Case Studies on

Managing Economies – Vol.I

Edited by

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OVERVIEW

Perfection in many aspects has been as illusive for human beings as life beyond earth – none knows of its existence but everyone makes an attempt to find out. Man has been making intensified efforts to that end but the target looks to be receding with each effort. One such illusion – rather the biggest than any other – is perfection in economics and also in economies. As George Fisher famously states, "When you aim for perfection, you discover it's a moving target." Economists and academicians have been aiming at the moving target right from the days of Adam Smith and in the process have been discovering ways and means to make the best out of the existing imperfections. Thus, framing everyday economic laws for administrators.

In these laws lies the core of economic functioning of any nation. And with these laws would a government strive to protect its people from the imperfections. These imperfections would compound when discounted for the ever changing conditions and dynamic economic realities. Add the effects of globalization to this; and things go beyond comprehension. When the changes happen, they happen at such a breath-taking pace that they provide almost no time to comprehend before taking corrective measures. People in the decision making roles are thus forced to react – without having complete understanding of the causes – than take decisions. Glorious present will become filthy past in almost no time. Asian crisis of late 1990s, for example, got the so called South Asian Tigers on their knees in a span of two years. What looked to be a splendid economic story in 1995 was reduced to debris by 1997. And those economies, which built themselves brick by brick in two decades, were struggling for existence at the door steps of the IMF. The darlings of foreign institutional investors (FIIs) have over night become desperate for international monetary aid.

In certain instances the economic laws lead to such ambiguity that the state remains in flux for too long a time and the economy gets hurt. The dilemma, whether to save or spend, in order to further the growth, has effected Germany, and no less the whole of European Union. Brazil is torn between forests and foreign exchanges on the top of the ideological flip-flop of its ruling party to fix its finances in cahoots with WB and IMF. While all the four BRIC economies, with huge capital inflow from the 1st world, have tended to outpace the growth registered by G6 in US dollar terms, the difference of approach between India and its immediate number China holds the promise of a test case for future emulation.

The psychology – the animal spirits, as said by Keynes – has all the while played a big part in economics. Not always for better, though. Emulation of a policy successful with one could hurt the other. The success of flat tax regime of Baltic nations has upended the obsession with progressive tax system of yester years, among some other nations. Not to be sidelined, Thailand, the largest among the Asian Tigers has lived down the meltdown and started to occupy its place under the sun through development of energy and auto sectors.

Under some conditions mere reactions, out of desperation, would yield best results than deliberate decisions. Formulating economic reforms in the time of economic crisis is one such act; many countries were able to come out of the crisis by reacting to the times. During 1990's Chilean economy adopted a number of economic reforms when its back was firm against the wall. Some structural and some fiscal, reforms not only shored Chile but also resulted in development of a sound financial system. In 1988, *The Economist* described Ireland as 'The poorest of the rich'. It found succour in fiscal and monetary reforms, which ushered in surprising gains. A decade later, the same magazine described Ireland as 'Europe's shining light'. How quickly is history made. Many such instances could be found across continents. Economies of Thailand and Malaysia, almost lost hope of survival owing to the Asian financial crisis of 1998, could restore normalcy by framing various policies. In 2002 when Turkey's economy was in shambles its newly elected Prime Minister implemented a tight monetary policy and a disciplined fiscal policy to script an economic turnaround.

Nothing remains constant, more so in the globalised world. Even the strongest of the stock is neither immune nor resilient. California, once one of the largest economies in the world, saw an economic downturn during 1999-2002 that resulted a recall election in 2003. Europe, known as dominant economic force for centuries, finds a challenge in its ageing population. A double edged sword that it is, aging population is having a negative impact on the European economy and is also turning its future rather bleak. Vatican, perhaps the most powerful unarmed nation, had to deal with its poor financial condition as well as various scandals and controversies in 2005. France was preparing initiatives to comply with the EU directives of opening its electricity sector for competition, but it resulted in unrest among the workers, who went on a nationwide strike causing blackouts for several hours in many cities.

As Winston Churchill states, "The human story does not always unfold like a mathematical calculation on the principle that two and two make four. Sometimes in life they make five or minus three; and sometimes the blackboard topples down in the middle of the sum and leaves the class in disorder and the pedagogue with a black eye." If imperfections does not occur humans cannot evolve and will not be exposed to another better way of managing things. But none can assure the better ways to be the perfect ways. The imperfections, frailties, faults, are just as important as virtues – they cannot be separated. They are wedded.