

TABLE-TALK WITH BARRY EICHENGREEN

Wanted: Renegades, to raise productivity



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SENIOR WRITER

ON APRIL 6 last year, the American economist Barry Eichengreen and his Irish colleague Kevin O'Rourke wrote a column on Vox, the website for scholarly economic commentary, comparing the 2008-09 global financial crisis with the Great Depression of the 1930s.

Both men are members of the London-based 700-strong scholars' network called the Centre for Economic Policy Research. Vox entries usually get 8,000 hits at best, but the Eichengreen-O'Rourke piece has garnered 470,000 hits to date.

Professor Eichengreen, who was a senior policy adviser to the International Monetary Fund (IMF) from 1997 to 1998, has since become the inaugural Monetary Authority of Singapore's Term Professor in Economics and Finance at the National University of Singapore.

Prof Eichengreen's day job is as the George and Helen Pardee Professor in Economics and Political Science at the University of California at Berkeley - the very place where the Yale alumnus was born 58 years ago, as it so happens.

He was in town to talk about Asian economic integration last week and found time to chat with me on the future of globalisation:

■ *Was the boom before the 2008 bust the peak of peaks?*

The question you're really asking is: Given the wave of globalisation over the last decade, could the crisis have marked the high point of globalisation?

Governments have discovered that they need more policy room, and if their economies and financial markets are globalised, they don't have that room. My view is that we have seen the peak of financial globalisation, but not of other forms of globalisation.

■ *Why so?*

Supply chains in Asia have not become less attractive or viable as a result of the crisis. Containerisation, which globalised trade, has not disappeared. The Internet is globalising trade and services. And the flow of labour in and out of countries hasn't changed.

■ *But won't having to heal the global financial system hamper all that?*

Because we have global financial markets and institutions, we have to have international agreements on what kind of financial reforms to do. And we don't have those. We're beginning to make progress but we've a long way to go. So it's not clear that we've made financial markets safer yet.

If governments go about reforming at the national level, they might limit the ability of foreign banks to (enter their markets) because they don't want banks that they don't regulate. If that happens, there is the possibility of financial deglobalisation interfering with trade flows and other aspects of globalisation. But I think these aspects can be separated from global financial reforms.

■ *How so?*

Singapore firms which need credit can get it from a foreign or Singapore bank. But in a less financially globalised world, they can get it only from a Singapore bank. But my point is that they'll still be able to get credit. So my hope is that even if finance is national, trade can still be international.

■ *Speaking of Singapore, what have you heard about us lately?*

The issue that everyone is talking about in casual conversation is housing prices. I think the Government is very conscious that there's a risk of a bubble developing and has taken the right kind of measures to cool the market with higher downpayments but not higher interest rates. Raising rates is good for overall inflation, but for a specific sector such as housing, you want regulatory measures.

The other thing is, of course, productivity. Again, the general strategy is a good one. I think there is a little bit of tension between the orderly, well-organised tradition of how things are done in Singapore... and the kind of chaos that you need to raise productivity. You need non-conformists. You need renegades. And that's not the "Singapore Way". I wait to see how that plays out.

■ *How has that played out elsewhere?*

Many post-industrial countries, such as Finland, Sweden and South Korea, have succeeded in boosting productivity in the service sector through deregulating the sector and welcoming more competition. That's more of a problem in Singapore than in a larger economy because you don't have room for multiple service providers. Singapore companies can get the relevant scale if they can also operate in neighbouring countries. But that's not something that the neighbours will really permit to happen overnight.

■ *Speaking of the region, should we bother about China being bashed repeatedly by the United States over the yuan?*

Both are, at the moment, the two most important engines for the world economy. And whether or not they can cooperate on a variety of issues – including on Iran – will be important for the rest of us as well.

They have politics in China just as they have politics everywhere, so China's leaders would lose face over the way the US criticises its currency policy. So the louder the US criticises, the less likely China would adjust its currency. There's a US Treasury report due on April 15 and the Obama administration will have to decide whether to name China as a currency manipulator or not. We'll see if the administration agrees with me that quiet diplomacy would be better or if it decides to play domestic politics.

■ *What would be the more constructive way forward?*

The real issue is that China needs to spend more and the US needs to save more. As China's financial markets are liberalised and as it builds a social safety net, if state enterprises transfer more money in the form of salaries to workers and the latter spend more, they will do so mainly on China's own goods. And if Americans spend less, it will be mainly on US stuff because that's mainly what they buy. If all this is true, the prices of Chinese stuff are going to have to go up relative to the prices of US stuff, and there are two ways that that can happen: first, more inflation in China and deflation in the US, or an exchange rate change.

For me, that's the right way to think about the currency issue, that we need other fundamental adjustments and when we get them, the currency should move. But all this takes time to unfold. That's why people who say "we need a 20 per cent rise of the yuan against the US dollar today" are wrong. We'll need some rise, though – I don't know what the number is – over the next two years or so.

■ *What can we learn from these bashings?*

One important lesson is that if you're a big country, your policies matter not only for you, but also for the global system. The US was unwilling to acknowledge that its big budget deficits and housing bubble posed a risk to other countries as well. And now China is reluctant to acknowledge that its policies matter not only to itself, but also to the global system.

Another lesson is that we really still don't have adequate mechanisms for getting countries to acknowledge the fact that national policies matter internationally too... We have one new mechanism that goes a little way in that direction. It's called the G-20. But it's a consciousness-raising device, not a disciplining one.

■ *What should be the key features of such a mechanism?*

We need a more symmetrical international system. So first, it would be good to move away from where only the US dollar is the recognised international and reserve currency – and I think we're heading for a world in which the US dollar, the euro and, 10 years from now, the Chinese renminbi, will all be used internationally. Second, way back in 1944, John Maynard Keynes had proposed that countries that are always in an external surplus should have to pay tax to the IMF. So more countries should have a stronger incentive to raise their consumption when their surpluses become too big for too long.

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Quick observations

SHARP of mind but not of tongue, Professor Barry Eichengreen says he was "surprised and frightened" by the scale of the recent global economic crisis. Here he is on:

Being a scholar of the Great Depression

"I feel like my whole academic life has flashed in front of my eyes in the last three years."

Why rebalancing the world economy will be slow

"Chinese households don't change their habits in a week, and US firms that have never produced for foreign markets don't learn how to export in a week."

Singapore

"It is so small and so open that it knows all the time that it's got to be very nimble to remain competitive."

Singapore's productivity challenge

"The issue for Singapore is: How to change its people's mindset about productivity without a crisis?"

The workers Singapore needs

"You need people with tattoos and nose rings. Internet entrepreneurs are former skateboarders who would use their skateboards up and down the stairs of public buildings."

Why Singapore's economy is relatively resilient

"Singapore is investing heavily in education. A crisis will not wipe out the fact that everybody has had an education."

The US bashing China over the yuan

"The currency issue is only the tail on the dog and to look at it and not other more important changes in the relationship is to let the tail wag the dog."

One good thing that's come out of the 2008 global meltdown

"That the Group of 20 has emerged as a steering committee for the global economy."

CHEONG SUK-WAI