts/economists believe that poor national policymaking and improper management of local institutions produce and trigger economic crises in developing countries, without any influences from the rest of the world. Seeing "local" in isolation from "global" will constrain the lens that can potentially explore the full range of power exercised by these local agents. Especially in India's case, when it was going through an era of intense socio-political exchanges and relations- understanding the full range of the issue in a nuanced manner became imperative. government intervention in capital regulation to ensure a more "business-friendly" environment and the increased spending eventually backfired. This was the ticking time bomb. But what set it off?

The 1990 oil price shock, due to Iraq's attack on Kuwait, followed by the USA's "friendly" intervention, sent ripples through the global market and oil trade. The war-torn Middle East had been a major importer of Indian goods, and the immediate loss of exports for India due to the invasions amounted to approximately $2.80 billion. It resulted in additional burdens as the government had to rehabilitate NRIs from the affected zones. In 1990–91, the value of India's petroleum imports increased by $2 billion to $5.7 billion due to the spike in prices around the world due to the Gulf crisis and an efflux in oil imports because of domestic crude oil production riddled with supply difficulties. Additionally, over the last several years, the government relied on a steadily increasing inflow of income from the workers stationed in the Middle East to boost its foreign currency reserves. But due to the war, remittances declined to $2.4 billion in 1990.

The weak economic growth of India's major trading partners exacerbated the country's deficit. In the years preceding the crisis, export markets were sluggish as global economic growth rates fell progressively from 4.5 % in 1988 to 2.25 % in 1991.
The United States, which was viewed by reformers as a model economy, had a despicable growth rate throughout this time. It dropped from 3.9%in 1988 to -1% in 1991.

THE SOVIET SAGA

The dismantling of the USSR shook the Indian economy and its ideals. The Soviet Union was seen as the "model socialist state" by many Indians. A significant portion of the policymaking elite lost support for socialist ideas and started looking up alternative models, like the US/ or Britain’s "successful" policies. It also bolstered the positions of policymakers who were already for liberalism. One can say that the collapse of the Soviet delegitimized socialism in the country and created the foundation for the aspirational, less regulated market of the west.

The economy also paid a heavy price — India's cheap source of defense equipment was gone. The defense expenditure escalated to 3.8% of the GDP between 1987-89. Before the massive devaluation of the USSR and Eastern Europe economy, which accounted for about a quarter of India's exports, the country's export growth inevitably fell apart. A major deal-breaker with the soviet "friendship" was the currency exchange dispute. Bilateral trade between both parties used the Rupee and Soviet Ruble as valid currencies of exchange. But after the breakup, Russia started asking for payments in USD, which was firmly opposed by Indian policymakers- the foreign exchange reserve was on the verge of becoming bone dry, and Russia's demands were deemed "unfair."

The dislocation of the state's socialist ideals and the rise of the United States as a beacon of neoliberal hope slowly took place. After losing out on the Soviets, the west seemed like a fitting ally. India attempted to befriend the States by making extra efforts to move towards a free market. In fact, The US government had nominated Manmohan Singh as India's new finance minister in coordination with the world bank and IMF.

Examining the crisis through this lens helps us understand neoliberalism in Indian policy much better. Especially because the evolutionary nature of the reforms is still a matter of conflict, many argue that liberalization was on the drawing board since the 80s and 1991 just accelerated the process, while others argue that the reforms were temporary measures to please the IMF(this particular argument seems to hold a lot of ground as the reforms faltered and ceased within 3 years after the economy came back on its feet).

INEQUALITY/POVERTY

Both statistical data and traditional trade theories back how liberalization supposedly decreases inequality, poverty rates, and stabilizes wages. Another view backed by both statistics and traditional trade theories is the fact that poverty, inequality rates decreased, and wages stabilized. The poverty rate in the 1990s was 35% and dropped to 15% in 2011.

The Stolper-Samuelson Theory, one of the most renowned theorems in trade study, also states that opening to trade should increase GNP, which means that in poor countries, inequality should go down, and in rich countries, inequality can go up (before the redistribution of capital-subject to political forces).

