ECONOMY: REGULATE OR DEREGULATE?

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This question is still the subject of sharp controversies and disputes among economists in many countries, including Poland. Finding the golden ratio, the golden mean between the degree of regulation and deregulation of the economy is one of the fundamental conditions for the harmonious socio-economic development and of feasibility conditions for strategies assumed in this field. The importance of this issue was spectacularly highlighted as a result of the global financial crisis that began in 2007–2008 in the USA. Its consequences are still felt in some countries, and applied remedial measures often prove to be insufficient – in fact, they treat the symptoms, but does not appear to be fully effective in eliminating the causes of crises.

Scientific research conducted on this topic, which is aimed at finding the anti-crisis remedy, is the subject of numerous publications. A book entitled “Balancing the Banks: Global Lessons from the Financial Crisis” can be regarded as one of the most important in this field. Its translation into Polish was made available recently by Polskie Towarzystwo Ekonomiczne (the Polish Economic Society) – as part of the series entitled ”Nobliści z ekonomii” (literally: Nobel Prize Winners in Economics). One of the book’s authors is French economist Jean Tirole – laureate of The Sveriges Riksbank (Central Bank of Sweden) Prize in Economic Sciences in Memory of Alfred Nobel. He received these highest ranking scientific laurels in 2014 for his analysis of market power and regulation. These issues are also clearly marked in the book discussed here. Very inspiring reflections on the coherence and incoherence of economic theory and practice, which are presented in this publication, are undoubtedly the results of cooperation of the team of three authors, whose member, next to Jean Tirole, is Mathias Dewatripont – Belgian economist, scientist and practitioner, economics professor at the the Université libre de Bruxelles (the University of Brussels) and executive director of the National Bank of Belgium and Jean-Charles Rochet – French econometrician, professor of banking at the University of Zurich. This French-Belgian-Swiss scientific & empirical cooperation resulted in an enlightening mix of the analyses and theoretical reflections with hands-on experience. Thus, this book constitutes a very useful – both in terms of practice and theory - confrontation of theoretical achievements in economic sciences with economic reality, including lessons resulting from economic crises.

Although this book mainly focuses on banking, the presented analyses, reflections and recommendations in it will certainly have a wider dimension. In fact, it is not difficult to find in them a number of direct and indirect analogies relating to the non-banking world of business, but also to the functioning of the state, globalization and free market economy models. The authors attempt to answer a series of difficult and still open questions concerning not only the banking sector. The basic of these is the question: to regulate or not to regulate?

In a situation where the recent financial crisis strongly undermined confidence in the financial sector, this subject is of particular importance, especially that the authors of the book point to the possibilities of avoiding pitfalls resulting from both inadequate and excessive faith in the official precautionary regulations in the financial world. They are looking for a golden balance between such regulations and the free market. It is a challenging task, particularly in a situation of persistently continuing adverse phenomena in banking, such as, among others, the states of excess liquidity associated with the very low or even negative interest rates encountered in many countries. It is accompanied by the phenomenon of liquidity trap, that is the low level of investment despite financial resources administered by investors, which involves relatively low demand for bank loans.

At the same time, the authors observe that in the situation of economic downturn and the poor performance of business entities there is an increasing risk and a temptation to use accounting tricks, that is creative accounting. What is also growing is the risk and the temptation to use a variety of financial innovations. The authors of the book also remind us that the “creative accounting” was practised during numerous crises, what at the same time was a sign of the ineffectiveness of precautionary regulations. They invoke on historical experience, which teaches us that when a crisis breaks out, it is necessary to fairly and promptly order banks’ balance sheets to counteract the crisis; no accounting tricks will help then. As proof of this, they point to the highly spectacular contrast between the course of crises in the 1990s in Scandinavia and Japan. They show that Japanese “procrastination” led to long-term economic stagnation, the very slow growth of GDP, while Scandinavia ’grabbed the bull by the horns’ and much faster returned to a satisfactory rate of economic growth. Inter alia in such context the authors of the book justify the need for precautionary regulations and characterize their anti-crisis role, as well as the conditions that must be met for such regulations to be effective.

All this shows how much current is an issue of shaping proeffective regulatory changes not only in the banking sector, but in the whole economy. The issues, which are analysed in this book, also relate to it. Even though they do not cover all the recently introduced regulations, the included assessments and recommendations are fully up-to-date, very inspiring and stimulating critical & creative reflections and practical action.

Therefore, I recommend this book to the attention of readers with the conviction that it is very instructive and that, in Nobel’s style, it opens up the eyes to the complex and difficult, but at the same time accompanying people in everyday life, issues of finance and economy.