

RESTRUCTURING PUBLIC DEBT AND TAMING FINANCE

- AN AGENDA FOR CONFLICT

Francisco Louçã, IIPPE, Naples, sept 2014

CAN YOU PLEASE TELL ME, DADDY?

Jamie Dimon, chairman JP Morgan, testimony to the US
Financial Crisis Inquiry Commission, 13 January 2010:

‘My daughter called me up from school and
said **“Daddy, what’s a financial crisis?”** And
without trying to be funny, I said, **“It’s
something that happens every five to
seven years”**. And she says **“So why is
everyone so surprised...?”**

EXPECTATIONS AND CRASHES

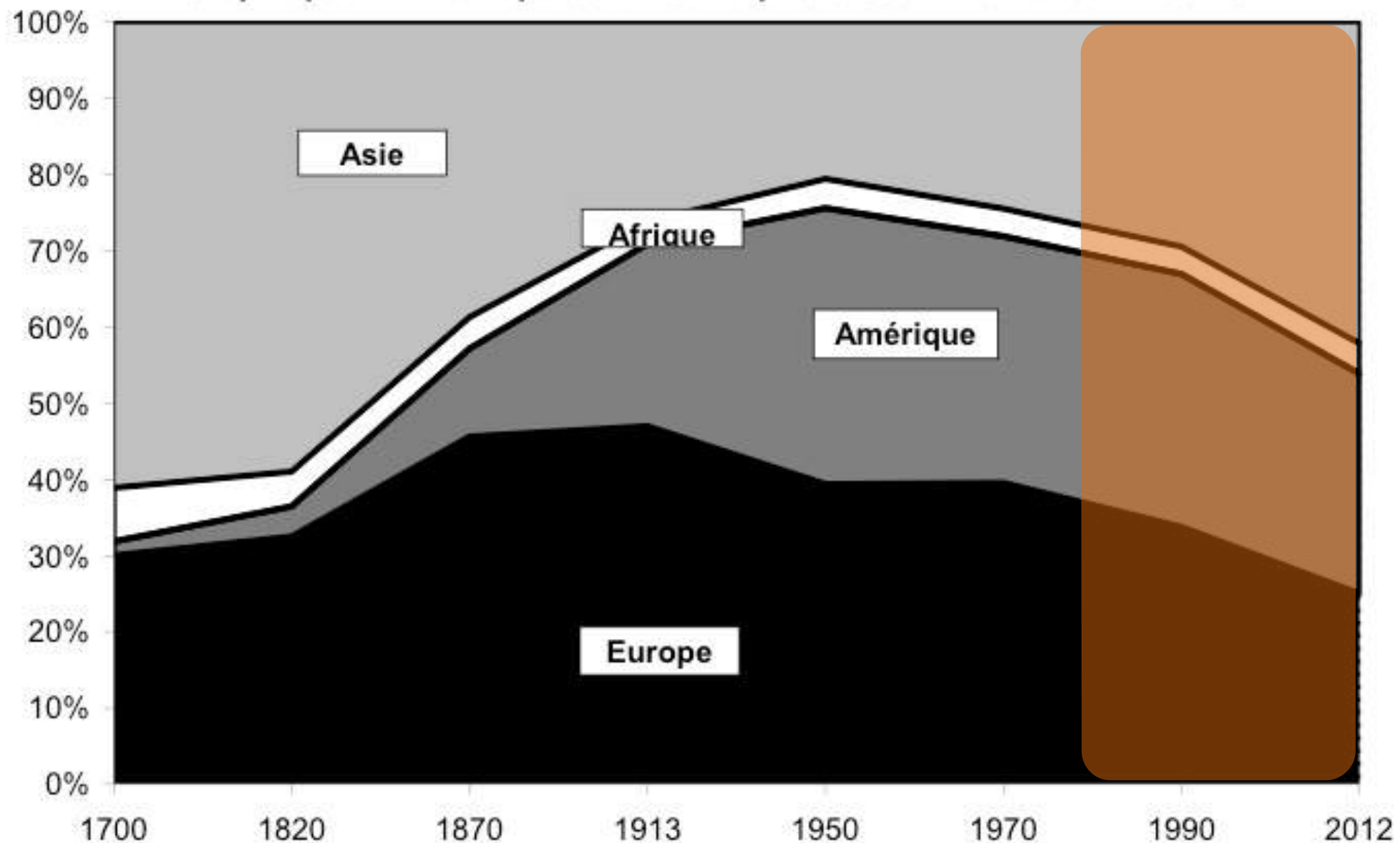


AMERICAN BUSINESS CYCLE



WORLD PRODUCTION

Graphique 1.1. La répartition de la production mondiale 1700-2012



Lecture: le PIB européen représentait 47% du PIB mondial en 1913, et 25% en 2012.

Sources et séries: voir piketty.pse.ens.fr/capital21c.

