

By a more rational institution

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The crisis as a whole shows a more general aspect: the governments of the States are more rational than the private agents and their enterprises

During the 30 Neoliberal Years we have learned that the State was the source of all evil; that the private sector was always balanced because it was coordinated by the market, whereas the State – governed by politics – was the object of economic populism and was a major obstacle to growing with stability. Apart from being antidemocratic, this idea was false, because the financial crises demonstrated throughout the years that the market has never been able to control the speculative behavior of private agents. And it was a half-truth in relation to the State, because there are populist politicians, but most of them is fiscally responsible, because they know that their survival depends on this responsibility.

What was not clear was that the State's huge financial deficits were due to the private sector, not to the populism of the politicians. When a banking crisis arises, the State acts first as a lender of last resort in order to bail the banks out, and, subsequently, increases its expenditure to restore the aggregate demand and prevent the collapse of the economic system. As a result of those two facts, it incurs a huge public deficit, and its public debt becomes very high despite the lack of fiscal irresponsibility.

This fact became obvious regarding the major rich countries in the 2008 global financial crisis. In most cases the governments had balanced accounts; the irresponsibility was private, and expressed itself in asset bubbles: of real property, commodities, and stock market. When the crisis burst, only the State was able to bail the private sector out. Which it did; as a result, its public deficit and its public debt soared.

Those facts can be clearly observed in a small country such as Ireland, which is now at the peak of the 2008 financial crisis, today transformed into rich countries' near-stagnation. The government had its public deficit under control, so that, between 2004 and 2007, the public debt went down from 30 to 25% of GDP. However, when the crisis occurred and the banks went bankrupt, the public deficit exploded and, this year, if we take into account the cash injections to the banks, the public deficit will attain 32% of GDP! As a result, the public debt

already in the year of the crisis rose to 44%, in 2009 went to 65%, and this year it shall attain 99% of GDP!

This is an exemplary case. And the crisis as a whole shows a more general aspect: the governments of the States are more rational than the private agents and their enterprises. Yes, more rational. The politician makes decisions with a reasonable understanding of the consequences of his acts, whereas the private agents make self-fulfilling prophecies when they predict an increase in the prices of the assets and when they buy them. They enter, thus, an irrational cycle of manias, euphoria and crises. In other words, the asset bubbles appear, grow and burst because the acquisitions of assets had promoted the anticipated appreciation.

I am not suggesting that the market is an institution of economic coordination that we may dismiss. It is irreplaceable. But provided that it is permanently regulated and re-regulated by a more rational institution: the State.