



BOOK REVIEW

THE AGE OF STAGNATION: WHY PERPETUAL GROWTH IS UNATTAINABLE AND THE GLOBAL ECONOMY IS IN PERIL

by Satyajit Das, Prometheus Books, New York, 2016, x+335 pp., ISBN 978-1-63388-158-7

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The global economic landscape after World War II has been facing the boom and bust cycle. However, the Global Financial Crisis (henceforth GFC) in 2008 was the most serious financial crisis after the Great Depression in 1930, and it has triggered a severe disease in current economic growth. This book, *The Age of Stagnation*, reveals the facts of economic history and contemporary financial issues. Satyajit Das discusses the factors behind sluggish growth and criticizes the implementation of macroeconomic policies which has resulted in a deep stagnation with little hope of attaining a level before the calamity.

Das is a consultant, and former renowned banker with vast of experiences in financial markets. He was nominated by *Bloomberg* in 2014 as one of the fifty most influential financial thinkers in the world. In this book, he makes a deep analysis of the global economy and provides a clear and compelling critique of the existing system by reviewing the historical background and contemporary issues, making analogies, and quoting important public figures, economists and writers to support his statements in a more persuasive way.

In the first chapter of the book, Das discusses the history of global economy sometimes extending back to postwar significant events such as the Bretton Woods Agreement in 1944, the Golden Age of Capitalism (1950-1970), the European Coal and Steel Community (ECSC) in 1951 which later evolved into the European Union (EU), the oil boom in the 1970s, the end of the Cold War, Asian Financial Crisis and lastly the GFC in 2008. Though the world economy has been up and down, the author firmly claims that the 2008 GFC showed the unattainable nature of perpetual growth and progress.

In the run-up to the GFC, Das observes four incidents have taken place. Firstly, the world relied greatly on borrowing to create economic activity. Households increased the level of borrowing to finance consumption and investment whereby sometimes the debt level had risen beyond the borrower repayment capacity. Secondly, global imbalance has allowed some countries to save heavily while others consumed beyond their means. Thirdly, financialization, a process of trading financial products and dependence on financial engineering; and lastly, the implementation of generous benefits and large entitlement program which has broken economic rules of prudence. There is no doubt, indeed all economists agreed with Das's observation. From these notes, we realize that the factors triggering the GFC were found; unfortunately, growth levels of most countries especially developed countries are still slow compared with the pre-crisis level and conditions in the real economy have not returned to normal. It has driven Das to frustration particularly with policy makers and governments whom he accuses have not done enough and failed to restore the economic system.

According to Das, the fiscal and monetary policies include lowering interest rate, austerity policy, and quantitative easing (QE) are creating crisis rather than solution. He calls these the policies of "extend and pretend". Das observes that lower or zero interest rate reduced the returns on savings and thus deteriorated pensions and entitlements. In addition, low interest rate creates zombie economies which interest returns and central bank monetary methamphetamine encouraged asset price bubbles that in turn created conditions for a future financial crisis. He also observes that the fiscal policy such as implementing austerity program by cutting government spending and increasing taxes to stabilize public finances and QE policies by lowering borrowing costs and allowing high debt level to be managed does not help anymore to restore the system. Das simply generalizes and goes straight to the point that policies proposed by government did not rely on research but rather are predetermined and politically motivated. He has made an absolutely true comment on this issue.

Although the author well-examined the problems incurred by financialization, he does not provide sufficient analysis on how institutions such as government and the central bank can be reformed in term of governance and political will to deregulate the financial policies, so that the crisis can be easily solved. According to the World Economic Outlook Report (IMF, 2016), structural reform can raise the long term level of output. Moreover, the comments of Das on policies implemented seem to remind us that fiscal and monetary policies

taught in the class are no longer relevant and cannot be used to recover from this severe crisis. If we consider Das' investigation as accurate, there would be no other way to recover economic growth to the pre-crisis level besides awaiting the end of its life cycle.

