

Financial Crisis and Degrowth: financing public economies, taking care of the commons and local currencies.

1. Introduction

In this talk I mainly focus on the structural problems that arise with financing *Public Economies and Care Activities* (PE&CA) in the *tertiary age or post industrial, post growth age*.¹

I do not consider whether or why we can define the post-industrial age as a *post growth* or *actual degrowth* age. I presented a paper about this at the first international conference of degrowth in Paris.

Here I focus on some problems arising with *current* and *alternative* ways of financing PE&CA, but first let me make some clarifications.

I use the term Care activities in a broad sense, including all services and productive activities that are geared to “take care” of *commons* but also of *people* and their *work*, all *natural resources* and *cultural heritage*. Public Economies too consist of Care Activities, but for many reasons I prefer to refer to them separately, using the acronym PE&CA.

I will consider some problems related to present speculative financing systems, but the main structural problems are related to the financing of PE&CA with resources obtained by capitalistic methods of wealth production, subject to payment of various kinds of interest, rents and profits.

To anticipate the main issue of this talk, let me say that PE&CA cannot grow systematically in productivity as required by capitalistic schemes of growth, and this impedes balanced development of PE&CA and also capitalist economic growth.

We need new sources of funding and new monetary institutions, appropriate for sustainable socioeconomic development of PE&CA and also to support a sustainable degrowth perspective.

In the paper I distributed here, I consider two main proposals of alternative financing for PE&CA:

- a) a shift in tax burden from wages to ownership and use of environmental resources;
- b) establishment of interest-free mutual credit systems based on *average social value of time units* and managed electronically by communities or local government.

There won't be enough time to consider the many problems related to these alternative ways of financing Public Economies. I partly do this on Friday, in a talk on alternatives to current monetary systems. Today I focus mainly on the basic limits of the current, capitalistic ways of financing PE&CA.

¹ The present stage of development can be defined as *Tertiary phase* because of the dominant role and weight of the *Services Economy* (with respect to the industrial economy). A first reconstruction of the main economic and social meanings of the *service economy* development can be found in: Lorenzi, Pastré and Toledano, 1980; Gadrey, 1992; Ruzzene, 2005; Atkinson, 2005; Heurgon and Landrieu, 2007.

1. Basic limits of the current systems of financing PE&CA

A major problem arising from the current financing of PE&CA is the interaction of two facts, which are taken for granted when considered separately but together have serious consequences:

- current financial systems require continuous monetary growth, in order to pay interest on loans, rents on factors of production, and profits for business activities;
- public economies and care activities generally cannot produce any such growth, especially in the current *tertiary phase* of socioeconomic development.

The main consequences of these facts are pretty obvious but they are hardly considered by current political and theoretical approaches.

If financing of PE&CA requires payment of interest, rents and profits, the costs of services offered by PE&CA increase significantly, without improving productivity and quality, indeed often making them worse (Ruzzene 2005, 2008).

Higher prices of public and care services limit the growth of PE&CA, accentuating inequality of access (Bardhan 1998).

In addition, PE&CA financed by the current financial system heavily increase their debt.

Finally, the exorbitant interest rates generated by speculative global financialization force PE&CA to reduce activity and assets, at least in the medium and long period, as the current tertiary stage of economic development implies protracted productive stagnation (Lorenzi, Pastrè and Toledano 1980).

It is worth noting that these problems are aggravated rather than caused by the current speculative financial systems.

Speculation certainly increases the risk and uncertainty of economic activity, including financing, and this means increasing interest rates irrespective of any possibility of real productive growth of the economic system (Aglietta 2008). The result is a further increase in prices of many services and widespread impoverishment, as seen in all advanced (largely tertiary) societies.

However, these phenomena were already evident in the 1970s, before speculative financialisation became dominant in most developed societies.

Their persistence in the long period is what needs to be explained, since they manifest in very different economic systems, such as welfare states and neoliberal economies.

In particular, I am referring to increased costs of socioeconomic reproduction, increased costs of financing, increasing public and private indebtedness and so forth.

2. Main causes of the present long-term economic crisis

These phenomena can only be properly understood by considering the main constitutive principles of capitalist economies, and also specific aspects typical of the current phase.

