

Contemporary Macroeconomic Analysis

T C A RANGANATHAN

The author, Alok Sheel, is a bureaucrat, who could well have been an academic. He is a historian with a doctorate in economic history who moved on to do a master's degree in macroeconomic policy with distinction. He had the privilege of occupying a key assignment at the Department of Economic Affairs, Ministry of Finance, often functioning as an interlocutor in major international conferences, during the sub-prime crisis and the global financial crisis that followed, before being appointed as member secretary of the Prime Minister's Economic Advisory Council till the end of 2014. He has been a prolific contributor to national financial newspapers during this entire period. About 80 of these articles have been collected under two broad categories, "Timelines" (50 essays), and "Thematic" (30 essays), each grouped under four categories and preceded and concluded by an extremely thoughtful "Preface" and "Postscript," issued in the form of this book.

Why should a book admittedly with a provocative title but mainly composed of newspaper articles, some possibly dated or, even worse, repetitive, be of interest? Can it be other than "academic?" But two alternative and equally possible meanings can be attached to the phrase "academic interest:" "having no importance or consequence," or "scholarly and technical"

Looking Back at Macroeconomics 101: A Ringside View of the Global Financial Crisis from Asia in Real Time by Alok Sheel; *Academic Foundation, 2015; pp 422, ₹1,295.*

having a bearing on institutionalised education. Can such a book be considered an important intervention requiring serious consideration?

Sub-prime Crisis and Regulation

The start of the sub-prime housing crisis can well be placed in the closing months of 2006 or early 2007 after HSBC rang the alarm bell by declaring a loss in its United States (US) operations on account of loan loss provisioning. The provisions were made in its retail mortgages loan book on exposures to sub-prime (or non-investment grade) borrowers. The closest Indian equivalent would be "low cost" mass housing projects. These loans often did not originate at HSBC (their US operations were out of a relatively small branch network) but acquired from other loan originators, not as individual loans but as "securitised" bundles. The structuring mechanics of the securitisation process permitted these bundles to secure high investment grade ratings (despite being composed of multiple sub-prime loans). Securitised loans have a long history, but the popularity and proliferation of these papers showed a

scale increase following the abolition of the Glass-Steagall Act in the mid/late-1990s as also the coincidental adoption of Basel II norms by the regulatory authorities. Risk could now be differentiated. Banks were now permitted to apportion a lower capital charge on lower risk or higher "investment grade" assets. Usual real sector risks normally resulted in lower grade ratings. Securitisation products carrying better ratings were thus more attractive, even though these were structured on the basis of real sector products with higher risks. The HSBC announcement thus rang alarm bells. There is a full section in the book dedicated to the sub-prime crisis and the debate over financial regulation in its wake, including its relevance for emerging markets.

The opening decade of the 21st century, the noughties, had been characterised by remarkable macroeconomics: record levels of output growth¹ combined with sharply reduced inflation.² Rapid globalisation then seemed to be working.

Sheel started publishing his articles, reporting his take on economic matters,

EPW Index

An author-title index for EPW has been prepared for the years from 1968 to 2012. The PDFs of the Index have been uploaded, year-wise, on the EPW website. Visitors can download the Index for all the years from the site. (The Index for a few years is yet to be prepared and will be uploaded when ready.)

EPW would like to acknowledge the help of the staff of the library of the Indira Gandhi Institute for Development Research, Mumbai, in preparing the index under a project supported by the RD Tata Trust.

