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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The second lesson we learnt is that the 'medicine' should not be withdrawn too early.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-

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tude of humility. We should try to learn as much as possible from this crisis.

I fully agree with Martin Wolf, who said in an article published in October of 2009 in the Financial Times, 'This is not a time for a return to business as usual. We have survived this crisis. But we could not cope with another, possibly bigger and yet more dangerous one in a few years. Let us now show posterity we are able to learn from history'.

THE IMPLEMENTATION OF FINANCIAL STABILITY POLICIES FACES A SERIOUS PRACTICAL PROBLEM: THE LACK OF INCENTIVES

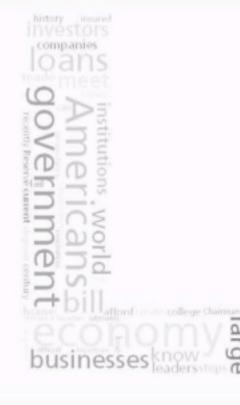
We would be fortunate if after this crisis all the proposals for reforms that are currently being discussed became a reality. Now that the economy is starting to pick up, we should not forget our desire to make amends. There will be other crises and other recessions in the future, for sure, but at least let us commit ourselves to making sure that these crises will not be caused by the same causes that led to this one. Then we will learn about where we went wrong, and we will correct whatever is necessary, because learning from one's mistakes is a precondition for progress.

One of the major lessons of this crisis is that there is no market without a state. In other words, without the rules of the game and institutions that enforce those rules. Without decisive action by governments and central banks we would not be leaving the crisis behind. The time in which it was proclaimed "The government is the problem" is over. But we should not go to the other extreme proclaiming that "The government is the only solution". Neither "The government is the prob-









lem' nor 'The government is the only solution'; but rather 'There is no solution without government and without the market'.

Now we face the great challenge of designing a new balance between government and the market in the era of the global economy. In Europe we also have the crucial challenge of filling the gap between a strong economic and monetary integration and a still very weak political union. We should not forget that without strong political institutions at the European level, it is very difficult to have common fiscal and treasury policies.

Catalonia: a powerful economic reality

Nowadays, competition takes place at a global level, but at the same time, territories are more important than ever. They compete with one another. To succeed, countries need a solid productive base, with companies that are able to innovate and gain in productivity. This is what Catalonia has to offer. Catalonia is home to Spain's main economy and a leading European region. It has roughly seven and a half million inhabitants (meaning it has a larger population than 11 of the 27 members of the European Union) and a GDP of 234 billion euros (in purchasing power parity). This means that 15 of the EU-27 countries have a smaller GDP than Catalonia. In terms of GDP per capita, Catalonia is in fifth place in the European Union ranking, preceded only by Luxembourg, Ireland, Netherlands and Austria, and 12% above the euro zone average.

Catalonia is a business-friendly country. A recent study by the renowned Foreign Direct Investment Magazine, edited by the Financial Times Group, found Barcelona to be the fifth most important European city in economic terms and the most important one in Southern Europe. We have very solid foundations and an innovative econ-

omy, with a remarkable industrial basis. Catalonia has two more assets: its openness to the world and its commitment to excellence.

Catalonia is a cosmopolitan country, open to cultural, economic and scientific exchanges. A country that is not afraid of sailing in uncharted waters but rather quite the opposite. We firmly believe that sharing with others, competing with others, is the only way to realise our full potential. We know that opening doors and windows to let in fresh air is always a positive thing.

Catalan society also wants to affirm its commitment to the pursuit of excellence in all fields of human knowledge. Knowledge, skills and talent are the best investments we can make in our future. Only if we are able to build solid foundations for the future, will we leave this crisis behind.

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