SEVERITY OF CRISES, ROGOFF'S VERSION

Les misérables

Severity index, selected financial crises:

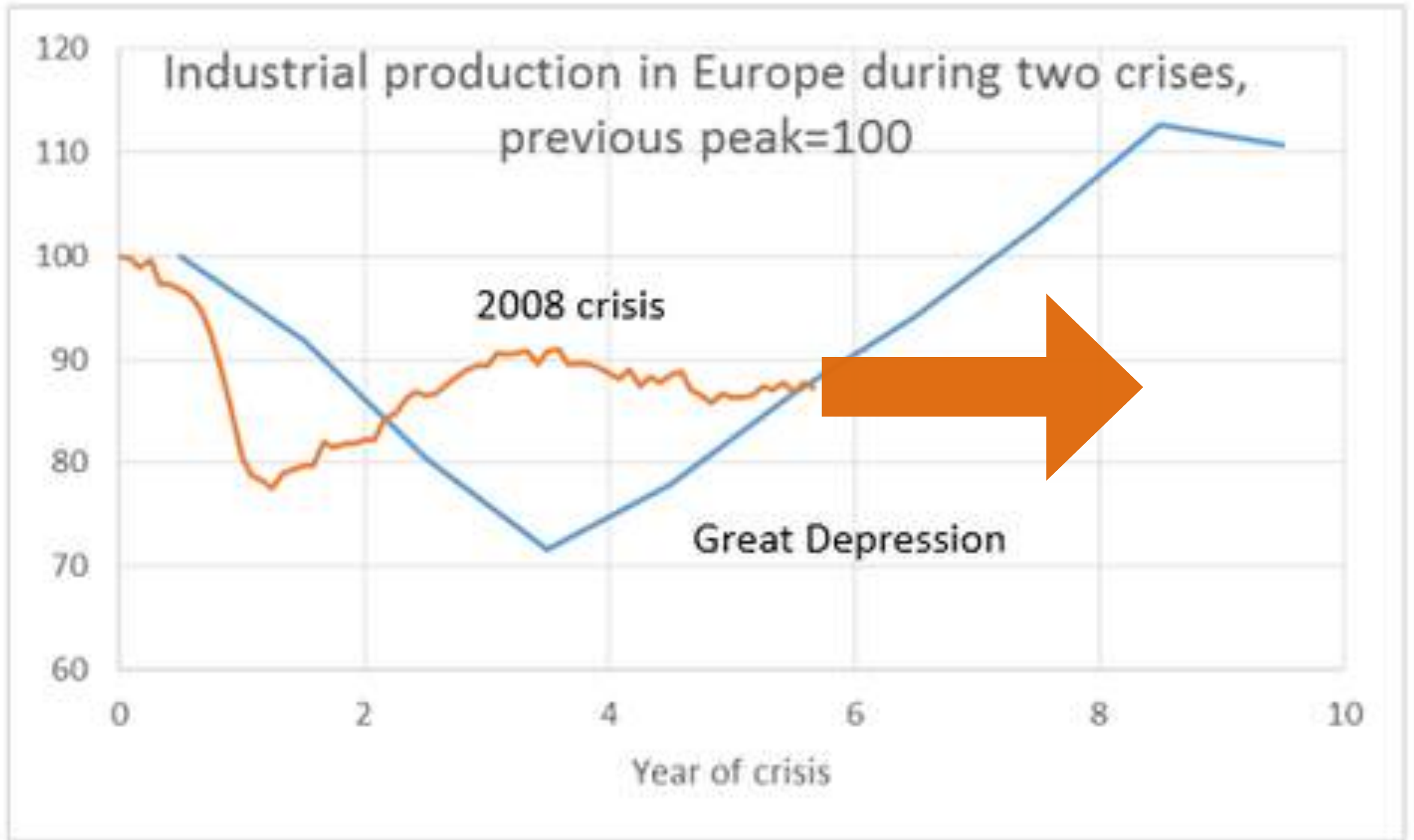
- Real GDP per person, % decrease from peak to trough
- Number of years to regain pre-crisis level of output*



