

THE RECESSIONARY GLOBAL BUSINESS ENVIRONMENT

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ABSTRACT

Global business today is marked by recessionary environment, following the global financial crisis of 2008 and its aftermath of Great Recession, beginning in the United States of America and spreading to others. This paper is an attempt at an understanding the new recessionary global business environment, said to be the result of the of business excesses, mainly, of banks. The result of the crisis is a depressed or recessionary business conditions, all over. This paper is a model attempt at understanding of the new recession, global environment, and the recessionary policy and measures in implementation.

Keywords: Global Recession, Down Economy. Recession, Global Economy.

I. INTRODUCTION

The world, at large, is under the spell of the USA Recession, resulting from the US financial crisis of 2008, signaled by the fall of the mid-19th century origin and about US \$ 639 billion value (Carmichael: 2013) worth and standing US financial cups giant Lehman Bros on the 15th September 2008 and the verge of fall of the too big to fail American banks, turning the tide of global businesses and its overall downward environment (Krugman: 2009). The magnitude of the crisis and its business impact can be well imagined when it is said to be second to the Great Depression of the 1930s, and is described as Great Recession. Recession is economic and business conditions of down trend and poor business conditions, resulting from the recessionary downturn, in their form, result in large scale unemployment and economic distress.

Business environment should be active and exude public trust, goodwill and warmth, as against which the people at large, this time, are distrustful of business thinking motives, practices and policies. This is because of the alleged business greed and malpractices, and not considering public interest. This paper is a modest attempt taking view of the new recessionary business environment with the following objectives (Os) and methodology (M).

¹ Revised version of the paper presented at the International Conference on Business & Economics at the University of Nevada at Las Vegas, a Carnegie Research University with High Research Activity. *U.S. News & World Report* placed UNLV at No. 12 in its ranking of most popular US universities, March 2013.

Os & M

- i. To take a stock of the new phenomenon of Great Recession, and the consequences of it
- ii. to enquire into the causes of the great downturn, said to be the first of its kind.
- iii. To look at the measures to meet the recessionary conditions individually and collectively, and
- iv. to take a special note of the great recession with special reference to the emerging economies like that of India
- v. and to draw lessons, if any, regarding policies and programs regarding the new phenomenon.

II. METHODOLOGY

It is no ordinary recession, but a Great one, following which the methods of analysis consist of measuring the fall in the macro-economic variables of national income, growth, investment, saving, consumption, employment, etc., and the consequent business conditions resulting from them, as confidence levels, production, sales inventories, margins, etc. There is likely to be a sea of change in business environment and condition and business optimism and pessimism, outsourcing, extension and expansions, innovations and such others. There would be an attitude of wait-and-see and watch for better business conditions. There would, in other words, be a setback to global business, in these days of globalization and one-world economic and business concept. A big recession is a depressing global business phenomenon, with world-wide repercussions.

Public or governmental finance, it is needless to say, would also be important variable in the recessionary situation and a well effected factor. So is the case with credit, interest rates, bank and business failures, mergers and acquisitions. The data used for the purpose of the analysis is macro-economic and business variables as GDP, Employment, trade available from government and business published sources, as well as international agencies like the World Bank and the IMF, WTO, etc.

Also, does it calls for a New Deal-like thing? New thinking and a new business mindset and leadership?

Yes, the great recession calls for a new deal-like-Deal and leadership like that of President Roosevelt at the helm of affairs. The objectives and the methodology of the study are cast in very broad terms to take stock of the great

phenomenon 2008 recession and the consequences of it. Hence, there may not be 1:1 relationship between the objectives and the variables taken note in Methodology. Thus, the Os and M give meaningful conclusions and policy pointers, such as firm leadership and commitment to tackle the problem.

