

Global crisis, recession and uneven recovery

[Literature](#), [Russian Literature](#)



Global Crisis, Recession and Uneven Recovery by Y. V. Reddy Book Review by Nidhi Choudhari There is enough on this earth to meet the needs of all, but not the greed of all. Mahatma Gandhi Why I picked up Y. V. Reddy's Book??? There have been a large number of books published on current global financial crisis therefore; selection of this particular book on the subject requires some reasoning. First, there are not many books written by central bankers on the topic.

Central banks have been central in the management of the crisis and therefore, Dr Reddy's book provides a central banker's assessment of the crisis and its impact. Second, on personal level, I have worked in RBI between September 2006 and December 2011 and was witness to the measures taken by Reserve Bank before and during the crisis under the able leadership of Dr Y. V. Reddy, the Governor, Reserve Bank of India (2003-2008). Having worked under his visionary leadership, I opted to take his book, "Global Crisis, Recession and Uneven Recovery" for review.

Third, Dr Reddy led the course of financial pragmatism in times of relentless deregulation and ensured that Indian financial system does not fall into the blind race to bottom in regulation. Finally, having read Dr Reddy's previous book on the topic viz. "India and the Global Financial Crisis: Managing Money and Finance", I was very keen on reading its sequel viz. "Global Crisis, Recession and Uneven Recovery". For all these reasons, I selected this book and am thankful to Madam Nidhi Sharma for approving this book for review.

The reviewed book is a collection of 27 speeches (given in the form of 27 chapters in 5 parts), Dr Reddy delivered at different points of time during <https://assignbuster.com/global-crisis-recession-uneven-recovery/>

and after the crisis. These chapters give a deeper insight into the actions taken by the RBI to mitigate the impact of the crisis in India and how India remained largely unaffected due to adequate regulatory mechanisms. Dr Reddy has also been a member of the Commission of Experts of The President of the UN General Assembly on Reforms of The International Monetary and Financial System popularly known as Stiglitz Commission after its chairman Joseph Stiglitz.

He has given several references about the recommendations of this UN Commission in the book. The 19th Chapter in the book is about the UN Commission recommendations about global crisis. Hence, the reader of the book gets an understanding of the global thinking on the crisis and its after effects. What's there in the Book??? Economists have compared the current global financial crisis to that of the Great Recession of 1930s. The current crisis has in fact, affected all countries across the world in different degrees and that way, it was truly a global recession.

Today, the crisis is over however the recovery has started at different paces in different places. Dr Reddy is of the view that the recovery from the global crisis is going to be prolonged and uneven. The book " Global Crisis, Recession and Uneven Recovery" provides an experienced policymaker's understanding of the genesis, progression and impact of the financial crisis, and of the lessons it offered. It is written at a time when Indian economy is facing several challenges in terms of slowdown in growth rate, inflation, ballooning fiscal and current account deficit etc.

The book contains Dr Reddy's perspective and analysis of the crisis, recession and recovery in a simple, lucid and non-technical manner which <https://assignbuster.com/global-crisis-recession-uneven-recovery/>

appeals the reader. There are five sections in the book containing 27 chapters in all. The five sections relate to the global financial crisis and its aftermath, financial sector: retrospect and prospects, public policy: challenges and responses, global financial architecture: the debates and India: performance and prospects respectively. The first section of the book gives a lucid account of the financial crisis and its consequences in six chapters.

In the first chapter, Dr Reddy talks about the role played by central banks before, during and after the crisis. He writes that the accountability in regard to management of the crisis will have to be shared between the central bank, the Ministry of Finance and, to some extent, the government as a whole. The author writes about the consequences of the crisis viz. rebalancing of power between the regulator and the regulated, shift in balance of in favour of Asia, rise of G-20 on the global platform and a cautious approach towards self-correcting efficiency of markets etc.

Explanations with regard to the causes of the global financial crisis and an overview of the prolonged extensive excesses that acted synchronically to cause the global crisis are discussed in detail. The second section of the book focuses on the future of the financial sector with some cautious remarks about uncertain recovery and prospects for the futures. The author highlights the role of financial regulation in developing countries. Dr Reddy writes that “ the causes and crossborder transmission of the crisis may differ significantly between the advanced as well as between the developing economies. There is a detailed chapter on countercyclical policies adopted by the RBI in the financial sector and also on the proposals for financial

sector regulatory reforms from the perspective of developing countries. He discusses the future of globalisation of finance and the global regulation of the financial sector. The last chapter of this section provides a broad framework for global financial regulation. The third section deals with the public policy challenges and responses that emerged during the current global crisis.

He has discussed the feasibility of Tobin Tax and Financial Sector Taxation in light of current crisis. Dr Reddy has also thrown light on the developmental dimension of the financial sector, fiscal implications of the global crisis and macroeconomic frameworks that are emerging for ensuring overall global financial stability. The fourth section raises a very important concern of modern times i. e. reform of global financial architecture comprising of the World Bank, the IMF and the WTO. In this section, Dr Reddy has discussed the recommendations of the UN Commission on the global crisis.

He has also analysed the G-20 framework and its future prospects. Finally the book focuses on India's performance and prospects; India's experience in regulating the financial sector; and the need for reform in India's financial sector. The author also compares Indian situation with that of Asia and the global economy in terms of resilience and recovery after the crisis. The last chapter in concluding section draws attention to the exit strategies being considered at the global as well as national level by the authorities to revert back to normality.

