



Saturday, August 30 2013

Whom to trust?

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Sustained economic recovery is eluding industrialised countries.

There is no scarcity of advice from economists, ranging from free market advocates and activists steeped in Keynesian traditions.

In his July speech in Sydney under the auspices of Anika Foundation, the Reserve Bank of Australia Governor Glenn Stevens highlighted the major lessons from economic crises:

- be prepared to add liquidity
- avoid credit crunch
- use macroeconomic policy aggressively
- keep markets open and
- do not resort to ‘beggar thy neighbour’ exchange rate policies

Easy but tough lessons

Easy all right but not so easy when muddling through an ongoing crisis, when there is a spate of advice.

Take the case of ongoing 18-member Eurozone with a common currency.

While the world’s biggest economy, the United States seems to have come out of it with a more impressive growth at annualized 4 percent in the second quarter of this year after contraction of the economy in the first quarter, the Euro zone grew only at an annualized rate of 0.8 percent.

The US recovery is attributed to aggressive monetary expansion of unprecedented nature in the midst of severe criticism from various quarters.

Despite European Central Bank (ECB)’s expansionary monetary policies including the lowest ever benchmark interest at 0.15 percent and a negative interest rate on deposits kept by banks with ECB, all for encouraging greater lending, the recovery is poor.

The growth rates of the three major economies Germany, France and Italy of the Eurozone, are negative in the latest quarter.

The Economist says: “Be bold!”

The Economist of London advises ECB to adopt the US Federal Reserve (Fed) example of buying bonds and creating money, known as quantitative easing. Yet inflation is below 2 percent.

On the other hand, we have the warning from Raghuram Rajan, the Governor of Reserve Bank of India.

In his interview this month to the *Central Banking Journal*, Rajan says long term low interest rates and quantitative easing, would be “laying the groundwork for more turmoil in financial markets”.

Policy makers cannot afford to ignore him this time.

It was Rajan who foresaw the recession coming three years ahead. That was the time the world economy was booming.

In 2005, Rajan told economists and bankers, who gathered to honour retiring Fed Chairman Greenspan, that global financial system was becoming riskier with complex instruments including credit-default swaps and mortgage-backed securities in ever greater quantities.

Rajan said if these securities ran into trouble, banks would lose confidence in one another. The result would be a financial crisis. Many in the audience, including Former US Treasury Secretary Lawrence Summers preferred to ignore Rajan’s warning.

Recently, Bank of International Settlements said that low interest rate policy should be discontinued once prices of assets begin to rise. A valid advice for Fiji too, when credit to private sector is rising for real estate, resulting in high prices for built up properties and open urban land .

Economists must feel lucky!

Economics as a profession emerged only in 18th century, when Adam Smith published his book: *An Inquiry into the Nature and Causes of the Wealth of Nations*.

They are lucky to be spared of the people’s wrath of the kind which was heaped on lawyers during Shakespeare’s time, the 16th century.

In a delightful piece in *Wall Street Journal* of August 18, Jacob Gershman informs us of an item for sale at the Shakespeare Theatre Company's gift shop in Washington.

That is the mug with inscription:

"The first thing we do, let's kill all the lawyers."

The line is from Shakespeare's play *Henry VI, Part 2* and spoken by Dick the Butcher, the dopey henchman of rebel leader Jack Cade.

Gershman discusses the interpretation by James Shapiro, an English literature professor at Columbia University. Shakespeare was “tapping into fears of insurrection and civil unrest among the noble classes. The proliferation of lawyers generated resentment among commoners who couldn't afford them and viewed them as aligned with the powerful elite”.

The 16th century was a prosperous time for lawyers. It still continues. They are looked upon with suspicion as thriving on the miseries of others, with the label: coffin chasers.

Academic economists, who chase only citations, are harmless. Other economists, pro or anti-establishment, continue to hit the headlines. However, they are not taken seriously. Because, when things do not go in their direction, they simply throw up their hands in the air blaming it on lack or presence of “animal spirits”.

The public are wary of them. Whom to trust?

Remember the Russian saying? That was President Reagan's watchwords in his relationship with Russians: “Doveryai, no proveryai”

Translated in English, it is: “Trust, but verify”.

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