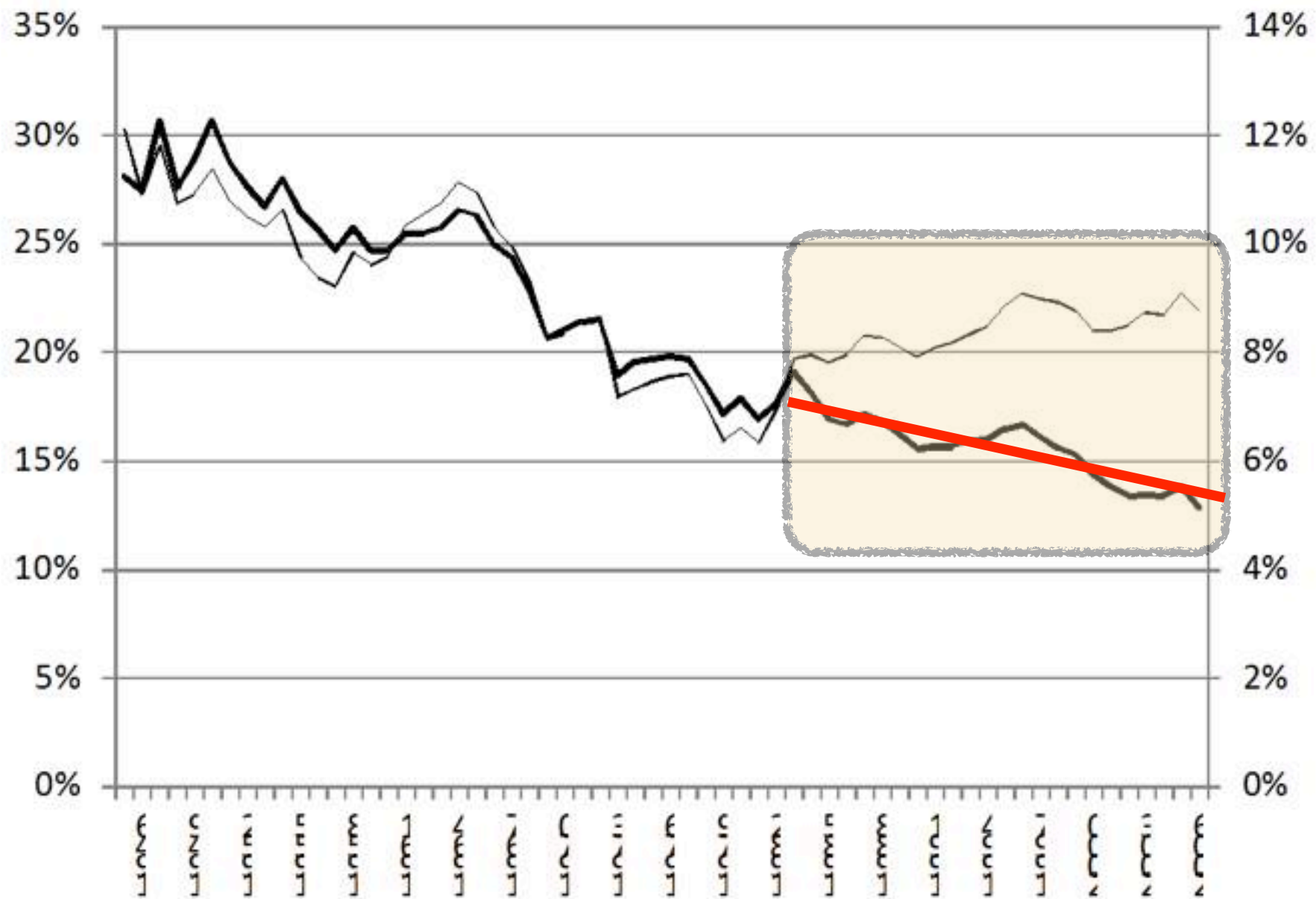
Source: Carmen Reinhart and Kenneth Rogoff

