Preface

This book examines why the policy of financial liberalization and for that matter financial intervention, were unable to improve all borrowers' access to the loan market. It is argued that the loan market operates in the presence of uncertainty, and as a result, other than the interest rate, there are two additional factors, namely the credit standard and credit risk, that play a crucial role in determining borrowers' access to the loan market. Lenders introduce the credit standard in order to ensure that should the borrowers' projects for which they sought loans fail, there remains some alternative means to enable lenders to recoup their loan capital. The issue of credit risk principally arises because, in the competitive atmosphere in which this market operates, lenders are not able, in all circumstances, to secure their loans by the credit standard. The portion of the loan which is not secured by the credit standard is subject to credit risk. It is the variation in the credit standard implemented by the respective lenders which causes the variation in the access of different groups of borrowers to the loan market. Proponents of policies in the past as well as in the present investigated neither why lenders introduce the credit standard nor what causes the variation in the credit standard; instead they under-estimated or overlooked the importance of this issue. As a result both past and present policies either adversely affected the performance of this sector or brought about a crisis. This was at least the case for India and South Korea.

This is a brief description of my book. The idea of writing this book originated at the time my supervisor Associate Professor John Pullen, who has always been interested in my work, suggested that I put together my published and unpublished papers for a PhD degree. In an attempt to do this, the thesis became a further development of my thoughts that I had already published in *Economic Papers*, *Australian Economic Papers* and *World Development*. Then, as I was preparing my PhD dissertation, I thought why shouldn't I write this piece in the form of a book? I also would like to thank John for his valuable comments. My debt to my wife Melinda Hughes is no less; besides receiving her constant support, I am grateful to her for reading the entire manuscript

meticulously and thank her for her useful comments. I have had many stimulating discussions with Dr Imtiaz Omar, Mr Neil Hart and Dr Indranil Dutta and they have suggested some important improvements. I must thank them for that. Dr Kunal Sen looked at parts of the early drafts, Assistant Professor Pundarik Pukhopadhaya and Dr Shipra Dasgupta also looked through the early drafts and I must thank them for their useful comments. Finally I would like to thank the University of New England, Australia for providing me with a generous scholarship which allowed me to relinquish my teaching commitments and concentrate entirely on the thesis and hence this book. In preparing the final version of this book, I have greatly benefited from the valuable comments that I received from Professor Philip Arestis, Professor Amit Bhadhuri, Professor Ajit Singh and Professor Malcolm Sawyer. Of course my special thanks go to Philip, who since I joined South Bank University, London, despite an extremely busy schedule, was always available whenever I sought his assistance while preparing the final draft of this book. Finally I must thank my publisher Edward Elgar, especially Ms Dymphna Evans, Mr Matthew Pitman, and Ms Susan Hammant for their encouraging help on editorial matters. None of those mentioned above is, of course, in any way responsible for the views I have expressed or for any errors which may remain.

Santonu Basu
January 2002, London