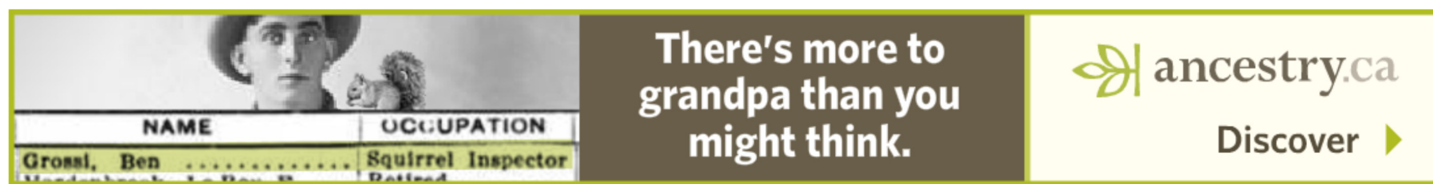
The Australian



After the GFC, it's business as usual

- **Henry Ergas**
- From: **The Australian**
- April 09, 2010 12:00AM

ALMOST exactly 12 months ago, the Group of 20 meeting in London ended with a grand declaration of unity in the face of the global financial crisis. One for all and all for one: international harmony had broken out and would sweep the world to recovery.

Underpinning this triumph was a realisation of the errors of neo-liberalism. France's Nicolas Sarkozy and British Prime Minister Gordon Brown joined Kevin Rudd in denouncing the scourge of free-market thinking, excoriating greed and heralding a new Bretton Woods. Even the International Monetary Fund, flush from a substantial injection of resources, exchanged its Gladstonian fiscal rectitude for born-again Keynesianism.

As for the speculators, hedge-fund managers and other aspirant masters of the universe, they were put on notice, with Rudd pinning the crisis on "wild corporate cowboy behaviour" and then (according to The Sydney Morning Herald on April 6 last year) scoring a personal triumph by "having ideas he and Brown generated in September - especially on regulation, capital adequacy requirements and financial fat cat salaries - incorporated into the G20 communique". The government, we were told, "would go after the remuneration of risk-taking financial executives before the end of this year [2009]".

What a difference a year makes. To begin with, the world seems no less safe for the bankers than it was a year ago. And a good thing, too. For while deficiencies in financial regulation certainly need to be addressed, no serious analysis finds the crisis had much to do with "cowboy behaviour".

Even to the extent to which reprehensible behaviour did occur, and some surely did, the solution lies largely in effective enforcement of regulations adapted to local circumstances, rather than in proposed global cures of high cost and dubious efficiency.

This is not to deny that there has been some change. Bankers' bonuses are smaller than they were. But the flip side is that their base salaries have increased, in some countries markedly so. Were I a banker, I would place lavish offerings at votive shrines to leaders who impose punishments such as these, all the more so as they also bail me out when times turn tough.

As for international economic co-ordination, its limits have become clearer by the day. True, coordinated efforts played a role in some bail-outs. But, unsurprisingly, the fiscal stimulus the various countries implemented was shaped entirely by domestic considerations. Far from tight co-ordination, research reveals significant differences in the response to the GFC even between closely interdependent neighbours, such as Canada and the US, Australia and New Zealand, and France and Germany.

Moreover, there was no shortage of behaviour that, rather than being co-operative, was primarily competitive; that is, it shifted costs to others or responded to others' attempts to do so.

Some would say China's reluctance to revalue the yuan was a case in point.

Nor is neo-liberalism exactly on its last legs. Rather, its tenets seem more persuasively in evidence than before. Consider this. The US economy's growth rate this year is expected to exceed the European Union's by two percentage points (3.1 per

cent compared with 1.1 per cent), leading the IMF's managing director Dominique Strauss-Kahn to muse about "Europe being relegated to the second division".

Why the difference? Not because of consumer sentiment, which differs little between the US and Europe.

Rather, it is mainly because US labour and product markets are far more competitive, and hence flexible and resilient, than those in Europe.

As for the European basket cases of Greece, Italy, Portugal and Spain, with their bloated public sectors, vast social transfers and pervasive regulation, they are far from being living exemplars of the failings of Hayekian doctrines. Rather, their approach to economic management would convert even St Francis of Assisi to the virtues of Thatcherism.

Which brings us back to the IMF and its own damascene conversion. No doubt the IMF's managing director is sincere in believing in the dawning of an age of Aquarius.

But the boys from the fund aren't being sent to Athens to crack the ouzo and exchange economist jokes, all washed down by a jeroboam of vintage Keynesianism and a kindly tolerance of fiscal lassitude.

Rather, as they pack the old toe-cutters, they will be looking forward to tearing the fingernails out of public spending, slashing public sector salaries, flogging off whatever moves and deregulating the rest.

Why? Because that works, while the interventionist prescription doesn't. Ask the hundreds of millions of Chinese, Indians and Vietnamese who liberalisation has lifted out of poverty. Little risk there of a revolt in favour of central planning.

One reason liberalisation works is because greed shows no sign of disappearing any time soon, pious statements from the G20 notwithstanding. Better subject it to the disciplines of market competition than allow it to fester in the petri dish of government favours and handouts.

Were proof needed of that proposition, the G20 has itself provided it in spades, with the stimulus spending, whatever its merits, creating rorting possibilities on a vast scale.

Admirably, these have been offered on an equal opportunity basis, allowing all, and not merely the toffs in French cuffs, a sporting shake of the public sauce bottle. Any reader of the European press will find daily reports of contractors ripping off the stimulus spending.

And even here, it seems, large numbers of dodgy tradies and builders swindled the insulation program or extracted hefty margins from Julia Gillard's Education Revolution.

Apparently, the police will be called in, and a good thing too. But wouldn't it have been even better to think through the incentives these schemes would create before spending billions of dollars of taxpayers' money? Then again, that might smack of neo-liberalism. And neo-liberalism was officially buried at 3.30pm, London time, April 3 last year. One year on, may it rest in peace.

Ads By Google

- ***Transfer Money Overseas***
  Buying Property Overseas? Transfer Money & Save With Canadian Forex!

  www.CanadianForex.ca

- ***Financial Management***
  KPMG can help improve your Finance function. Efficiency, Effectiveness

  www.kpmg.ca/thriving/

- ***Hedblom Partners Group***
  Pan-European Investor Relations Swiss based + 20 years experience

  www.hedblom.ch

More related coverage

- **Labor pair damaging economy: Costello** *The Australian*, *31 Jul 2009*
- **PM's hero a neo-lib** *The Australian*, *20 May 2009*
- **Model of reinvention** *The Australian*, *14 May 2009*
- **Dangerous twist in dark arts of spin** *The Australian*, *12 May 2009*

- **Right's attack on Rudd rings hollow** *The Australian*, *31 Jul 2009*
- **An ambitious agenda** *The Australian*, *20 May 2009*

More related coverage

Related Searches

- **Prime Minister**,
- **Bill Clinton**,
- **Kevin Rudd**

Copyright 2010 News Limited. All times AEST (GMT +10).