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Responses to the Recent Financial and Economic Crisis: from heterodoxy to return to orthodoxy

Respostas à Recente Crise Financeira e Econômica: da heterodoxia ao retorno à ortodoxia

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Abstract: This article briefly shows the responses of some developed and emerging countries to the financial crisis of 2007-2008, whose reflections are still felt nowadays. We stressed the first quite radical and fast responses to what could be, perhaps, a crisis worse than that of the 1930's, after the initial extremely poor policy choice from the then US Secretary of the Treasury, "Hank" Paulson, and the Chairman of the Federal Reserve, Ben Bernanke. Most developed countries as well as developing ones made broad recourse both to quite heterodox monetary and fiscal policies, until more or less the mid-2010, when there was a sudden U-Turn in those policies. We detailed some of these policies in the UK, USA, Continental Europe and Brazil, emphasizing their very bad results, totally in disagreement with the theory behind them and, thus, with the predictions (Blyth, 2013). Notwithstanding, most of those countries keep this kind of policies until now, with some important exceptions, such as Iceland, Portugal and Spain, which, not coincidentally, started to grow economically and to decrease their unemployment rates.

Key words: Financialisation; Developing Countries; Interest Rate; Exchange Rate; Policy Space.

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1. Introduction

The financial crisis of 2007-2008 brought about profound outcomes both for the developed countries and the so-called emerging ones. For the first group, i.e, mainly for the US, UK and the Western share of Continental Europe, a long period of recession was installed or, in the best years of the decade until now (2018), there was economic stagnation. In the emerging countries, on the other hand, initially there was no impact, because of the almost nonexistent speculation of those countries in the American real estate prime and subprime markets.

Most of the major developed and emerging countries appealed to broad economic policies, after the onset of the crisis and/or of the first effects of it, principally recurring to a lavish use of active fiscal policies. And this in spite of the terrible state of mainstream macroeconomic theory, which stresses, in general – with few exceptions – that fiscal policies are awkward and ineffective and that the most adequate economic policies to manage all the economies are, predominantly or exclusively, through monetary policies.

Thus, at first, the response from Governments as well as Central Banks in most of the countries of those two groups was fast and unambiguous, as preconceived by Minsky (1982; 1986). They recurred to active fiscal and monetary policies – "Big Government" and "Big (Central) Bank" – with very good results, avoiding a major crisis (as, for instance, was the case of the USA or Brazil) or preventing an interruption of a prolonged sequence of strong growth rates (as in India and China).

Notwithstanding, by 2010 there was a general, and rather "unexplained", reversion of those fiscal policies, in the developed countries (Blyth, 2013) and in many emerging ones, as in Brazil (Strachman and Signorini, 2018). Certainly, a possible explanation for this U-turn is the common resort to austere policies, as the "only game in town", that is to say, the unique solution for a prolonged recovery of the economies.

The outcome was, as predicted by many heterodox economists and scholars, even a long time ago (Kalecki, 1943), the expected one: the interruption of growth and a plunge into a prolonged recession, in all of these countries (Goodman, 2018). As a matter of fact, only those countries which afterwards avoided austerity policies – as for instance Portugal and Iceland (Pellicer, 2015; Alderman, 2018), and most recently, Spain – could enter again in a period of growth.

As short accounts of the crisis can be found in many articles and books – see, for instance, Mathiason, 2008; Krugman and Wells, 2010; United States Financial Crisis Inquiry Commission, 2011; Strachman and Fucidji, 2012 – we will not dwell on this issue. We will instead focus this article on the first responses of many governments to the

impending crisis, from 2008 to 2010, in section 1; and then, in Section 2, in the U-turn from 2010 until now. Finally, we will present brief concluding remarks.

