

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

4–6 JUNE 2009, ST. PETERSBURG

RETROSPECTIVE OF WORLD CRISES

Moderator:

Alex Pivovarov, Anchorman, JSC NTV Television Company

Panellists:

Nouriel Roubini, Professor of Economics, Stern School of Business; Chairman, RGE Monitor, New York University

Vladimir Mau, Rector, The Academy of National Economy under the Government of the Russian Federation

Lord Robert Skidelsky, Chairman, Centre for Global Studies: Fellow of the British Academy

Jyrki Koskello, Vice-president International Finance Corporation

Lee Ohanian, Professor, University of California, Los Angeles

Niclas Sundstrom, Senior Advisor, BP and Goldman Sachs; Director, Finisterre Capital Advisory Board

Stephen Jennings, CEO, Renaissance Group

Aleh Tsyvinski, Professor, Yale University

Ksenia Yudaeva, Chief of the Center for Macroeconomic Studies, Sberbank of Russia

Vladimir Sokolov, Professor, Higher School of Economics

Three dimensions. Participants identified three angles from which to assess the current crisis vs previous crises, specifically: 1) intellectual (how fast policymakers and economic agents have established a sufficiently comprehensive picture of what is happening and what needs to be done); 2) regulation (policy intervention models used by governments to fight crises); and 3) cyclical/structural (what has been the relative contribution of structural issues vs cyclical overheating). It was suggested that the intellectual component is probably the most difficult for the current crisis, with respective policy challenges for Russia being more complicated than even its transformation from a socialist economy in the early 1990s.

Keynesian vs monetarist. The familiar discussion between these two large camps of economic thinking during the panel was constructive, with proponents of both schools agreeing that a mix

of bits and pieces from both approaches is probably the right way to approach the current crisis, given its complexity. Keynesian thinking seems helpful in identifying liquidity and saving gluts as possible causes for the crisis, while monetarism is instrumental in precluding those government policies that may aggravate the situation.

Cannot predict...but can help to smooth. The panel discussion highlighted that, even if a full consensus cannot be achieved on the exact roots and causes of the current (and, indeed, any) crisis, economic theoreticians seem united on what needs to be done to ensure the crisis is resolved as quickly as possible. Participants suggested that by addressing existing imbalances (excess leverage, consumption, production, capital spending) rapidly, and avoiding retrograde government interventions (corporate bailouts, minimum wage freezes, protectionist measures), affected countries have better chances of resolving crises more effectively. When the audience was asked to vote on how long they thought the crisis would last, 43% thought two years, 33% thought the crisis would last three years, 14% voted for five years, 10% for 10 years, while around 1% thought they might not live to see the recovery.

Solve problems, don't hide them. Most panelists agreed that wherever hard adjustments are necessary, they must be made quickly and comprehensively to ensure short-term stimulus packages do not lead to long-term weakness in the real economy. An example here is the experience of Japan over the 1990s, when excess state support and a lack of real adjustment had kept afloat many corporates that should have gone bust. Any governmental impediment to the efficient allocation of resources could, it was noted, worsen the crisis and reduce an economy's ability to recover.

Very different from the Great Depression. A near-consensus also arose during the session that the current crisis has so far been much less severe than Great Depression in terms of its impact on the real economy. Yet it was highlighted that it has been much more damaging to the financial intermediation industry and asset markets (as judged by the depth of the slump in asset valuations and the surge in risk-aversion). Policy responses must, accordingly, take this difference into account when applying older techniques to deal with the current issues, it was noted.

Which crisis, exactly? Panelists acknowledged that previous crises have largely been country-specific, and the current turbulence seems to be the first truly global phenomenon. Yet, some panelists pointed out that, unlike in the past, the current crisis has revealed a growing difference between developed and emerging economies, with emerging markets having much better prospects of recovering more quickly and strongly. This, it was asserted, will have long-term implications for capital flows, asset valuations and future economic growth patterns.