Take Away from the Book??? As the book is entitled " Global Crisis, Recession and Uneven Recovery", the biggest take away after reading of the book would be a clear and better understanding of these three terms viz. (1)

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Global Crisis, (2) Recession and (3) Uneven Recovery. I personally would like to share my understanding of these three aspects in greater detail with the help of excerpts from the book in the following points: Global Crisis: Reasons, Consequences and Lessons Learnt Several reasons have been cited for the recent crisis viz. ailure of state, market, governance, intellect and morality. Dr Reddy writes, “ The current global crisis originated in multiple causes that reinforced each other. Extensive excesses on several fronts, which occurred in a synchronised fashion, precipitated the crisis. These excesses were observed in liquidity, macroeconomic imbalances, focus on inflation, inequalities, financialisation, leverage, risk-taking, deregulation, financial innovation, networking, greed, globalisation and concentration. 1 While discussing the moral aspect of global crisis, Dr Reddy writes, “... the large sections of society favoured individualism, narrowly emphasising value for money as consumers and returns on money as investors over other aspects of social behaviour, such as being good citizen or extending corporateloaltyto the institution. ” 2 Dr Reddy discusses the race to bottom in regulation of financial sector as one of the most crucial reason for the global financial crisis.

He writes, “...the excesses in financial sector occurred under a benign public policy that believed the costs of regulation to be greater than its benefits... Even the existing regulation was stymied by excessive innovations in finance that aimed to avoid the prescribed regulatory capital, and injected complexity to undermine the rules of transparency prescribed by regulators. ” 3 As far as consequences of the crisis are concerned, Dr Reddy is of the

view that the current crisis will result in rebalancing of ideological, institutional and operational functioning of states and 1 2

Page 46, Chapter 3 Page 43, Chapter 2 3 Page 59, Chapter 4 markets. He writes, ““ In recent years, there has been an almost irrefutable presumption in favour of markets and this may be replaced with a refutable presumption in favour of the markets. ” 4 As a result of the crisis, the irrefutable support for unfettered markets stands discredited and so also the belief that the growth of the financial sector leads to economic development. Also, the crisis has added to the objectives of central banks an additional responsibility i. e. financial stability. The RBI has also taken it to its objectives along with growth and price stability. The author calls for redefining the core banking and recommends treatment of commercial banking as a public utility. He writes, “...universal banking will be de-emphasised and narrow banking, in the sense of banks concentrating on core commercial banking or deposits and lending will be emphasised... In brief, commercial banking is likely to be closer to a public utility than before, and hence subject to regulations akin to public utilities. 5 He further stresses, “ It should be recognised that there will be no banks if there are no depositors. ” 6 As regards lessons from the crisis, Dr Reddy suggests that “...improving transparency and regulatory oversight of hedge funds, credit rating agencies and over-the-counter (OTC) derivatives should become a priority in the light of the experience from the crisis. ” 7 Interestingly, the author suggests in the light of observations of the Warwick Commission Report that the scope for and desirability of an ‘ unlevelled’ playing field as an instrument of financial sector regulation ought to be explored. As a thinker and an oracle who sees the future of financial

sector with great precision, he writes, "...the crisis is global; actions are national; benefits could be selective or universal; but burdens in the future may have to be largely borne by the masses who bear no responsibility for the crisis, and those who did not benefit materially from the events that led the crisis. " 9 Recession In Chapter 6, the author discusses the Great Recession of 2009 in detail and thereafter as per the demand of the subject.

He clarifies the concepts of depression, recession and slowdown. A slowdown is a clear fall in the growth of an economy. It is usually a short-term phenomenon lasting say a quarter or a year. The author defines slowdown as a drop in the growth rate by one percentage point. To him, recession refers to a sustained decline in the overall economic activity for a period of more than one year. Depression lasts longer than recession and refers to a longer and larger decline in business activity, mainly reflected in huge drop in output and unemployment. 4 5

Page 28, Chapter 1 Page 78, Chapter 5 6 Page 217, Chapter 14 7 Page 172, Chapter 12 8 Page 157, Chapter 10 9 Page 63, Chapter 4 Uneven Recovery If the Great Recession was uneven, so is the recovery. 10 Dr Reddy discusses several responses to the crisis at different points in several chapters. He writes in Chapter 4, " Initially, the response of monetary authorities, followed by fiscal measures, was confined to the US, UK, Switzerland, other European countries, and Japan, but it was soon realised that it was necessary to involve other countries as well in globally coordinated actions. The author has discussed five possible patterns that could be followed by the countries in their course of recovery. The highly resilient economies may observe rapid recovery from the crisis while less resilient economies would require a longer

time to adjust to the new realities and ensure real recovery. Some economies may suffer from double dip recession before complete recovery while some other countries may prefer taking structural measures over a prolonged period thereby opting for a slow but positive recovery after recession.

Some countries may register a low level of economic activity for a prolonged period and therefore suffer from recession for a much longer period than the rest of the world. Critique of the Book I consider myself too small to write a critique of the book written by Y. V. Reddy; however, as a reader of global crisis literature I have observed a few points which I will share with the readers of this book review.

This book being written by a Central Banker is largely concerned with central bank's role in dealing with such crisis and redefining of the role of central banks in the wake of need for financial stability. In this pursuit, the role of government in dealing with such crisis has been ignored to some extent. Similarly, the book was published in the year 2011 when a number of countries in Europe were facing sovereign debt crisis however, only a passing reference is made to such an important global event which has pushed many countries in double dip recession.

Apart from this, the book is worth reading by all economics lovers and also all policy makers as it gives a deeper insight into the global crisis, recession and recovery. To sum up, I would prefer to quote Sir Howard Davies, Director London School of Economics who applauds the book in the following words, " Dr Reddy's (book) fills an important gap... He has lived at the heart of financial system and understands its strengths and weaknesses... His <https://assignbuster.com/global-crisis-recession-uneven-recovery/>

analysis of the problems of the global financial architecture is particularly acute. " 10 Page 93, Chapter 6