midway into this Goldilocks period for globalisation in trade and finance flows. In his earlier articles, written prior to the crisis, he found that the real world was not behaving in the manner economics textbooks described. The historian brings out that in a sense, analytically, the economic world of the 1960s was not very different from that of the 1860s. Undoubtedly the composition of material goods had changed. The level of material comfort was also vastly better. International trade settlement was via settlement “in species” (mainly gold). Trade patterns were still dictated more by the political configuration (imperial preferences of the empires controlling a largely colonised world till the onset of World War II and of the Cold War blocs in the post-war years) than by national or regional competitive advantage. Trading cost was still strongly correlated to linear distances. Population levels had also started moving unidirectionally with public health measures neutralising nature’s periodic audits in red pencil. National sense of well-being (output/income/employment growth, inflation levels and others) could, and did, wax and wane more due to domestically devised plans and policies than international matters. Several concepts of what constitutes rational behaviour, based on behavioural trends generated by long-period data trends got formulated/accepted during this long period of economic development, marred as it was with recessions/wars, etc. As did various ideologies/schools of economic thought, and policy reflexes still widely prevalent.

Understanding the New Economy

The economic environment today is, however, remarkably different. The gold standard had disappeared early on in the 1970s delinking correlations between gold and money supply or between gross domestic product (GDP) and money supply but also between “conventional” inflation and money supply. The winding up of empires and colonies in the 1960s and the disintegration of the blocs in the 1980s permitted nation states to enter into a variety of voluntary trading arrangements (General Agreement on Tariffs and Trade/World Trade

Organization, preferential/free trade areas among others). Erstwhile colonies that had been exploited via “imperial preference” disguised as free trade, now used “free trade” to accelerate their growth rates on the strength of external demand emanating from high-income countries.

The logistics revolution had happened unnoticed; delinking transportation cost from distance (earlier the cost of shipping goods from Chennai to Rangoon (now Yangon) was simple to ascertain but now a Chennai shipment sent via Singapore can well cost less than the direct shipment cost because volumes dictate costing more than linear distance. Which is also why figurines of Indian gods produced in China compete intensively with those made here locally). The dramatic enhancements in computational power (documented pithily by Moore’s Law, computational power doubles every two years) and the resultant explosive growth of communication and information circulation ability via the internet facilitated fragmentation of production/value chains. Production could now be planned wherever the support ecosystem was conducive regardless of where demand was located. Jobs could also be exported/unemployment imported by nation states regardless of local demand conditions. Services could get disembodied and remotely managed. The share of services in international trade rose sharply.

Labour wage rates in China/India could therefore and did start impacting real wages and prices in Chicago/Dublin delinking further the correlation between money supply and inflation. Internationalisation of banking (regulatory standards, reduced barriers to capital flows, among others) and freeing of capital account transactions delinked not only bank asset growth from GDP but also domestic economic health and bank asset quality (small community banks in Germany/pensioners in Hong Kong could face severe hardship due to mortgage loan defaults in the US). Delinking also occurred between trade surpluses and foreign currency reserves or even exchange rates (India, for example, witnessed sharp increases in currency appreciation/reserve build-up

GYAN BOOKS

co-publication with
Anthropological Survey of India,
Kolkata

Land, People And Power

An Anthropological Study of
Emerging Mega City of New Town,
Rajarhat

Kakali Chakrabarty, Krishna Mandal, Janak Kumari Srivastava,
Sudhansu Gangopadhyay, Asok Kumar Mukhopadhyay,
Sumitabha Chakrabarty, Rapti Pan, K.M. Sinha Roy

