

TOWARD A "NEW" THIRD?

Michalis Persianis
Kathimerini Newspaper
Economy and Finance editor

After years of blind belief in the markets, economists were forced –largely by the crises in Southeast Asia and Latin America in the turn of the century- to accept the need for regulation and institutional arrangements in the market. The turn to the role institutions was even acknowledged by the IMF and the World Bank, after the rush to “privatize, privatize, privatize”. However, while the ideals of the Vienna and the Chicago Schools of Economics were discredited, and the state came to be seen as an important actor in the economy, the market was only treated as a herd to be herded, not a sick man to be treated. The long era of stagflation and high unemployment in the EU only enhanced this idea, since the admittedly overboard regulation of markets was identified as the prime villain of European economic woes.

The current crisis, however, has led to a new shift in the way politicians see the market. From ENRON to Madoff, Keynes’ assertion that he cannot accept that “the most wicked of men, doing the most wicked of things” will yield maximum good for everyone, has become the central idea of devoted capitalists across the EU.

The belief in markets rests on the Smithean notion that prices act as an index in which all available information about a product, is collected. This information is summarized -by the Invisible Hand, one might say- into a single quantifiable number, price, which automates efficient resource allocation. The role of the state, according to capitalist economists, was to enforce contracts, provide a stable environment and deal with externalities. Even this limited scope caused chagrin among Vienna and Chicago economists.

While the earlier crises brought to the fore the need for institution building, the current crisis, rooted in toxic products, begs a new question. If Price is to act as an index summarizing all available information, then its usefulness rests on

the quality of the very information it collects. It follows that if a significant set of information is hidden off balance sheets, in special vehicles and exotic locations, the pricing mechanism cannot function properly. The invisible hand becomes arthritic. The new idea, after the "discovery" of institutions by economists is, inevitably, transparency.

Apart from its intellectual interest in the "battle of ideas" (as Daniel Yergin called it), the current crisis has also created political dilemmas inside the EU. While the European Commission has approved more than 35 different interventions by national governments since October, thereby confirming its Keynesian pedigree, it is also continuing its efforts to unwind the excessive regulations that are stifling the markets. The turn to transparency, after the first salvo of the vilified Lamfalussy Process, is silently becoming the political mainstream in both the European Parliament and the Commission.

This is laying ruin to the political planning of the two largest political families in the EU, the European Socialist Party (PES), and the Christian Democrat European People's Party (EPP). Ahead of the European Parliament elections in the end of spring, their policy was to bring parliamentary activity to a halt in the beginning of 2009, and to use previous disagreements to emphasize their differences. Today, much to the disappointment of the election strategists in both parties, they are coming to agree in many areas of economic and social policy. The EPP, whose national member parties are behind in the polls in most states, especially the smaller ones, is faced with the prospect of losing the lead in the European Parliament -and the presidency of the Commission as well. In the face of these pressures, the EPP has been forced to further distance itself from the Liberals and emphasize its social agenda. On the other hand, the PES, trying to expand its reach beyond the "social Europe" agenda, is reaching out for businesses, and is forced to further distance itself from the left. Between the two largest parties, lies not only the devotion to a common social agenda (to which they loath to admit), but also the new catchword of economic policy, "transparency". The short term discomfort of political strategists aside, this is an important turn in the "battle of ideas", opening a

“third way” that center-right and center-left both seem to embrace for the first time.