

# **Auctioning Miro to Balance the Budget: A Case Study in Balancing Portugal's Budget and Retaining Cultural Value**

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*This paper analyses Portugal's 2014 national debt crisis and the proposed sale of a state-owned Miro collection in the context of three paradigms of national deficit and debt, i.e., deficit hawks, deficit doves, and functional finance. Through this analysis, the paper directly applies three prominent and influential, but widely differing views of national debt in the context of a decision that has important economic and social implications. By analyzing the proposed sale through the three paradigms of deficit and debt, the paper reveals not only the social, but also the economic cost that can be incurred with important policy decisions.*

## **INTRODUCTION**

Lisbon's Berardo Museum bustles with visitors as they meander through its halls and galleries, pausing on their own time to view one of the most important collections of modern and contemporary art in the world. The surrealist paintings of Miro are certainly among the most popular for the museum's patrons and visitors. The collection is a point of pride not only for the museum, but for the Portuguese who enjoy access to the work of one of the most important and innovative artists of the 20<sup>th</sup> century. While the future of Miro's work in the Berardo Museum is stable, the same cannot be said for 85 Miro works owned by the recently nationalized Portuguese bank, BPN. In an effort to pay down Portugal's more than €200 billion debt, Prime Minister Pedro Passos Coelho is considering putting the BPN owned Miro collection on the auction block. The idea appears to be a fiscally responsible and necessary step to balancing the budget of his nation. However, the auction may not be easy to push through as Socialist Party of Portugal is mounting opposition against it. Art dealers are also questioning the timing of auction. At the same time, there is considerable public outcry among the Portuguese that makes the decision even more difficult. Portugal's Prime Minister is responsible for the fiscal solvency of the nation, but his attempt to help balance the budget is being met with opposition. The decision of whether or not to auction the now state-owned Miro collection has important economic and cultural implications that must be considered.

## **MEASURING A NATION'S DEFICIT AND DEBT**

When examining how the deficit and debit of a nation's government is measured, important distinctions must be drawn among a deficit, a surplus and the debit. The government deficit is the difference between how much money a government collects in a given year, i.e. revenue, and how much money a government spends in a given year. When a government spends more money than it collects in a given year, that government has a deficit for that year. However, when a government spends less money

that it collects in a given year, that government has a surplus for that year. The government debt, i.e., the national debt, is the accumulation of all previous years' deficits and surpluses. The following table summarizes the above description of deficits, surpluses, and debt (U.S. Treasury, 2016).

**TABLE 1**  
**DEFINITIONS OF NATIONAL DEFICIT AND DEBT**

<b>Term</b>	<b>Relationship between government spending and revenue</b>
Deficit	government spending in one year > government revenue in one year
Surplus	government spending in one year < government revenue in one year
Debt	sum of all past deficits and surpluses

The size of government deficits and debt varies widely from nation to nation. Nations with large economies, such as the United States (U.S.), has comparatively larger deficits and debt than nations with smaller economies, such as Portugal. The following table compares the 2014 deficit and debt of Portugal and the U.S. (Banco de Portugal, 2016a; European Central Bank, 2016; Federal Reserve Bank of St. Louis, 2016b & 2016c). In order to provide comparable values, the deficit and debt of Portugal is presented in the Portugal's currency of the euro, but has also been converted to U.S. dollars using the 2014 average exchange rate of 1.3297 dollars per euro (U.S. Federal Reserve, 2016a).

**TABLE 2**  
**2014 PORTUGAL AND U.S. DEFICITS AND DEBT**  
**(MILLIONS OF EUROS (€) AND DOLLARS (\$))**

<b>Deficit</b>		<b>Debt</b>	
<b>Portugal</b>	<b>U.S.</b>	<b>Portugal</b>	<b>U.S.</b>
€ 3,944		€ 225,767	
\$ 5,244	\$ 484,602	\$ 300,202	\$ 18,141,444

