

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

4–6 JUNE 2009, ST. PETERSBURG

A NEW ECONOMIC MODEL AND THE LONG-TERM IMPACT OF CRISIS

Moderator:

Robert Thomson, Managing Editor, *The Wall Street Journal*; Editor-in-Chief, Dow Jones

Panellists:

Arkady Dvorkovich, Aide to the President of the Russian Federation

Timothy Colton, Professor of Government, Director, Davis Center, Harvard University

Nouriel Roubini, Professor of Economics, Stern School of Business; Chairman, RGE Monitor, New York University

Jon Cunliffe, Economic Adviser to the Prime Minister of Great Britain, Official Assistant to the Prime Minister and Summit of Eight

Yevgeny Gavrilenkov, Managing Director, Chief Economist, Troika Dialog Investment Company

Blair Sheppard, Dean, Duke University's Fuqua School of Business

Alexei Reznikov, Chairman of the Board of Directors, VimpelCom JSC

Prof. Padma Desai, Professor of Economics, Columbia University

The session covered various aspects of the current crisis, including: the respective advantages and disadvantages of the most widely-acknowledged economic models; inflationary and deflationary pressures in Russia and across the globe; banking-system issues and repair approaches; possible leverage constraints and the integrity of regulation in the global financial system. Participants discussed ways of rebuilding trust in the global economy, taking into account the distinctive features of individual national economies and cultural and political traditions. Participants came to a number of broad consensus conclusions, as follows:

Both the Anglo-Saxon economic model used in the US and UK, and the Continental European model, have certain disadvantages. After the Great Depression, the Anglo-Saxon economic model started prevailing in the global economy. We have seen a significant deregulation process since President Carter's time, with companies relying increasingly heavily on risk models and rating agencies. The current crisis has, it was noted, proved the necessity of substantial government interference in the Anglo-Saxon model.

The state-capital economic model used in China was also discussed. This model, it was emphasised, looks much closer to the Continental European economic model, although it is not 100% applicable to all countries. Overall, it was concluded, there is no 100% applicable and correct model for all national economies. The truth lies somewhere in the middle.

The current crisis has clear behavioral grounds. It was previously believed that people behave rationally. All policies and new economic models, it was considered, should be based on the assumption that people behave irrationally.

The Russian government's response to the crisis reflects certain positive aspects. Participants considered that the government has provided a timely response and not overreacted, and it was noted that, although the solution of devaluing the currency was widely offered at the beginning of the crisis, the government took a more balanced position. In addition, the coordination across the globe is necessary to resolve current situation.

Although the Russian economy has expanded by around 7% over the past seven years, productivity has not increased, and high inflation proves this. The discussion noted that when the crisis emerged from outside Russia, commodity prices – on which Russia largely depends – were severely hit, and that the country's banking system had limited room to maneuver. In many developed economies, the inflation rate is now close to zero, and governments in these countries are extending credits to companies and individuals to stimulate their respective economies. Russia does not have this choice, due to high inflation.

In terms of inflationary and deflationary scenarios, participants were more concerned about deflation, particularly in developed economies, over the next two-to-three years. However, inflationary worries are visible on emerging markets. In terms of boarded inflation, asset prices could start growing on the way out of the crisis, in turn resulting in commodity-price inflation.

Participants acknowledged that the key goals now are to re-establish trust in the financial system, focus on innovations that could drive us out of the crisis, and not exaggerate the complexity of the problem. There was consensus that the banking system should be recapitalised to unfreeze the payment system, and that a focus is required on increasing transparency and corporate governance in the financial system, while maintaining a balance with the specific features of national economic systems and other political and cultural parameters.