Fault Lines: How Hidden Fractures Still Threaten The World's Economy

RAGHURAM G. RAJAN

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Synopsis
Raghuram Rajan was one of the few economists who warned of the global financial crisis before it hit. Now, as the world struggles to recover, it's tempting to blame what happened on just a few greedy bankers who took irrational risks and left the rest of us to foot the bill. In Fault Lines, Rajan argues that serious flaws in the economy are also to blame, and warns that a potentially more devastating crisis awaits us if they aren't fixed. Rajan explains how the individual choices that collectively brought about the economic meltdown - made by bankers, government officials, and ordinary homeowners - were rational responses to a flawed global financial order in which the incentives to take on risk are incredibly out of step with the dangers those risks pose. He traces the deepening fault lines in a world overly dependent on the indebted American consumer to power global economic growth and stave off global downturns. He exposes a system where America's growing inequality and thin social safety net create tremendous political pressure to encourage easy credit and keep job creation robust, no matter what the consequences to the economy's long-term health; and where the U.S. financial sector, with its skewed incentives, is the critical but unstable link between an overstimulated America and an underconsuming world. In Fault Lines, Rajan demonstrates how unequal access to education and health care in the United States puts us all in deeper financial peril, even as the economic choices of countries like Germany, Japan, and China place an undue burden on America to get its policies right. He outlines the hard choices we need to make to ensure a more stable world economy and restore lasting prosperity.

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Customer Reviews

In 2010 Raghuram Rajan set out to explain how structural instabilities in the global financial system led to the largest crisis in recent memory. With Fault Lines: How Hidden Fractures Still Threaten the World Economy he succeeded. It's easy to write a partisan manifesto outlining a left or right wing perspective of what happened in 2008 someone with no background in economics can understand and enjoy. It's far trickier to write a balanced and accurate analysis for other economists. It's comparatively impossible to write a balanced and accurate analysis someone with no background can both understand and find engaging. Rajan knocks it out of the park. By using simple yet illustrative anecdotes and explanations (carefully chosen to illustrate the given phenomenon!) as stand-ins for complex economic theory, the current Governor of the Reserve Bank of India and former IMF Chief Economist morphs models into stories, and analysis into narrative as he brings to life the default lines in the global financial system he famously warned of in 2005. Maligned at the time by many policymakers and academics, his speech proved prescient, and is now outlined for a broader audience to understand after the fact what he saw before. Further, it illuminates how these factors are still generating risk in the financial sector today. With policymakers still too focused on basic factors (such as unemployment and inflation) in economic policy instead of financial factors that exhibit highly dynamic and critical behavior we are applying the wrong tools to the wrong target. This is exacerbated by the continued institutional misalignment of incentives in markets and political systems.

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