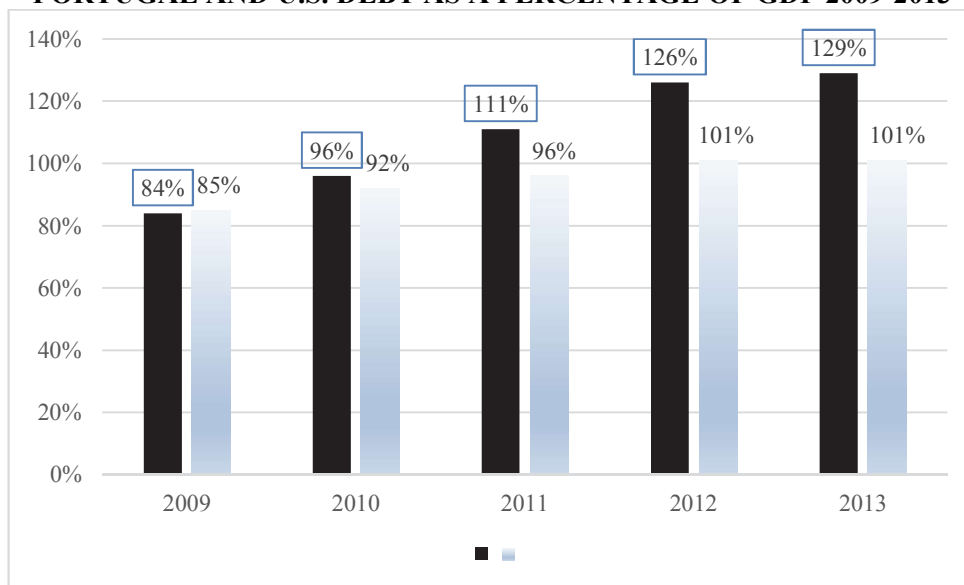
When comparing the deficit and debt of Portugal to the U.S., one observes that Portugal's deficit and debt is a fraction of that of the U.S. In dollar terms, Portugal's deficit in 2014 was approximately 1% of the size of the U.S. deficit, while Portugal's debt was approximately 1.7% of the size of the U.S. debt. While the size of the deficit and debt of Portugal and the U.S. are dramatically different, how the debt is financed in both nations is fundamentally the same. For both Portugal and the U.S., when government expenditures exceed revenues in a given calendar year, government operations are financed through the sale of government liabilities, i.e., government bonds and securities, which represent the national debt.

As defined in the European System of Accounts (E.S.A.), Portugal's government liabilities include the categories of currency and deposits, debt securities, loans, and social security. More specifically, Portugal's government debt securities include purchases of government issued bills, notes or bonds by banks, non-financial institutions, non-residents, as well as foreign governments (Eurostat, 2016a & 2016d). Similarly, when the U.S. runs a deficit, the Treasury borrows money finance government operations by selling to the public securities such as Treasury, bills, notes, bonds, as well as saving bonds (TreasuryDirect, 2016). In both the case of Portugal and the U.S., the sale of government securities to the public raises cash needed to finance government operations. Also in both cases, the debt is held by individuals, and private institutions including corporations and banks. In addition, local and state, as well as foreign governments hold government debt. In the case of the U.S., debts are reported as total debt held by the public and intragovernmental holdings in order to separate publically held securities from government held securities (TreasuryDirect, 2016).

While the financing of government debt is similar from nation to nation, comparing the size of two nation's deficits and debts in purely nominal terms is problematic because the nominal values do not take into consideration the size and productively of the economies. Thus, gross domestic product (GDP) is incorporated into the analysis of deficit and debt. GDP is the monetary value of a nation's annual

domestic consumption (C), gross private domestic investment  $I_g$ , government expenditures (G), and net exports ( $X_n$ ),  $GDP = C + I_g + G + X_n$ . GDP values that are calculated quarterly and annually indicate the level of productivity of a nation, as well as the size of that nation's economy. Portugal's 2013 GDP was € 170,269 million, which using the 2013 average exchange rate of 1.3281 dollars per euro equates to \$ 226,134 million (Eurostat, 2016b, U.S. Federal Reserve, 2016a). The U.S. 2013 GDP was \$ 16,958 billion (Federal Reserve Bank of St. Louis, 2016d), making Portugal's GDP approximately 1.3% the size of the U.S. GDP. Because of the large differences in the sizes of nations' deficits, debts, and GDP, analysis of deficits and debts among nations are commonly reported and analyzed as a percentage of GDP. By doing so, one can more accurately analyze the relative size of a nation's deficit and debt over time. The following graph compares the debt as a percentage of GDP for Portugal to the U.S. over the five year period (2009-2013) leading up to the Portuguese government consideration of whether or not to sell portions of the state owned Miro collection to help pay down the debt (Banco de Portugal, 2016c; Federal Reserve Bank of St. Louis, 2016c).