Many low to middle-income countries have opened up to trade in the last 30 years. But what happened to their economies is in stark contrast to what the Stolper Theorem proposed- the basic income distribution in these countries is highly unilateral. Low-skilled workers, usually in abundance in these regions, have not seen any significant respite. Their wages are still much below the living standards, especially when compared to their higher-skilled counterparts. Alluding that liberalization as the sole reason for this trend is very short-sighted; as discussed above, reforms never take place in singularity.

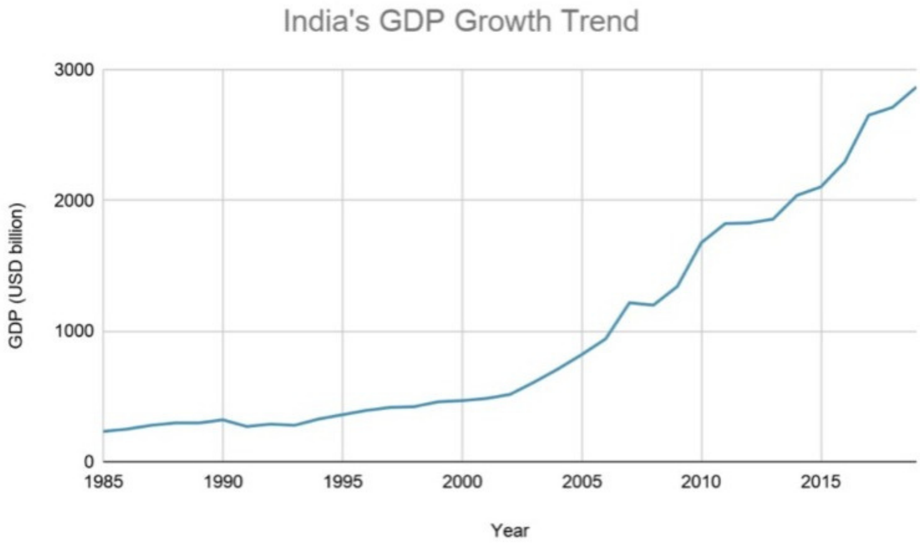
According to Stolper-Samuelson, there is one unique wage for every worker with the same skills; it does not depend on region/migration. After reallocation of labour to areas where their skills can be put to use, they will all earn the same wage. The only reasonable way to compare the effects of trade in a country would be the whole economy. However, we know this is not true because the labor market is sticky. Even when trade winds suggest that migration of workers may take place—many choose not to, and as a result, the wages are not equalized. We can consider that a country has multiple smaller economies within it, especially in a country like India, where each sub-economy is primarily focussed on one sector.

