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SÉRGIO BRITO

WHERE DID ALL THE MONEY GO?

This article is dedicated to analysts and managers, as well as all others who question and try to understand, even if superficially, why countries like Italy are in a crisis. A situation that leads us to reflect on the dangers that easy money can cause to personal and corporate finances.

In fact, the idea of writing this month's article came from a simple question made by an analyst from a Brazilian company at an event that had to do with foreign trade: *where did all the money go?*

The reflection on how financial difficulties stem from easy money also includes the reasons for crises in Brazil during the 1980s and 1990s, as well as our neighbor Argentina in the 1990s and 2000. For those who don't know, Argentina continues to this day having serious difficulties in obtaining money abroad, in addition to having to live with a "parallel" monetary system of dollar circulation.

In fact, the mechanisms that led to the European debt crisis possess distinct ties with those experimented by Latin America in previous decades. However, they are identical in their essential nature: *money borrowed is used to pay for their expenses.*

Simply put, the sources of funds for governments basically come from current revenues (taxes and contributions, for example); intra-budget revenues and capital revenues (credit operations, generally, the most representative). Outside these three orbits, there is no magic for new sources of funds.

It just so happens that these resources are limited. So here is the most important part of the logic: *expenses are unlimited.* That is, when there are limitations on what comes in, government expenses can be unlimited. With this knowledge in hand, irresponsible and corrupt governments can cause serious damage to their economies and nations.

When current expenses, that is, expenses with public servant salaries, social security benefits, public education, public healthcare, armed forces, among others, exceed

current revenues, governments will naturally have to "borrow" money in the market to finance themselves.

This is what we call deficit: when the balance between what went out and what came in is negative; and when the balance is positive we call it a surplus. To finance part of their expenses, governments issue securities, the objective of which is to obtain funding in the financial market.

The biggest buyers of these securities are banks and, to a smaller extent, common people. To obtain funding, the government pays an interest rate for which, in the case of Brazil, the benchmark index is the Selic rate. According to risk premise, the higher the uncertainty in relation to the economic situation of a country, the higher the interest rate will be that the government will have to pay in the market.

And this is what happened with Greece, Portugal and Italy. In order to sustain their expenses, these countries issued a large volume of securities in the market, ignoring the limit of their current revenues. And what happened is what happened.... They are paying a high price for their fiscal irresponsibility and lack of commitment to reduce expenses. Like every good economist, the answer for where all the money went is simple: *down the drain.* ■

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