2. First Responses to the Recent Financial and Economic Crisis: No Problems with Heterodoxy

As indicated in the introduction, there was a lavish utilisation of heterodox economic policies after the inception of a full-fledged financial and economic crisis in the week that started on Monday, September 15th, 2008, with the deplorable decision for the bankruptcy of the American investment bank Lehman Brothers, by the Secretary of the Treasury, Henry 'Hank' Paulson, and the Chairman of the Federal Reserve, Ben Bernanke.[1] That week was certainly 'hot' and unforgettable: the US interbank market halted as well as the bank lending to firms, even big ones, such as Microsoft, GE, Google, etc. An emergency loan of $85 billion was announced to AIG, the world's biggest insurance company, which 'had transformed itself from a boring insurance company into one at the vanguard of the new credit default swap market.' (Mathiason, 2008). In less than two days, expectations changed dramatically, illustrating empirically the possibility of a huge modification on expectations, not being represented in statistical models (Keynes, 1936; 1937), as in the common VAR (Value at Risk) models usually handled by banks and other financial institutions (Zendron, 2006).[2]

After this major policy mistake by the US economic policy makers, there was no alternative in the US as well as in Europe than a major intervention in their economies, avoiding by all means any other bankruptcy (United States Financial Crisis Inquiry Commission, 2011; Blyth, 2013; Cassidy, 2009a; Chick and Pettifor, 2010). In the USA, the Secretary of the Treasury Paulson decided that the American Government should buy US$700 billion on mortgage-based securities, most of them 'toxic', trying to maintain the prices of these assets rather stable, simultaneously with a strong decrease of interest rates by his colleague Bernanke, from the Federal Reserve.

As Havemann (n.d.) elucidates:

> 'Treasury Secretary Henry Paulson asked Congress to establish a $700 billion fund to keep the economy from seizing up permanently. Paulson initially intended to use the new authority to buy mortgage-based securities from the institutions that held them, thus freeing their balance sheets of toxic investments. This approach drew a torrent of criticism: How could

[1] Thus, despite Bernanke being a scholar on the Great Depression, he and Paulson let the Lehman Brothers bankruptcy, begetting the major US and world depression since the 1930's.

[2] As a matter of fact, as Zendron (2006) explains, it is impossible for a VAR model to encompass data compatible with future events. For instance, will this data embrace a major crisis, if this was a rather remote one, like the one of the 1930's was to someone in 2007 or 2008? If the answer is 'no', the expectations (in fact, in this case, the 'probabilities') would be less risky, since the time span will not cover a major crisis. Moreover, all financial institutions are inclined to emulate the best VAR (and other) model(s), making all of them function with a similar risk and application bias (Alves Jr. et al., 2008).

> anyone determine what the securities were worth (if anything)? Why bail out the large institutions but not the homeowners who were duped into taking out punitive mortgages? How would the plan encourage banks to resume lending? The House of Representatives voted his plan down once before accepting a slightly revised version.'[3]

Or as George Soros (2008) stressed, the American taxpayers should not allow the Treasury bailout financial institutions in exchange for nothing or, more accurately, for assets that no one could know what their values are, as in Treasury's original Troubled Asset Relief Programme (Tarp):

> 'The toxic securities in question are not homogenous and in any auction process the sellers are liable to dump the dregs on to the government fund. Moreover, the scheme addresses only one half of the underlying problem – the lack of credit availability. It does very little to enable house owners to meet their mortgage obligations and it does not address the foreclosure problem. With house prices not yet at the bottom, if the government bids up the price of mortgage backed securities, the taxpayers are liable to loose; but if the government does not pay up, the banking system does not experience much relief and cannot attract equity capital from the private sector.
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> A scheme so heavily favouring Wall Street over Main Street was politically unacceptable.' (Soros, 2008).

