

Leading economist fears double-dip recession

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Published: September 15 2009 03:00 | Last updated: September 15 2009 03:00

The world has not tackled the problems at the heart of the economic downturn and is likely to slip back into recession, says one of the few mainstream economists who predicted the crisis.

Speaking at the Sibos conference in Hong Kong yesterday, William White, the former chief economist at the Bank for International Settlements, also warned that government actions to help the economy in the short run might be sowing the seeds for future crises.

"Are we going into a W [-shaped recession]? Almost certainly. Are we going into an L? I would not be in the slightest bit surprised," he said, referring to the risks of a so-called -double-dip recession or a protracted stagnation such as Japan suffered in the 1990s.

"The only thing that would really surprise me is a rapid and sustainable recovery from the position we're in."

The comments by Mr White, who ran the economic department at the central banks' bank from 1995 to 2008, carry weight because he was one of the few senior figures to predict the financial crisis in the years before it struck.

Mr White repeatedly warned of dangerous imbalances in the global financial system as far back as 2003 and - breaking a taboo in central banking circles at the time - he challenged Alan Greenspan, then chairman of the US Federal Reserve, about his policy of persistent cheap money.

Mr White questioned how sustainable signs of life in the global economy would prove once governments and central banks started to withdraw their unprecedented stimulus measures: "The green shoots are certainly out there - the question is what kind of fertiliser is being used on them?"

Worldwide, central banks have pumped thousands of billions of dollars of new money into the financial system during the past two years to prevent a depression. Governments have gone to similar extremes, taking on vast sums of debt to prop up industries from banking to carmaking.

These measures might be inflating a bubble in asset prices, from equities to commodities, he said, and there was a small risk inflation would get out of control over the medium term if central banks timed their "exit strategies" badly.

Underlying problems in the global economy, such as unsustainable trade imbalances between the US, Europe and Asia, had not been resolved, he said.

Also present at the Sibos conference was Joseph Yam, who is stepping down as chief executive of the Hong Kong Monetary Authority after 16 years. He told delegates of the myriad "challenges" facing those working for greater stability in the financial sector.

In a hard-hitting address, Mr Yam said large banking profits and staff bonuses led to lower financial efficiency and contributed to the financial crisis.