* Forecasts, except for US and Germany

GREAT DEPRESSION



PROFIT RATE WITH FINANCIAL SECURITIES

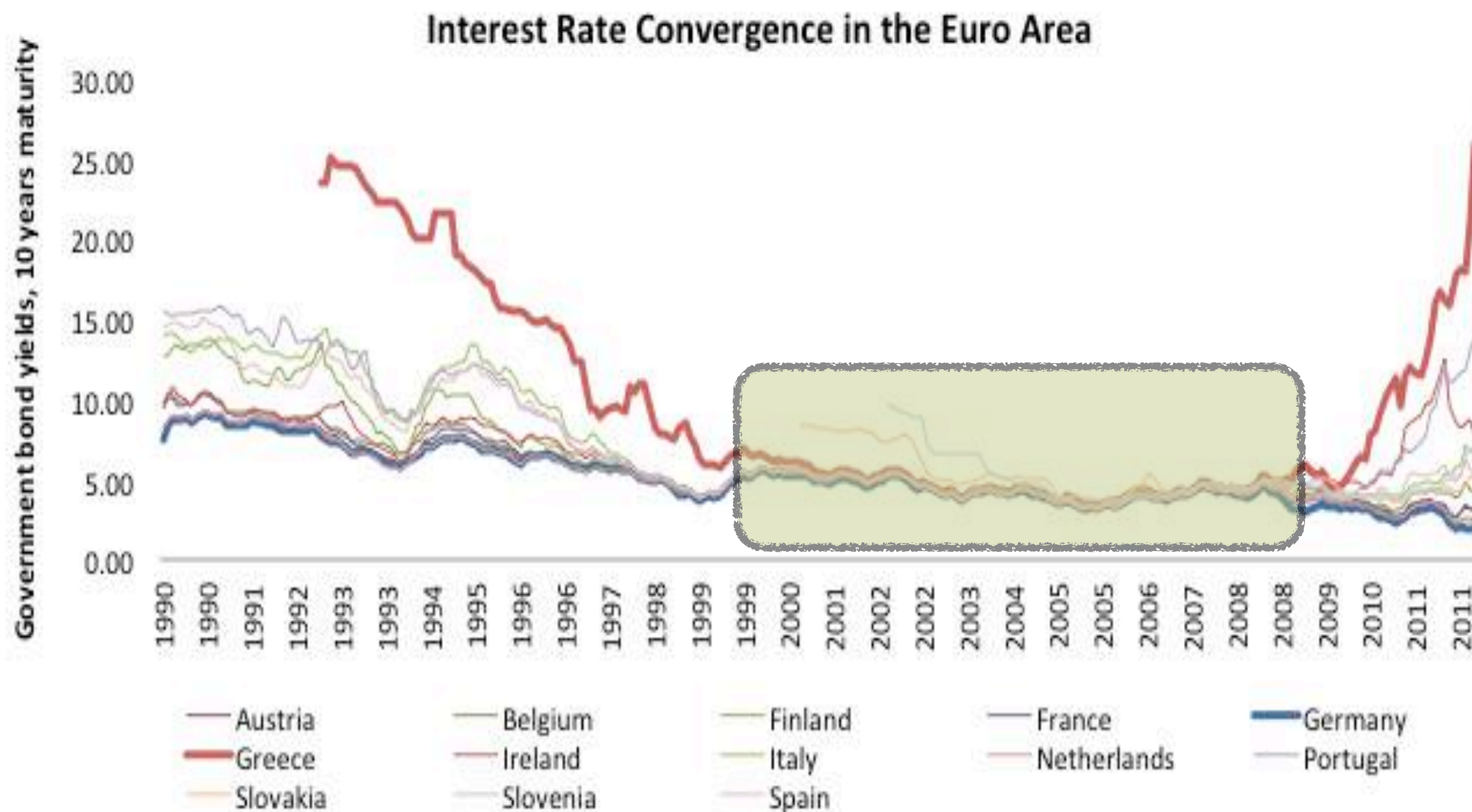


- (Unadjusted) Operating Surplus of Private Enterprises/Fixed Assets of Private Enterprises [left scale]
- (Corrected) Operating Surplus of Private Enterprises/(Fixed Assets of Private Enterprises plus Marketable Financial Securities owned by US agencies and persons) [right scale]

A LONG DEPRESSION AS THE MEANS TO OVERCOME ... THE DEPRESSIVE LONG WAVE

- The danger of a new financial crisis
- The pressure to lower both **direct wage** (absolute plus value) and **indirect wage** (social security, national health and education...): the “structural reforms”, IMF and EU versions