ISBN: 978-81-212-1258-8, 440pp., Rs 890

Nandigram Bio-cultural And Ecological Issues

B. N. Sarkar, Sumit Mukherjee, Prabir Chowdhury,
Shyamal Kumar Nandy, Arup Ray and Nupur Sinha

ISBN: 978-81-212-1259-5, 171pp., Rs 500

Man in Biosphere

A Case Study of Nilgiri Biosphere Reserve

Arun Kumar Singh, Suresh Patil

ISBN: 978-81-212-0943-4, 358pp., Rs 540

Man in Biosphere

A Case Study of Panchmarhii Biosphere Reserve

Sadhan Sengupta

ISBN: 978-81-212-0944-1, 308pp., Rs 540

Man in Biosphere

A Case Study of Sundarban Biosphere Reserve

Dr. Debabrata Mandal

ISBN: 978-81-212-0945-8, 278pp., Rs 540

Man in Biosphere

A Case Study of Khangchendzonga

Ramesh Chandra, D.B. Mandal

ISBN: 978-81-212-1162-8, 460pp., Rs 1250

Man in Biosphere

A Case Study of Simlipal

Samit Ghosal

ISBN: 978-81-212-1163-5, 511pp., Rs 1350

Traditional Wisdom and Sustainable Living

Hrishikesh Mandal, Amitabha Sarkar

ISBN: 978-81-212-1164-2, 566pp., Rs 1500

Genealogical Records And Traditional Knowledge System

Kakali Chakrabarty

ISBN: 978-81-212-1273-1, 184pp., Rs 550

Tribes And Analogous People in India

Contemporary Issues

B. Francis Kulkirani, K.K. Misra, K.K. Basa

ISBN: 978-81-212-1303-5, 396pp., Rs 800



GYAN BOOKS PVT. LTD.

E-mail: books@gyanbooks.com

Gyan Avenue, 12, Pragati Market, Ashok Vihar, Phase-2,
Delhi - 110052 Ph: 011-47034999, 9811692060

Showroom: 5, Ansari Road, Daryaganj,
New Delhi-110002, PH: 011-43029145

www.gyanbooks.com

during 2006–07, eroding competitiveness, despite large continued trade deficits). Several countries now battle issues of a “greying” society caused by decline in population growth. Possibilities of witnessing negative growth in labour force size are seen to unhappily coexist with increases in unemployment. Individually, all these aspects are well recognised and yet, it is often not well internalised in academia or even in policy forums that, taken together, they constitute the proverbially unnoticed “elephant in the room.”

Ringside Academic Analysis

The historian joins hands with the economist to examine the resultant mismatches between “thought” and “reality.” Disciplined by the rigour of newspaper space management systems and tamed by the need to be both “deep” enough to get accepted by the discerning editor and yet light enough to be digested over the early morning coffee by the reader, the articles (commenting on a wide variety of issues in addition to those discussed above) often veer into the historian’s corner while commenting on macroeconomics. But they equally often articulate the self-assurance of a Mandarin of a self-satisfied country (as India then was) and make, in themselves (flitting as they do from John Kenneth Galbraith’s dictum on risk, to Milton Friedman, to Taylor’s rule, to Phelps expectation augmented Phillips curve, to the “impossible trinity” of Mundell–Fleming, to Hayek–Tinbergen/Volker/Keynes and others) unexceptionally interesting reading.

Meanwhile, the sub-prime crisis, though initially and near universally considered to be troubling the treasuries of us banks, metamorphosed (following the collapse, in September 2008, of Lehman Brothers, a financial firm which was not a commercial bank, an institution famously not considered to be “systemically important” to bail out by the Federal Reserve, the us regulator) into what is now termed as a “global financial crisis” engulfing countries across the globe. The G2/G8 countries, long self-appointed guardians of the world, felt themselves unequal to the task now suddenly emergent and reconfigured themselves as the

G20, co-opting the big emerging markets in the steering committee to manage the global crisis. India/Brazil/South Africa and sundry other countries, long considered unimportant, joined the high table to help pull the global economy back from the brink of an abyss through coordinated policy action.

A number of articles were published by Sheel, both as a run-up to and as a post mortem of, these conferences and read together, in series, permit the reader to get, in a way, a running commentary on the subject, and thus a feel of the challenges that confront real-time policy/decision-making when changing reality confronts the frailty of long-held perceptions. In the Thematic section, the debates on the extraordinary macroeconomic policies, the international monetary system, global spillovers and the need for a new regulatory framework to guard against a repeat of such a devastating financial crisis can similarly be experienced by readers in real-time as the author has, wisely, not re-edited his articles.

