STATE OF AFFAIRS

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We still are in the middle of a global financial crisis. For rich countries, growth prospects are negative; for developing countries, China and India excepted, they should be next to zero. Brazil, although less affected, is not an exception: no GDP growth in 2009. Unemployment continues to increase everywhere. For rich countries, the expectation is that their economies will begin to react in mid-2010, but we will only know if this is true in the last quarter of the year. There is a consensus that this is the most serious economic crisis faced by the world since the 1930's Great Depression.

There is also a reasonable consensus about its central cause. It is not merely limited to the fact that financial systems are inherently unstable, that financial markets are opaque, opening the door to speculation and to the emergence of euphoria or bubbles, followed by panic and recession. After 1929 the countries understood that they needed to create institutions in order to prevent crises: central banks that would ensure liquidity and a strong regulation of financial institutions. On the other hand, a new economic theory emerged – Keynesian macroeconomics – to guide economic policy. However, in the 1980's, when neoliberalism became dominant, the new theory was arrogantly rejected, and financial markets were irresponsibly deregulated. Neoliberal deregulation was, therefore, the cause of the crisis.

Nevertheless, the answer to the crisis was a Keynesian answer, not only because the central banks flooded their own economies and world economy with liquidity (money), but also because USA, Japan, and China and, in this case, Brazil as well, adopted the proper expansive fiscal policies. Were it not for this prompt and firm reaction, the current crisis would probably be worst than the Great Depression. However, no one can guarantee that the adopted policies will suffice to get the world economy out of the crisis. We only know that most countries reached the limit of their possibilities. This is particularly true regarding the expected huge fiscal deficits and public indebtedness.

The countries had no alternative but to carry out this fiscal expansion: it was necessary to rescue the major banks and to restore demand. A few countries neglected to do it or behaved timidly. This was the case with Brazil regarding the interest rate policy; it was also the case with the European Union as to fiscal policy. The United States could have oriented their fiscal expansion to the payment of household mortgages and to extend unemployment insurance benefits. President Obama took this second direction, but the conservatives were able to set aside part of the US$ 800 billion for tax cutting, whose effect on the economy is smaller. As for toxic securities, the free-market solution with subsidies, proposed by the United States Treasury Department, doesn't seem to have worked, but we must wait and see.

Generally speaking, the essential thing was done, and now governments have no choice but to wait – and hope that the policies work. The mathematics used by orthodox economists to account for deregulation gives their theories a scientific outlook. It was once again confirmed, however, that the only certainty offered by economic theory is that these mathematical models that start from the assumption of rationality instead of starting from the facts are, apart from being arrogant, deceitful and dangerous.