

INDEBTEDNESS AND INSANITY

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Brazil is already leaving recession China and India have not even experienced a negative growth, and their recovery is extraordinary. Meanwhile, rich countries already present some signs of recovery, albeit weak, and predictions are that unemployment will be on the rise. Why this difference? After all, rich countries have always presented themselves as examples for us. And they have always told us what we should do to reach their level of economic development. Why are they now suffering more than us from the global crisis?

The main reason lies in the fact that they believed more than us in the mistaken advices given by their economists both to us and to them on opening and deregulating financial markets. The advices passed on to us were embodied in the so-called "Washington Consensus", that led to financial crises in Mexico (1994), later in four Asian countries (1997), subsequently in Russia and Brazil (1998), in Turkey (2000), culminating with Argentinas severe crisis (2001). The more a country accepted the neoliberal reforms and the macroeconomics of an overvalued exchange rate and of a high indebtedness of enterprises and households, the more serious was its crisis, as proven by the crises caused by the policies of presidents Carlos Menem and Boris Yeltsin.

In the United States, financial crises became frequent as well (1987, 1997, 2001), which proves that those advices werent just for external use. This was evidenced by the financial opening and deregulation conducted by the Reagan administration. This deregulation allowed

the indebtedness or leverage rate of financial system organizations, enterprises, and households in rich countries to be substantially higher than in emerging or middle-income countries. Using a neoliberal logic, their economists rightly warned developing countries about deficit and public indebtedness, which is really catastrophic once it becomes chronic, but, reproducing the orthodox or neoclassical thought, they assured that private indebtedness was not a problem: that the managers of enterprises and financial organizations, as well as the householders, were competent enough and the markets efficient enough for the high levels of indebtedness attained by the private sector to be considered acceptable by definition what is more, they were signs that the financial system was "sophisticated" or "advanced".

They adopted this double, strictly ideological standard, and, incredible as it may seem today, they believed in it! Therefore, their private indebtedness rates soared, whereas countries such as China and India kept their rates under control, because they have never believed such an insanity. In Brazil, whether because many did not believe the orthodox theory, or because our banks were more cautious, or because households have not had credit or time enough to become indebted, private leverage rates remained under control. Although other factors may also be determinant as to the severity of the crisis, generally the higher a country's level of indebtedness - both public and private - the more serious was the current global crisis for it. It is therefore explained why the dynamic Asian countries have already resumed growth and Latin America is starting to come out of the crisis, while rich countries remain immersed in it.