Thus, for Soros, the Treasury money should instead be used to recapitalise the banking system. Funds injected at the equity level are more high-powered than funds used at the balance sheet level by a minimal factor of twelve – effectively giving the government \$8,400bn to re-ignite the flow of credit.' (Soros, 2008). Furthermore, the Treasury (Tarp) should invest in preference shares, with warrants attached.[4] Besides:

> 'Banks deemed to be insolvent would not be eligible for recapitalization by the capital infusion programme, but would be taken over by the Federal Deposit Insurance Corporation. The FDIC would be recapitalised by \$200bn as a temporary measure. FDIC, in turn could remove the \$100,000 limit on insured deposits. A revision of the emergency legislation along these lines would be more equitable, have a better chance of success, and cost taxpayers less in the long run.'(Soros, 2008).

Let Cassidy (2009b) further clarify this point, still with some help from Soros:

> '[R]ising bank profits, and thus bonuses, are no accident. The Fed, through its zero-interest rate policy and generous lending programs, has deliberately created an environment in which a chimpanzee could run a big bank and make pots of money. Banks can lend from the Fed at zero per cent, buy long-dated Treasury bonds yielding three and a half per cent, and pocket the spread. Rather than nationalizing stricken banks and recapitalizing them that way, Soros said, the U.S. government had opted to help them earn their way back to sound health.
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> On Friday, in an interview with the *Financial Times*, Soros elaborated on his theme, declaring, "These earnings are not the achievements of risk takers. They are gifts, hidden gifts, from the government, so I don't think these monies should be used to pay bonuses. There's a

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[3] See also Soros (2008); Cassidy (2009a; 2009b); Blyth (2013) and United States Financial Crisis Inquiry Commission (2011).

[4] "If the funds were used in this way, the recapitalisation of the banking system could be achieved with less than \$500bn of public funds."(Soros, 2008).

> resentment which I think is justified." (...) [Different policies from those] would also mean that taxpayers were no longer subsidizing "heads I win, tails you lose" bets placed by banks that are too big to fail. Does that not sound like an idea worth exploring?'

In the end, a huge bail-out package was supplied to the US financial institutions, with a rather modified Tarp package and other active fiscal measures, incredibly low interest rates (almost zero percent per annum) and an unparalleled Federal Reserve balance sheet expansion, with virtually no limits, as we saw above with the chimpanzee illustration from Cassidy. For example, Felkerson (2011) estimates the help from the Fed to the financial institutions through all its measures, after the collapse of September 2008, in something as 29 **trillion** dollars.

In Europe, in fact there were some significant financial problems even before September 2008. Thus, exactly one year before, in September 2007, Northern Rock, one of the top five mortgage lenders in the UK, received liquidity support from the Bank of England, since it was unable to raise funds from the money market. This led to panic among the clients of the bank, resulting in the first bank run in 150 years, in the UK. On February 22, 2008, Northern Rock was taken into state ownership (Chick, 2008; Elliott, 2011).

On August 9, 2007, the French BNP Paribas announced that it was ceasing activity in three hedge funds, specialised in US mortgage debt. It heralded enormous financial problems both in Europe and the US, since nobody knew the size of the losses of the bank or, possibly, of other banks, and the extension of its exposure and of other banks in the American formerly buoyant mortgage market. This was the first sign of a sudden stop of the interbank market, since no financial institution knew the real condition of competitors (Elliott, 2011). As a consequence,

> 'The winter of 2008-09 saw co-ordinated action by the newly formed G20 group of developed and developing nations in an attempt to prevent recession turning into a slump. Interest rates were cut to the bone, fiscal stimulus packages of varying sizes announced, and electronic money created through quantitative easing. At the London G20 summit on 2 April 2009, world leaders committed themselves to a $5tn… fiscal expansion, an extra $1.1tn of resources to help the International Monetary Fund and other global institutions boost jobs and growth, and to reform of the banks.'(Elliott, 2011).

The German Prime-Minister, Angela Merkel, promised to guarantee the accounts of all her countrymen's, or even more, EU savers. In Reykjavik, the Icelandic government announced an emergency bill to take control of its collapsing banks. Simultaneously, Iceland asked the International Monetary Fund about a potential emergency loan, since the credit crunch plunged its economy rapidly into a depression (Mathiason, 2008).