**GRAPH 1**  
**PORTUGAL AND U.S. DEBT AS A PERCENTAGE OF GDP 2009-2013**



Over the five year period leading up to the end of 2013, the debt to GDP ratio of Portugal steadily increased an average of 11% each year from 84% in 2009 to 129% in 2013. As a comparison, the U.S. debt to GDP ratio also increased between 2009 and 2013, but at a slower pace with a 4% annual average increase, ending with a debt to GDP ratio of 101% in 2013. While the size of Portugal's economy is fraction of the U.S. economy, but observing the debt as a percentage of GDP over-time one can note that while both nations deficit's share the same trajectory, Portugal's deficit is increasing more quickly than overall productivity (GDP). The trend illustrated in the graph raised concerns not only within Portugal, but among other European Union (E.U.) member nations.

In 1997, E.U. member nations agreed to the Maastricht Treaty, which not only was key to the creation of the common euro (€) currency, but also a treaty that instituted limits on government deficits and debt levels. More specifically, the treaty limited deficits to 3% of GDP and debt levels to 60% of GDP (European Commission, 2016). By the end of 2013 Portugal's deficit was 4.8% of GDP, while the debt was 126% of GDP (Eurostat, 2016c, Banco de Portugal, 2016c). Thus, by the end of 2013, not only was Portugal's deficit not within the boundaries of the Maastricht Treaty, but its debt to GDP ratio of 126% was more than twice the limit of 60%. This, coupled with a consistent and steep trajectory of government debt increasing more quickly than domestic productivity, resulted in concern over the economic stability

of Portugal, leading to the proposed sale of state owned Miro art in order to help reduce the rapidly increasing debt.

## **PROPOSED MIRO AUCTION**

### **Joan Miro**

Joan Miro was born in 1893 in Barcelona where he was later laid to rest 90 years later. Over the course of his life as an artist, Joan Miro became one of the most influential artists of the 20<sup>th</sup> century, with major works throughout the world, including the *Miss Chicago* sculpture in Chicago, *Project for a Monument* in Milan, and many other works displayed throughout the world. The importance and recognition of his work is so great, that Joan Miro has the rare distinction of being recognized across the globe by one name, Miro. Though exposed to the surrealists of Paris and the abstract expressionists movements in New York, Miro's, "rebelliousness and a strong sensitivity to the political and social events around him...let him to create a unique and extremely personal language" (Joan Miro Foundation, 2016). The prevalence and uniqueness of his work contributes to the value and collectability of his work. According to Pedro Lapa, the artistic director at the Berardo Collection Museum in Lisbon, "Miro is among the most collectable artists of the 20<sup>th</sup> century" (Reis, 2014). The importance of Miro's work is further evident in the 989,000 visitors to the Jan Miro Foundation museum in 2013 (Reis, 2014).

### **Portugal's Miro Collection**

Between 2003 and 2006, the Banco Português de Negócios (Portuguese Bank of Business, BPN) acquired from a private collection in Japan 85 Miro works, including one of his most notable works, *Women and Birds*, valued by Christie's auction house between €4.9 million (\$6.6 million) and €8.5 million (\$11.5 million). In 2008, the indebted BPN was nationalized and the Miro collection held by the bank, which were originally owned by three entities financed by BPN, subsequently became the property of the government of Portugal. The state-run company Parvalorem, SA, orchestrated Portugal's acquisition of BPN and held the Miro collection in storage following the 2018 acquisition. Out of public display and lying in storage, the total value of the collection, which includes works from seventy years of Miro's life, was estimated to be approximately €36 million (\$59 million) (Agence France-Presse, 2014; Reis, 2014).

### **Movement for Sale of the Miro Collection**

Amid mounting pressure from Portugal's rising deficit and debt, both of which exceeded E.U. deficit and debt to GDP requirements, in 2011 Portugal agreed to exorcise strict fiscal discipline in exchange for €78 billion from the E.U. This, coupled with the BPN bailout, which cost Portugal €3billion, prompted Portugal's Prime Minister Pedro Passos Coelho to pursue the idea of selling the now state owned Miro collection at auction. The President of Parvalorem, Francisco Nogueira Leite, said that the sale was, "adequate and transparent"...and, "fundamental to reduce financial costs related to BPN" (Reis, 2014). Portugal's Culture Ministry office shared the perspective that maintaining the collection was not a governmental priority, as did junior coalition party member, Ines Teotonio Pereira who said, "Given the government decision to obtain a return from BPN's assets, the sale of the Miro paintings seems to be the only option" (Reis, 2014). Prime Minister Coelho also supported the proposed sale citing Portugal's inability to maintain the millions of Euro required to secure and maintain the collection (Agence France-Presse, 2014).

