

It cannot be a mere coincidence

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Caricature is the farce that precedes and announces tragedy. “Inside job”, the Oscar winner for best documentary, is a clear, precise and well-structured report about the 2008 global financial crisis. It is a movie that the spectator watches with a mix of pleasure and indignation. It begins by telling the story of the crisis in Iceland, a small country of 380,000 inhabitants in the middle of the North Atlantic whose banks engaged in a wild financial speculation, fully supported by neoliberal economists, and ended up owing practically one hundred times their capital. Add to this its growth cum foreign saving strategy, that raised the current account deficit to 16% of GDP, and we will understand why the country violently collapsed, with a huge loss for its population.

Iceland was the caricature of the world's financial system supported by orthodox economic theory, in much the same way as the brutal Chilean financial crisis that ended the first nine years of the Pinochet administration and his Chicago boys (1973-81) was the parodic trailer of the 30 Neoliberal Years of Capitalism. They began in 1979 with the election of Margaret Thatcher in Great Britain, enjoyed the steady support of orthodox economists, lead to widespread fraud, mercilessly documented in the movie, and eventually gave rise to the global financial crisis of 2008.

I know many honorable neoclassical and neoliberal economists. But there is a connection between the increase in financial instability, speculation and corruption, and the preponderance of this neoclassical or orthodox economic theory in universities. It was this theory, it was the general equilibrium model and the theory of rational expectations that are at its hard core, that contributed to “scientifically” justify neoliberalism. The neoliberal ideology of self-regulated markets and of liberalization and general deregulation of the economic system, which opened the way to every type of fraud, was “legitimated” by the orthodox theory. It was this theory that provided the basis for neoliberalism. This is a significant fact, but not enough for us to understand the connection between the theory and the fraud. After all, a scientific theory is committed to the truth which, in principle, would protect it against corruption.

But, what can we say when this theory is not committed to the truth, that is, to its conformity with reality? When this theory is just a hypothetical-deductive castle in the air based on a few invalid axioms? And when the most important of those axioms is that each man only defends his own interests and is not committed to the public interest? This theory, therefore, has no commitment to the truth, nor to morality, simply to logical consistency and self-interest. I know that not everything that is false and self-centered is immoral, but immorality is always associated with falsehood and egotism. “Inside job” shows this immorality in a vivid and definitive way. And it shows that those who justify it are always economists who teach this theory without any commitment to reality or to the public interest. Definitely, the correlation between what one teaches and what one practices cannot be a mere coincidence.