

## **Major Challenges Follow the Day of Reckoning**

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In 1988, my thesis adviser, Benjamin Friedman, published perhaps his best known book - "Day of Reckoning: The Consequences of American Economic Policies under Reagan and after". The book, which received the annual George S Eccles Prize for excellence in writing about economics, argued that the US economy would come to a halt given the trends in the US budget and current-account deficits.

Ben's day of reckoning never came. The US economy roared through much of the next 19 years brushing off two brief recessions along the way thanks in part to renewed productivity growth and supportive macro policies. By 2007, belief that the business cycle had finally been conquered started to gain wide acceptance. Phrases like the Great Moderation and the Goldilocks economy were commonly heard from policy-makers and the press. This was despite the fact that the US current-account deficit as a percentage of gross domestic product in 2007 more than doubled its 1988 level.

On September 15, 2008, America's day of reckoning finally arrived. Within days after Lehman Brothers filed for bankruptcy, the US economy found itself struggling to avoid a systemic collapse. A seemingly mild recession that had started a few months earlier suddenly became the Great Recession.

But America's woes were also the day of reckoning for the rest of the world, whose growth and fortunes have become so dependent on lavish US consumption spending. The end result was the first synchronized global slowdown since the Great Depression.

As severe as it is, the current crisis, like all of its predecessors, will eventually pass. In fact, recent economic indicators suggest the worst is now behind us, although it may take some time before we completely get out of the wood.

With the burst of the great bubble that had fuelled the world economy for nearly a decade, the post-crisis world will look fundamentally different from the one we have just left behind. Thinking that one can go back to the good old days would therefore be a fatal mistake for both business leaders and policy-makers.

How the post-crisis world will look and how Thailand can live well and prosper in this brave new world will be the subject of the last three papers to be presented at the Bank of Thailand's upcoming economic symposium on September 15-16 at the Centara Grand in Bangkok. In the first of the three papers, my colleagues and I attempt to make an educated conjecture of the global macroeconomic and financial environment over the next five years. Among the still unfolding developments that we look at are the remaining global imbalances and advanced economies' central-bank balance sheets and public debt, along with their consequences on the global economy. Against this backdrop, the other two papers will address the appropriate responses for Thailand.

Life in the post-crisis world will be challenging. The best way to assure one's future is to have forward-looking preparation and strategies.

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**(The views expressed are the author's own.)**

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