III. NEW BUSINESS DAWN/ORDER

There is a new economic and business architecture and a new economic and business dawn, built and ushered in over a period of more than a half-century, from the end of the second world war (1939-45), which was in fact, a clash between economic nationalism and internationalism and democracy and dictatorship. The post-war institutions of UNO, World Bank and IMF were big steps towards globalism and the concept of one world, and globalization to follow later, based on the principle of 'one for-all-and-all-for one' and sailing or floating together, but the Great Recession is suspect to be a setback to the process of globalization (Subramanian: 2012). To start with, in course of time, the three economic orders of capitalism, socialism and mixed economy of the post-war's first 4-5 decades had devolved into one laissez-faire system and free trade, the latter through a series of GATT 'Rounds' of talks or negotiations, numbering 8, between 1947 and 1986- the last known at Uruguay Round lasting for 8 years (1986-1994)-the most important outcome of which is founding of the WTO-World Trade Organization (1995) to supervise free and fair trade among its member countries, all of which is a well familiar contemporary business and trade history (Debroy: 1996). The 1990s, from the first year 1991 itself, are well known to be marked by a new economic and trade turn by India and ushering in, among other things, of a new and dynamic growth and trade regime. It's a regime, in short, of a New Economy, IT and Internet driven marked by a mobile handset in every hand. It's an Economy of never ending series of new products and new services. Today's in sum, is a globalized business order-GBO, of great innovativeness and change, all over.

The 21st century, marking the beginning of the third millennium, appeared to have really opened up a new economic and business era, contributed, among other things, by the novel and path breaking and all-embracing IT and Internet Revolution (s) opening up new avenues of employment services like intercontinental BOP, which had proved a boon to India and a presumed setback to the USA, the IT leader of the world with the IT global majors Microsoft, IBM, Apple and giant Internet companies of Google, Yahoo, the contribution of which to the US economy is quite substantial (New York Times: 2012) not to say of the financial of world standing Citi, BOA, and others. It

seemed an age of finance. privatization, globalization, liberalization, growth innovations, consumerism, but with a lot of social discontent and unrest over unbridled privatization and seemingly insatiable thirst for profits and the growing class of super-rich and corrupt in every respect, morally and materially (Editorial: 2008). It was a period of great stock market run (Dore: 2002) and period of liberal liberalism or neo-liberalism (Harvey: 2005), standing free-for-all situation.

Not only the US and Europe and other developed parts of the world seemed to be upon the upswing or business 'exuberance' but also the developing world, of which India appears to offer a good example, which set its course on the new economic and business path with the economic reforms of 1991, standing for de-regulation and the advancement of private and foreign capitals the latter in the form of FDI- foreign direct investment, not just portfolio investment to extend the frontiers of the Indian economy and business. Otherwise, in India, so much would not be staked for FDI in retail trade, not to say of the other sectors. Finance appears not to have been a problem for the New Economy and the globalized business order; And the United States of America, as No. 1 economy of the world and still the seeming 'engine of growth' of the world economy and as the home of the 'breaking' IT and the world currency of \$ (Dollar), and world level financial institutions, including the fallen Lehman Brothers (a B-Day in the US annals), appears to have been flush with funds, from far and wide, resulting in extending hundreds of billions of bad loans for the booming housing market, which busted, and sub-prime crises and collapse or crash followed (Shiller: 2008). The initial estimates of 'bad' or sub-prime loans or undeserved loans themselves aggregated to a minimum \$ 700 bn, approaching a trillion. It may take a long, long time to settle the Crisis a/c of stupendous losses.

It is unfortunate that the USA, in course of just 7 years of the new century, was stuck by two sorrowful events in its history of 11 September, 2001 terrorist attack on the WTC and financial crisis (2008), both devastating to the US and the world at large. 2/11/2001 and 15/09/2008 are big B (Black) days in the history of US.

IV. THE FALL & CRISIS

The fall alone of Lehman Bros itself of more than 150-year standing is a matter of considerable significance, it having seen so many ups and downs of the American economy and business and withstood them with a market value of about \$ 639 bn, (Carmichael:2013) which is equivalent to the national income

of many countries. It's the fall of an American icon, but it is said to be its own making. Lehman's is an inexcusable fall, a national calamity (Bernstein: 2009). The icon had turned bad prior to its collapse.