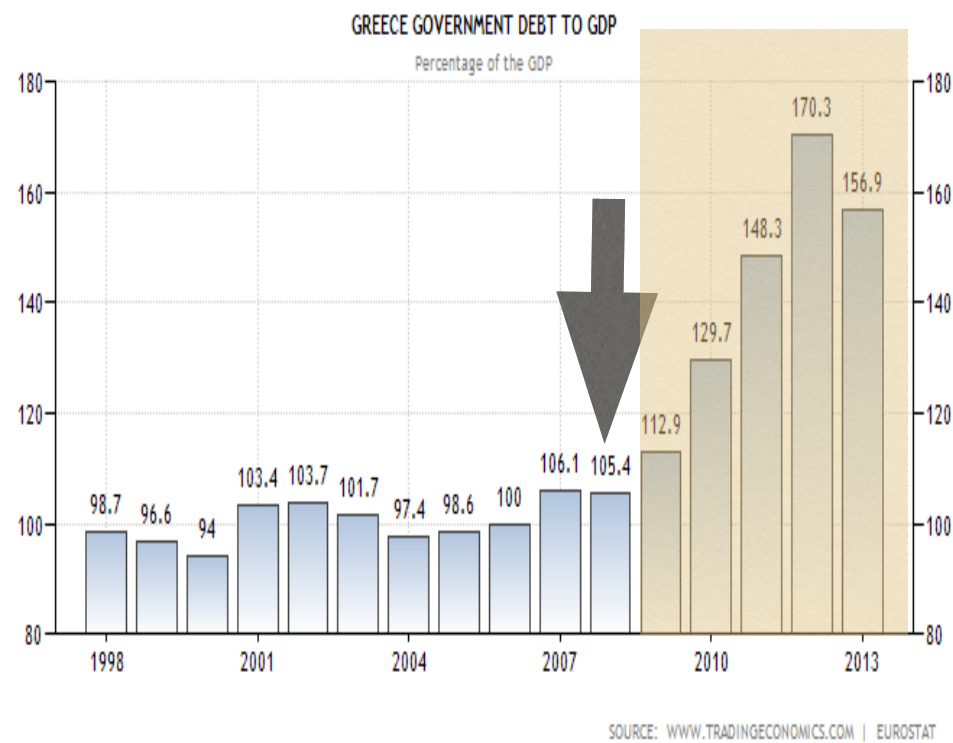
IT ALL WENT WELL



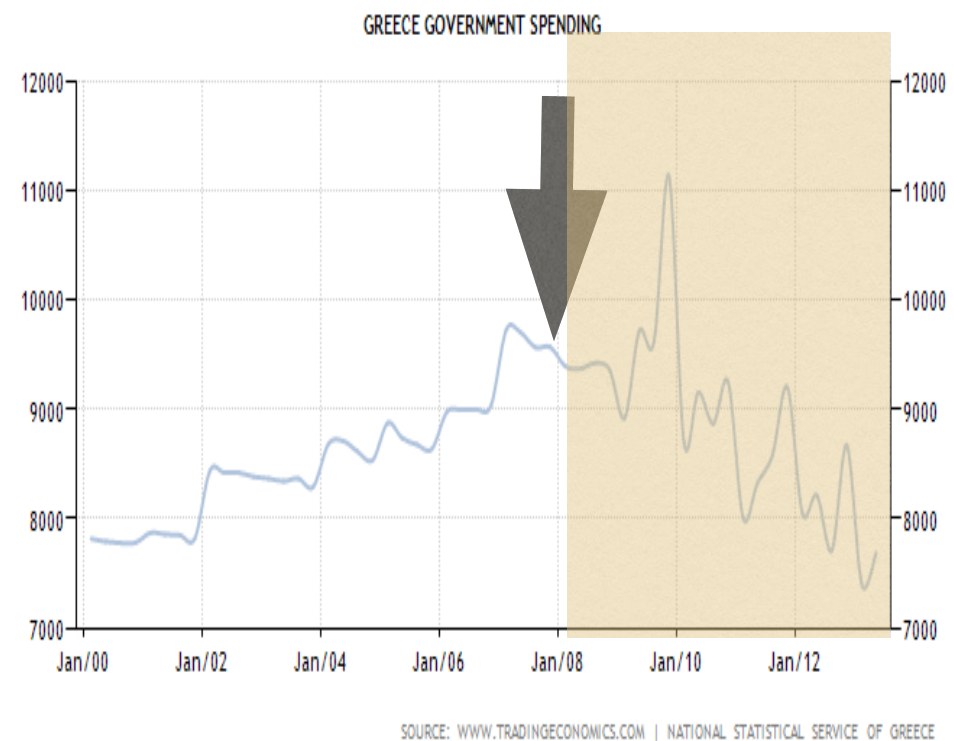
CUTTING AND BORROWING

But why then have the countries that have cut spending the most increased their debts the most?

- Greek Debt to GDP



- Greek Public Spending



SPENDING OUT OF DEBT

What About Germany?