As there was no shortage of valuable work in the collection, the artistic director at the Berardo Museum, Pedro Lapa estimated that there would be no shortage of potential buyers, including wealthy potential buyers as far from Portugal as Asia and the Middle East. At the same, the more proximate Minister for Culture for Catalonia indicated that Catalonia's government, which Catalonia was the birthplace of Miro, would be interested in purchasing some the collection (Reis, 2014). Portugal's art community expressed mixed feelings concerning the proposed sale. Ana Perez-Quiroga, a 53 year old artist living in Lisbon, said,

Things have gotten to a point that, yes, maybe we should even be thinking about selling the very chairs we sit on....The money used to rescue the banks was taken from all of us...But having this collection in Portugal is extraordinary. It's not every day you manage to get a hold of 85 Miro works (Reis, 2014).

Growing deficits and debt, as well as political and social pressure was pushing Prime Minister Coelho closer to putting Miro collection on the auction block. However, not all of Portugal agreed with the proposed sale.

### **Opposition to Sale of the Miro Collection**

Concerned about the potential loss of an expansive collection of one of the most important artists of the 20<sup>th</sup> century, many art lovers in Portugal stood-up and moved to stop the proposed sale. In January of 2014, the curator of the Perve Galleries in Lisbon started an online petition to stop the sale, quickly collecting more than 8,800 signatures. Gabriella Canavilhas, who served as Portugal's Minister for Culture when BPN was acquired by the government said, "Art shouldn't be treated like currency, we don't want to treat art that way...It's treating art worse than a dog" (Reis, 2014).

The Portuguese Socialist Party was also strongly opposed to the sale citing potentially low sale prices for valuable works from the collection. According to Ines de Medeiros, a Socialist Party lawmaker, the 1927 *Peinture (Etoile Bleue)*, which sold at a Sotheby's auction for £23.6 million (\$36.6 million) in a 2012, was estimated to sell for no more than £20 million (\$31 million) at the proposed auction. Ines de Medeiros stated, "selling Miros as one would sell industrial supplies doesn't make sense. This is the worst deal in the world" (Reis, 2014). The Perve Galleries curator, Cabral Nunes, agreed that auctioning state owned Miros would not only dampen the value of the 85 in the collection, but would diminish value of all Miros on the market. In fact Mr. Nunes, proposed that collection could earn as much in revenue for the government over a two year period as it could at auction (Reise, 2014).

With pressure from both sides, Prime Minister Coelho has an important decision to make regarding the future of the state owned Miro collection. Should the Miro collection be sold at auction to help balance Portugal's budget? Or, should the government retain the collection? What is best for Portugal? The answers to these questions are complicated by the differing views held by the people of Portugal.

### **PARADIGMS OF DEFICIT AND DEBT**

Whether or not an individual, or a group, is in favor of, or against, the proposed auction of Portugal's Miro collection depends, in large part, on the understanding and view that is held regarding national deficit and debt. In the case of Portugal's Miro collection, there are those who are fully in support of liquidating the collection in the interest of helping to decrease the rapidly increasing national debt. At the same time, there are those who are in favor of Portugal retaining the collection for its cultural importance, regardless of the cost. There are also those who are torn on the matter. These opinions on Portugal's proposed Miro sale are reflective of three commonly held paradigms of deficit and debt. These three paradigms summarize the positions and arguments that represent the three principal views of deficit and debt (Forstater, 2004).

#### **Deficit Hawks**

Focused on balancing the budget, deficit hawks hold the view that national deficits and debt represent fiscal mismanagement, that they create economic instability, that it is irresponsible for a nation to carry them, and that they should always be avoided. For a deficit hawk, balancing the budget is not only an economic objective, but a requirement.