The bankruptcy examiner released a report showing that the investment firm went to great lengths to hide its shaky finances. In fact, it even managed to evade a team of investigators from the Securities and Exchange Commission and the Federal Reserve who were embedded at Lehman headquarters with the sole purpose of ferreting out accounting sleight of hand. It means that it had been hiding the state of its bad finances due to bad over loans and other malpractices for a long time from all concerned and from itself. It's a sad state of the finances of America, a country to reckon with, globally, in the field of finance in every respect as the world's leading financial destination. The United State of America symbol of economic prosperity and a dream destination of millions of people across the globe, friends and foes, the latter seemingly more, appears to have fallen on the evil or bad days of leadership and financial management dragging itself and the world along into a state of financial abyss and economic and business meltdown. Not only democratically but economically also, India appears to be strongly allied with the United States of America, both in good and bad times.

India is singularly free from any financial fall and crisis, though not from the recessionary conditions. The case of Satyam Computers, an 'iconic' IT company of Hyderabad, Andhra Pradesh is a lone case of a fall of Indian 'giant', but falls in the American fall-category of unlimited personal or leadership 'greed', and 'hide'. But, unlike the US fallen CEOs, Satyam's CEO had quite a long spell in jail. The credit for keeping Indian cool amidst the global financial crisis goes to RBI ex. governors Y.V. Reddy and D. Subbarao respectively, driving home the lessons of the importance of human (H) and leadership (L) factors in economic management.

The RBI's ex. Governor D. Subbarao appears to have rightly characterized the character of the financial crisis as a loss of faith and trust in all the concerned-economic and banking system, business and business people, investors, political leaders. According to him, the financial system appears to be built on the foundations of sand and not on a firm ground of rock (Subbarao: 2009). Here is an eminent central banker whose heart appears to be for the common people of the country, tolerating no financial adventures or misadventures. He does not speak of any lack of authority and standing by Reserve Bank of India in

handling financial mischief and misadventures. He appears to be a model of a central banker to hold the financial system on the right path.

V. UN-BANKLY BANKS

What of 100-year and eminent Fed, whose Chairman are world-standing personalities?

It is unfortunate that the banks appear to have turned themselves into private financial institutions with their central banks appearing to be unconcerned or least bothered about it, working over-time for 'huge' undeserved profits, pay, bonuses and perks at the cost of the public good. They appear to have thrown the most basic principles of finance and banking to the winds, which could only be due to personal gain, greed and fraud, unbelievable in a banking system like that of the United States of America, standing tall in many respects, despite of its foes wishing and working for its demise and destruction. The US Nation, the home of management discipline, has dwarfed itself by allowing 'free' banking at great public cost. America is leader of the free world, but it does not appear to have lived up to its 'leadership' image and expectations. Consequently, ultimately, the crisis and its product of the calamitous recession, concerning the duration of which there are different versions and estimates, boil down to the betrayal of leadership at all levels and letting down the country by all the leaders concerned, from the Presidents down to the Fed and the banks' CEO (Ahmed: 2012). As most eminently put by the late Covey, 'Not position, leadership stems from moral authority' (Covey: 2012). It is unfortunate that still every day some or the other banking fraud seems to tumble out, such as Goldman Sachs 'misleading buyers of mortgaged linked investments' (Times of India: 2011) the UK banks like Barclays and Standard Chartered not lagging behind in falsehood and fraud. Sometime-back, President Obama is well known to have advised India to go in for more and more economic reforms and opening up of the economy, raising a storm of protest and indignation in India, instead of treating it as a friendly and well-meant advice or suggestion. For, there is no doubt of the need for India to reform itself, especially in respect of economic management. It is, however, the United States of America, more than, India which needs reforms in banking and finance, central banking, public finance, debt, health care and education. Banking, especially calls for complete overhauling, and giving up the concept of 'too big to fail' banks. There is an urgent need for reforms in banking, incentives and there is a need for productivity-linked bank remuneration. In banking the USA, EU may have to

learn something from India and the UAE, which are credited with stable and social oriented banking.