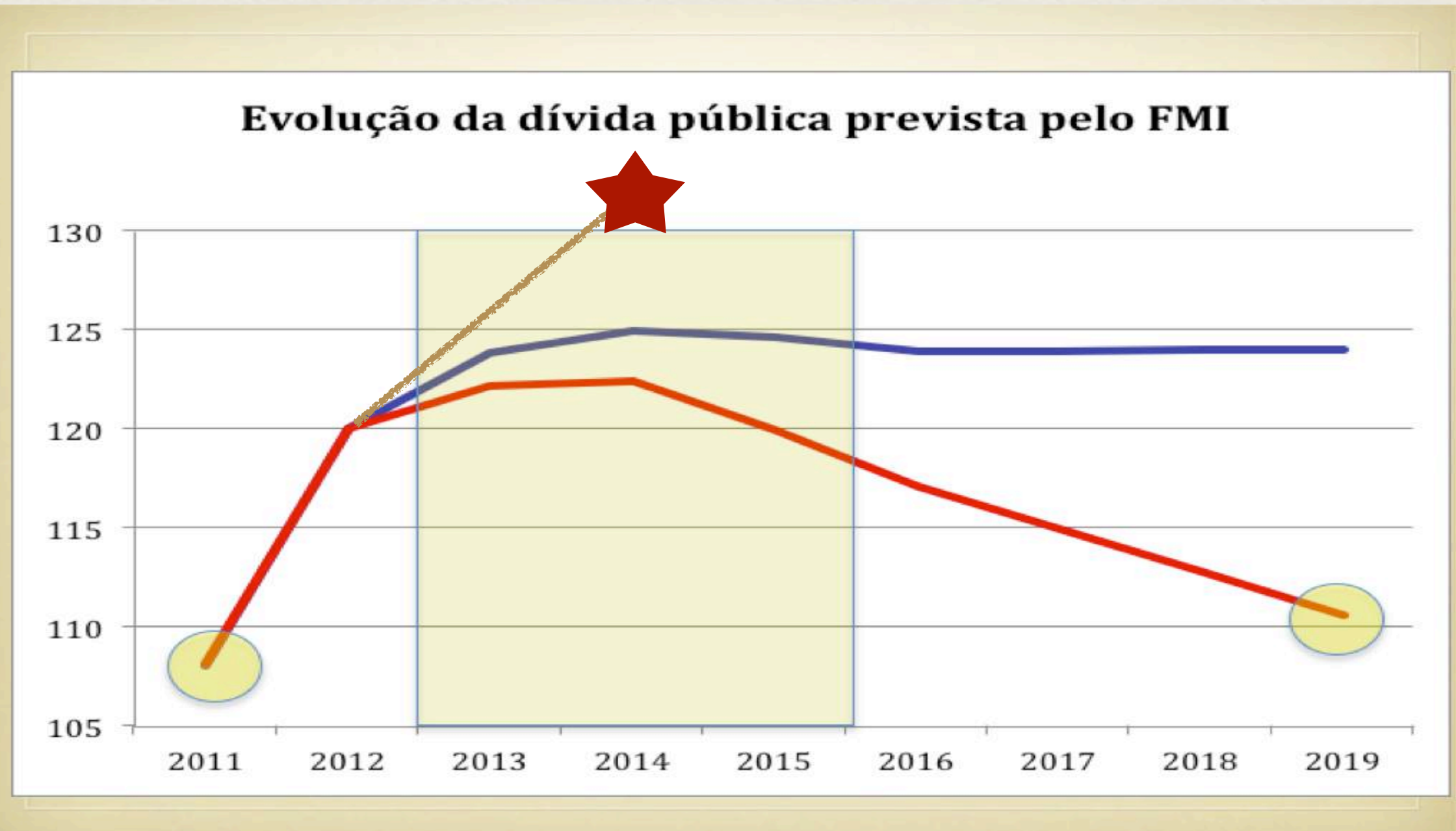
German debt to GDP



German public spending?



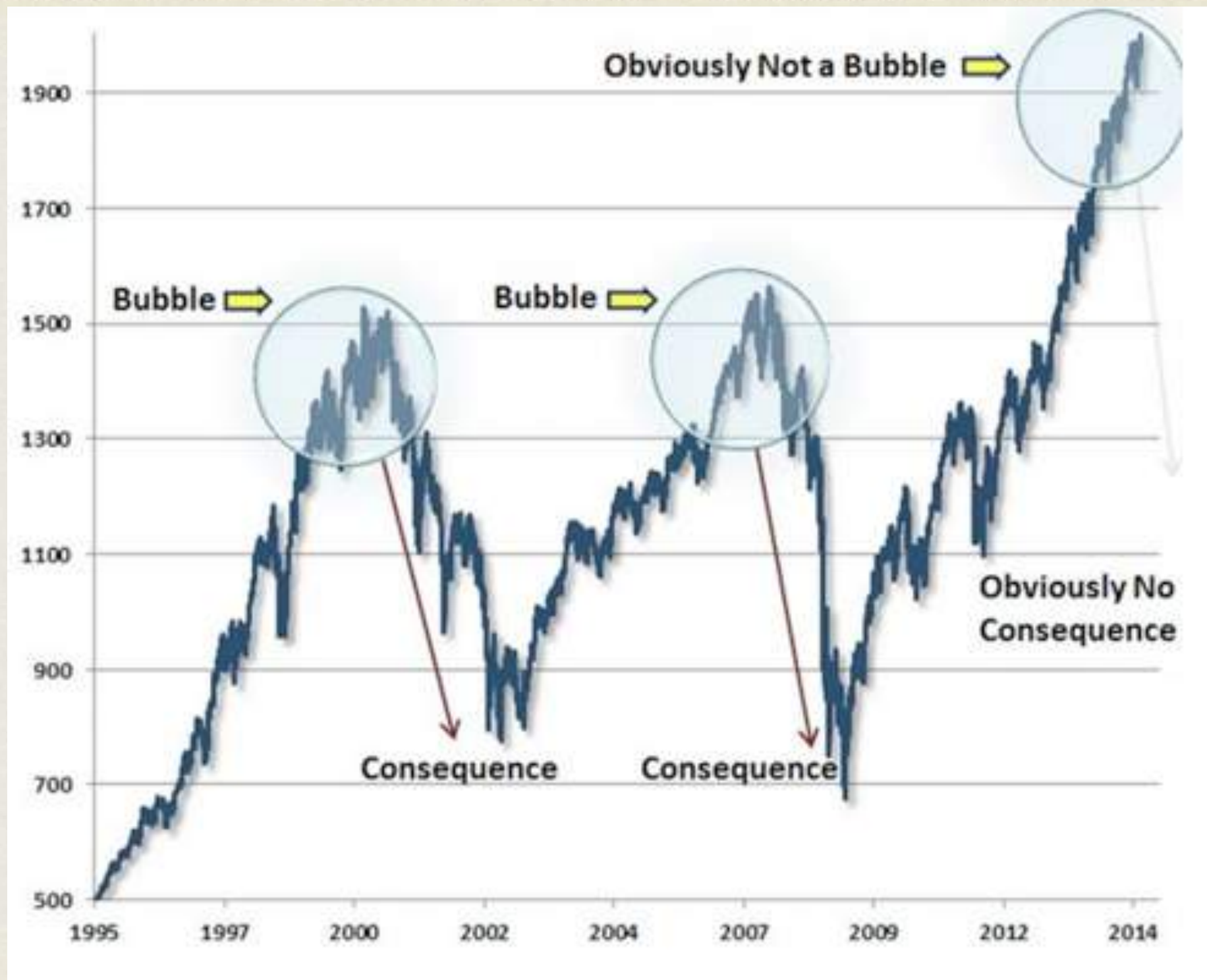
PORTUGUESE DEBT UNDER THE TROIKA



THE REMEDIES: INUNDATION OF LIQUIDITY

- Low interest rates and low volatility in financial markets: high leverage and low risk?
- An inundation of money, low interest and overvalued assets: no risk?