Following the long and deep depressions in the U. S., and the United Kingdom during the 1930's, as well as the devastating effects of World War II, nations throughout the Americas, Asia, and Europe engaged in monetary policy that kept interest rates low, fiscal stimulus programs, and financial bailouts aimed at reducing unemployment, as well as achieving economic growth while maintaining price

stability. These efforts, resulted in increasing deficits and debt, which became not only a controversial, but a central governmental issue. From this, the view of the deficit hawks emerged for which professed the idea that austerity measures aimed at balancing the national budget as the only alternative gained political momentum not only in the U.S., but throughout Europe, with mounting pressure on nations with growing debt to balance their coffers (Pollin, 2010). Commonly held arguments of deficit hawks include (Forstater, 2004):

*Deficits cause inflation.* Deficit hawks argue that increased government spending will increase the aggregate demand in the economy and subsequently increase the overall price level. The inflationary pressure set-off by increased government spending will dampen the purchasing power income earners and investors and will therefore weaken economic growth.

*Deficits cause high interest rates.* Deficit hawks argue that when the government spends, it reduces the quantity of funds available to be loaned in the private sector, which subsequently increases the interest rate of loanable funds in the private sector. These higher interest rates result in a disincentive for investment, which also weakens economic growth.

*Deficits 'crowd out' private spending.* Related to the previous point, deficit hawks argue that since government and private sector are competing for the same pool of financial resources, each dollar that the government spends is a dollar that the private sector cannot spend, save, or invest. Thus, deficit hawks hold the view that government spending crowds out private spending. By crowding out private spending, not only is the incentive, but the ability to save, invest, and spend is reduced in the private sector. As was the case for increasing inflation and interest rates, crowding out private spending weakens economic growth.

*The national debt is a burden on future generations.* Deficit hawks argue that the national debt that is carried over from year to year will need to be paid back either now, or in the future. If the debt is not paid back by the current generation, it will need to be paid back by a future generation. In addition, each increase in the debt caused by a budget deficit increases the future debt burden. Therefore, each year the debt is not paid back, or that that the budget is not balanced, is an increased financial burden on the children and grandchildren of the current generation.

*Deficits and debt are not responsible.* Drawing a parallel between household budgets and government budgets, deficit hawks argue that large increasing debt overtime is not financially responsible. Deficit hawks point out that households with debts that are too large not only financially ruin themselves through collection and foreclosure, but also harm the creditors who will not receive all of the money that they were owed. The point is then applied to the government by arguing that government debt is a financial burden that will not only ruin the nation, but harm those to whom the nation is indebted. Just as large debt can be a financially irresponsible for a household, a large debt is financially irresponsible for a government.

The deficit hawks view and arguments concerning government deficit and debt are, however, not the only perspective and set of arguments concerning deficits and debt. The deficit doves hold a less austere view of government deficits and debt.

### **Deficit Doves**

Deficit doves believe that government deficits and debt are attributed to the economic context and can be beneficial under certain circumstances. Therefore, deficit doves focus on how the deficit is measured, the causes, as well as who owns and benefits from the debt and associated government expenditure, arguing (Forstater, 2004):

*Total deficit and debt values are not as important as the debt to GDP ratio.* Deficit doves argue that both nominal (non-inflation adjusted) and real (inflation adjusted) deficit and debt values provide limited information and are not comparable across nations. Therefore, deficit doves rely on debt to GDP ratios to provide comparable values. The argument is that nations with higher levels of productivity, i.e., higher GDP, can afford higher levels of debt.

*The federal government does not keep a capital account.* Since government expenditures are recorded in their entirety in the year in which they occur, all government expenditures are applied to the year of the

expenditure and not amortized over time, regardless of the lifetime of the asset or time period of the benefit associated with the expenditure. Therefore, a large capital expenditure shows that a large sum has been paid out in a period, but does not reflect that the asset and the benefits from the expenditure could last for many years.

*The Government owns assets.* Deficit doves argue that while the government has debt, it also owns assets such as land, buildings, stocks, gold, hospitals, schools, etc. The idea is that asset rich nations can more easily afford larger debts. As was the case with the debt to GDP ratio, what matters is not the total size of the debt, but the size of the debt in comparison to the value of the assets held by the government.

*Government agencies own government debt.* Since domestic government agencies often own large shares of government bonds and securities that constitute the debt, a large portion of the debt owned by the same government to which it is owed. This is sense, the government owes a large portion of debt to itself.

