

BOOK REVIEW

Title : **Fault Lines - How Hidden Fractures Still Threaten the World Economy, ISBN: 978-93-5029-173-3**

Author : **Raghuram G. Rajan¹**

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Reviewer : ***Dr. Anu Satyal, Assistant Professor, College of Vocational Studies, University of Delhi***

'Fault Lines' is a book which deserves all the accolades it has received and has very proudly printed them at the end of the book as well. The underlying themes are the inevitable consequences of the US economy living beyond its means with the surplus nations financing the deficits. The unavoidable result is the emergence of the financial crisis and the subsequent downturn. According to Rajan, 'populist credit expansion' is generally both unproductive and unsustainable. Rather he suggests that the US should trim its spending and the surplus nations like Germany and Japan should aim at productivity increases and a rise in their expenditure. Moreover, fast growing developing countries like China should also turn their attention to domestic consumption and reduce their reliance on exports as an engine of growth.

The book analyses the sub-prime crisis of 2008 which was singularly responsible for triggering the global meltdown that followed it with severe implications not just for the US but for the entire world economy. This analysis has a universal appeal as globalization has not only linked the fortunes of most of the economies but also has made them more vulnerable to international crises and shocks. 'Fault lines' explains the causes of the crisis beyond the motives and the incentives of the banks and the borrowers (or the sub-prime households) who are best defined as no-income-no-job-no-asset (NINJA) households. Rajan locates the causes beyond the moral hazard on part of the banks or the borrowers as the cause of the crisis. He points towards the serious flaws in the world economy that he calls the 'fault lines' which, if not addressed at the right time, have the potential to make similar crises

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recur in the future.

The three main fault lines or points of stress are the domestic political stress in the US, the limits to the export-led growth policies and the clash of arms-length financial system of the Anglo-Saxon part of the world with the relationship banking elsewhere. Accordingly, the global financial order is already defective and in this context the sub-prime borrowers, the bankers and the governments together, guided by individual motives and risks, are jointly responsible for triggering the crisis. Rajan also notes that the existing fault lines have the potential of becoming deeper in the given world order. Moreover, understanding the causes of the sub-prime crisis has lessons for policymakers the world over to cope with and possibly avert future crises.

The book comprises ten chapters. The first talks of why and how easy credit was used as a means of satiating the US dream of owning a house especially for people with poor creditworthiness thus pacifying a political crisis in the US. The policies in the US in the past have catered to the top one per cent of the population and the tension in the society can thus be curbed or controlled only if the not so fortunate can be given easy credit to fund a house and become proud 'homeowners'. The second fault line dealt with in the next chapter relates to the limits of the export-led growth strategy. He discusses how dependence on global demand and fluctuations therein can affect the fortunes of various economies. Perhaps, dependence on export markets suited more the small economies in a given historical context which were characterized with small domestic market size but does not suit the large countries like China and India. In the latter, the main impetus must come from domestic demand. Chapter 3 contrasts financial systems in the West and in the Asian economies. For the former, it is only profit motive which guides their actions. In the subsequent chapters, the author underlines the vulnerability of the poor in the US with weak safety nets like inadequate health and unemployment benefits.

He further suggests ways in which financial reform can be undertaken. The main ingredients of this reform demand appropriate regulation which according to him should be transparent, nondiscretionary, contingent and comprehensive. It is also suggested that the US has to address the need to upgrade its safety nets and provide education, health and employment benefits to its population especially aimed at upgrading the skills of its people. The role of the international institutions (IMF / World Bank) needs to be reviewed and aimed at global cooperation. The prescription for surplus countries is to increase spending and the state must play its assigned role of a regulator and allow the markets to work in the context of regulation provided by the state.

In the end, he points out the problems in India's development and suggests ways to overcome them. Lack of safety nets, excess population, shortages of jobs, low quality education, low incomes and high levels of inter-state migration all compound India's problems. Notwithstanding the recent debates on the issues of land acquisition in the country, according to Rajan, 'murkiness' and problems in land acquisition and inefficient and unproductive public sector are the two areas in need of immediate attention. He concludes by stating that there are no ready solutions to all the problems raised in his book. He assigns the state the task of providing safety nets, creating skills to increase access to opportunity and regulate the market for efficient functioning. Barring one editing mistake on page 136, the book has a lucid prose with the use of minimum jargon which makes it a comfortable read even for a lay person. In sum, the book inclines towards prescriptive neo-liberalism. The references are mixed with the endnotes which make it slightly tedious to retrace later. Rajan's work is a significant contribution to the existing literature on the sub-prime crisis and enhances our understanding of the issue with suggested correctives which might be undertaken to *possibly* avoid such crises in future which no one can predict with certainty.