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[ macroimbalances]

William White]

by Guiomar Parada

Born in Canada, William White spent his whole working life in central banks, organizations of which he is now highly critical. Most recently White worked for the Bank for International Settlements, the central bankers bank. The impressive volume of data which White analyzed in his time there lead him to urge central bankers to rethink their monetary policy strategies, even as early as 2003. But at the time the world stage was already occupied by Federal Reserve Chairman Alan Greenspan, and his calls were ignored. Now he chairs the Economic Development and Review Committee at the OECD, and his advice is sought from all over the world. Talking on the sidelines of the Scuola Politica of the Italian Democratic Party in Cortona, White took time out to give // *Riformista* a glimpse of the macroeconomic imbalances to which he has been calling the world's attention since then.

**It appears difficult to understand just at what point in the crisis. Is this a problem of data, of analysis or of the translation of analysis into policies?**

In essence it is a problem of analytics -- and of human nature. I will try to explain this from the point of view of the actors: in the private sector everybody should have understood what was coming, because everybody was deeply involved in issuing or receiving credit of very low quality. But they were earning tons of money, and because of human nature, they preferred to believe that that was because they were being smart, and not because they were taking on very high risks. As to central bankers, their model of the world was based on price stability, which would alone guarantee macroeconomic stability. Inflation was very low and heading lower ( due mainly to China, and to new countries entering the world trade), so central bankers, instead of seeing the bubble arriving did everything they could to make the economy grow very quickly (flooding the system with liquidity, ndr) . Mathematical models, even the most sophisticated, were based on the premise that after a shock, even a strong one, economies would go back right away to full employment. The problem is that these models did not include banking

systems, credit, etc, stocks – and it was these that actually triggered the crisis. When your analytical framework does not contain these elements, you don't put in place preventive measures, such as deposit guarantee schemes or plans for who does what in the case of a crisis. Furthermore, as models are very entrenched in people's thinking, they continue to be viewed as valid, which leads the main actors to deny reality, with people still thinking that the current phase of the crisis is also the last one. I think this is the situation in Europe, where they are denying problems that have their origin in the way the euro was built. In the US and in China it is the same. Everybody wanted to believe that everything was okay, many because of the huge amounts of money they were earning. Central bankers, reassured by price stability, misinterpreted the fundamental problems. This was an enormous mistake.

**You explained that by pegging exchange rates, many countries have imported a monetary policy that is inappropriate for their domestic circumstances, and you call our attention to the massive global imbalances. Do you see an encouraging sign in the ability --or the will-- to coordinate monetary policy among the various regions of the world?**

The main requisite for solving the imbalances of global trade and to grow slowly out of the crisis from below has to do with the problem of tradables and nontradables (the latter must increase in price in economies with strong growth pushing up the real exchange rate, ndr). The Chinese currency must go up in real terms rapidly and in a significant way to give an incentive to the Chinese to go for an economy that is less export driven and to the Americans to go for an economy that is less import driven. This is fundamental, but it will not happen. Wen Jia Bao has been saying now for years that the Chinese development model is unsustainable and unfair, but the country has been very successful with it to date and so has essentially continued with its peg to the dollar.

Furthermore, many members of the party manage also important State enterprises, and since they are earning large sums of money from exports, they obviously do not see the need for a strong appreciation of the renminbi. In history nobody ever pushed the Chinese into doing something. The same goes for the United States, that always thought since World War II that what was good for them was good for the rest of the world. In order to have a real dialogue between creditors and debtors, they first have to accept that they are "joined by the hip", and we are not there yet.

As I said before, it is very difficult for monetary authorities to give up their analytical models, and many are denying the fact that their models are at the origin of what happened. You see this also in other disciplines. They say that Niels Bohr synthesized it as follows: "Science advances one funeral at the time".

**Do you see any light at the end of this tunnel?**

In a sense, emerging countries are moving in the right direction as they adopt more restrictive monetary policies. This is desirable, not just to contain internal inflation, but also for the global monetary imbalances. It is important to understand that economic failure can have very serious consequences, but, as it goes, during crises the weak are unconvincing and those who are wrong remain full of passion.