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What's Next? - We Have An Answer

Mikhail Ershov, a well-known Russian economist and banker, has presented his new book: "Global Financial Crisis. What's Next?". This is his fourth major monograph, with first monograph being published back in 1991.

When explaining at the book presentation the reasons that urged him to take up the pen once again, Mikhail Ershov said: "When the global crisis slowly faded away, people wondered how the economy would develop after crisis? What are the ways to resolve the problems that have piled up? How will Russia position itself in the context of global integration? Will Russia be among the leaders in the future integration or will its role be secondary and subordinate? In other words, will we be used by others to satisfy their needs or rather we shall take advantage of the benefits offered by the global economy?"

The mankind needs to understand the causes of the crisis. Over the recent years the world has materially changed, while our perception of the world clearly lags behind the changes. Mikhail Ershov points at the following: "The US Government's Financial Crisis Inquiry Commission has concluded that the financial crisis was avoidable. The crisis was the result of human action and inaction. It was a result of the lack of regulation and oversight over a whole system of fundamental economic processes that required far clearer and stricter regulation."

In his book, the author attempts to clarify why the unprecedented era of prosperity gave way to the heaviest crisis in the post-war history. Mikhail Ershov concludes that the deregulation of the global financial system has become a major cause for the crisis. As a result, a shadow banking system started developing along with the principal banking system. Various funds that were subject to much less strict regulation earned more than traditional credit institutions. A distorted world of global imbalances had emerged that became a total mess. Some countries consumed more than they saved, while the savings of others exceeded consumption. Nations borrowed huge amounts not to invest in their economies but to spend.

When the crisis began, central banks and other regulators started playing a very important role. This was a moment of truth in terms of clarifying the ideology of market approaches. Many things that were considered to be undesirable, such as government intervention into the economy

were urgently called for to save the situation. Moreover, regulators of major economies were the first to demonstrate what was necessary to be done in such emergency situations by starting to intervene actively into market processes. On the whole, purely pragmatic approaches emerged, coming to the forefront.

Unfortunately, we cannot speak about the content of the book in detail, although it contains many interesting facts. However, we would like to point out at least two of its important qualities: first, it has been written based on fresh evidence, and, second, apart from theoretic studies, Mikhail Ershov comes from practical sphere. Thus he successfully combines both knowledge and practice, while it was the immense gap between economic theory and economic reality that in many respects resulted in such a heavy and long-lasting crisis. Guests present at the book presentation highly spoke of the author's work. According to Sergey Dubinin, Chairman of the Supervisory Council VTB, Chairman of the Bank of Russia in the past, the book is a solid and scrupulous study of causes and nature of the crisis development, its aftermath and crisis management policy. "This is the first, and nevertheless high quality, body of knowledge that has not been consolidated before," noted Sergey Dubinin. "Until now there has been no real analytical study of the issue either in Russian, or English. In this respect, the author is absolutely right when he asks: what's next?" Sergey Dubinin agrees with the author that the crisis causes are still there. Its whole structure is still there and it will continue threatening financial upheavals and destabilizing economic growth.

Oleg Vyugin, Chairman of the Board of Directors of MDM Bank, considers this book as an attempt of the author to sum up important things, review recent events and take a look forward based on the review of the past.

In his turn, Andrei Klishas, President of MMC Norilsk Nickel, noted that he very attentively read the book and asked Mikhail Ershov a question: 'Your book discusses the decrease in capitalization of major companies. Did auditors' reports or corporate governance standards followed by the US companies for previous reporting periods show that all this was possible and would happen? What is then the point in all those corporate procedures that we are so enthusiastically trying to put in place into our economic reality?'

Viktor Melnikov, Deputy Chairman of the Bank of Russia, believes that inadequate regulation of the US financial system had played its destructive role and aggravated the crisis.

Academician Oleg Bogomolov noted that Mikhail Ershov works in an area that many perhaps do not clearly understand. The area is poorly covered by researchers, theoreticians included. But his

publications give answers to many questions. Moreover, they are also distinctive in that they allow us to foresee the course of developments. Oleg Bogomolov reminded the recent statement by Paul Krugman, a well-known US economist, that the last 20-years development in macroeconomic theory has, at best, been spectacularly useless or, at worst, directly harmful. This gap exists not only in Western, but also in Russian economic theory. As such, similar books are extremely helpful.

In his statement at the book presentation, Aleksander Turbanov, General Director of the Deposit Insurance Agency, noted that he closely follows publications by Mikhail Ershov and was always pleased to read them as they were always relevant and interesting. “The same applies to his last book,” said Aleksander Turbanov. “For what can be more relevant at the moment than trying to figure out the causes for the global financial crisis and find the ways to overcome its consequences? As well as the ways to build your economy further?” The book attracts its readers not only by a deep and broad analysis which was made, but also by making them think.

Aleksander Turbanov believes that the keynote of the book is the idea that financial markets cannot operate and develop in a stable and efficient way on their own. “Self-regulation and market discipline are certainly needed, useful and necessary. But it is also obvious that they will always be insufficient to prevent crises,” says Aleksander Turbanov.

“Mikhail Ershov has gathered enormous amount of materials to study international experience. We also can use much of it in our activities. Our Agency is collecting a professional library and I am confident that this book will have a rightful place in it,” said Aleksander Turbanov in conclusion of his speech.

Yakov Dubenetskiy, a reputable Russian banker, noted that the book is particularly valuable as it “allows extrapolating global experience to our reality”. Yakov Dubenetskiy said: “In the recent years, in Russia the activities of the Bank of Russia are *a priori* considered to be almost impeccable. When the regulators want to say that Russian economy runs well they always speak of large gold and foreign exchange reserves. But no one has analyzed whether there have been any alternatives to the use of such reserves? Say, one third or one fifth of these reserves could be used for long-term loans to investment projects. There could also be other options. As such, the specific value of this book consists in that the author makes us think of these issues in the light of global developments.” At the end of the book presentation in the Institute of Europe of the Russian Academy of Sciences, one of the guests asked the author a rather tricky question: “Imagine that you have been appointed Minister of Economics, or even better, Prime Minister.

What policy would you run? How to prevent the decline of financial markets and ensure economic growth?” The answer by Mikhail Ershov was as follows: “Financial levers and tools that I describe in the book show how an active economic policy, i.e. targeted monetary, budgetary, and regulatory mechanisms, could be used to reinforce the economy and develop the financial market, while ensuring that it is not isolated from the real sector. Financial mechanisms can and must be moved closer to the real economy so that they are operated in concerted way to address the existing industrial, structural and other problems in place’.