Opinion | Is there any anniversary effect of the 2008 crisis

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Global financial crisis: before and after

Table 1: Global real GDP growth since 2000 (in %)

Country group name	2000-07	2008	2009	2010-17
World	4.5	3.0	-0.2	**3.8**
Advanced economies	2.6	0.1	-3.4	**2.0**
G7 Countries	2.3	-0.3	-3.8	**1.9**
US	2.7	-0.3	-2.8	**2.2**
European Union	2.6	0.7	-4.2	**1.6**
Euro area	2.2	0.4	-4.5	**1.3**
Emerging market and developing economies	6.6	5.7	2.8	**5.3**
Emerging and developing Asia	8.3	7.2	7.5	**7.3**
Middle East and North Africa (Mena)	5.9	4.6	0.8	**3.6**
Sub-saharan Africa	6.0	5.9	3.9	**4.3**

Table 2: Current account balance across the world (% of GDP)

Country group name	2000-07	2008	2009	2010-17
Advanced economies	-0.9	-1.4	-0.3	**0.4**
G7 Countries	-1.4	-1.7	-0.7	**-0.7**
US	-4.7	-4.6	-2.6	**-2.5**
European Union	-0.2	-1.5	-0.3	**1.3**
Euro area	0.0	-1.5	-0.1	**2.0**
Emerging market and developing economies	2.6	3.4	1.3	**0.6**
Emerging and developing Asia	3.3	5.7	3.4	**1.3**
China	4.4	9.1	4.8	**2.2**
Middle East and North Africa	9.3	13.8	2.0	**5.1**

Source: Author's calculations from World Economic Outlook database (April 2018) of the International Monetary Fund

Graphic: Naveen Kumar Saini/Mint

Psychologists often talk about the “anniversary effect" whereby a set of unsettling thoughts tend to occur on the anniversary of a significant experience/event. Now that a decade has passed since the Lehman Brothers filed for Chapter 11 bankruptcy protection on 15 September 2008, a key question is whether we are suffering from such an anniversary syndrome. This is important. After all, we often use the term “tectonic shifts" in describing the happenings of a day that happened a decade ago and forget everything the very next day.

The sequence of events, whereby the sub-prime crisis of the US mortgage market culminated in a full-fledged “north Atlantic financial crisis" (as former Reserve Bank of India deputy governor Rakesh Mohan had put it), leading to widespread global impact, is fairly well-known. Much ink has been spilled in analysing the genesis of the crisis. Factors like inadequate regulation of the US financial sector, pursuit of a distorted incentive model in Wall Street, brewing up of the global imbalance, development of complex financial products, myopic vision of the credit rating agencies, lax US monetary policy, overemphasis by various US presidents on the housing sector (while ignoring deteriorating health and education facilities in the US) had all been held responsible to varied extent. This article takes a look at some of these developments over the last decade. Is the world a safer place after a decade?

To begin with, what has been the growth experience across the globe?

Table 1 reports on global growth, treating the crisis years of 2008 and 2009 as aberrations. The most striking feature from Table 1 is that, despite the recovery, global growth has decelerated across the board since 2010. That is to say, symptomatically, the global financial crisis had made a reasonably permanent dent on the global growth potential. Admittedly, emerging and developing countries led by China and India had provided solid support to the recovery, but even their growth performance had been affected. Thus, the world's growth trajectory has become much more coupled since the beginning of the new millennium. Of course, other crises that brewed during this period (such as the euro area crisis and the roller-coaster movement of oil prices) had their attendant impact on global growth.

The former US Federal Reserve chairman Ben Bernanke had held formation of global imbalance as a major factor responsible for the crisis. After all, since the current account surpluses of some countries like China and oil-producing nations coexisted with substantial deficits of the US, there seemed to be a savings glut in the current account surplus nations. What has happened to global imbalances since 2007?

Interestingly, there has been significant reduction in the current account balances of different country groups (see Table 2). Advanced countries have turned from deficit to surplus. The extent of current account deficit of the US has come down significantly, so have the current account surpluses of China and the oil-producing nations. There had been, of course, different drivers behind such a phenomenon. While falling oil prices have been responsible for the fall of current account surplus of Middle East and North Africa (Mena) countries, in the case of China, some degree of exchange rate flexibility (though limited) and increased consumption could have been responsible.

As a caveat, it is pertinent to ask: how can one reconcile the current jingoism of global trade war with the observed fall in current account balance? Is not the world a more balanced place now than 10 years ago? It seems that much of the sabre-rattling is associated with bilateral issues between the US and select countries (like China or Germany) and could be an outcome of certain posturing on the part of the US.

Finally, what has happened to the initiatives of taming Wall Street? While immediately after the crisis there was a call to go hunting for the greedy bankers (as reflected in the US government’s Financial Crisis Inquiry Report, 2011), over the years the intensity of such calls has become subdued. It is important to recognize that contrary to popular perception, the global financial crisis was not a scam—it was in the nature of systemic failure. Meanwhile, the Dodd-Frank Wall Street Reform and Consumer Protection Act had been passed by the Obama administration in 2010. The final law is a much subdued version of the original ambitious draft.

Also, going by the unabated escalation in stock prices in the US since 2008, the ambition of taming Wall Street seems abandoned. After all, at its peak in 2006, the finance and insurance sectors contributed 6.8% to the US gross domestic product (compared to 4.9% in 1980); it came down marginally to 6.2% in 2017.

Leo Tolstoy wrote in Anna Karenina, “Happy families are all alike; every unhappy family is unhappy in its own way." Perhaps the same is true of crises as well. Despite the incomplete mitigation of the causes behind the global financial crisis, in all likelihood the next crisis would be of a different genre. While one can speculate whether the next crisis could spring from trade war or accumulation of debt by the advanced countries, let us not suffer from an “anniversary syndrome" of the global financial crisis.

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