BOOK REVIEW

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MONETARY GOVERNANCE IN SEARCH OF NEW SPACE: EMERGING MARKET ECONOMY PERSPECTIVES

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Review by

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The book is about the times of monetary instability and mis-governance, especially since the 2008 crisis. The markets responded to the crisis with monetary anarchy created by monetary greed and a systemic intervention for quick-fix solutions. It is well known that the probability of anything systemic happening is in inverse ratio to its desirability and especially when the participants' horizons turn out to be different, though they all live under the same sky. Added to this, what central banks should not do, they still do by believing in and treating all aggregate demand as created equal. Just as trees are known by their shadows, similarly policy makers are known by their dark decisions. Similarly, nations that value their currencies above sound governance soon seem to lose both. Hence the crisis of 2008 that precipitated in the US but soon engulfed the economies of the developed world and those of the emerging market economies.

The Book contains six chapters,

Elaborating on the boundaries and the radii of the three sets of governance structures- monetary, financial and economic- Dr. Vasudevan clearly brings out in the first chapter the fact that the intersection of all the three sets alone would ensure a sound and stable governance environment. Also, he highlights the limited sanctity and sometimes highly misleading nature of instability the intersection of any two of the three sets promise. Towards the end of the chapter, Dr.Vasudevan quickly points out the need to keep in view that financial and monetary stability is basically a travel but not a destination and in which travel, sound governance keeps good company freeing policymakers from the pitfalls of fallacy of composition between the micro- and macro-policy prudentials.

In chapter 2, Dr.Vasudevan aptly distinguishes between the internal and the external institutional designs including the operational procedures required for clear demarcation and necessary understanding of sound governance. His emphasis, here, squarely is on the necessary functional jurisdictions and possible conflicts of views wholly arising out of the spectrum of specializations and experiences of policy makers that drive the policy decisions. He quickly points out that there is no one-size fits-all model of institutional design and network of operational procedures. Attention is drawn, here, to the irrelevance of the purblind "uber-confident economic modellers"(p.27) hastening to construct models that perfectly operationalize reality in a vacuum. Even occasional delegation of fiscal-monetary functions among the concerned authorities would

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only lead to political quick-sands, he implied. Added to this is the need for shared monetary governance by the internal institutions with those of the external players in the light of the increasing 'new regionalism' created by the de-territorialized currencies in the global monetary order.

It is said that monetary governance, in a globalized world, has become a political contest for market loyalty and this contest poses hard choices for policy makers. The policy makers, as detailed out in chapter 3, are the principal actors of the governance platform, while banks and shadow banks constitute the customary players as the other stakeholders. The rainbow-of-interests of these participants so collide against one another, like the particles in a molecule, thereby, resulting in a swathe of kaleidoscopic motives. The principal actors usually pose as if they have all the wills and the other stakeholders have, only, all wishes with the result that the former come to feel they are the custodians of governance and the latter are looked upon as only the customers of governance. This vertigo view of interests and interactions is said to create all the necessary ingredients of exuberance, extravagance and estrangement of market discipline necessary for sound governance. Moreover, the possibility of principal-agent conflict of interest between the fiscal and the monetary authorities might alone weaken the policy fabric and pollute governance. Thus, the concerns for sound supervision, regulation and overall governance would get so diluted that the principal actors fail in their sound functioning to distinguish between the 'too-big-to-fail' and the 'too-big-to-save' financial institutions.

