RESTRUCTURING PUBLIC DEBT
AND TAMING FINANCE

- AN AGENDA FOR CONFLICT

Francisco Louçã, IIPPE, Naples, sept 2014
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

A HOPELESSLY GRIPLOCKED CONGRESS CANNOT ACT...

FAILS TO ADDRESS HARMFUL TAX LAWS

PROFITS ARE THREATENED

THIS SCARES SHAREHOLDERS AND BOSSES

WHO LOOK FOR A SAFE HAVEN

REQUIRING CONGRESS TO ACT

CAUSING US DEBT TO GROW

A FRIENDLY PLACE TO STASH CASH IS FOUND

THE US TREASURY LOSES $BILLIONS IN TAX REVENUE
Graphique 1.1. La répartition de la production mondiale 1700-2012


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

<table>
<thead>
<tr>
<th>Country, Year</th>
<th>GDP Decrease</th>
<th>Years to Regain</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States, 1929</td>
<td>30%</td>
<td>30</td>
</tr>
<tr>
<td>Greece, 2008</td>
<td>25%</td>
<td>25</td>
</tr>
<tr>
<td>Ireland, 2007</td>
<td>20%</td>
<td>20</td>
</tr>
<tr>
<td>Italy, 2008</td>
<td>15%</td>
<td>15</td>
</tr>
<tr>
<td>Iceland, 2007</td>
<td>10%</td>
<td>10</td>
</tr>
<tr>
<td>Spain, 2008</td>
<td>5%</td>
<td>5</td>
</tr>
<tr>
<td>100-crisis average</td>
<td>15%</td>
<td>15</td>
</tr>
<tr>
<td>Portugal, 2008</td>
<td>20%</td>
<td>20</td>
</tr>
<tr>
<td>Britain, 2007</td>
<td>10%</td>
<td>10</td>
</tr>
<tr>
<td>France, 2008</td>
<td>5%</td>
<td>5</td>
</tr>
<tr>
<td>United States, 2007</td>
<td>10%</td>
<td>10</td>
</tr>
<tr>
<td>Germany, 2008</td>
<td>5%</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Carmen Reinhart and Kenneth Rogoff

*Forecasts, except for US and Germany
PROFIT RATE WITH FINANCIAL SECURITIES

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- (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]
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
What About Germany?

German debt to GDP

German public spending?
PORTUGUESE DEBT UNDER THE TROIKA

Evolução da dívida pública prevista pelo FMI

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

<table>
<thead>
<tr>
<th>Bank Assets (millions of USD)</th>
<th>Bank Assets (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
<td>Wells Fargo</td>
</tr>
<tr>
<td>Morgan Stanley</td>
<td>Citigroup</td>
</tr>
<tr>
<td>JP Morgan</td>
<td>Goldman</td>
</tr>
</tbody>
</table>

GDP | Other |
--- | ---   |
20  |      |
40  |      |
60  |      |
80  |      |
100 |      |
120 |      |
140 |      |
160 |      |
180 |      |
200 |      |

GDP | Top 6 Bank Assets | Total Bank Assets
--- | ----------------- | ----------------- |
70  | 120              | 140              |
90  | 140              | 160              |
110 | 160              | 180              |
130 | 180              | 200              |
150 | 200              | 220              |
170 | 220              | 240              |
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
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