There are at least three main factors to consider:

- the maximizing, one-sided, capitalistic orientations to monetary growth, which do not take into account its side effects (not relevant to immediate capitalist valorization), such as environmental degradation and socioeconomic crisis;
- the current tertiary stage of productive development, characterised by proliferation of individual service activities, especially care activities, but also by dominance of the activities and functions of speculative finance;
- neoliberal policies adopted by governments of developed countries, which gratuitously conceded the right to abuse the function of debt-money creation to financial agents and banks, greatly increasing the total amount of monetary aggregates.

Nearly all the aspects mentioned above call for demonstration and more detailed examination, but we can only deal here with some of the most important issues.

In the first place, it is necessary to consider why a *Service Economy* cannot achieve continuing systematic increases in productivity.

This problem was highlighted by scholars many years ago (Lorenzi, Pastrè and Toledano 1980), though its most essential characters have not yet been considered.

I suppose that the main reason is that most services activities (particularly in PE&CA) are performed individually, and their productivity cannot be intensified according to the principles of scale economies and intensification of production time.

Many individual service activities, especially those concerned with “care”, cannot in fact be divided and recombined by mechanised industrial systems to obtain systematic productive growth (Ruzzene 2005).

And this becomes important in tertiary societies because individual service activities not only concern PE&CA but also most marketing services, economic and legal mediation activities and the professions in general, which prevail over industrial activity in advanced economies.

With regard to the high costs of social reproduction of post industrial systems we can say first that they depend mainly on environmental degradation and the growth of assets to cope with it;

and this (in turn) is related to the maximizing, one-sided, capitalistic orientations to monetary growth, and leads to the increasing role of PE&CA.

Since the individual care activities required to restore damage to the natural and social environment cannot sustain unceasing increases in productivity, according to the capitalist view this also leads to “increasing” economic (i.e. monetary) costs of social reproduction.

Finally, another relevant cause of the increasing cost of social reproduction is the development of financial assets, especially speculative ones, which have enormous weight in highly developed countries, especially for financing public economies.

Nowadays the increasing cost of financing public economies is largely due to interest on debt, especially compound interest, which is even applied to activities without any possibility of economic growth.

However, the same is true of rents and profits, which are the principal institutions of *capital valorisation* (i.e. *monetary growth*).

As already pointed out, if the application of rents and profits cannot lead to a systematic increase in productivity, as with PE&CA, it will inevitably lead to higher prices of goods and services.

The most evident proof of this lies in the considerable increase in costs for health services, private schools and insurance, when these services are subject to accentuated “marketisation” and capital valorisation, as in the USA, where they have become the largest items in family budgets (OECD 2007).

This means that there has been a progressive loss of economic and social function of the capitalistic institution of *economic valorisation*, which for centuries reduced the real costs of goods produced on an industrial scale.

Finally, this loss of the “cost-reducing” function is surely partly due to increasing environmental costs, increasing PE&CA, and increasing speculative financialization: but these are the main features of the tertiary phase on which we have to focus now.

4. Some features of tertiary phase and consequences of current economic policies

At variance with the prediction of Marx and automated society sociologists, the post industrial age is not characterised by progressive displacement of human labour in favour of machines.

Instead we observe an economic prevalence of individual working activities, especially “care-related services” (for the environment, people, marketing, legal systems etc).

The current tertiary phase is also characterised by the dominance of speculative financial activities affecting public institutions and national and international laws, and this means an evident dominance of financial (*monetary*) capital over the productive capital.

There is less possibility of investing in costly automation systems because most costs are now for individual service activities rather than for big industrial plants.

More precisely the fall of overall productivity and fewer investment possibilities in traditional high growth (mass production) sectors favour the development of speculative finance because only this can provide opportunities for short-term monetary gain, though only for big sharks of the financial system and for the cultural, administrative and political elite.

In this respect, the trends of speculative financialisation are reinforced by the policies of developed countries, which tend to aggravate rather than solve economic and environmental problems.

It is well known that, since the 1980s, the main measures taken by governments of advanced countries to correct the lack of overall growth of production, the welfare crisis and widespread public debt, have mainly been liberalisation of the circulation of capital to sustain financial activities.