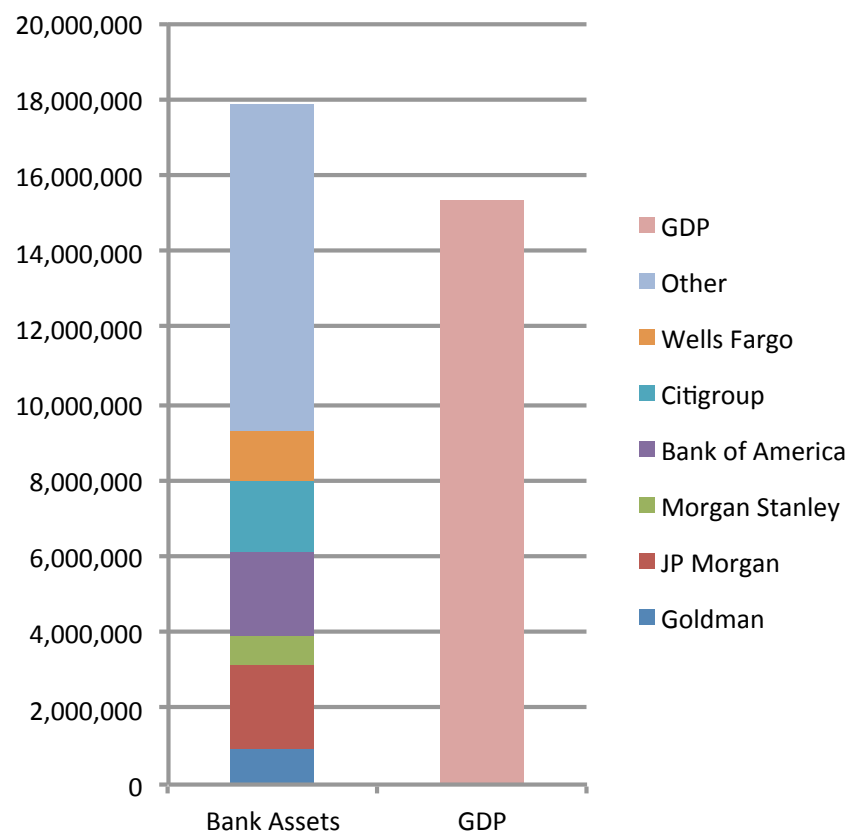
OBVIOUSLY NO BUBBLE?



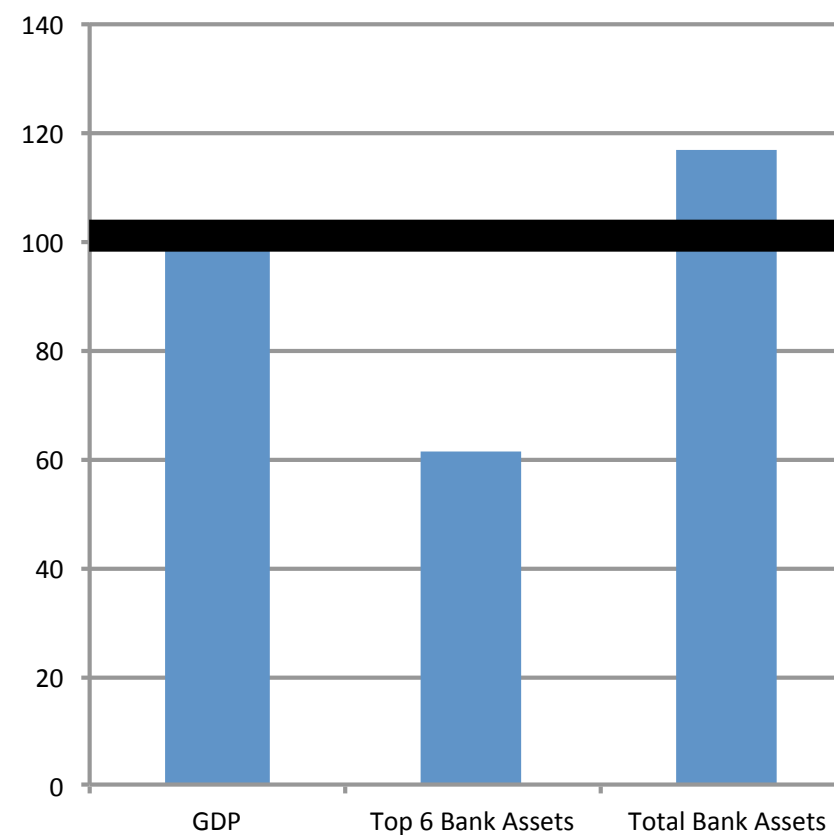
TOO BIG TO FAIL

For Comparison – The “too Big to Fail” USA

Bank Assets (millions of USD)



