Gloomy Scenarios as Bankers Duck for Cover

International Herald Tribune.

Jan 27 2010, 3:49 pm by Alan Friedman

DAVOS, Switzerland - The U.S. and European economic recoveries could run out of steam later this year, and they could be faced with a prolonged period of low growth, high unemployment, a huge debt overhang on both governments and households, dangerous budget deficits, and a continuing loss of competitiveness.

That was the gloomy consensus taking shape among members of the world's business, financial and political elites attending the 40th anniversary meeting of the World Economic Forum here.

By contrast, China, India and the rest of Asia are likely to be the only real engines of continuing economic growth this year, according to most of the economists, corporate types, sovereign wealth fund managers and government officials I talked to on the opening day of proceedings in this freezing cold Swiss ski resort.

The other theme that emerged was a barrage of banker bashing, debate, and criticism of Wall Street that would even make President Obama blush.

Nicolas Sarkozy of France, who formally opened the Davos meeting on Wednesday, won hands-down the title of Bank Basher In Chief with a rambling, ranting and only occasionally coherent speech about why a fundamental rethink of capitalism was needed.

"I guess we are the new pariahs and we better keep our heads down," said one top British banker as he headed into a rather old-fashioned and glitzy champagne event, with a carefully selected guest list and a venue discreetly located a fair distance from the main conference event.

The day of flagellation and fear began with an early morning set of predictions from veteran pessimist Nouriel Roubini, who for my money is still one of the most articulate and acute observers of the U.S. and world economy. He said the world, especially the United States, faces a lengthy and painfully slow recovery that will end with "subpar growth" and the risk of renewed recession.

"I feel bearish about the United States," Roubini told delegates here. "I'm also bearish about the eurozone, especially in the periphery...take Greece but the same problems occur in Italy, Spain and Portugal where there's not just a public debt sustainability problem but there is also a competitiveness problem. They're losing market share to China and Asia and their wages grew more than their productivity."

Harvard economist and former IMF official Kenneth Rogoff also spoke of how the banking crisis had morphed into a sort of long-term debt crisis, and while he acknowledged that "we have come a long way" since the worst days a year ago, he worried about "the illusion of normalcy."

In a forecast that pretty much everyone here agreed with, Rogoff said the worst-hit economies - the United States and United Kingdom - now faced a long period of "politically painful belt tightening, higher taxes and slower growth."

On the same panel, an influential Chinese voice was heard, that of Zhu Min, the deputy governor of China's central bank. "You need growth to avoid debt," he said, "and the real risk for the global economy is very weak growth over time."

Mr. Zhu warned that we should not be tricked into thinking that growth or recovery was strong in 2010 because it will be set against such a low base of a year ago.

"The GDP in the United States in 2010 is likely to be equal to the level of 2007, and this is not a safe world if the US and Europe have 10 percent unemployment rates over time," he concluded.

Seated next to Mr. Zhu was a more colorful and less morose figure, Rep. Barney Frank, who did not quite charm the Davos crowd by announcing that "I am going to go back and try to raise the taxes of most people who attended here" He then moved to slightly safer ground by slamming the Bush presidency (about the only target here even less popular than bankers) when he explained that the reason the world was in such a mess was because "someone decided to get the joint Nobel prize for economics and fiction with the theory that you could finance two wars with five tax cuts."

And then came the official opening as 2,000 delegates crammed into the huge plenary hall of the concrete conference center here to listen to Monsieur Sarkozy. One quick disclaimer here: I have nothing against the French, and lived happily for years in Paris when I worked at the International Herald Tribune in the 1990s (where the financial editor and I used to call Sarkozy by our special nickname of "Sharky").

But Sarkozy truly outdid himself Wednesday as he blasted globalization, the banks who "made a fast buck with other people's money," the accounting system and the regulatory system, while touting the "need to offset market forces" and warning of the risks of exchange rate instability.

"We must re-engineer capitalism to restore its moral dimension, its conscience," he concluded. I personally was not aware of capitalism's hugely moral dimension in the pre-crisis days, but then I am not Nicolas Sarkozy.

If only he had expressed himself with logic and coherence, he might have even made sense. But at Davos, Sarkozy was long on platitudes, demagogic turns of phrase, false dichotomies, incoherent and confused thinking (or speech-writing) and ultimately he came across as rather short on stature.

That doesn't mean he was wrong about everything he said. But I thought the man from Beijing had a clearer message, and without being smug he made a lot more sense.

http://davos2010.theatlantic.com/2010/01/gloomy_economic_scenario_takes_shape_as_bankers_duck_for_cover.php