

# Analysis of the article written by deepak lal for the business standard regarding...

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



I'm referring to a Article written by Deepak Lal for the Business Standard, published on 25th November, 2008. It is about the Global Financial Crisis that exists today. It compares the current global financial crisis to the Third World Debt Crisis of the 1980's . He says that both the crisis, then and now have great many similarities but different outcomes. He lays down four major reasons for both the crisis. First, according to him are that surplus of savings in a number of countries- the oil producers in the 1970s, the Asian economies and commodity exporters today. The savings are recycled through the international banking system on a regular basis to fuel demand. Second, cheap credit given by banks without checking the credit worthiness of the borrowers. Thirdly, the rise in the commodity prices also contributed a lot to the financial crisis and Lastly, according to him is the bailout sought by some irresponsible banks from the tax payers telling them otherwise it will lead to the complete wiping of the financial institution. He says that the 1980 crisis was resolved when the banks hugely wrote off their Third World debt, sacked their reckless managers and shareholders also suffered large losses. But, eventually it all came under control without threatening the world economy on a large scale. Whereas, in the current times the global financial system is sinking and bail outs are no longer an exception but have become a routine affair. The difference in outcome is because that even in the 1970's surplus money was recycled but it was done by the off-shore branches of the Parent Bank, bringing no risk to the Western Banking system, even if there was a default. Whereas, the current crisis stems from UK's financial liberalisation in the 1980s, and the Clinton era abolition of the Glass-Steagall Act, which had kept a firewall between the commercial and investment

banking parts of the financial system since the 1930s. In these times no difference was kept between the Payments/deposit system of the banks and the investment banking. If the bets were right then the gamblers took home the profit but if it went sour then the losses were passed on to the tax-payers. That led to the present crisis in a nutshell. In addition to that many public policy mistakes by the western administration especially the American administration led to the present crisis. For e. g. the bail-out of LTCM in 1998, the promotion of 'affordable' housing for the poor by the Clinton administration through the unreformed and failed Freddie mortgage twins, led to the development of subprime mortgages, when the housing bubble burst, and the credit crunch began with the gambles taken during it turning sour. These are some of the reasons among others that led to the current Global Crisis.

Review :

According to me greater transparency and governmental control is the need of the hour. By governmental control I don't want to emphasize that the days of free trade are over, and it will all boil down to bureaucratic interference in day to day business transactions. Governmental control is required for the time being to put things in the right perspective and to ensure that the honest tax-payers money given for bail out to sinking white elephants is put to the right use. Secondly, bail out packages should not be given out indiscriminately, to anyone who has the clout and the right connections in the power circles. The interest of the common man should be given primacy and the government should make efforts by taking protective measures in such a way that at least the salaried class is insulated from such kind of

future financial shocks. Future financial plans should adhere to long term and stable business sense. The previous approach of making windfall profits and making hey while the sun shines leads nowhere. For more than the homes the past days of prosperity had built, a substantial number have broken down.

Reference: