Three Top Economists Agree 2009 Worst Financial Crisis Since Great Depression; Risks Increase if Right Steps are Not Taken

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Full Session Video of Roubini, Rogoff and Behravesh Discussing Future of the Global Economy at CERAWeek® 2009 with CERA Chairman Daniel Yergin now Available at CERA.com

CAMBRIDGE, Mass.--(Business Wire)--

Three of the country`s most respected economists warned of a deepening economic crisis if the banking system is not quickly fixed, in a wide-ranging conversation with Cambridge Energy Research Associates (CERA) Chairman Daniel Yergin and an audience of nearly 1,000 people at CERAWeek 2009 in Houston. The full video of this panel discussion is now available to the public at www.cera.com, providing unique opportunity for a clear, incisive, and in-depth understanding of the great challenges facing the U.S. and world economy and the possible solutions.

Nouriel Roubini, professor of economics and international business at New York University, Kenneth Rogoff, professor of economics and public policy at Harvard University, and Nariman Behravesh, chief economist and executive vice president for IHS Global Insight, all agreed that this is the worst financial crisis since the Great Depression.

Rogoff, formerly chief economist at the International Monetary Fund (IMF), described the current recession as "a once in a 50-year event." He said that "2009 basically is a write-off" but added, "I`m `constructive` about 2010 in that we`ll have tepid growth in the world economy. It`s unusual for a recession to last more than two years. However, it will be very slow coming out of it. The big growth will be in some of the emerging markets. It`s the developed countries where the biggest hurt is occurring."

Rogoff argued that the $790 billion stimulus bill is only part of the answer. "It`s like giving a blood transfusion while the patient is still bleeding," he said. "If we`re not going to fix the banking system at the same time, then it`s just a temporary boost in the economy. We have simply not taken the proper decisive action with the banks."

Roubini, also chairman of RGE Monitor, said: "Even if we have positive growth next year, say one percent, it`s going to feel like a recession even if we`re out of it. If we don`t get the monetary part right, the fiscal policy right, if we don`t fix the banking system the right way, if we don`t deal with the debt burden of the household sector I see a one-third possibility of (an extended) L-shaped Japanese stagnation."

Behravesh disagreed. "This is the Great Recession, not the Great Depression 2.0 and not Japan in the last decade," he said. "We`re seeing a different policy response than what we saw during the Depression and Japan in the 1990s. It took Japan seven years to deal with its banking crisis. The U.S. has moved in a matter of months and it`s had some fiscal effect. Our fiscal stimulus may not be enough or the right kind, but it`s much different than the Depression or Japan."

Behravesh forecasts a decline in gross domestic product for 2009 in the U.S of 2.5 to 3.0 percent and a global decline in GDP of 1.0 to 1.5 percent.

Why did people not see the vulnerability of the U.S. economy to an economic bust? "Whenever you have an environment where there`s a giant influx of money into your country -- and here it was coming out of emerging markets -- it gives an illusion that things are better than they really are," Rogoff explained. "You lose your judgment. At the heart of what happened is that we lost perspective on what was real and what was really fueled by these low interest rates, this influx of money."

When asked by Yergin, Pulitzer Prize-winning author of The Prize: The Epic Quest for Oil, Money and Power, (in a new, 2009 edition) about the role that oil might have played in the economic downturn, Roubini, said: "The financial crisis would have led to a severe downturn in oil prices anyway. I would not be surprised if oil prices fell below $30 later this year. There could be even further weakness in oil prices unless OPEC is able to cut production even further."

Behravesh, author of the recently published book Spin-Free Economics: A No-Nonsense, Nonpartisan Guide to Today's Global Economic Debates, pointed to China as having the ability to maintain some economic growth which could "help oil prices get to the $50-60 range sometime next year." Rogoff added that oil prices could be "shooting back up when the downturn ends and economies grow. That`s what the historical record shows. The oil price will rise again as the developing world grows."

All three agreed that the economic stimulus plan is needed, but it alone will not fix the nation`s economic problems. "If there is not an increase in government spending then the contraction will be more severe," Roubini said. "However, tax cuts will not make a difference. Last year`s tax cuts were mostly saved. Infrastructure spending will take a long time as there are few projects `shovel ready` so the overall impact of the stimulus may be smaller.

"People worry about the housing bust and the drop in consumption," he added, "but the biggest story is the drop in capital spending. Corporations are concerned about whether they will survive so we`re seeing a global collapse of (capital) spending. That`s why something must be done on the stimulus side to diminish the contraction of economic activity."

Behravesh added that the old relationship between a consumer-dependent U.S. and an export-dependent world would also need to change. "There is a pent-up demand on the part of businesses, consumers and households in terms of homes and consumer durables. Now everybody`s scared and they`re not spending. The question is `when does that pent-up demand get unleashed?` That could come back very strongly. We tend to underestimate that. In boom times, there`s a tendency to think the business cycle`s dead. The same problem occurs in a bust - that we`ll never get out of this."

"There has to be a fundamental change in the debt-financed consumer spending in the U.S. and the addiction to exports of other countries," he concluded.

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