

# MORALITY AND CRISIS

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The crisis capitalism now faces is economic, but its causes are political and moral as well. The immediate cause of the crisis was the failure of US banks as a result of households defaulting on mortgages that, in an increasingly deregulated financial market, were able to grow unchecked because banks relied on “financial innovations” that allowed them to repackage the relevant securities in such a manner that the new bundles looked safer than the original loans to their acquirers. When the fraud came to light and the banks failed, the confidence of consumers and businesses, which was already deeply shaken, finally collapsed, and they sought protection by avoiding consumption and investment in all forms; aggregate demand plunged vertically, and the turmoil, which was at first limited to the banking industry, became an economic crisis.

This is a reasonable explanation, but given that the issue of confidence lies at its core, I ask: was confidence lost as a result of merely economic reasons – the dynamics of the economic cycle, the intrinsically unstable nature of capitalism – or does a political and moral issue lurk at the root of the crisis? True, the capitalist economic system is in fact unstable, but over the course of the 20th century we developed a series of institutions that should, by all expectations, substantially mitigate the severity of crises. And, in the “glorious 30 years of capitalism” after the end of World War II (1945-1975) – the times of the new welfare state and Keynesian macro-economics – crises did in fact lose frequency and intensity, economic growth rates increased, and economic inequality dropped.

In the past three decades, however – the years of neo-liberal hegemony and the creation of fictitious wealth – growth rates dropped, income again concentrated in the hands of the wealthiest two percent of the population, and financial instability increased everywhere, culminating in the global crisis of 2008 – a crisis infinitely more severe than the modest economic deceleration combined with inflation that marked the end of the glorious 30 years. Despite the confusion between neo-liberalism and liberalism (a

great and necessary ideology) and between neo-liberalism and conservatism (a political stance worthy of respect), this ideology is neither liberal nor conservative, but characterized by fierce, immoral individualism. While liberalism was originally the ideology of a bourgeois middle class against an oligarchy of landlords and the military, and against an autocratic State, neo-liberalism, which became prevalent in the last quarter of the 20th century, is an ideology of the wealthy against the poor and the workers, and against a democratic and social State. While authentic liberals and conservatives are also “republicans” (as are socialists and environmentalists), that is, they harbor a belief in public interest or the common good and uphold the need for civic virtues so that the former can be assured, neo-liberals deny the notion of public interest, embrace an all-justifying individualism, make the invisible hand into a caricature, and encourage each one to fight for their individual interests, as collective interests will be assured by the market and the law. The law, in its turn must liberalize everything. And in what new role is the State cast? Instead of identifying with the Law itself, it is reduced to the bureaucratic organization that should enforce it, but does so very poorly. The State’s purpose? To be a mere “regulator”, according to neo-liberalism, while, in a show of Orwellian doublespeak, the prevalent ideology has always advocated general deregulation.

Confidence, therefore, was not lost due just to economic reasons. In addition to deregulating the markets, the neo-liberal hegemony eroded society’s moral standards. Virtue and civics were forgotten, or even ridiculed, in the name of an overarching market economy rationale that pronounced itself to find legitimacy in mathematical economic models. Bonuses became the only legitimate performance incentive. Corporate scandals multiplied. Bribery of civil servants and politicians became a generalized practice. They, in turn, adapted to the new times, thereby “confirming” the fundamentalist market thesis of the minimal State. Instead of regarding the state as the principal instrument for collective social action, as the expression of the institutional rationality each society attains at its respective stage of development, and as legal steward of morality, society became to see it as an organization of corrupt functionaries and politicians. Based on this political reductionism, the State and the Law were demoralized, the role of values was reduced, and new latitude was given for easy gains. It is no accident that John Kenneth Galbraith’s 2004 book is titled *The Economics of Innocent Fraud*. Compared to the same author’s *American Capitalism: The Concept of*

*Countervailing Power* (1952), this final book by the great economist, who died a while later at the age of 97, gives a sense of the decline of ethical standards in the past 30 years.