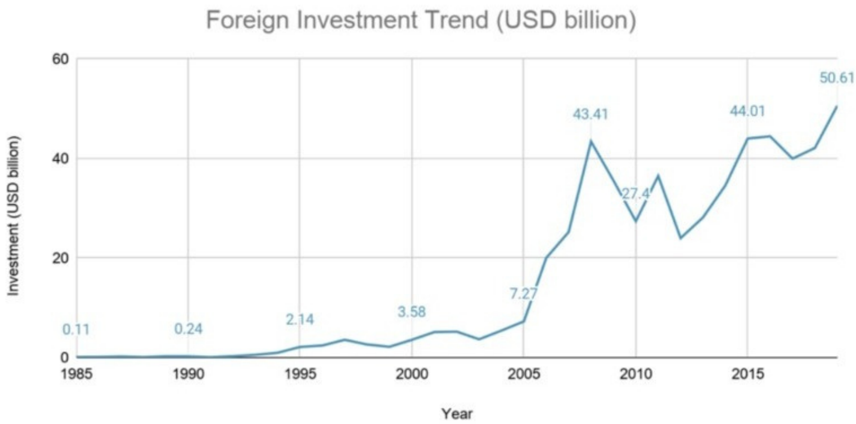
A REVELATION

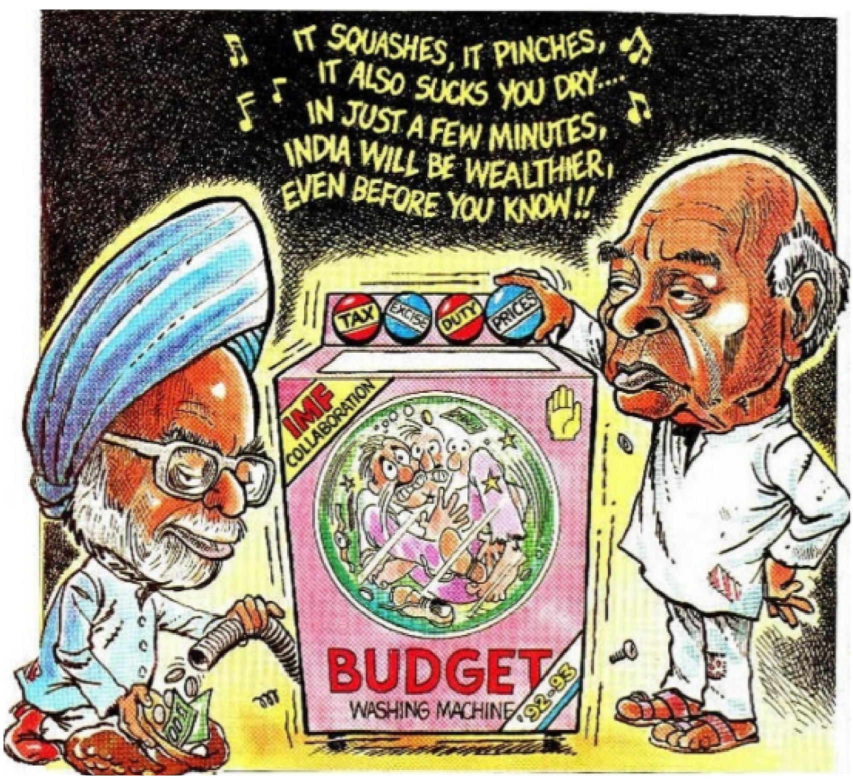
Petia Topalova, a researcher at MIT, decided to examine the case of Indian workers being stuck in a region and the same line of work. In this paper, she found out that liberalization in India affected the various parts/sub economies of the country differently than others. Some industries were already feverishly licensed, and other regions were already quite prosperous before the reforms. This led to a variance in the reduction of tariffs and consequently, the effect on the market.

She looked at what happened before and after 1991 using this exposure metric. Contrary to the Stolper hypothesis, she discovered in her study that more exposure to trade liberalization hindered poverty alleviation in that region. She also subsequently found out that the incidence of child labor decreased less in trade-exposed districts than in the rest of the country.

She underlines in her paper that inequality in India did not increase as a whole; it was just exaggerated in more trade-affected areas. To begin with, the less affected areas were poorer, but since their rate remained







Singh (L) and Rao (R) depicted as accomplices of the IMF pretty much stagnant, ironically, they helped reduce total national inequality levels. As expected the paper received a lot of flak from academia, but soon similar results were found in Brazil, Colombia, and eventually the US.

2021—THE NEW 1991?

The reforms of 1991 had a colossal impact on the entirety of The Indian Economy. Numerous sectors rejuvenated and thrived, administering high economic growth (1991-2011) and a considerable poverty reduction (2005-2015). However, the economy proved incompetent due to its inability to generate sustainable livelihoods for a large proportion of the nation's working class. Critics insist this be deemed as "jobless growth." The covid-19 pandemic was a game-changer—it helped reflect and question the 1991 situation and if the nation's progress ameliorated the human condition.

<u>Fiscal debt:</u>

1991: An exuberance in domestic demand invariably increased imports resulting in the depletion of foreign reserves and broadening the current account deficit (CAD).

2021: The lockdown brought a grinding halt to production and a fall in demand, emanating a sharp economic contraction that invariably increases fiscal debt. In 2020, the government approved its expansion to 9.6%.

<u>Macroeconomic Status:</u>

1991: India had to waive off its sovereign debt guaranteeing 67 tonnes of gold mines as collateral.

2021: Stagnation in businesses, rapid unemployment rate, delinquency of the central government regarding revenue commitments to the states, and a surge in poverty after decades depicts a shriveling of the economy.

The striking similarities make it evident that although the circumstances are widely different, the functioning of the economy is affected to a similar extent, reigniting the reforms debate. It is a subtle hint to governments to realize and accept that there is no bargaining power for the workforce—only if a population earns well will it spend well.

