THEME WORK

SUB-THEME:

Financial Crisis, Debt and Alternatives

TITLE OF WORKSHOP

Degrowth, Debts and Money Creation:

The B plan?

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PUBLIC DEBT, ECONOMIC CRISIS AND HAPPY DEGROWTH

Maurizio Pallante, Italy.

Paper Abstract

Analysis of the situation and premises

The gravity of the problem of public debt has not been underestimated. It is the foundation on which growth of the present historical period is built, indispensable for the purposes of increasing production of commodities. It is a choice pursued knowingly and unanimously by governments of the right and left in all industrialized countries.

The myth of unlimited growth through debt.

Speculation on treasury bonds of States with high levels of debt should have raised a question long ago: why have all industrialized countries accumulated increasing public debt in recent years, up to levels that in 2010 reached from 80% in the United Kingdom to 225.8% in Japan? In 2010, the debt/GDP ratio in the Eurozone rose from 79.3% to 85.1%, despite the fact that the Stability Pact signed by EU countries in 1999 fixed the maximum threshold of this ratio at 60%. Why do States and local administrations systematically spend more than their revenue? Why does the banking system induce families to spend more than their incomes? The answer is intuitive: because overproduction of commodities has reached such high levels that if people did not borrow, unsold commodities would build up, triggering a crisis that could destroy economies and production based on unlimited growth of GDP.

In an attempt to jump-start growth and increase GDP, countries have financed the scrapping of cars, tax cuts have been given for construction of houses, renewable energies have been incentivized without favoring self-producers or environmental protection, and extremely costly but unnecessary public works have been approved. However, in all industrial countries, deficit spending by governments has not restarted growth or decreased unemployment, which continues to grow. In other words, public money has been spent, accumulating public debt, to no avail.

Why has stimulation of the economy through public spending failed to produce the expected results? Because technological development in industrialized countries has created excess productive capacity that continues to grow. Ever more powerful machinery produces increasing quantities of commodities in shorter and shorter times, requiring less and less human labor per unit of product. This is why unemployment increases instead of decreasing. Because this high-tech machinery is extremely costly, it cannot stand idle but must work at full capacity. The

commodities produced must be bought, even if they are not needed. Thus, technology increases the supply of commodities faster than demand can grow and this lowers employment and consequently demand. *The only way to increase demand is therefore through debt.*

WHY THE LOCK-IN OF FINANCIALISATION COULD FURTHER DELAY A LOW CARBON AND JUST TRANSITION BEYOND THE GROWTH PARADIGM

Antonio Tricarico, Elena Gerebizza, Italy

Paper Abstract

We live in a time of finance capitalism, when trading money, risk and associated products is more profitable and outpaces trading goods and services for capital accumulation. That is in short what people often refer to as "financialisation" of the economy. This has huge implications for where capital is invested and the everyday exposure of people to capital markets, as more and more aspects of everyday life – from home ownership to pensions and schooling – are mediated through financial markets rather than just markets.

Financialisation is now penetrating all commodity markets and their functioning and expanding from areas like social reproduction (pensions, health, education, housing) into natural resources management (what can be regarded as the financialisation of nature). Just as the privatization of public assets and services served as a building block for the financialisation of the economy, so the further commoditization of the natural commons is the basis for the further financialisation of the economy and nature.

However financialisation should be regarded as more than just a further stage of commoditization or privatization of the commons.

Financialisation as a systemic transformation of capitalism

The crisis of 2007-9 resulted from a financial bubble marked by weak production, expanding bank assets, and growing household indebtedness. For these reasons the crisis casts light on the financialisation of capitalist economies.

The literature on financialisation generally links weak production with booming finance; according to some, causation runs from weak production to booming finance, while for others it runs in the opposite direction. However this dichotomy is becoming more and more misleading, given that there likely be no direct causation between booming finance and weak production. Rather, as pointed out by Costas Lapavitsas and others, financialisation would represent a systemic

transformation of both capitalist production and finance, which ultimately accounts for the crisis of 2007-9.

This systemic transformation has three main features: a) less reliance of large corporations on banks (i.e about half of profits of all US corporations in 2007 were generated on financial markets and similarly corporations get financed more and more through financial markets than the traditional banking system); b) banks shifting their activities toward mediating in open markets and transacting with individuals (through the establishment of a shadow banking system for this purpose); c) increasing implication of individuals and households in the operations of finance (as shown by the growing credit card and consumer debt and related securitization practices or the recent diffusion of retail derivative products).

TACKLED ISSUES:

- Privatization of common goods
- Financial Products and assets
- Degrowth as less market and less state
- Welfare of communities
- Increasing Resilience for local economy
- Self-production and revitalization of small / medium factories
- New Idea of "public" (not state which is not trusted anymore)
- Independence from corporation power

GIVEN ANSWERS:

- How to build new financial assets? Bottom strategy?

  Knowing the plan of financial market.

  - Definancialisation of the economy
  - Prevent expansion of financialisation of nature
- About debt: How to cancel it?
  - First assess the debt: who is holding it, how the composition
  - Then restructure it and decide what pay, what not pay
- Private Economies? Rules and Limites.
- Only for middle-classes?

  Dehrowth s about having the sensibility to understand it. Lower classes could have many advantages but they have to understand them.

UNANSWERED QUESTIONS MESSAGES AND COMMENTS:

- Relationship between macroeconomy and microeconomy in degrowth;
- Considering the idea of degrowth of reducing the size of markets, to solve the problem of financialisation, what do you think about the complete closure of the stock exchange instead of try to regulate it?
- Actual solution to get back public goods?