

Debt crisis not unprecedented, says economist

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Words such as 'unprecedented' have been used to describe the financial crisis confronting today's world. But in truth, the sub-prime debt crisis that was the trigger is hardly new, says Vinod K Aggarwal.

Prof Aggarwal, who is the director of the Berkeley Asia Pacific Economic Cooperation Study Center at the University of California, Berkeley, was speaking at seminar organised by the **S. Rajaratnam School of International Studies (RSIS)** yesterday. He is in Singapore for a month-long stay as the NTUC Professor of International Economic Relations at RSIS.

Debt crises - surges in lending, loans lapsing into default, and eventual financial chaos - have been seen on a regular basis since 200 years ago, Prof Aggarwal said.

Tracing the history of such debt crises from Britain's loans to Latin American countries back in the 1820s, to that involving the debt of such countries as South Korea, Argentina, Brazil and Mexico in the 1970s and 80s, and ongoing efforts to manage Heavily Indebted Poor Countries' debt sustainability problems, Prof Aggarwal thinks that there are historical parallels to be drawn to the present crisis.

Similarities can be seen in the motivating forces behind lending, Prof Aggarwal said, even if the actual lending mechanisms may have evolved over time.

The huge waves of lending occurring on a regular basis through history often failed to account sufficiently for default and repayment risks.

In the current crisis, this came in the form of mortgage lending made to unsound borrowers, and was further amplified by the creation of collateralised debt obligations and credit default swaps, resulting in a huge overhang of debt.

In terms of debt crisis resolution, governments' actions have been key in previous crises and will be to the present one too, he said. How efficacious the bank bailouts, interest rate cuts and fiscal stimuli announced will be, and when they will lead to resolution, has yet to be seen though.

Again, this has historical backing - each crisis so far has led to improved regulatory measures, but 'bankers have simply found new ways to get round the new regulatory apparatus'.

But, when it comes to apportioning blame, Prof Aggarwal said: 'There is plenty to go round, really. People tend to blame the bankers, but the defaulting debtors have some part to play too.'

And, though there certainly was a lack of prudential oversight, Prof Aggarwal said that it was difficult to blame the regulators directly, for overlooking what were essentially off-balance arrangements too.

In terms of the role of international organisations, which have intervened in previous crises, Prof Aggarwal cited recent calls from the US for the IMF to lead a coordinated stimulus as an indication of how things may be headed that way.

With a historical perspective of debt crises, Prof Aggarwal concluded: 'Debt crises are not going away, so we might as well start preparing for the next one.'