In the subsequent chapters, Das discusses several forces that exacerbated crisis and compounded financial problems. He finds that the world is facing lower population growth and aging populations, slower increase in productivity and innovation, shortage of natural resources, reverse globalization, slow growth of emerging markets, increases in economic inequality, democracy deficit and the fallout of ordinary peoples' lives.

Das provides a clear picture of how these forces interacted by reviewing the history, examining the current issue and providing a vibrant prospect for the future. He notes that the world population will peak and then decline at some time during the twenty first century. Das worries that while global population declines, the aging population increases thus placing more burdens on this fragile economy. Das also notes that current production which is a major contributor to growth has decreased; meanwhile, current innovation focused on marketing and distribution rather than creating new industries is now also a new concern.

In the chapter "Running on Empty", Das warns that the shortage of natural resources such as food, water, oil and gas, power, energy and environmental destruction will directly or indirectly affect growth. According to Das, the current financial problem is also triggered by a so called reverse globalization. He observes that most countries favor their own economic interest, nationalism, are not trustworthy, conduct currency war and that changes in geographical relationship have broken the rules of globalization. Moreover, emerging markets that have benefited from and supported growth are declining. The limitation of the China growth model and other growth strategies in other countries such as India and Brazil based on increasing debt level are now becoming unsustainable.

Besides, Das undertakes a serious analysis of growth stagnation due to the increases in economic inequality. In the chapter "Economic Apartheid," he suggests that inequality now threatens growth. Das is saddened by the news that the richest 85 people in the world are wealthier than the poorest 3.5 billion people on the planet (p. 210). Das believes there will be more stagnation by further looking at democracy deficit and the fallout of ordinary peoples' lives. He emphasizes that the democratic deficit already has emerged.

Even though most of the author's critiques are true and make sense, Das has probably been looked at from one side of the whole scenario and the positive have not been considered. Das seems to ignore the pains and efforts of economists and policy makers who have been charting new growth strategies and reforms for their respective nations. Moreover, with little hope of recovering from the crisis as far as he is concerned, Das provides insufficient solution to address the issues.

Interestingly, most of the analysis of this book is very much in line with the Islamic point of view in economic development. A pioneer in Islamic Economics, Umer Chapra (2011), in his paper "The Global Financial Crisis, Can Islamic Finance Help?" shows similar concerns with the author and he calls for a new architecture that would help minimize the frequency and severity of such crises in the future. After a quick review of the factors triggering financial crisis and the principle in Islamic finance, Chapra (2011) proposed a solution from the Islamic perspective to promote economic growth and a healthy system. He suggested that the proportion of equity needs to be increased; credit needs to be confined primarily to transactions related to the real sector, leverage needs to be controlled, all financial institutions need to be regulated and supervised such that they will not become a source of systemic risk, make credit available to the poor borrowers on affordable terms, and so forth. In short, Chapra confidently affirms that Islamic finance, with its ethics and profit and loss sharing scheme, can be an alternative to the current failed economic system.

Unfortunately, Chapra's (2011) proposal is still an aspirational concept. Contemporary Islamic finance institutions such as banks are still following the footsteps of the conventional system which heavily relies on debt rather than the profit and loss sharing model. If no serious measure is taken, contemporary Islamic banks will end up like their conventional counterparts and thus Islamic economic theory is used merely as a background for Islamic finance.

In a nutshell, the argument of this book, *The Age of Stagnation* is very clear and delivered with approachable style. The content of the book is well-organized and flawless. This book is very useful for readers from all academic backgrounds to understand the phenomenon of the world economy and its future prospects. However, the analysis of this book relies heavily on previous literature and thus empirical study on factors exacerbating economic stagnation is needed to prove the author's views and to provide a clear insight to policy makers. Though the author provides little hope for speedy recovery of this

fragile economy in this book, I believe that advanced technology and knowledge will play an important role in catalyzing growth; as what Romer (2005) in his book *Advanced Macroeconomics* notes, “the enormous technological progress of the modern era had led not only to vast population growth but also to vast increases in average income”. In addition, the Islamic economic system with its basis in ethical principle can be considered as an alternative.

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