Is It Indeed an Elephant?

What are the takeaways from this book? And into which category of “academics” can it be allowed to fall? Traditional books in economics are rigorous, rich in discussion of theories, models, rules and schools of thought. At times structured (fiscal or monetary dynamics, trade theories, etc). At times sequential (Ricardo and Marx, The Austrian School, Keynes, Friedman and so on). But these theories/models/laws/ideologies have lagged the multidimensional transformation recently experienced in the international production, trading and financial systems. Which school of thought can best resolve the problem facing Japan? Gently greying but with unemployment still an unresolved issue, huge positive capital flows and private wealth holdings but high sovereign debt, 20 odd years into recession despite negative interest rates but still stuck with a currency which refuses to weaken? Which trade theory or growth model can explain the makeover of China, largely rural and largely bankrupt in the early 1980s into the enormously wealthy manufacturing capital of the world within two decades or so?

MANOHAR

RECENT BOOKS

NATIONALISM AND IMPERIALISM IN SOUTH AND SOUTHEAST ASIA

Essays Presented to
Damodar R. SarDesai

Arnold P. Kaminsky and
Roger D. Long (eds.)

978-93-5098-076-7, 2015,
Demy 8vo, 366p., Rs. 1095 (Hb)

MY JOURNEY

A Tale of Two Births

Ileana Citaristi

978-93-5098-087-3, 2015,
Demy 8vo, 282p., Rs. 950 (Hb)

SHARED VALUES

Hierarchy and Affinity in a Latin
Catholic Community of South India

Miriam Benteler

978-93-5098-020-0, 2014,
Demy 8vo, 348p., Rs. 1095 (Hb)

THE NOBLE SCIENCE OF THE GHAZAL

The Urdu Poetry of Mirza Ghalib

Brian Quayle Silver

978-81-7304-794-7, 2014,
Demy 8vo, 254p., Rs. 875 (Hb)

SCORPION IN THE HAND
Brajhasha Court Poetry from
Central India around 1800:

A Critical Edition of
Thākūr's Kabittas

Imre Bangha

978-81-7304-999-6, 2014,
Crown 4to, 370p., Rs. 1500 (Hb)

IN THE FOOTSTEPS OF
AFANASII NIKITIN
Travels through Eurasia and
India in the Twenty-first Century

Hari Vasudevan

978-93-5098-025-5, 2014,
Demy 8vo, 384p., Rs. 1195 (Hb)

THE MAHARAJAS' PALTANS
A History of the Indian State
Forces (1888-1948) (2 Parts)

Richard Head and

Tony McClenaghan

978-81-7304-888-3, 2013,
Demy 4to, 1122p., Rs. 8500 (set) (Hb)

for our complete catalogue please write to us at:

MANOHAR PUBLISHERS & DISTRIBUTORS

4753/23, Ansari Road, Daryaganj, New Delhi-2
Phones: 23284848, 23289100; Fax: (011) 23265162
e-mail: sales@manoharbooks.com
Website: www.manoharbooks.com

Which model can best explain why the us dollar strengthens when the us economy is doing well but also when the economy is in crisis despite a manifold growth in note issuance by their treasury? Then again how does one explain the behaviour of commodity prices/oil/gold price movements during the post-Lehman years?

Confronted with the real-world problems of today, does not a practitioner/student get a suspicion that standard texts, though deeply intellectual and scholarly, are yet playing out the dilemma, first spelt out in the *Panchatantra*, of the seven blind men who had a short meeting with an elephant and spent the rest of their time arguing bitterly about what/who the animal actually resembled? Analytically, national economies, till quite recently, were still, in essence, “partial equilibrium systems” undoubtedly linking up with each other via degrees of

free trade/capital movements but only partially, constrained as they were by the technological limitations affecting logistics, information, communication and transaction abilities. The maturing of the sharp technological changes in these sectors has in a way converted these “sovereign” states into an initially unsuspected membership of a near “general equilibrium system” by removing/reducing these constraints. The dynamics of a general equilibrium are vastly different as feedback loops are more powerful and render unstable the weights attached to each variable in the system. Theorems and behavioural models constructed after decades of observation have suddenly become out of date.