The major facilitation for financial activities has been to allow speculative finance to issue enormous quantities of credit or debt-money and speculative investment products, almost without limit and without any true basis of value (Britton, 2001; Baches and Roberts 2004). In general, speculative financialisation of the economy had effects that were the opposite to those pursued.

It amplified risks and instability, increasing the cost of finance, especially for public economies, and swelling interest rates on public and private debt, even during stagnation of production and economic recession.

It reduced the possibilities for financing productive sectors (since financial agents prefer to invest in speculative enterprises instead of sustaining production of real goods).

Finally, it accentuated overall impoverishment and indebtedness from various points of view (Aglietta 2008, Gallino 2012).

Even more important is the fact that the enormously inflated capacity of financial agents to create debt money now makes it impossible to formulate effective economic and monetary policies, because governments' capacity to influence the overall volume of money in circulation is almost zero.

It is worth recalling a few figures: The annual volume of speculative products in circulation is now more than 13 times GrosWorldProduct (BIS 2010). The amount of debt money cur-

rently created by private banks and the speculative financial system is more than 97% of the money in circulation, while less than 3% of new money is issued by central banks (Lietaer and al., 2012).

The most obvious result is unsustainable growth of debt, public and private, supported by the global financial system through high interest rates.

High interest rates are mainly caused by the high risk of the speculative ventures of these financial systems.

It is a vicious circle based on the granting of free debt-money creation for purely speculative purposes, and this vicious circle can only be broken by withdrawal of this concession, *giving full control of our monetary institutions back to communities.*

Before dealing with some aspects of the role that new alternative systems can play in the sustainable financing of PE&CA, it is useful to look more closely at some important relationships between capitalist growth and the development of PE&CA.

5. Meaningful relationship between capitalist economies and the development of PE&CA

The relationships between the capitalist economy, financial systems and PE&CA are controversial and ambiguous, even paradoxical, in many respects. On one hand, current economic systems need PE&CA and make their development almost inevitable, while PE&CA need financial systems, and in some ways they also seem to need unceasing economic growth to develop, which only capitalist systems are able to provide.

On the other hand, the development of PE&CA not only poses problems for capitalist economic growth but also opens new perspectives of economic and social growth, interesting for the degrowth movement.

First of all, capitalist economies and PE&CA are inevitably complementary, since to maximise the effects of monetary growth it is necessary to ignore any environmental impacts and externalities, and this leads to degradation of both the natural and social environments.

In other words, because of its negative effects on the environment, capitalist economic growth also creates the need for a whole host of remediation and defensive activities, such as social reintegration, preservation of human and natural resources, and repair of damage to environmental contexts, people and their social relationships.

This simple fact explains the progressive development of PE&CA in the last two centuries. It also explains the development of PE&CA as an *autonomous* field of specialized activities, separate from traditional economic and manufacturing activities.

We should not forget that in traditional societies the guidelines for care were “symbolic values” embedded in most work and productive activities (Sahlins, 1982). Instead, in capitalist society, the development of PE&CA as a separate or specialized system becomes necessary because PE&CA obey principles that are largely different, or even opposite, to those governing most (capitalist) economic sectors. Likewise, many care activities become specialised activities that can only unfold under the social division of labour that develops in capitalist society. This involves a whole series of problems that shall not detain us here.

It suffices to say that in this way the growth of PE&CA helps capitalist socioeconomic systems to reproduce in a more balanced manner, reducing some of its negative effects, but generating new contradictions, not only in the economic sphere. Another contradiction is important from our point of view. PE&CA can oppose capitalist economic growth with principles that can change prevalent social organization, including labour and the socio cultural dimension.

The development of PE&CA can oppose the logic of capitalist economic growth and its organizations mainly because it responds to needs, rhythms and rationales **that have to do with care** and are substantially different from those of *capital growth*, determined by competition in the exploitation of resources and monetary growth and accumulation.

PE&CA cannot achieve their goals under the principles of a *dissipative growth economy*, based on *intensification of time*, because they take place *slowly* and *gently*, in their environmental context: as plants *grow*, as Shiatsu massage *heals* (Ruzzene, 2008).