Bank Assets (% of GDP)



BLACKROCK

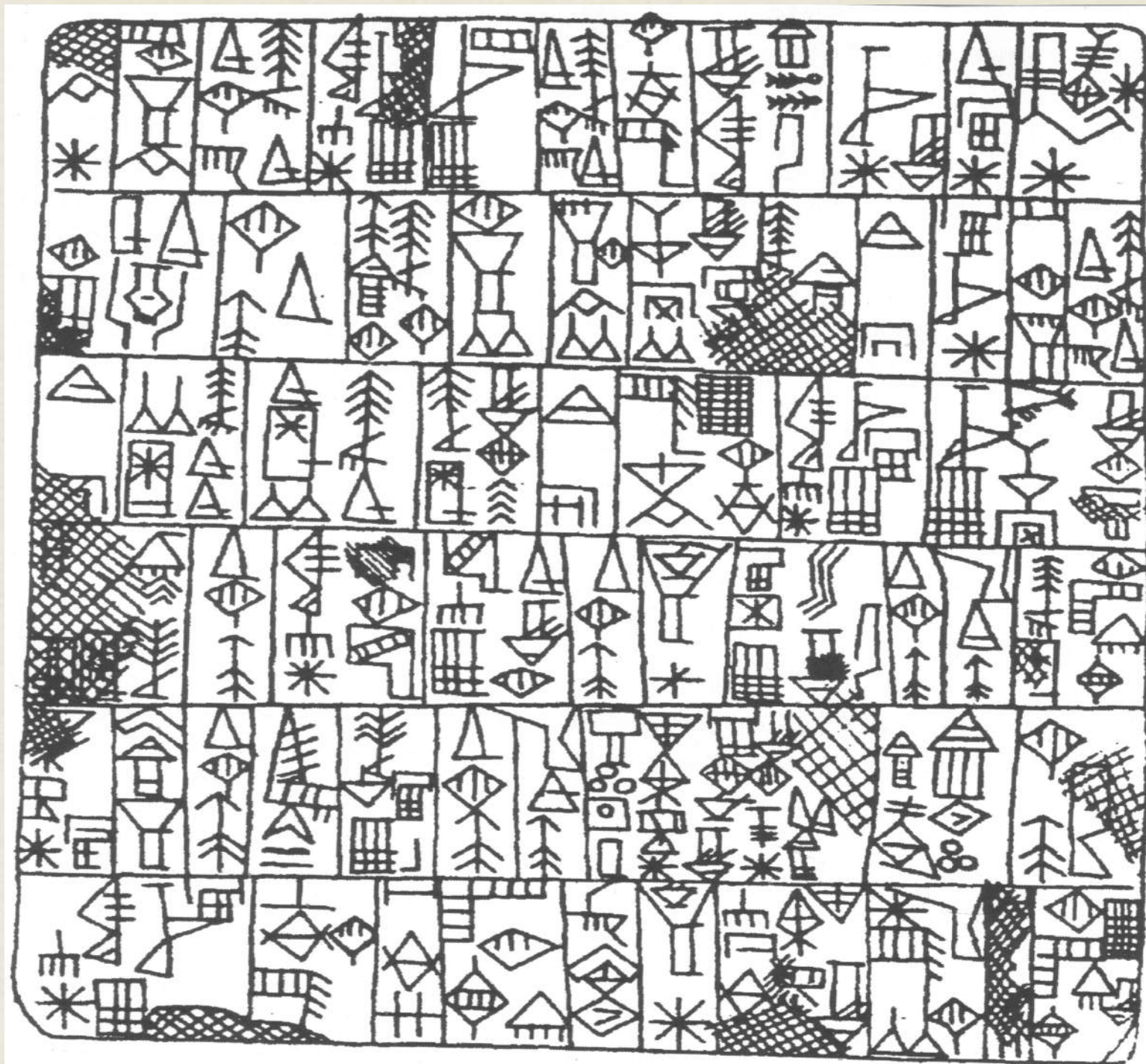


ONE OF THE KEY
CLASSICAL
BOOKS ON THE
POLITICAL
ECONOMY OF
THE GREAT
DEPRESSION...

AND
HOLLYWOOD'S
VERSION



DEBT RELIEF 2500 YEARS BEFORE OUR EPOCH



RESTRUCTURING DEBT

- A central issue, since there is no democracy without sovereignty
- A **punishment of financial capital** is the condition to defend (direct and indirect) wages (or welfare)
- Facing the **shadow power**: three meanings for the concept of “shadow economy”

SHADOW ECONOMY

- **Shadow economy:** informal economy (tax evasion, cooperative actions...)
- **Shadow banking:** non regulated firms and markets, including hedge funds
- **Shadow power:** control of sovereign debt, international rules and treaties imposed on laws, budgets or public decisions