Recession –great recession –is time for banking house cleaning. For the present, President Obama or any of his successor should leave India to itself and set to put the American house in order not only in the interest of the United States of America, but also the whole world, as the first cure for the recessionary environment engulfing the world of global business, as eminently suggested by Friedman, in 3Rs- Revive-Renew-and Rebuild (Friedman: 2012). It's the United States of America which is in need of deep Reforms for the revival of the US and the world economies. Another bad case is Europe, at the center of the world history for a greater part of the second millennium, and even today a formidable world player. Special is the case of England, which just a few steps back into history, presided over the greatest Empire known to history, across the continents and countries with pride and aplomb, but today seems to be a home of scandalous bankers who manipulate LIBOR and deal with 'banned' or 'prohibited' states to the extent of billions of \$s for, say, 'dark' profits. Significantly, it is London's goldsmiths in the 16th and 17th centuries were the forebears of modern commercial banking, establishing the golden rules of banking viz., trusteeship, prudence, economy, simplicity, reserves-which are the eternal principles of banking whether it is capitalism, socialism, communism or liberalism or neo-liberalism-said to be responsible for the banking crash. The banking fall with great, panic around the world is due to the misdoings of a handful of American bankers, to start with , and the bubble burst (Lewis, 2009), which, it is said, was bound to happen given the 'GREED' particularly of the banks/bankers lionized as 'too big to fail' and rewarded with handsome bailouts or dole outs (Acharya et.al.: 2011). It was sub-prime or bad finance to housing to X, Y, Z.....N, whether deserving or undeserving, a sort of free-for-all finance. There are many lapses of this financing and finance quite visible even to the naked eye and is well understandable by any layman viz. being careless with global funds; Far irregular than N the Sub-Prime banking is the 'scale' of sub-prime loans to the general public as mortgages backed housing securities to the general public as mortgages backed housing securities to the general public as investment products. All this, in the presence of the eminent the Federal Reserve system, the US central bank Banking irregularities and Fed's.

VI. MODEL FINANCE

Amidst the den of controversy and debate created by the crisis and its offshoot of Recession or Great Recession, there is a portrait of ideal or model finance,

central to central banks, drawn by Dr. Y.V. Reddy, former Governor of the Reserve Bank of India (RBI)- the central bank of India (1935) on whom praise had been bestowed by no less a person than the Economic Nobel Laureate Prof. Stiglitz, for his deft handling of the crisis situation in India with concern for the common people of India. In the greatly leadership deficit India, RBI, then Dr. Reddy & Dr. Subbarao as Governors appears to be an exception. There appears to be no doubt about Dr. Reddy being an outstanding central banker, who has much to offer on banking and central banking and finance for the present crisis times and post-crisis times with, happily, central banking at the head of the banking and financial structure, and does not speak, again happily, of any super regulators (Reddy: 2012). Dr. Reddy's Thesis calls for deep consideration, for clearing the cobwebs and utter confusion engulfing the global financial scene and way (s) out of the crisis and recessionary global business environment and getting right a strayed banking is the right cure for the recessionary conditions, by sending a right message to the general public and restoring public confidence and faith in the banking system.

Dr. Reddy makes issues at stakes crystal clear. "The future of finance, and in particular saving it from popular backlash against the global financial crisis and related crisis management policies, has rightly become a matter of great concern. There is a broad agreement that finance has as in the past, the potential to do good, which should be harnessed by all. However, it is essential to minimize its potential to do harm. In the commendable search for good finance (stress added), central banks do not have just a stake but also a legitimate role to play. From a central banker's point of view, there are several issues in this search for good finance for the future, but there are three interrelated issues that I want to comment on: (a) how to ensure that the financial sector serves society better; (b) how to integrate financial sector policies better with national economic policies, and (c) how to ensure that the financial industry functions as a means and not as an end in itself" (Reddy: 2012 p.38)".

