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Title: Financialization and Public Debt: some indicators and mechanisms

Beyond the so called "public debt crisis", which actually reveals the genuine contradictions of both the Euro zone architecture and the imbalances of the neoliberal order, it is instructive to look at long term adjustments and transformations to be able to characterize economic phenomena more accurately.

For example, it is argued for more than 30 years in most of the departments of economics, in the media and by the official institutions that a too flexible and lenient monetary policy would be an incentive for governments to generate too much public debt. Such a supposedly "Ponzi game" temptation, could be prevented, it is argued, by Central Banks discipling public borrowers through high interest rates. This dominant narrative is however not based on strong evidence and the reality looks actually closer to the Keynesian view: high interest rates act less as a true deterrent to than as a cause of public borrowing through the "snow ball" effect. Azizi et al. (2012) showed also that most of the time low interest rates do not lead to an increasing debt to GDP ratio.

Another way to look at long term adjustments and transformations consists in analyzing with more details the trends and breaches of some key variables, and to put them into relation with some significant institutional transformations. The present paper applies this line of analysis and explores the relations between financialization and public debt. The core hypothesis of the paper is that there are strong *positive* causal connections running both ways between these two phenomena in the late 20th and early 21s centuries; and that these connections relate to, but are also distinct from, historically long standing important connections between public debt and the private financial sector. This hypothesis of a normally strong positive relationship between public and private debt contrasts sharply with the dominant view of mainstream economics: namely that public debt crowds out private debt (and private investment). More generally, we explore the idea that public debt now and historically plays a key supporting role in developing private financial markets, including private debt markets. At the same time, we will show that the expansion of private debt can lead to the expansion of public debt, as we have witnessed in the current financial crisis as governments expand debt to bail-out the financial sector and piles up further debt as a result of the crisis induced recession.

Three elements will be developed in the paper. First, a set of significant indicators will be constructed to testify of what could be called financialization (Esptein, 2005); we will use national accounts for US, UK and France for which data are the most easily available. Second, we will display some stylized facts about the relations between public debt and financialization for the 1970-2012 period. Third, we will try to characterize the process and the economic mechanisms by which such type of relations can exist and reproduce through time.

Azizi Karim, Nicolas Canry, Jean-Bernard Chatelain and Bruno Tinel, 2012, Are No-Ponzi Game and Transversality Conditions Relevant for Public Debt? A Keynesian Appraisal, *PERI Workingpaper Series*, N° 296, University of Massachusetts

Gerald A. Epstein (ed.), 2005, *Financialization and the world economy*, Edward Elgar.