This book of essays, gently probing various niche aspects of the real world, and carrying real-time reporting of major international conferences in the midst of crises, represents, in way, a kaleidoscopic

visualisation of this “elephant.” If the idea is to “form an opinion,” this is not the book. If, however, the idea is to better appreciate the nuances of the real world, using a kaleidoscope, this book will stand you in good stead as it raises a number of pertinent questions, and gives some leads to where the answers may lie.

T C A Ranganathan (tca.ranganathan@gmail.com) is retired Chairman and Managing Director, Export-Import Bank of India.

NOTES

- 1 Mainly witnessed in the emerging market economies or EMEs, where output rose from 3.8% during 1989–98 to 6.4% in 1999–2008, even as advanced economies continued to grow steadily at around 2.7%. In 1990, the combined share of EMEs in global gross domestic product or GDP was 20% at market exchange rates and 30.7% in purchasing power parity terms. By 2013, these share ratios were 39.3 to 50.9%
- 2 From 3.3% to 1.7% in the same period in the advanced economies, from 9.7% to 3.1% in Asia, and from 134% to 7% in the hyperinflationary EMEs of the western hemisphere.

Books Received

- Ahmed, Shahid (2016); *Rentier Capitalism: Disorganised Development and Social Injustice in Pakistan*, Palgrave Macmillan; pp xv + 230, price not indicated.
- Awasthi, Deepa (2016); *Khap Panchayat, Women and Honour Killing*, Delhi: Kalpaz Publications; pp 296, ₹990.
- Bhagat-Ganguly, Varsha (2015); *Protest Movements and Citizens' Rights in Gujarat (1970–2010)*, Shimla: Indian Institute of Advanced Study; pp xviii + 283, ₹550.
- Bhattacharya, Debraj (2016); *Exploring Marxism Bengal c. 1971–2011: Memory, History and Irony*, Kolkata: K P Bagchi; pp xii + 285, ₹995.
- Bhushan, Ranjit (2016); *Maoism in India and Nepal*, Oxon and New York: Routledge; pp vii + 251, ₹895.
- Chandak Sengoopta (2016); *The Rays before Satyajit: Creativity and Modernity in Colonial India*, New Delhi: Oxford University; pp xi + 419, ₹995.
- Collins, Patricia Hill and Sirma Bilge (2016); *Intersectionality*, Cambridge and Malden: Polity Press; pp x + 249, UK £15.99 (pb)/£55.00 (hb).
- Datta, Dilip Kumar (2016); *Indian Manufacturing Industries: Contemporary Issues*, Kolkata: New Central Book Agency; pp ix + 263, ₹750.
- Dikotter, Frank (2016); *The Cultural Revolution: A People's History, 1962–1976*, London and New York: Bloomsbury; pp xxv + 396, ₹599.
- Gogoi, Dilip (ed) (2016); *Unheeded Hinterland: Identity and Sovereignty in Northeast India*, Oxon and New York: Routledge; pp xiii + 251, ₹895.
- Haqqani, Husain (2016); *India vs Pakistan: Why Can't We Just Be Friends?*, New Delhi: Juggernaut Books; pp 177, ₹299.
- Harshe, Rajen and Dhananjay Tripathi (eds) (2016); *Afghanistan Post-2014: Power Configurations and Evolving Trajectories*, Oxon and New York: Routledge; pp xix + 248, ₹895.
- Hauser, Walter and Kailash Chandra Jha (translated and ed) (2016); *Culture, Vernacular Politics, and the Peasants: India, 1889–1950: An edited translation of Swami Sahajanand Saraswati's Mera Jivan Sangharsh (My Life Struggle)*, New Delhi: Manohar Publishers; pp xiv + 708, ₹2,295.