CONCLUSION

The reforms of 1991 are impeccable in certain aspects; however, apportioning blame for its failures is irrelevant as its formation was dependent on factors such as globalisation to increase the growth rate. Governments must modify and broaden aspects of specific reforms in the immediate future—analyzing circumstances and technological advancements to minimize flaws and enhance economic growth.

Facebook's Impervious Influence

Facebook's dominance over social media has sparked multiple debates over the past year. The social media giant has continued to skirt regulations and remains in denial over the problems its platforms cause.

However, over the past month, Facebook has faced more backlash than ever before. Frances Haugen's exposé, in particular, has ignited endless conversations over Facebook's impervious influence. We look to deconstruct the issues that plague the social network and any possible solutions to its current predicament.

A Plethora of Problems

A whistle-blower, an outage, and a rejection of Instagram Kids; it's safe to say Facebook hasn't enjoyed the month. When Frances Haugen, the former Facebook product manager, delivered her tectonic testimony, she laid bare the tech giant's inherent flaws for the world to see. In particular, her claims underlined a fear creeping into our minds for years—Facebook shows an insouciant attitude towards the myriad of problems on the platform. The social network has neglected safeguards and oversight; instead, it has favoured promoting misinformation, insecurities, and virtually anything that will maximise engagement, but more on that later. Haugen also went on to highlight perhaps the most exigent issue.

"Almost no one outside of Facebook knows what happens inside Facebook," - Haugen

This jarring quote from Haugen can also be interpreted as a desperate cry for regulation. However, regulation brings politics and governments into the picture, and since Facebook's endless tentacles are spread across the world, regulating the behemoth would become an excruciating task. The outage on October 4th further proved how deeply entangled Facebook has become.

The Salient Social Network

To some, the outage might've seemed like only a minor inconvenience, but, in reality, it was far from it. Over 3.5 billion people are logged onto Facebook apps, and for a majority of them, the outage was devastating. Developing nations, such as India, Mexico, and Brazil, in particular, faced the brunt of the blow. The informal sectors and countless small businesses in these countries strongly rely on Facebook for efficient communication and marketing.

One aspect that tends to be overlooked is the effect on the stock market. Facebook's stock fell by almost 5% and the impact that had on the Nasdaq Composite, which fell I by 2%, was particularly worrying. The outage also caused a catastrophic fall to Zuckerberg's personal wealth —in just a few hours, Zuckerberg was said to have lost up to a whopping $7 billion.

The falling stock price wiped off $50 billion from Facebook's market value while also leeching $13 million advertising dollars every hour the platform was offline. Several economies across the world felt the brunt of the blow and, according to cybersecurity watchdog NetBlocks, the global economy faced a seismic loss of $160 million.

While the outage provided the world with a chilling reminder of our over-reliance on Facebook, it also raised some of the most extensively debated questions—one of the major ones being, is it possible to limit our dependence on Facebook? The simple answer to that is no. A reflection of our own life would serve as an indication of the uncurbed hold Facebook holds over us. Facebook's hunger for expansion implies that it has now established itself as

#

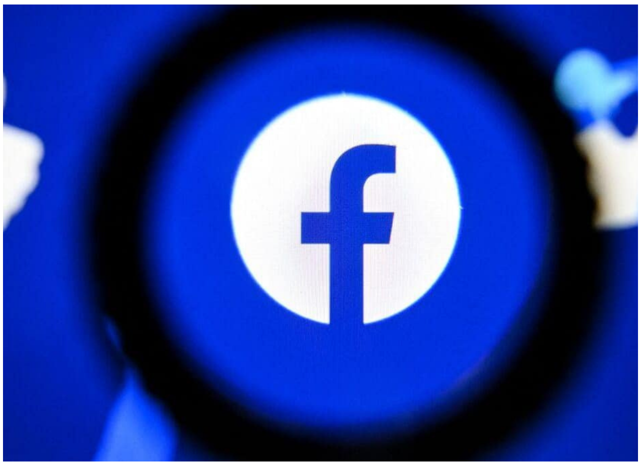
almost irreplaceable—its power and influence are absolute and uncurtailable.

Now that we've accepted that Facebook's influence cannot be dampened, we must raise another question—how do we manage and control that influence?

