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Book Review

The Global Financial Crisis : Challenges and Opportunities

R.K.Mishra & K.Trivikram

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One outcome of the global financial crisis was the publication of a plethora of books on the subject, where the authors have delved into the 'why' of the crisis with specific focus on capitalist greed. It became fashionable to bash institutions and regulators who were supposedly responsible for this catastrophe. Against this background, the collection of 17 articles by authors from across the globe put together by R.K.Mishra and K.Trivikram, **The Global Financial Crisis : Challenges and Opportunities**, is refreshing as it looks beyond the cliché. While some of the pieces do give a background on how the crisis transpired, the analysis is at a different level where the experiences of various countries have been narrated with the causes and remedies being embedded along the way.

The genesis of the crisis was straightforward as it started with a banking crisis, which became a real-sector crisis leading to diminution of growth in the affected countries. This was exacerbated by weak regulation where everything was left to the market, which was not quite able to deliver. Therefore, the diminished role of the state in an environment of globalisation of free trade hastened the contagion. While this is a view taken by Maurice Odle, there is a counter-view by Leo Goodstadt, who has argued in favour of minimum role of the state in such issues on the grounds that when there is more regulation, we automatically create a moral hazard where institutions know that they have to be rescued in case something goes wrong. An interesting analysis brought out is that almost all countries had to go in for a stimulus programme, which had gone to the extent of 24 per cent of GDP for South Africa and 12 per cent for China between 2009 and 2013. The focus was on providing this stimulus towards the unskilled workers, where the impact was more effective. This probably is a lesson to remember in future too, when such programmes

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have to be undertaken. The US had a cumulative bailout package of $8.1 trillion. India, in relative terms, came quite low at 1.3 per cent of GDP.

Who should we blame for the crisis? Here, there are differing views. Some say the regulators should take the flak. The Federal Reserve had pointed towards incompetent bank lending and defective regulation, while the Bank of England has averred that they had given early warning signals on CDS, which was not heeded by the systems. And the common target were the credit rating agencies, which worked in an environment of distinct conflict of interest. The gist was that one could have seen this coming and intervened to preempt the crisis, which was not done. An issue covered quite in detail is how the emerging markets got affected by the crisis and the impact on poverty. While their own financial systems did not have the same problems as those in the US, the slowdown in the West, as well as loss of faith between banks on account of the opacity in the systems affected the flow of funds—FII and FDI to the developing countries. Capital transfers came down as did official flows, which had a distinct impact on countries in the sub-Sahara region, which otherwise were doing well. Also, as most of these economies were exporting raw materials, they witnessed lower demand for their products. This was aggravated by diminishing commodity prices, which affected exporters the most and hence their own economies were also pushed back considerably.

An article by Chen and Ravallion calculates that the number of poor had increased by 53 million across the world going by the $1.25-per-day criteria and by 64 million by the $2-a-day criteria. The impact on specific countries is also examined by different authors. China got affected as its surpluses flow to the US and is heavily dependent on trade flows, which are contingent on what happens in the developed world. While citizens cannot easily invest overseas, the government got exposed indirectly to the sub-prime crisis as their sovereign wealth funds were affected, though data is hard to come by. But China, too, had to go in for a stimulus to compensate for the loss of output. The French banks have shown relatively more resilience to the crisis more on account of diversification in activity. However, support had to come though recapitalisation of banks and refinancing of loans. The same held for German banks, though it was more a case of the larger banks being affected by the contagion. Curiously, countries like those in the Caribbean, which did not have too many foreign banks operating to spread the risk, were affected more on account of the low growth syndrome in the developed countries, which affected their exports. Also, their own investments in the US CDOs (collateralised debt obligations) and MBS (mortgage-backed securities) did have repercussions on these institutions. At a different level, there is also an analysis to show that within both the developed and emerging markets, the micro, small and medium enterprises (MSMEs) were at a disadvantage as they were affected by weak demand conditions. This went along with adverse financial market conditions for them, where credit conditions were tight for them and banks became cautious while lending. Therefore, this outcome was common across nations. The solution offered was a stimulus through taxation, procurement from government and enhanced trade. But all this led to a slowdown in investment.

Related to this impact, Mckibbin and Stoeckel examine the potential impact of the global financial crisis in terms of risk and liquidity. The risk premium on inter-bank borrowing had increased to over 5 per cent, which must be one of the largest in recent times. This also lowered the level of capex as big companies stopped borrowing. Sectors affected were automobiles as demand came down, both in countries as well as on the trade front on account of the recession in developed countries. All this was a result of what had been called financial protectionism in the affected countries. This book is a good collection of articles with some incisive analysis. By looking at various aspects of the crisis and its impact across different geographies, the focus is less on being judgmental and more on the way forward. This is a book that would add value to the shelf of any library.

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