

SHORT INTERVIEW WITH MARK THORNTON

by Vitor Cunha 31/05/2013

For an european, The EU seems divided between the need of over-indebted countries to cut spending and demanding quantitative easing from the ECB to stall purchasing decreases in poorer countries. Left-wing opinion-makers and lobbyists claim that the ECB should be copying the US approach of pushing the Fed to increase the amount of currency. What's your view on the US approach?

I oppose the US approach of Bernanke. Money and credit production can in no way increase actual production and wealth. It can only divert it and create a less efficient structure of production. The key thing is to reduce the amount of resources that go to the public sector.

It's very hard to convince voters that a Portuguese Welfare State consisting of 70+% of GDP expenditure to pension benefits and public servant salaries needs cutting. In a country of 10 million, about 60% are direct recipients of the state budget. The opposition parties are pushing an agenda of euro exit so that adjustments could be made by maintaining or increasing nominal public sector salaries, thus pushing inflation. Though more politically passable, this seems like a dangerous path. What's your take on that?

True austerity is to reduce government spending by eliminating programs and reducing the wages, benefits, and pensions in the public sector (50% for politicians, 20% for employees, 10% for pensions and 15% for benefits) and by cutting taxes on production. The cutting should continue until the government is in a position to reduce outstanding debt. Benefits would start to be restored when the national debt is at zero.

For many years, public sector companies have developed huge debts, making their privatization a matter of complying with rent-seekers willing to take on what are basically bankrupt companies. How can the pitfalls of long-term rent be assessed with a constantly changing fiscal policy, judicial mess, and unknown currency stability?

I would put the public sector companies though a bankruptcy-privatization process, but I am not familiar with these companies.

Populist and demagogic socialism is on the rise in Europe as unwillingness to pay public debts increases. Do you see the current American administration as a pushing force of Keynesian policies leading to unsustainable public spending?

At some point even nations must go through a bankruptcy process. This would force the sale of government assets and prevent the country from borrowing more money. The American government is conducting unsustainable public spending and borrowing. The big corporations that support the political campaigns want this borrowing and spending to continue. Bernanke's easy credit policy allows them to continue. Without his complicity Congress would have to act to curtail borrowing and spending.