

LEARNING THE RIGHT LESSONS FROM THE ECONOMIC CRISIS

by Antoni Castells*

Last year the economic crisis dominated events thanks to its unprecedented complexity and intensity. In 2009, world economic growth was the lowest since World War II. However, today we can say that the world has left the recession behind. Many countries have already come out of the recession, although unevenly and some others will do so this year. Economic forecasts are improving almost everywhere. We should stress that the world has avoided the worst scenario, which would have been to go from a recession into a depression.

Nevertheless, we must be extremely cautious. When assessing the current economic situation, we must avoid going from one extreme to the other. We have to value the positive aspects of what is happening, giving us confidence in the future prospects of the global economy, while at the same time we must be wary, since unrealistic expectations could ruin the recovery that is just starting. Now the big issue is how to consolidate this recovery. We can either strengthen our economies and return to low unemployment rates or else, fall into a long period of economic lethargy. It depends on what action we take from now on.

It is now time to look forward and also to learn from past experience, from the mistakes that caused this crisis. Although it is true that, in general, economists were unable to predict the dimensions of the current crisis, it is also true that they have made a decisive contribution by drawing some essential conclusions about the world's experience, especially the one surrounding the Great Depression of the 30s. Likewise, if we are now leaving the crisis it is because the world has learnt from past experience, so we should draw all possible lessons from this crisis.

Growth is the main priority

First, we know today that in a recession, governments have to compensate for the fall in economic activity with fiscal stimulus measures. Monetary policy must also be used in the same way: reducing interest rates, and when they approach zero, injecting liquidity. They have to act countercyclically, incurring discretionary deficits if needed. Governments have avoided repeating the mistake of the 30s, when in the face of a great recession, the procyclical policies of governments led to a depression.



The second lesson we learnt is that the 'medicine' should not be withdrawn too early. In 1937, when things seemed to be starting to improve in the USA, Roosevelt tried to balance the budget too soon, and the US fell into a recession once more. The same thing happened in Japan in the 90s, leading to the same outcome as in the US sixty years earlier.

Nowadays, governments and international institutions around the world understand that economic recovery is the number one priority. The world has realized that the best budget is the one that leads to economic growth as soon as possible, since growth will allow us to end deficits.

Naturally this policy has its limitations. A permanent deficit of 10% or 12% of GDP is unsustainable. Furthermore, it is obvious that in the coming years a strong fiscal consolidation will be necessary to secure a robust path of recovery.

Learning lessons from the crisis

In this crisis almost everyone has made mistakes, so nobody is in a position to lecture to the others. It is true that some were more wrong than others, such as the prophets of the fallen old truths and these in particular should avoid preaching to the others. In general, however, everyone should maintain an atti-