*Much of the deficit is the result of unemployment.* Deficit doves argue much of the deficit is the result of transfer payments made by the government to the unemployed. Unemployment payments coupled with lower income and purchasing tax revenues from the unemployed result in higher deficits and subsequent debts. Thus, the doves argue that lowering the unemployment rate will decrease the deficit through lower unemployment payments and higher tax revenues.

*Balance budget over the business cycle, rather than in one year.* Deficit doves argue that deficits and surpluses should be measured over a business cycle rather than a calendar year. This is because doves believe that it makes sense that a government would have a deficit during recessions and surpluses during booms. By measuring deficits and surpluses over the business cycle, the size of the deficit and debt will represent the level of government spending and tax revenue over the economic cycle rather than an arbitrary calendar year.

*Government spending creates assets and benefits for now and the future.* Deficit doves argue that while government spending may increase the deficit and debt, it also creates assets and benefits paid now as well as in the future. Rather than being burdened with future debt, deficit doves argue that future generations can benefit from the assets created by government expenditure.

*Responsibly managed debt can benefit a nation.* Applying the analogy of household and firm debt, deficit doves argue that if well-managed debt can benefit households and firms, well-managed debt can also benefit a government. In other words, if households and businesses can prudently manage debt to invest and grow their capital and assets, a government should be able to do the same.

Open to the idea that government deficits and debt are at times necessary and beneficial, the views deficit doves lay in between the views of the deficit hawks and the functional finance perspective.

## **Functional Finance**

The functional finance perspective focuses not on the balance of government spending to tax revenue over a year, or a business cycle, but rather on the effectiveness, or ineffectiveness of the associated economic policy. From the functional finance perspective, the relevance of government expenditure and tax collection rests not in the balance of the two, but in the impact of the government expenditure and tax program on the economic objectives. The functional finance view argues (Forstater, 2004):

*Taxes create demand for and give value to money.* The functional finance perspective argues that since the government has the power to issue the currency and then require that taxes be paid with that currency, the value of the currency is derived from the power of the issuing authority and money is therefore a, "creature of the state" (Lerner, 1949). Therefore, the functional finance perspective argues that the most important purpose of taxation isn't to raise funds for government expenditure, but rather, to create demand for and give value to an unbacked currency.

*Bond sales withdraw money from the economy and help maintain short-term interest rates.* Related to the role of the role of taxes in creating demand and value for unbacked currency, the functional finance view is that the purpose of the government selling, or buying, government bonds is not to finance government spending, but to inject money into, or withdraw money out of the system to achieve the desired economic outcome. For example, the functional finance view would be that selling bonds, thereby

withdrawing money out of the system, is necessary to maintain positive short-term interest rates. At the same time, buying government bonds, and thereby injecting money into the system, can drive down interest rates and stimulate investment.

*What is most important is the effectiveness of policy.* In the functional finance view, the balance of government spending and tax revenue is not as important as the effectiveness of policy. In other words, those who adopt a functional finance perspective focus what impact a government spending project, or taxation policy has on the economy, i.e., employment and GDP, as opposed to focusing what the cost of the project is in comparison to the tax revenue for the year. For example, those who adopt a functional finance view would focus on the long-term impact of investment in education on employment and economic growth as opposed to focusing on the short-term relationship of impact of education spending on the deficits and debt.

*Money no longer depends on the gold standard.* The functional finance perspective argues that the balance of government spending and tax revenue in the short and long-term treats modern money as if it were on a gold standard. However, since modern money is not backed by gold, the balance of government spending and tax revenue isn't a necessary objective because the government as the monopoly supplier unbacked currency can print more, without acquiring more gold to back it up.

*The deficit is accounting information.* From the functional finance perspective, the deficit indicates how money the public wants to net save. Given that government spending less tax revenue equals private spending less investment, i.e.,  $(G - T) = (S - I)$ , a public deficit equals a private surplus. In other words, if the government is spending more than it brings in in tax revenue, it means that net savings is greater than net investment.

*Government budgets are not comparable to individual or institutional budgets.* Those who adopt the functional finance view argue that the views of deficit hawks and deficit doves is based on the assumption that government budgets should be analyzed and managed the same way that individual and institutional, i.e. corporate, budgets are analyzed and managed. However, the functional finance perspective is that the budget of the government, as the sole supplier of money, is not the same as individual or corporate budgets, and therefore should be analyzed and managed differently.