- Hodges, Sarah and Mohan Rao (eds) (2016); *Public Health and Private Wealth: Stem Cells, Surrogates and Other Strategic Bodies*, New Delhi: Oxford University Press; pp xv + 283, ₹850.
- Kumar, Rajiv (2016); *Modi and His Challenges*, New Delhi: Bloomsbury; pp xii + 317, ₹599.
- Labh, Kapileshwar (2016); *Foreign Policy of Bhutan*, Delhi: Kalpaz Publications; pp 263, ₹890.
- Manuel, Anja (2016); *This Brave New World: India, China, and The United States*, New York: Simon & Schuster; pp xiv + 349, ₹699.
- Mishra, Sangay K (2016); *The Political Lives of South Asian Americans*, Minneapolis, US University of Minnesota Press; pp ix + 276, \$27 (pb)/\$94.50 (cloth).
- Mudgal, Vipul (ed) (2016); *Claiming India from Below: Activism and Democratic Transformation*, Oxon and New York: Routledge; pp xxi + 329, ₹995.
- Mukherji, Gangeya (2016); *Gandhi and Tagore: Politics, Truth and Conscience*, Oxon and New York: Routledge; pp xxv + 232, ₹895.
- Ogden, Chris (ed) (2016); *New South Asian Security: Six Core Relations Underpinning Regional Security*, New Delhi: Orient Blackswan; pp x + 183, Price not indicated.
- Prasad, Anirudh and Sudeep Kumar (2016); *Beyond Business: Mapping the CSR and Sustainable Development Initiatives of TATA Steel, Jharkhand*: Xavier Institute of Social Service; pp xix + 260, ₹650 (hb)/\$100.
- Raghavan, Srinath (2016); *India's War: The Making of Modern South Asia, 1939–1945*, Gurgaon: Allen Lane; pp xvii + 554, ₹699.
- Sharma, Sudha (2016); *The Status of Muslim Women in Medieval India*, New Delhi, California, London and Singapore: Sage Publications; pp xi + 269, ₹750.
- Singh, Bijender (ed) (2016); *Dalit Women's Autobiographies: A Critical Appraisal*, Delhi: Kalpaz Publications; pp 283, ₹890.
- Singh, Kavaljit and Burghard Ilge (eds) (2016); *Rethinking Bilateral Investment Treaties: Critical Issues and Policy Choices*, The Netherlands: Both Ends and New Delhi and The Netherlands: Madhyam; pp xv + 276, ₹300.
- Singha, Komol and M Amarjeet Singh (2016); *Identity, Contestation and Development in North-east India*, London and New York: Routledge; pp xii + 267, ₹895.
- Singh, S N, K K Srivastava and S S Chauhan (eds) *Social Change and Public Administration in India*, Delhi: Kalpaz Publications; pp 363, ₹1,220.
- Skaria, Ajay (2016); *Unconditional Equality: Gandhi's Religion of Resistance*, Ranikhet: Permanent Black; pp xvi + 390, ₹895.
- Thomas, Radha (2016); *The Cauliflower Diet: The Revolutionary New Way to Lose Weight*, Gurgaon: Random House India; pp xxiv + 205, ₹299.
- Tikku, Mohan K (2016); *After the Fall: Sri Lanka in Victory and War*, New Delhi: Oxford University; pp xix + 309, ₹650.
- Tripathi, Salil (2014); *The Colonel Who Would Not Repent: The Bangladesh War and Its Unquiet Legacy*, New Delhi: Aleph Book; pp xviii + 382, ₹595.
- Weiss, Thomas G (2016); *Humanitarian Intervention: Ideas in Action*, Cambridge, UK and Malden, USA: Polity Press; pp xx + 267, UK £ 14.99 (pb)/£55 (hb).