Facebook's Arcane Algorithms

To understand what needs to be fixed, we must first look into Facebook's algorithms. Most social media websites use some form of algorithms, and their best versions can be mesmerizing. They can help us meet like-minded people, engage with the content we're interested in, and delve into topics that we may be curious about. However, in Facebook's case, the algorithms serve only Facebook's agenda. You see, these algorithms are geared towards keeping users engaged on the platform by any means necessary.

As Haugen pointed out, the equation is simple: the more people engage on the platform, the more ads they view and interact with, the more money floods into Facebook. To keep this cycle going, Facebook's algorithms are AI-based, which means they learn and adapt as they plow through the endless data on the platform—in doing so, they have promoted controversy, fake news, and extremism. What's more worrisome is that Facebook seems unwilling and incapable of reeling in its algorithms. This situation is spiraling dangerously out of control and threatens to destroy in inexplicable ways.



#

Sanguine Solutions

Much of the debate surrounding Facebook has been centered around transparency. A solution that has been suggested as of late involves the presence of a public body overseeing Facebook's algorithms and their development. However, a caveat here is that the public body may not directly alter the algorithms; that job will be Facebook's alone. A law would have to be passed to force Facebook to be more accountable regarding its algorithms, bringing a multitude of complications into play.

A radical solution, one that might have seismic consequences on the future of social media, is to eliminate the algorithms altogether. The posts would arrive on your feed in chronological order, thus preventing toxic and extreme content promotion. However, in reality, Facebook would be unwilling to tear down the very thing that propelled its success.

There have been innumerable solutions that have entered the conversation over the past year, although it seems that all of them come back to face the same stumbling block—Facebook's gargantuan presence. Facebook holds an unwavering influence across the globe and it seems the social network may have become too powerful to control. We have to begin to ask the question, is it even possible to regulate the impervious influence of Facebook?

The US Debt Ceiling: A Delirious Catastrophe

On 4th October 2021, US President Joe Biden accused the Republicans of blocking efforts to raise the debt ceiling, which currently stands at $28.4 trillion. This issue put the US in a tough spot because the very next day, Treasury secretary Janet Williams testified before Congress that the US would run out of funds by 18th October 2021. The President proposed raising the debt ceiling to avert a possible first debt default.

But why does the ceiling exist?

The debt ceiling did not exist until the year 1917. Before this, the treasury could issue bonds only after the approval from the Congress, the legislature of the States. But in 1917, during the First World War, Congress introduced the debt ceiling which allowed the Treasury to issue bonds and take on debt until the ceiling was not breached.

Simply put, a debt ceiling is a limit on the amount of money that a government can borrow to pay off existing debts.

These existing debts mainly include Social Security payments, medicare, military salaries, and tax refunds. The current US Federal debt stands at $28.43 trillion, $0.03 trillion above the ceiling. Fortunately, Mr. Biden approved of the legislation to raise the debt ceiling to $28.9 trillion on 14th October, thus dodging a first possible default. This was a close shave for the US Treasury which was at the brink of collapse. It must however be noted that these mounting debts were not incurred overnight. The United States has been running budget deficits for years now, which the Covid-19 pandemic worsened. There has been an uphill rise in government spending, with every year's spending surpassing the last, leading to an increase in national debt interest payments
.

While there's nothing questionable here, what needs to be examined is the fact that the government has overstepped its spending capacity, making it increasingly arduous to sustain the country.

The Story So Far:

Since the past few months, the US Treasury, led by Secretary Janet Yellen has been using "extraordinary measures," which are nothing more than accounting maneuvers that allow them to keep paying bills and possibly reduce unwanted expenditure.

For the bill to come up to a vote, the Democrats (who hold 50 seats in an evenly divided parliament) need a minimum of 10 Republican votes. After debating on the topic for months and thoroughly scrutinizing the long-term effects of passing such a bill, both parties put their differences aside on Thursday, 7th October, and voted to pass the bill that's currently helping the government stay afloat.

Consequently, the 60-vote threshold was passed when 11 Republicans joined the Democrats to pass the bill that would raise the ceiling by $480 billion.

Even in this tense atmosphere, the final move was anticipated by many economists, given that ever since the inception of the debt ceiling, all the way back in 1917, Congress has voted 80 times to raise or suspend the debt ceiling.