Thus, the central banks well imaginably are seen as central to good finance. Happily, Dr. Reddy's is not a search for any super supervisors or regulators or new discoveries in central banking. The first item of agenda of Dr. Reddy is "Restoring Trust". The Occupy Wall Street Movement (OWS), according to Dr. Reddy, is an expression of public Dis-trust in banking in advanced economies, especially in the US, the starting point of the financial crisis and the resultant Great Recession. And, it is the responsibility of central banks to see that the banking order functions in a orderly manner and delivers its goods and services

without any excesses, whether the banks are big or small or mini, which makes no difference to the central bank. Thus, in Dr. Reddy's analysis, Central banking is back to its preeminent position, and it is to rule out any banking excesses and bad finance.

Finally, Dr. Reddy's call is for the central banks to hold sound banking and financial systems, as mandated by the state and expected by the general public, for which it is not at the mercy of anybody, including any 'too big' 'too-big banks' overlords. It is noted, "I believe that society expects central banks to ensure trust and confidence in money and finance, and hopes that they avoid the pitfalls of capture, while the common person seeks inclusive finance. It is not easy for central banks to deliver all this, but they should not ignore society's expectation". (Reddy: 2012 p.45). "In the ultimately analysis, central banks are trustees, agents to look after the interests of the masses" (Reddy, 2012 p.45), as against which the Fed appears to be concerned with the welfare of defaulting, bankers.

VII. RECESSIONARY BUSINESS ENVIRONMENT

It's no small financial crisis. For, first, it had hit No.1 US economy which still stands tall. Second, in the US, not just US big but world big banks are involved in the crisis due to their own misdeeds and slumbering Fed. Third, billions-upon- of \$s are involved in bad debts, and millions of house loans defaulters in the US alone, of which many had taken to parking and pavements for shelter and for food to mobile kitchens or eateries. Not the least is terrible loss of individual wealth and consumer expenditure and a fall into a sense of 'poverty', deprivation and despondency. All this is a familiar story well brought out, among others, by the seeming chronicler and commentator of the crisis and its product of big R or great Recession, week after-week in his famous New York Times column by the Economics Nobel Laureate Prof. Paul Krugman, with a great concern for the common people of the United States of America. It's severe austerity, a by word for Recession in which the economy and businesses take a down-turn or dip (Krugman: 2011). Austerity does not address the root(s) of the problem, which is a financial irregularity.

In the first flush of the financial crisis itself GDP, in the US, declined from an annual growth of around 3.83 per cent to 2.50 per cent, the result of which is a sure business downturn, internally and externally or in exports (Xs), not only due to the declined GDP and unemployment but also downturn or Recession in the companion or trade related countries, as the US financial crisis and downturn or recession is known to have travelled to other countries and

impacted them. Desai also notes of the people being 'angry' and 'furious', with the bankers and banking regulatory authorities for their fallen or economic lot (Desai: 2011 p.20). Hence, the angry Wall Street marches of protests.

To the US downturn rate of some 8-10 per cent are added the twin deficits budget and trade, and heavy public debt-all leading to downgrading AAA or 3A credit rating by Standard and Poor's (S&P) by 1-grade in September 2011, lowering the global standing of the US. Public debt running close to 100 per cent and more of GDP (Mundle et.al., 2011). The US economy is afflicted with an under 2 per cent growth rate which cannot create sufficient employment opportunities and infuse business confidence and an upswing. The Fed's recessionary package of bond (federal) and bad debt (bank) purchases at a near 0-interest monetary policy, which is expected or projected to last till 2015 (Bloomberg, 2012). Regarding budgetary deficit, well beyond \$1 trillion, hot, hot debate is on between the Democrats and the Republican stimulus' tax cuts (Krugman: 2012). The stimulus' packages have already hit about \$ 2.5 trillion, apart from the bank bailouts. The US holds a mirror to the Great Recession, forging the instruments of bailouts, stimulus' and new 0 – rate monetary policy, which however appear not lifting up the economies. Yet, there is no end in sight of the recessionary phenomenon.