The UK Prime-Minister Brown and the Chancellor of the Exchequer Alistair Darling were ready to publicize a £50bn bank bail-out and a recapitalisation plan that Brown would more than suggest to the rest of the world to emulate. Mervyn King, the Governor of the Bank of England, declared to the prime minister that interest rates would decrease by half a percentage point, at noon, in coordination with central banks around the world. Furthermore, finance ministers pledged to wield all policy weapons at their disposal against

the crisis. They promised to prop up banks with Treasuries' money where and when needed, and use public funds to melt down the frozen credit markets, in order to help families and firms. Hence, markets all over the world were reassured, at least initially, of the government's determination "not to allow the crash of 2008 to bring the global financial system grinding to a halt." (Mathiason, 2008).

In Brazil, almost immediately after the onset of the crisis — with the traditional private banking retrenchment that accompanied it, which included the trend towards important capital outflows—the leftist Lula government adopted a huge series of countercyclical policies. Among them, the government decided to avoid a great devaluation of the Brazilian currency (Real), just four days after the crash of September 15, 2008 — a policy that would be complemented at other moments, as needed. On October 8, 2008, for example, the Brazilian Central Bank sold US dollars in the spot market.[5]

In addition, the Lula government reduced the compulsory reserves of commercial banks, in order to stir up lending to firms and families, and allowed major banks to buy the whole or shares of the credit portfolio of smaller banks facing difficulties, despite the fact that there was no parallel between these portfolios and those of the American banking system.[6] The government also diminished some taxes on durable goods, and on credits for these goods – autos, motorcycles, refrigerators, furniture, etc. This action stimulated banks located in the country to increase lending directed to this kind of acquisition and also to small and medium enterprises. Moreover, in 2009, the government induced two major commercial banks, of which it is the main owner — that is, Banco do Brasil and Caixa Econômica Federal, corresponding to approximately 30% of the total assets and 39% of the total credits of all banks in Brazil — to increase their lending and cut both spreads and interest rates. This was achieved in 2009, bringing about a reduction in delinquencies.[7] As a matter of fact, the private commercial banks had to follow this lead of the public commercial banks, in order to stop losing market share: The public banks increased their loan share from 31% in 2007 to 42% in 2009; meanwhile the private banks' share declined from 42% to 33% in the same period. As a consequence of these measures, in the second semester of 2009, credit to firms increased again.

This policy was complemented by those of another government bank, the National Bank for Economic and Social Development (BNDES), which is the only Brazilian investment bank. It augmented its loans to the private sector, in order to keep stable the country's aggregated product and demand, increasing its loans by 140%, in real terms, from December 2008 to December 2009. This activism from BNDES, trying to increase the

[5] We will use freely, in this article, some parts of another article, from Strachman & Signorini (2018), which dwells more patiently on the Brazilian case.
[6] There was almost zero contamination of the country's financial institutions with the infamous 'toxic' assets of the international financial boom.
[7] In 2008 approximately 20% of the funding of Brazilian credits was obtained offshore. This funding simply disappeared in the aftermath of the crisis, reducing the supply of credit in Brazil. At the same time, there was a liquid capital outflow of $27 billion from the country, in the last four months of 2008.

investment/product rate — even if one can dispute the priorities (related to sectors, firms, etc.) given by the bank and the government — would be maintained wisely until the end of the second presidential term of Dilma Rousseff.

These policies attained the stabilization of the Brazilian Gross Domestic Product, in 2009, with only a minor decrease of 0.13% in relation to 2008 and with a strong performance in the following two years (2010–11). However, this performance could have been better if Brazil's monetary and fiscal policies had been more aggressive — as they were in India and China during the same period — since the countercyclical policies described above quite schizophrenically were adopted together with a very conservative stance by the Brazilian Central Bank, almost always maintaining very high nominal and real interest rates (Guttman, 2009). Indeed, the reduction of the interest happened too late. Only in January 2009 there was the first reduction of the basic rate. It would fall from 13.75% to 8.75% per annum, between January and July 2009.

