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Review of “The Global Financial Crisis: Causes, Anti-Crisis Policies and First Lessons”

1. Topic Overview

The article discusses the event that led to the infamous global financial crisis, which affected most of the stable world economies. Dabrowski (2008) notes different causes of the crisis with one being monetary challenges. Monetary challenges expound on the careless formulation of monetary policies in the United States of America by the Fed as well as other significant central banks across the globe. These monetary policies laxity dates back to the mid-1990s (Dabrowski, 2008). The article posits that during the period, most economies enjoyed a lower level of inflation and inflationary expectations. Due to this, most of them embarked on conducting an intensive fine-tuning for the purposes of shielding against any possible smaller risk of recession.

As a result of the fine-tuning, the US Federal Reserve Board reduced the existing interest rates, which triggered a subsequent series of the crises in most of the emerging markets. Fearing the possibility of deflation, recession and a bursting dot.com bubble, the effort to improve monetary policies always came in late (Dabrowski, 2008). The author argues that the subsequent laxity of the monetary policies resulted in a massive accumulation of excess liquidity in the United States of America and the world at large.

In consequence, the excesses of liquidity transpired in massive asset bubbles in almost all the major emerging economies. These asset bubbles became visible in real estate sector especially in America and other notable European countries like Ireland, UK, and Spain. The bubble also affected the stock and global commodity markets. In the US, critical macroeconomic concerns like increased present debt deficits as well as

inflationary pressures from inflated commodity prices also surfaced. The asset bubble continued to cause a challenge in all economies due to such concerns as a fast depreciating US dollar and increased international reserves by emerging economies.

Furthermore, the article notes that regulatory failures also enhanced the effects of this crisis. These regulatory bodies failed to establish a global transnational character of all financial markets in order to prevent exploitations by the national supervisory agencies. Consequently, rating agencies and supervisory bodies also failed to comprehend the existing nature of financial markets hence exposing financial institutions to unplanned risks.

2. Findings, Relation to Current State and Development of Financial Research

The article notes that crisis management led to chaos since it focused on calming the aggressive financial markets for a short time. The best alternative required to immediately address such critical challenges as substantial insolvency of financial institutions. Dabrowski (2008) posits that the lack of an international institution led to non-cooperation and integration of effective macroeconomic and regulatory policies. Due to this, most economies embarked on implementing irrelevant actions. For instance, the Irish government decided to provide full deposit guarantees.

The article claims that the extreme cut in interest rates by the Fed in the period between December 2007 and January 2008 failed to curtail the

crisis. In fact, the drastic cuts promoted inflationary pressure and an uncontained bubble in commodity process across the globe. The appreciation of both the euro and yen helped transfer the recession risk to Europe and Japan while failing to sustain confidence in the US financial markets. The poor level of confidence in the US financial markets propagated increased spreads and sporadic liquidity crunches. Dabrowski (2008) establishes that the prospect of global economic stagnation promoted fiscal stress in most economies. Thus, the process of formulating and implementing fiscal policies should adopt an effective approach. For instance, in the course of salvaging substantial insolvent financial institutions might prove beneficial for a short-term, but the use of broadened financial stimulus might trigger further challenges.

Japan's current huge public debt of about 175% of its GDP relates to its initial efforts to use large-scale fiscal stimulus to fight post-recession bubble. The substantial fiscal stimulus adopted failed to retain stagnation but rather increased debt. Integration of both the private sector and market-oriented solutions should replace the decisions to nationalize entities as a way of salvaging them.

The present crisis should never seek intercession from state interventionism as well as ownership as long-term remedies. Large-scale financial rescue by governments might help contain such crises as the great depression. State interventionism of a troubled financial institution promotes stability and cannot compare to bailing out loss-making non-financial corporations. Such countries as Greece and Spain are currently struggling to repay their debts from EU and IMF corporations. Consequently, there is a substantial slowdown in economic growth and inflated commodity prices for most economies.

3. Personal Views on the Article

Generally, I liked the article. First, the author discusses the 2008 global financial crisis comparing it with past crises. Secondly, he presents a clear overview of the factors that facilitated the crises to higher levels. Thirdly, the article provides some notable lessons from the crises and the ways to improve economic growth. Thus, it gives a substantial amount of information for future research.

4. Lessons Learnt from the Article

I have learned that there are numerous factors that facilitated the propagation of the 2008 financial crisis. Subsequently, the use of monetary policies alone cannot overcome financial crisis; rather, it should be employed systematically. I will use this information to research substantial factors that can be integrated to maintain stability of financial markets and reduce inflation pressures. I have also learned that unnecessary pressures should not be directed towards central banks; instead, there should be straightforward anti-inflationary measures adopted by ECB and integrated with imminent legal framework.