The condition of EU is no better, it being additionally met with sovereign debt crisis in Greece, Portugal, Italy, Spain and credit rating's bailouts of ECB-European Central Bank to the debt afflicted countries. Greece appears to be worse debt affected. None of the G-20 countries representing the world economy is free from the downturn or economic and business conditions. The well-known conflict of interest between the USA and China over subsidies and countervailing duties represents the depressed situation, especially of the USA, its trade deficit running at about \$ 40 billion a month. India's is also a case of widening trade gap, with sluggish exports. It too has a big trade problem with China. Even the Chinese economy is reported to be slowing down adding to the global recessionary bleakness.

On the whole, the global business environment is far from optimal, being recessionary, marked by downed stock indexes and their almost daily up and downswings and great falls and rises on bits of favorable or unfavorable market news, fallen enough growth rates, bank failures, bad debts, sovereign debt crisis, deficit budgets, austerity measures, bad finance and what not. It is not only a deep recession but also a special one-result of a combination of factors. Almost near '0' growth rates of Eurozone (G-17), European Union (G-27) of

0.2% and 0.3 % respectively speak of the deep scar of recession upon the GBE-global business environment (Editorial: 2012). Of course, China shines with a 9 % rate. India's fall is from 8.5 % to 5 %. The latest stance of the Government of India, which all the time had been praising itself for keeping the India n economy unaffected by the global financial crisis and recession and keeping the growth rate intact, is cutting down subsidies on diesel and LPG by raising diesel price a liter by Rs. 6 and limiting cooking gas cylinders per family per year to 6 and by permitting or inviting FDI into retail (51%), Airways (49%) and Broadcasting (74%) (Business Standard: 2012), bent upon a growth rate of 8-9 % at any cost. India has the distinction of a very high rate of inflation in G-20 countries. The Rupee is depreciating against the Dollar making the businesses nervous.

VIII. A NEW DEAL?

What is felt however most in the situation is a Roosevelt-type New deal or New-New Deal or Recessionary Deal to tackle the problem of New and Great Recession in a comprehensive manner, from the root of corporate greed and undeserved salaries and other payments to no-nonsense banking and credit guidelines to restore business confidence and revive business activity. Big or too big banks must have been called to order and account for their misdeeds, first and foremost and erring CEOs or feeling too big CEOs replaced with no fat parting-payments. It appears to be a Leadership crisis and Recession.

For, it is a well-known fact of American economic and business history that more calamitous Great Depression of the 1930s was dealt with by President Franklin D Roosevelt through the Keynesian, after the British economist J.M. Keynes, programs of public works to revive the business spirit and activity. New Deal (ND) is a very celebrated American economic program (Samuelson: 1980 & Behraves: 2009) and an innovative one with no such innovation or New Deal this time.

But, President Obama had no New or Recessionary Deal to Deal with the GR and thus go down in US history as an a great personage. The Deal could have had a reformatory nationalization of reorientation for a period of about 5 years. Nationalization, after all, is not an abhorrent thing. The reason for India escaping the financial crisis and the consequent deep recessionary situation is a good part of banking in the country being nationalized banking, and firm handling of banking by the RBI, too big to too small banks.

The world is a drift with recessionary condition, with no end in sight for the phenomenon in near-term due to the recessionary package, policy and program.

IX. CONCLUSIONS

For the first time and after the Great Depression of the 1930s, global business is engulfed in a recessionary environment since the financial crisis and crash of 2008, commencing in the USA with deep falls in GDP, savings, investment, international trade imbalances, employment, expenditure, sales, etc. It is marked by a big public distrust of big banking and big business and public protests.

In place or in addition to the measures of bailouts, stimulus', 0 rate monetary policy, etc., the need is felt for a Roosevelt-type of New Deal to tackle the problem the root of greed to remunerations to reorientation and firming of the Fed.

The 2008 financial crisis phenomenon and its consequent recession being too wide and global factors resulted from a combination of complex factors.

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