Summing up, the main measures adopted by the Brazilian government intended to foster economic growth, after the beginning of the crisis, were: (i) monetary measures which, however, were adopted quite late and less aggressively than in other countries (Guttman, 2009); (ii) fiscal measures, also taken up more timidly than in other nations; (iii) the liquidity supply by the Central Bank, protecting the banking system against the risk of a systemic crisis; and (iv) the increase of credit by the public banks, which was the more active of the policies adopted.

In addition to these policies, however, we should underscore the maintenance or deepening of some measures which were then already in course: huge investments by Petrobras, the largest firm of the country, owned mostly by the Federal Government;[8] an important public housing project (called "My house, my life"), which would have a stronger impact after 2010; the Program of Investment Support, largely aimed to sustain the acquisition of less expensive capital goods, through a reduction to 4.5% per year of the nominal interest rates by the BNDES, making them zero or even negative in real terms; and augmented money transfers to poorer families and the rise of the minimum wage. All of these measures granted a less steep decrease in formal employment between October 2008 and March 2009 (692,000 workers, predominantly in the primary and industrial sectors); they also generated some minor gains in employment in services, and later increases across all sectors.

Thus, as a atrial conclusion for this section, we saw that both developed and developing dramatically decreased interest rates and started a huge series of large fiscal stimulus packages –even together, through the "new" G20 – preventing what would otherwise be a financial and economic crisis similar or even worse than that of the 1930's. Nevertheless, the whole tale had not yet reached its end.

[8] Barbosa and Souza (2010) calculated that, in 2009, the share of the Federal Government and Petrobras together corresponded to 16% of the total investment in Brazil.

3. The Sudden U-Turn, from 2010 until Nowadays

Perhaps May 9 2010, marked the moment of the sudden U-turn on economic policies in many countries, first in the developed countries, by the time the IMF and the EU announced their financial help to Greece. As a matter of fact, budget deficits had augmented drastically in the former 1.5 year, basically as the outcome of lower tax receipts – because of the very global financial crisis – and higher non-discretionary welfare spending, to what we must add some huge discretionary fiscal packages announced in the winter of 2008-09, most of them helping profusely the financial institutions responsible for the crisis.[9]

Greece unveiled big problems because of the perennial terrible state of its public finances, largely worsened by the bail-out of Greek banks by the state, and its difficulties in collecting taxes, also because of its poor fiscal receipts distribution. Other countries, mainly from southern Europe (the so-called disparagingly, by right-wingers, PIIGS or GIPSI, i.e, the group constituted by Portugal, Ireland, Italy, Spain and the just mentioned Greece – cf. Gossé & Plihon, 2011; Blyth, 2013:3), showed similar problems, with an inefficient and regressive fiscal structure, lavish financial gifts to banks in difficulties, all of this begetting big budget deficits and a sharp increase in public debts. Hence, suddenly austerity became the new game in town, and that started to be followed by the UK, the eurozone and, lately by the US, the most stubborn developed country regarding its former expansionary fiscal policies (Elliott, 2011).

As Blyth (2013:5) shows, before 2008 no one was concerned with excessive deficits or debts, with the exception of a few more radical conservatives and fiscal hawks. For in the USA, the George W. Bush administration conducted debt and deficits to new heights, without any repercussion over inflation (Greenspan, 2007). The same had been true for the UK, Spain, Italy, Ireland, etc. "Italian public-sector debt in 2002 was 105.7 percent of GDP and no one cared. In 2009, it was almost exactly the same figure and everyone cared." (Blyth, 2013:5). The primary cause for that change is the cost of bailing, recapitalizing, and saving the global financial system, and not a classical "sovereign debt crisis".