This opposition between the principles of care economies and capitalist economies can be important for generating new perspectives of social change. The growth of PE&CA typical of all advanced capitalist societies can help to call into question the hegemony of the culture of economic growth and the central role of speculative finance.

6. Alternative currencies for PE&CA and for sustainable degrowth

PE&CA can more easily sustain care principles if they can rely on adequate forms of exchange and finance, not involving payment of interest or rents and profits.

To observe truly long-term sustainable practices, PE&CA must broadly embrace care principles, caring about all the consequences of their actions, including economic consequences if and when these can be linked to saving of resources.

The prospects of PE&CA should improve if caring about environment repercussions of economic activity is incorporated in production, including production for profit, as occurs in organic farming and in certain fair-trade and ecological practices.

Greater integration between the economic and territorial dimensions, as well as those of the living world (*lebenswelt*), can be achieved, and community bonds can also be strengthened.

Certain alternative currencies are capable of providing more appropriate means for this process, making it possible to develop interest-free credit systems, stronger glocalism and solid community relations, as demonstrated by many of studies.

To adequately carry out the functions of financing PE&CA according to care principles, a currency should meet at least two basic conditions:

1. It should overcome the problems and limits that impeded the development of alternative currencies in recent decades.
2. It should reduce the pressure towards the dissipative, inflationary, polluting and degrading growth, typical of capitalist economic systems. This second aspect means adopting what we might call a long-term sustainable development and degrowth perspective.

The term “sustainable development” can be combined with “sustainable degrowth” if “development” means “change” in socioeconomic forms, as it rightly should. “Sustainable” should refer not only to the natural environment but also to the socio-cultural environment.

Sustainability should also indicate broadly shared and practised assumptions and values. To be truly sustainable, I think a development perspective such as degrowth (of the capitalist economy) should consider certain fundamental economic constraints, such as the need to save resources in a reasonable way, not only natural but also labour/human resources.

I described what I consider to be the limits of the main models of alternative currency from the degrowth point of view at the first international conference in Paris. I take up this question again in the written version of this paper.

Since the time for this talk is nearly up, I will just go over some of the general conditions that I think alternative currencies should meet in order to sustainably finance PE&CA according to care principles.

- They should be units of account (and measures) of value, a means of payment and credit, as well as a means of “providence savings”, independent of official currencies and disconnected from the inflationary and dissipative pressures of capitalist economies.

- They should have their own value base and accounting systems that can provide a suitable “sense of measure” and suitable criteria for establishing the limits and costs of economic processes.
- They should develop equity of exchange and retribution, as well as a spirit of cooperation and solidarity between members of the community using the currency.
- They should have relatively low running costs, especially with respect to the advantages offered to users. The advantages of a currency can increase if they are able to cover different economic functions, in our case at least those necessary for PE&CA to function and reproduce.
- It is therefore essential that they include a “providence savings function”, especially for retirement and insurance purposes. In this way they can break the hegemony of financial capital and promote economic balance, enabling individual and collective spending and consumption to be contained, and making it possible to sustainably plan the desired type of socioeconomic development.

This is why it is necessary to carefully consider the store of value function, so badly and unilaterally served by official money. The store of value function should be transformed in a “providence saving function” to favour saving of resources and sustainable planning of their use, not to concentrate power in few hands.

- Alternative systems of account, payment and credit used to finance PE&CA should be able to extend to large communities and they should enable exchange of goods and services between different communities, even on a global scale.
- Finally, they should not be based on coins or notes that acquire value in themselves, independent of the work that gave rise to them. It should not be possible to counterfeit the credits as means of payment, nor should they violate laws against creation of money. This is why it is better to call them “nominative credits” that can be exchanged, and that can serve almost all the functions of official money, but cannot be separated from the existence of the subjects who gave rise to them.

These are certainly complex functions and aspects. Some seem to contradict each other. However, existing time-based credit systems could serve almost all these functions quite well, according to “care principles”. Only a few changes are needed, and a link to “labour time of average value” could be the most important of these changes.

I will talk about this on Friday in my presentation *“The importance of Average Value of Labour Time in interest-free credit systems: toward a sustainable degrowth”*. I apologise for raising too many questions for the time allotted. Thank you for listening!

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