
Financial Crisis and Fiscal Stimulus: Some Analytical and Measurement Issues

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Two Broad Themes

- Analytical Framework For distinguishing causal from correlated factors of the global financial crises
- International Coordination in response to the Crises by G-20: Fiscal Stimulus

1. Introduction

- Origins of the Crises in the collapse of the real estate price bubble in the US.
- Why did aftermath of the collapse spread beyond the real estate to the rest of US and Globally?
- Need for an analytical framework based on micro-behavioral foundations that integrates the real and financial sectors of the economy.
- Essential feature that any such framework should have is to generate a real opportunity cost and return for acquiring or holding nominal assets.
- Competitive General Equilibrium-Arrow-Debreu model has no financial sector.
- Money in classical Economics is a veil with no real consequences.
- Ad hoc ways of integration: Baumol-Tobin and Cash-in-advances models.

2. Some Models

- Dynamic. Stochastic, General Equilibrium (DSGE) Model of Kydland and Prescott- original version, a purely real model with internal coherence precision
- It's extensions to include a financial sectors not satisfactory
- Aggregate Macroeconomics Models –Ohanian, Woodford, Caballero.

3. Alternative Perception of the origins at contributory factors to the crises

- Conventional - Mishkin
- Alternative - Reinhart

4. Global Imbalances and Exchange Rate Flexibility

- Global Imbalances in Current Account Deficits at Surpluses.
- Global Imbalances Perceived as a contributor to the crises.
- Currency Manipulation at Currency Wars.
- Global Imbalances and their Analysis are not new e.g. an earlier 2005 version.
- Analytics of Global Imbalances.
- Excessive focus on one policy instrument of for adjustment while balances depend on more than one.
- Tinbergen on the need in general for enough policy instruments as there are policy objectives.

5. Perspectives of Chairman of the U.S Federal Reserve, Governors King and Subbarao

- Bernanke and Global savings glut.
- King on the role of global Imbalances, the need to focus on the path of real spending and for a global bargain. He expressed his disappointment with G-20 in enabling the bargaining process.
- Subbarao on India.

6. International Coordination of responses to the Crises: Fiscal Stimulus

- Why Coordinate?
- India's Fiscal Stimulus: Was there a credible case for one? Not evident. No information on specific targets for stimulations, policy instruments used and amounts spent on stimulation on each.
- No logical underpinning for identifying fiscal stimulus with the increase in gross fiscal deficit in the relevant year over the previous.

7. Global Financial Architecture at Financial Sector Reforms

- Heterogeneity of country contexts
- Significant share of transactions non-monetized in many developing Countries including India.

Gross Domestic Savings (GDS) and Capital Formation (GCF) 2009-10
Percent of GDP at Current Market Prices
Quick Estimates

GDS (total)	33.7	Share (percent)	GCF (Total) of which	36.5	
Of which household total	23.5	69.6			
Household financial	11.8	35.00	Household	11.7	32.0
Household physical	11.7	34.6	Private, corporate	13.2	36.2
Private corporate	8.1	24.1	Public sector	9.2	25.2
Public sector	2.1	6.3	Variables	1.7	4.7
				1.0	1.9
Total	33.7	100.0	Total	36.8	100.0

- Extent of Monetization Endogenous
- Mantra of Financial Inclusion

Thank You