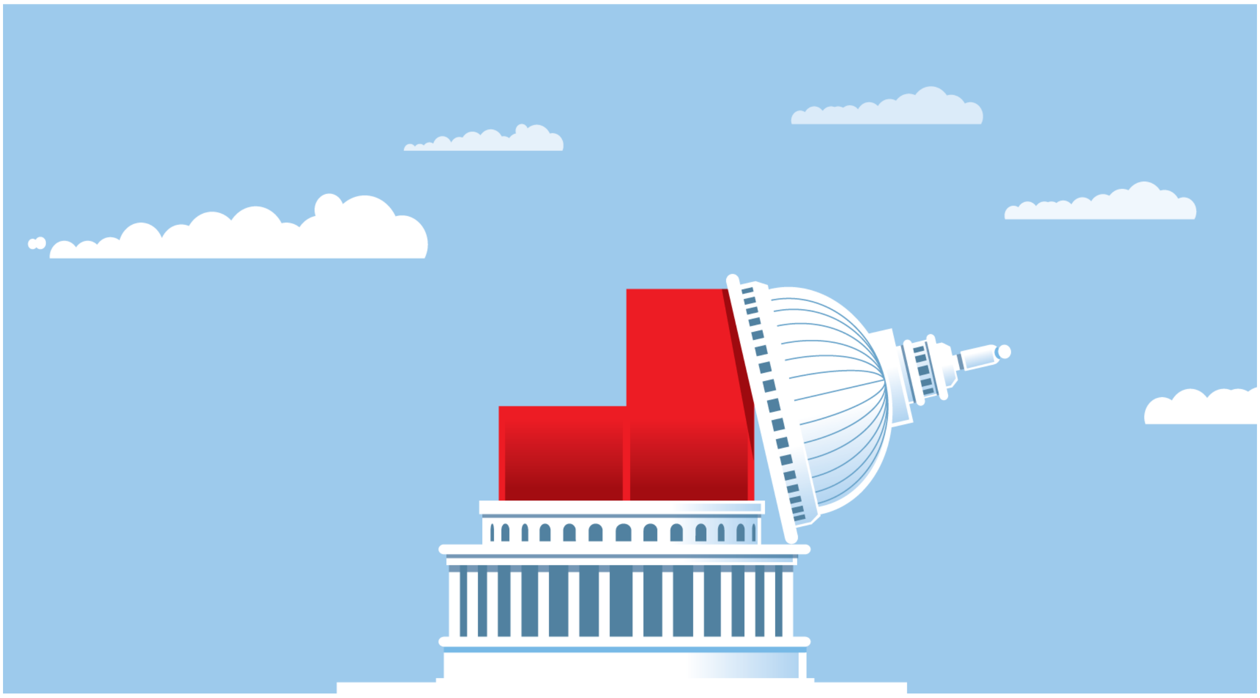
What would have happened had the ceiling not been raised?

Although economic future always remains an iffy subject, economists hypothesize that such an event would cause a spike in interest rates that the Treasury pays on notes, bonds, and other assets it sells to raise money. Consequently, the reputation of American bonds would be reduced to rubble which is otherwise ranked at the apex of stable securities globally. Questions would be raised on the credibility of the US dollar and investors will be inclined to pull the plug on the assets denominated by the 'World's Reserve Currency..

Matthew Zames, an investment banker who chaired the Treasury Borrowing Advisory Committee in 2011 said a default could lead to a potential debt sell-off as the borrowers had set up Treasury securities as collateral. A move of this kind often makes the banks and institutional investors believe that the government is incapable of paying its debts. This can also lead to colossal political after effects and the probable result would be another recession.

In another study, the Federal Reserve simulated the effects of a temporary default lasting a month (mid-October to mid-November) in 2013. The macroeconomic effects were no less than ruination:

Stock prices would plummet, and the Dollar taking a hit of 10% was also not improbable. The economy could dive into a mild recession lasting at least two quarters.
The unemployment rate for the next two years (2014, 2015) would stand at 1.25% & 1.7%, respectively. In today's scenario, the implications of the same rate would result in the loss of 2 million jobs in 2022 & 2.7 million jobs in 2023.



