THE CITY INTERVIEW: Sage who warned us all of global anguish

By Sam Fleming
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Once a year the world's central bankers retreat to the exclusive Jackson Hole resort in Wyoming for a few days of blue-sky thinking, interspersed with trail riding, hiking and - for the more adventurous - white-water rafting.

Normally it's all quite relaxing. But a 2003 presentation to the elite conclave from William White, then the chief economist from the Basel-based Bank for International Settlements, provided more spills and thrills than policymakers were accustomed to.

In an intervention that infuriated many of the assembled economic guardians, White and his colleague Claudio Borio effectively argued that the Federal Reserve and its foreign cousins had taken their eye off the ball.

Prophet of doom: White was met with hostility when he first warned of a potential crisis in 2003

Beneath the still waters of muted global inflation, ominous financial threats were welling up from the murky depths, the wiry Canadian argued.

Soaring household debts and property prices, as well as a heavily de-regulated financial sector, posed significant dangers to world prosperity. Boom could easily give way to bust. the prevailing reaction from the majority of attendees was decidedly hostile. the official record of the conference reveals a particularly disapproving response from Alan Greenspan - then at the height of his pomp as Fed chairman and serial saviour of Wall Street.

But the paper was eerily prescient, foreshadowing with startling clarity the circumstances that gave rise to the global crisis four years later. Today central bankers are still trying to recast their policy frameworks along lines similar to those White and Borio outlined seven years ago - Chancellor George Osborne's overhaul of the Bank of England being only one such attempt.

Yet it's disheartening to find that, three years after the credit crunch began, 67-year- old White fears little economic progress has actually been made.

Now retired from the BIS (the organisation that sits at the heart of the global central banking system), White told the Mail that with rates slashed to the floor and public debt skyrocketing towards 100pc of gross domestic product, governments have run out of options after repeatedly rushing to the aid of their economies.

'We have sort of used up our ammunition, downturn after downturn after downturn,' said White, a modest man who favours plain speaking over the jargon that can muddy the message from central bankers.

'Interest rates are at zero, most big countries are heading for gross government debts that are 90pc of GDP or over. And the question is, how did you get into this situation?

'One answer is we have been too supportive on the downside and we have not been putting up enough resistance on the upside to tackle these credit bubbles.'

Central bankers and politicians have been praying that the shakeout we have just been through will purge the global economy of excesses such as massive debts, overblown asset prices, overextended banking systems, and trade imbalances.

But White, who now chairs the Paris-based OECD's Economic and Development Review Committee, is sceptical.

'Are we back to normal? Well, all of those imbalances I mentioned are still there,' he says.

In particular, the recent surge in share prices contrasts with the equity market recoveries seen during the global crisis of the 1930s.

'Asset prices went down a lot, but now they have come back faster and more than they ever did during the 1930s.

'there were periods of time back then where the bear market was interrupted - you had two or three 20pc increases in equity prices in the 1930s - but not 50pc increases like the one we have had this time.'

Central banker s such as Mervyn King have argued the recovery in values of assets such as shares, bonds and property is a sign that quantitative easing schemes like that pursued by the Bank of England are working. that's a judgment White acknowledges, but he questions whether the rebound can last.

' Can we have zero interest rates forever? If you say no, we have to go back to normal, then the asset prices have to go back to normal. there's nothing truly sustainable in all this - it's all artificial.

'the thing that worries me is I think we have been on a kind of 20 year programme, where whenever there is a problem people ease interest rates and asset prices become more and more important and get pushed up. this induces people to spend more money and take on more debt.'

By the time of his warning at the 2003 Jackson Hole conference White had already established himself as one of the more unorthodox thinkers in the world of central banking.

Indeed, from his arrival at the BIS in the mid-1990s White and his staff began questioning some of the basic suppositions that underlay economic policy.

He wasn't alone. Greenspan in 1996 infamously warned of ' irrational exuberance' in the equity markets.

But the Fed Chairman elected to do nothing about it, declaring interest rates to be the wrong tool to deal with over-inflated asset prices.

Greenspan's view was that the Fed should simply mop up after a boom and bust - a hands-off attitude that now looks profoundly misguided.

White recalls: 'the only difference was he sort of backed off and said we have all these supply-side advances and everything is just fine, whereas we took a very different view.

'We said no, the irrational exuberance is there and is affecting more and more markets.'

Even today the lessons from policy failures haven't finished ' percolating' through the world of central banking, White said.

'It always takes a long time. there is a quote attributed to Niels Bohr, which apparently he never actually said, which is science advances funeral by funeral.

'When people have believed stuff for a long period of time, getting them to believe something else is not easy, even if the evidence is staring them in the face.'

Playing the role of Cassandra for years made life for White and his colleagues at the BIS rather lonely, he acknowledges now.

'I can remember talking to one of my colleagues, Claudio Borio, with whom I worked closely, coming back from some meeting we had been at and just sort of saying it's like a Greek tragedy. You can see the whole thing unfolding.'

But he repeatedly stresses during our interview how hard policy judgments are to get right.

A decision that looks perfectly sensible one day - for instance running up government debt to prop up growth - can seem misguided down the road.

'Everything we have done in the context of this crisis has been helpful today but potentially harmful tomorrow,' he explains.

'We increased deficits, which is helpful. But it also increased debt and the risk premiums.

'With monetary policy we have opted for very, very low interest rates, which suppor ts the economy.

'But it gives people no incentive to save. And if there's no saving there is no investment. this is not a recipe for progress.' the key is for central bankers and finance ministers to take a longer-term view and avoid kneejerk policymaking. that is no mean feat, though. As White puts it in his characteristically straightforward way: when you are up to your neck in alligators, 'it's hard to remember you came to drain the swamp'.

FACTBOX

Name: William White

Current job: Chair of the OECD Economic and Development Review Committee

Born: Kenora, Ontario, 1943

Education: PhD at the University of Manchester (1969)

Family: Wife Kim and two teenage children; two grown-up children and three grandchildren from a previous marriage

Residence: Basel, Switzerland

Hobbies: Swimming, fitness and reading

Car: 'Bigger than it should be'