*There cannot be a burden on a money monopolist.* The functional finance view is that since the government is the monopoly supplier of an unbacked currency, there is no natural limit to the amount of money that the government can supply. Thus, there cannot be a short or long-term financial burden on the money monopolist. Again, the focus of the functional finance perspective is not on how expensive, or inexpensive, a policy action is, but rather on the effectiveness of that program.

## **THE DECISION DILEMMA**

Prime Minister Coelho faces the important decision of whether or not to sell the culturally important and financially valuable state owned Miro collection to help balance the national budget. The decision faces opposition on both sides, with curators and art dealers arguing that Portugal would be culturally and financially better off by retaining the collection. At the same time, there are those in Portugal's art world, as well as many others, who see the crushing burden of the debt and argue that there may be no alternative but to sell the Miro collection. Prime Minister Coelho is responsible for serving the best interest of his nation and its people, which includes both cultural relevance and fiscal solvency. What should Prime Minister Coelho do?

## **RECOMMENDATIONS FOR POLICY DECISION MAKING**

Portugal was in a financial crisis with a total national debt of € 225,767 billion, which was 126% of GDP, more than twice the European Union's Maastricht debt limit of 60% of GDP. This crisis did not occur overnight, it developed overtime with the debt to GDP ratio of Portugal increasing during the five year period leading up to 2013 increasing an average of 11% each year. The fiscal responsibilities that



Portugal has to the European Union and mounting political pressure resulted in the proposed sale of the state-owned Miro collection in order to help pay down Portugal's mounting national debt.

Akin to the views of the deficit hawks, selling the Miro collection to help pay back the debt may seem to be the best fiscal option for Portugal as it would provide funds to help bring Portugal closer to the E.U.'s debt to GDP requirements. However, when considering the low fiscal impact in comparison to the high social and lost long-term economic cost of selling the Miro collection, adopting a deficit hawk perspective may not serve the best interest of Portugal.

First, consider that the total national debt of Portugal is € 225,767 billion, while the state-owned Miro collection was estimated to sell at auction for € 36 million, which is only 0.00016% of the total debt. Thus, the potential impact that the sale of the Miro collection would have on the debt would be a very small fraction of the total debt. In addition, as discussed in the above analysis, flooding the market with the Miro collection through auction would not only dampen the value of the art in the collection, but diminish the value of all Miro art on the market. One should also keep in mind that, as previously discussed, the Miro collection has the potential as a long-term source of revenue for the government, with the potential to earn back its own value in revenue within a few years.

With these considerations in mind, one is left to analyze the perspective of the deficit doves, as well as the functional finance perspective. The deficit dove perspective argues that government expenditures create assets and benefits now and for future generations. Retaining the Miro collection for Portugal would certainly be a cultural and a potential fiscal benefit for the people of Portugal now and in the future. Along the same line, the functional finance perspective argues that what is more important is the effectiveness of the policy. In this case, the effect of auctioning the Miro collection to help balance the budget, as shown above, is financially negligible. However, the effect of retaining a collection of one of the more important and collectible artists in the world possess not only immeasurable cultural value, but potentially significant long-term economic benefits for Portugal.

## **CONCLUDING REMARKS**

As stated by Portugal's former Minister for Culture, Gabriella Canavilhas, "Art shouldn't be treated like currency" (Reis, 2014). In the end, The Government of Portugal's actions reflected the Minister for Culture's perspective. Given the political and social resistance and pending legal action surrounding the auction of the Miro collection, Christie's auction house withdrew from the auction within only hours of the proposed sale in February of 2014. (Wise, 2014). The withdraw of Christies was prophetic in that approximately one year later, Portugal's new Prime Minister Antonio Costa in his draft "electoral programme" stated that the collection would remain in Portugal with, "a rigorous survey of collections that initially were in the private realm, which are now at risk of permanent export, for possible consolidation into contemporary art collections in Portuguese museums" (Algarve News, 2015). In addition, as the collection had been under the ownership of the Portuguese government for more than 10 years, the collection could obtain "national interest" classification (Algrave News, 2015). With this classification, the collection could become a long-term part of Portugal's social and economic identity. In the case of Portugal's Miro collection, the cultural identity and interest of the nation became the priority over the short-term fiscal benefit of auctioning the collection.

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