A Bizarre Proposition:

The minting of a $1 Trillion platinum coin was considered if the Congress failed to raise the ceiling by 18th October as minting such a coin does not need a congress approval. The 20 year old law seems more like formalised tomfoolery than an actual solution to the problem.

This concept took birth during a similar debt crisis ten years ago. The essential idea behind minting such a coin is to deposit it in the federal reserve for expenditure by the government.

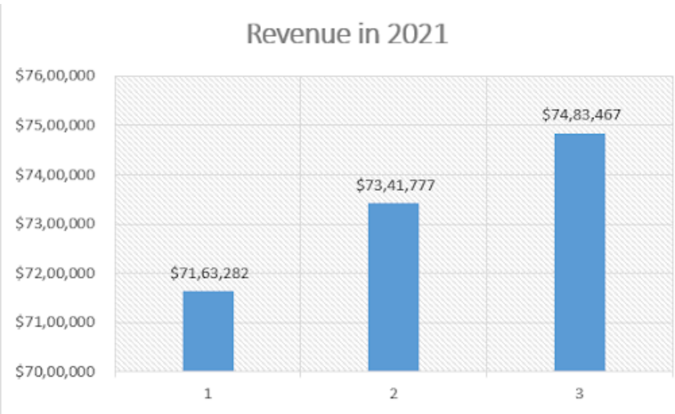
While the government tries to show the world that America is capable of paying off its debts, exploiting such a loophole at this time would kill any such possibilities. The Treasury Secretary Janet Yellen, the White House and some Democrats eventually slapped down the idea just like other leaders have done in the past.

Squid Game : A Surreal Impact

The global phenomenon that is Squid Game has taken the world by storm over the past month and we simply couldn't conclude this issue without mentioning it. The breakout Netflix show features action, drama, violence, friendship and explores the desperation of debt-burdened individuals. The truly fascinating aspects of it though are the underlying economic and financial issues the show brings to light

An Economic Perspective

Squid Game brings to light an economic issue—with a particular emphasis on South Korea—that many developing countries currently face: inequality. South Korea hosts a high percentage of citizens of migrant heritage who face discrimination and exploitation, as seen in the case of Ali in Squid Game. In other cases, North Korean migrants simply cannot afford to integrate into South Korea and are often stigmatised.



The Netflix drama underlines the increasingly concerning situation in South Korea. To put it into perspective, a 2017 study showed that 48.6% of South Korea's elderly were earning less than 50% of median household incomes.

Moreover, Squid Game indicates South Korea's growing debt crisis; the nation's debt has risen to an more than 100% of its GDP.

Overall Strategy

The low budgeted blockbuster has made way for distinctively higher third-quarter earnings due to the subscriber growth garnered by this show. The streaming company saw a rise in subscription services due to the pandemic earlier this year

Its net income in the third quarter was roughly $1.45 billion, up 83.5 percent from $790 million in the same time in 2020. Sales climbed by over 17% year on year, reaching about $7.5 billion from $6.4 billion..

Foreign TV series like Money Heist, Lupin and many more have emerged to become household names because of Netflix's support

The global expansion program has successfully inducted over 190 countries in the last 7 years. As a part of their expansion program, Netflix sought out to invest in local content in the Asia-Pacific region, spending over $400 million towards the making of original content for its Indian market. The 'localisation of content' program included dubbed and subtitled media for users who speak Hindi, Malay, Korean, Japanese, Thai and Bahasa Indonesia. According to Tony Zameczkowski, Vice President of Business Development in Asia, Netflix in the Asia-Pacific region is 'very bullish.'

With increased connectivity through cheaper devices and internet, the strategy to create a show inspired and based in the region has proven to be a winning strategy. Competitors like Disney have announced 27 new TV series and movies based in the Asia Pacific region to follow suit.

The impact of pop culture has always translated into more sources of revenue. Squid Game's impact value to the company has resulted in $891 million according to internal sources. Memes videos, renditions of the games at home, recreation of the costume for this year's Halloween celebrations have all resulted in a rise in the sales of tracksuits and Vans sneakers. There is now a renewed affinity to childhood games which is being channelled through merchandise. Successes such as Squid Game pivot the focus towards catering to the global market for an overall success.