World Knowledge Forum 2012

Economist Roundtable: Austerity vs. Growth
Thursday, October 11, 2012

On the third and final day of the World Knowledge Forum in Seoul, a distinguished panel of economists gathered to analyze the current economic crisis facing the United States and Europe and discussed possible solutions for dealing with the current quagmire. To underscore the urgency of needed measures, Paul Krugman, Professor of Economics at Princeton University and winner of the 2008 Nobel Prize in Economics, drew an analogy between the struggles facing these two economic powerhouses and a patient experiencing heart failure. "If you are having a heart attack, the first thing you do is stabilize the patient," said Dr. Krugman.

In addition to Dr. Krugman, the distinguished panel included Nouriel Roubini, Professor at the Stern School of Business at New York University and Chairman of Roubini Global Economics; Barry J. Eichengreen, Professor of Economics and Professor of Political Science at the University of California, Berkeley; and Martin Wolf, Chief Economics Commentator at the *Financial Times*.

"It is worth it to think about the state of mind of the leaders and politicians before the crisis," said Dr. Krugman. He spoke of the need for bold actions by decision-makers to stop the recession "immediately," adding that the world needs to learn from previous mistakes that precipitated this crisis, especially those caused by the "supremacy of central bankers."

Dr. Eichengreen, the 2010 recipient of the Schumpeter Prize and one of *Foreign Policy* magazine's "100 Leading Global Thinkers" in 2011, added that "the new normal is sustained economic growth, but not at 2008 levels." After briefly mentioning the inflated nature of pre-crisis growth, Dr. Eichengreen noted that a return to stability can no longer be measured with what happened before the latest crisis.

"The crisis is an opportunity. We'll see if it is an opportunity squandered," he added.

Dr. Roubini, one of most prominent economists today after having correctly predicted the collapse of the U.S. housing market as well as the current worldwide recession at a time when many were far more optimistic in their prognostications, noted that "even with a larger stimulus, economic growth would have been very slow." Like the other panelists, Dr. Roubini believed that the Keynesian way of solving the crisis was correct, but he felt that the stimulus did not go far enough.

"The growth that led up to the crisis was unbalanced," said Martin Wolf, former Director of Studies at the Trade Policy Research Centre in London and advisor to governments and international organizations on trade and economic integration. He noted that he could envision the larger economies slowing down, but added that global growth is likely to hinge on whether emerging markets will be able to fill the gap left by those who triggered the crisis.

As the discussion turned to policy decisions, Dr. Eichengreen stated that "There is a lot that policy can do to promote fast recovery." After pointing to historical examples of the changes made during the Great Depression, he noted that the response from the Federal Reserve has been positive, saying that "the Fed is on the case."

"The great success of policy this time was how the first two quarters of the recession were worse than the Great Depression. The acts taken by governments to support the financial system by taking bold monetary policy measures stopped this and reversed it," said Mr. Wolf. Although he noted that the response helped to ease the current crisis, he added that a miraculous recovery was not likely, stating simply that "the recovery is likely to continue to be very weak."

"There are no economic obstacles to a quick recovery," said Dr. Krugman. "The trouble is that we have no political or intellectual consensus." He reiterated his point that while the solutions are clear, the current political climate in the United States offers very little hope that such solutions will be implemented.

The panel then turned its attention to the Eurozone crisis, with everyone fundamentally agreeing with respect to the causes of the economic morass in Europe and the measures needed to address the problems facing the troubled continent.

The panelists noted how Europe, unlike the United States, does not have a suitable political structure in place to deal with each individual country's unique situation. "It's a very big mess, and nobody is in charge to put together the pieces and resolve the situation," said Mr. Wolf, noting grimly that "We will be with this crisis for many, many years."

Echoing the same sentiments, Dr. Eichengreen paraphrased a statement made by Henry Kissinger with respect to the leadership vacuum in Europe: "When there is a crisis in Europe and you need to call someone, you don't know who to call."

"Fiscal austerity has made things worse," Dr. Roubini added, before shifting to a discussion to the Euro. "There needs to be real depreciation of the Euro, on par with the U.S. dollar," he said.

"The Euro is a fundamentally flawed construct. It requires an improvised set of remedies to survive," added Dr. Krugman, as he predicted that the Eurozone had a relatively high probability of failing.

Dr. Eichengreen placed the odds of the Euro failing at ten percent, the possibility of spectacular success also at ten percent, and the remaining eighty percent on a very slow and drawn out recovery. "This is a crisis with many moving parts," he added.

In response, Dr. Krugman noted that he had not heard such a rosy assessment in many months, placing the figures at ten percent, forty percent, and fifty percent, respectively.