Dr.Vasudevan opens the fourth chapter with the statement that "Monetary governance to be credible should have fiscal and monetary policies set on sound analytical frameworks."(p.63) He concludes the chapter, then, with the message that sound analytical frameworks would provide only the necessary conditions for good governance. Then he implied that the sufficient condition for converting good governance into sound governance lies squarely with the sound communication policies serving as strong conduits for even spread of correct messages. Detailing on how the frameworks need to be designed for sound communication, he reminds us that policy communications should not be couched in a language that can be characterized as "constructive ambiguity." Dr.Vasudevan is hinting at the truth that despite the new millennium New-Keynesian Macroeconomics, the economists-profession is still in disarray, believing that 'the whole is simpler than the sum of its parts.' Implicitly he hints at that the Profession being purblind to the politico-economic realities, further firmly believes in sound fine-tuning of monetary instruments without the help of fiscal forbearance and fortified financial fine-tuning. As the focal message, Dr. Vasudevan implicitly reminds us, in this context, that there is profound difference between knowledge and communication; the former stands for 'giving out' and the latter constituting 'getting through'.

And then the International Dimension chapter-5 comes. The scene is now moved to the international arena requiring formulation of a framework for global governance. This move is necessitated by the compulsion of growing economic globalization whose remarkable manifestation is visible in cross-border competition of currencies and in the deterritorialization of national moneys. These national monies have stepped out of their territorial frontiers only to fall short of the nation-states in number. Even today there are 182 independent currencies in the world but only a few directly and popularly competing with the national moneys in all the three functions that money is set to serve. This competition has culminated into what is sometimes known as 'contraband' of currency substitution on a global scale. This substitution widens the range of opportunities and motives for a growing number of national governments and central banks as suppliers of moneys creating demand for the same by the global banks and shadow banks. This situation essentially shapes up the framework for global governance. As a result, what is national monetary governance until a decade ago now transcends into global governance posing political contests for eminent popularity and pushing policy makers into pulverizing positions for market loyalty. What was once a national monopoly over one's money, now stands de-territorialized into an oligopoly. This transformation in market situation has also brought in its logic the complexity of operations and governance of the currencies in competition. Microeconomic theory tells us that monopoly yields a unique solution, whereas oligopoly outcomes are indeterminate. Oligopoly with leadership yields workable solutions and the same applies to the currencies competing on the global scale. As a consequence, what policy makers used to pride in their power of adapting to the necessity, now stand dazed in a de-territorialized zone of oligarchy. Both the actors and their concerns are thrown onto a multi-polity stage for popularity. National monetary governance concerns are drowned in the din of global governance decibels.

What is the solution and for the way forward? The answer to this question is outlined in the last chapter 6. Dr. Vasudevan makes the readers aware of the fact that the Macroeconomics Profession understands very little of the relevant building blocks that determine aggregate outcomes of policy prescriptions even today. Also, he comforts the reader to the other fact that the crisis fire of 2008 is not as dire as that of 1929. Therefore, one need not lose hope after-all. Structural reforms of governance institutions, of markets and of policy communication strategies alone can help policy-makers move in the direction of erecting global governance frameworks. At the same time, Dr. Vasudevan was quick to imply that reforms with requisite energy but not fanaticism and with valued principles but not demagogy alone can drive global monetary governance in the desired direction. This seems to be inevitable, especially, when the future looks more discouraging in the light of the world's aging populations, increasing tolerance for all sorts of uninhibited rent-seeking behavior by both the insiders and the outsiders and the technological advances that seem to be supporting these global trends.

In view of these problematic trends what could be the further steps the nations need to take even after the reforms are put in place. Dr.Vasudevan leaves the question to be answered by the readers themselves. The answer depends on one's inclination towards adherence to monetary principles, governance ground rules and ethical values. The answer could be monetary separation (making the medium of exchange function separate from the store of value function) installing a framework of 'shared monetary governance', or 'constitutionalization' of money as a bold and serious step. Some of these solutions could be the 'New Space' that monetary governance is in search of.

The Book is extremely contemporaneous in both the intent and the content. Also the book is futuristic in context in that it enables the policy makers draw useful clues to embed their monetary governance structures with shared governance principles and values. Vigorously argued, written with excellent clarity, thoroughly up-to date in content, the book emphasizes the three-dimensional nature of the global problem.

I am sure the Book will help enable the policy makers see the structural pitfalls of the vacuous contents of the "uber-confident economic modellers'" academic models that contain reality only remotely.

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