Moreover, in the EU, no country runs its own money printing press – except for the UK – and, thus, cannot "bail its banks out directly." (Blyth, 2013:6). Besides, as a result of the European Central Bank (ECB) former rules – afterwards changed – for the selling of government bonds, the ECB was initially forbidden to buy those bonds directly, which pushed bond rates up.[10]

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[9] For an opinion in contrary, cf. Taylor (2009) and Wallison (2009a; 2009b). However, for an explanation favouring the discussion of these conservative stances, see Stiglitz (2009).

[10] This is a good explanation of theoretical and empirical rules bringing about important results. At the very moment when the ECB announced, through its Securities Market Programme (SMP), in May 10, 2010, that it would be allowed to buy European government bonds directly, if there was not enough private demand for them, the market interests for them decreased significantly. That is to say, the ECB was not even obliged to

In Brazil there has also been a U-turn, in 2010.[11] In 2010 and 2011, a series of more restrictive policies were adopted: in April 2010, the basic rate (Selic) started to rise from 8.75% per annum in March to 12.5% in July 2011, but declined to 7.25% in October 2012 — the lowest level in decades — where it remained until March 2013. As a matter of fact, the institutions supporting the inflation target regime in Brazil (Strachman, 2013) induce the interest rates — "the basic instrument" of this regime — almost always upward, in their intention to bring about a deflationary trend through a reduction of economic activity. But this kind of policy is also based on the impact of an appreciation of the national currency over some costs and prices, in a mix of very short run horizons — with harsh consequences for investment, economic growth, etc. over the long run — *and* political pressures stirring them up. This can explain the strong fluctuation in the basic interest rates, stressed above, which most of the time are running against the other policies (fiscal, investment, development, social, etc.).

Nevertheless, this time, fiscal policies were leaning in the opposite direction of the former period — that is, reducing tax breaks, increasing tax rates, etc. — to achieve a huge fiscal surplus, which materialised effectively at the end of the year: 2.3% of the GDP, excluding interest payments for the public debt. All this performance was accompanied by some measures, such as taxes on short run transactions, intended both to dampen speculation with the Real and to increase the stabilisation of the exchange rate.

In May 2012, the Government made recourse to tax breaks on the consumption of durables, as they had done in 2008–2009, but with only minor repercussions for demand, despite significant costs to the public budget.[12] These tax breaks were maintained until the end of 2014, coinciding with the end of Dilma's first presidential term. They also represented — together with their minor repercussion over the domestic product and a real silly attempt to cajole the financial sector and the Brazilian political and economic right — the main reason she would later opt for an incredible U-turn, from the inception of her second term, although doing so would ultimately destroy her government, causing her to lose political support from some important social groups.

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buy those bonds – in that moment, predominantly the bonds from the Mediterranean (also called derogatory "Club Med"; see, once more, Gossé & Plihon, 2011) – but European governments with difficulties in selling them in the private markets **could** sell them, if necessary, to the ECB. Consequently, the **market interests** fell, with no necessity for the ECB to buy them. Lately, in September 2012, that programme was superseded for the Outright Monetary Transactions (OMT) Programme (Lombardi & Moschela, 2016).

[11] We will again use freely, in this section, some parts of Strachman & Signorini (2018).

[12]12 "After growing at an average annual rate of 8.0 percent between 2004 and 2010, peaking at 18 percent in 2010, the real growth rate of gross fixed capital formation fell to 6.7 percent in 2011 and shrank -0.6 percent in 2012. Investment recovered in 2013, growing 6.0 percent, but soon contracted again in 2014, with investment collapsing -4.3 percent. The average annual growth rate over 2011–2014 was 1.8 percent, lower than the growth rate of private consumption and substantially lower than investment growth over the previous period" (Serrano & Summa, 2015, p. 23). Many critics stressed that these funds should have been expended in direct investments by the government or, as a second-best policy, in tax breaks directed to investments by the private sector.

