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A CASE STUDY

Present U.S. debt crisis and its influence on Indian economy

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ABSTRACT

Downgrading of the U.S. economy spooked markets and stock markets worldwide went in to tailspin including India, destroying billions of dollars of investors' money. What is most worrisome is that entire world people are going to suffer for no fault of their but for US fiscal profligacy. India, now dependent on whims and caprices of global finance capital through past reforms, is also vulnerable.

KEY WORDS : Indian economy, Tax, Stock markets

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The US economy has been sustained by a consumption boom fuelled by excessive borrowing both by individuals and nation. Debt or fiscal deficit -excess of borrowing over non-borrowed receipts- is not always bad if it is within one's repayment capacity and used for productive purpose or creating assets. Economic growth and increased debt are often two sides of the same coin, but a sense of proportion was lost in US economy over the last decade with the growth in debt far outpacing the country's underlying economic potential.

In the last decades, the US politics tilted heavily towards the affluent class giving them more tax concession which exacerbated the fiscal position. America which used to lecture the rest of the world about the ethos of economic policy, finds its economy sliding into debt quagmire with government debt reaching 14.3 trillion dollar-nearly equal to its GDP-beyond which US cannot borrow as per debt ceiling limit. In order to extricate from such quagmire of debt crisis and also to pay the bills, avert default on its payment and to maintain credit worthiness , it was inevitable for US to raise the debt ceiling before 2nd August. But the US revealed all its fragilities and vulnerability in tackling debt impasse.

The world witnessed bitter acrimony and wrangling between Republican and Democratic parties with Obama led Democrats wanting to solve the debt crisis by imposing more tax on rich. Republicans demanded stern spending cuts especially on programmes of benefit to the poor. Obama was bludgeoned to whims and caprices of Republicans to save the economy sliding into bankruptcy.

While the debt deal compromise-raising the US debt limit by at least $2.1 trillion over and above existing $14.3 trillion debt ceiling and ensuring spending cuts of $2.4 trillion spread over a decade- at eleventh hour enabled America to avert an impending debt default, but that was not enough to prevent a downgrading of its long-term credit rating- held since 1917- from AAA to AA plus by credit rating agency standard and poor.

This sovereign downgrade may be destructive and unnecessary but it implies mishandling of fiscal and other economic problems and questions the creditworthiness of US. This means investing in US securities is riskier and borrowing cost higher for government and quasi-government bodies. Finance capital is increasingly "intolerant" of excessive public debt, fiscal deficit which by its perception is inflationary and

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