However, as we showed, the liberal U-turn had actually begun more mildly, during the second period. After her victory in the October 2014 election, Dilma decided to embrace liberal/conservative policies, with at least implicit support from Lula. In doing so, she proceeded in opposition to her election program, her constituency, and the economics she had been taught at least twice while a postgraduate student at the quite heterodox State University of Campinas—albeit without completing the course, since she never presented a MSc or PhD dissertation.

In particular, Dilma opted for a Minister of Finance, Joaquim Levy — nicknamed by some Joaquim "Scissorhands" because he is proud to cut public expenditures — whose former job had been on the Executive Board of one of Brazil's two largest banks. With international reserves at their peak of $374 billion, a mild deterioration of the public debt in relation to GDP, and a controlled inflation of 6.41% per annum (inside the target, as it had been without interruption since 2004), the new Minister decided to cut public expenditures, increase interest rates abruptly (both basic rates and those of the public banks), curtail credit, and abruptly correct utility prices. This decision created a perfect economic storm (Serrano & Melin, 2015:3), plunging the economy into a GDP decline of -3.55% in 2015 and -3.46% in 2016, with only minimal recovery of +0.99 in 2017. Thus, in just two years, the economy shrank by 6.88%, and by 5.97% over three years (2015–17). In addition, 7.9 million formal jobs were lost by the end of September 2017, increasing the unemployment rate to 12.4%, from 6.8% at the end of 2014. By the end of 2017, 12.96 million people were unemployed in Brazil, and formal employment fell from 41.2 million at the end of 2014, to 33.3 million at the end of 2017: a stunning decline of 19.2%, in less than three years. Nevertheless, in 2015, "Scissorhands" curtailed access to unemployment insurance and took other measures to reduce social protection and pensions.

Furthermore, Petrobras investments declined from the $44 billion originally planned to US$31 billion in 2015, with further cuts planned for 2015–2019, from $221 billion to $130 billion (Serrano & Melin, 2015:10). This economic policy disaster was complemented by an inflation of 10.67% in 2015, the first year since 2004 that did not reach the government's target, and the first year of two-digit inflation since 2002. Hence, the total real wage bill fell 10.4% only in 2015 (Serrano & Melin, 2015:11). The real fiscal adjustment achieved an incredible rise of the gross public debt while the GDP declined (since tax revenues fell dramatically after the onset of the recession), from 56.2% in December 2014 to 75.3% in March 2018 (Data from the Brazilian Central Bank). This result was also thanks to the sharp rise in interest rates of 3.25% in nine months, after Dilma's election in October 2014, to 14.25% per year, where it remained from July 2015 to October 2016, before falling to 7.0%, in December 2017.

In short, this new policy direction begot (or at least augmented) the worst economic crisis in modern Brazilian history (Rossi & Mello, 2017) — worse even than the 1930s and beginning of the 1980s (the age of the Latin American external debt crises) — as well as a political crisis that would in less than 16 months imply the impeachment of this very government.

4. Concluding Remarks

This article tried to briefly show the responses of some developed and emerging countries to the financial crisis of 2007-2008, whose reflections are still felt nowadays. We stressed the first quite radical and fast responses to what could be, perhaps, a crisis worse than that of the 1930's, after the initial extremely poor policy choice from the then US Secretary of the Treasury, "Hank" Paulson, and the Chairman of the Federal Reserve, Ben Bernanke. Most developed countries as well as developing ones made broad recourse both to quite heterodox monetary and fiscal policies, until more or less the mid-2010, when there was a sudden U-Turn in those policies.

We detailed some of these policies in the UK, USA, Continental Europe and Brazil, emphasising their very bad results, totally in disagreement with the theory behind them and, thus, with the predictions (Blyth, 2013). Notwithstanding, most of those countries keep this kind of policy until now, with some important exceptions, such as Iceland, Portugal and Spain, which, not coincidentally, started to grow economically and to decrease their unemployment rates.

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