ECONOMY - INTERVIEW

Shadow Networks: “The financial economy prevents people from deciding”

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Francisco Louçã is an economist especially known for being one of the founders and leaders of Bloco de Esquerda (Left Bloc) in Portugal. He is the author, with Michael Ash, of *Shadow Networks: Financial Disorder and the System that Caused Crisis*, Oxford: OUP, 2018.

While visiting Madrid and Barcelona to promote the Spanish edition of the book, he was interviewed by Jorge O. Maldonado for *Público*. The interview was published on 4 February 2020.

Jorge O. Maldonado - Who moves in the shadow of world finance?

Francisco Louçã - The term shadow economy refers to all financial organizations that are not commercial banks and that are beyond the control of central banks, regulation and deposit guarantee: financial agents, investment funds, stock exchange agencies, and so on. Michael Ash and I wanted to investigate these types of organizations because they are at the origin of the 2008 crisis. We were able to verify that most of these organizations are either banks or have a business relationship with banks. That is, the financial system has been reproduced in traditional banking and has multiplied into new forms of savings and financial products, many of them fictitious, whose value is the product of speculation. That is the shadow financial system.

You define the current financial system as “opaque, deregulated and strongly speculative.”

The speculative economy has an even larger dimension than it had before, and during the crisis there was a lot of doctrine and a lot of promises of regulation. But the truth is that today the part of world savings that is under the control of the so-called shadow economy is greater than in 2007. In the face of this situation we have two alternatives: accepting as an inevitable fact a regime of financial accumulation or the states regaining control of states of international capital movements and considering finance as a public good. The first alternative has a negative consequence: the vulnerability of states and democracy. Countries have less sovereignty if there is absolute freedom of movement of capital because there can be no coherent economic policy decided by and for the people.

Is it possible to stop or at least limit this financial speculation?

In some previous cases it was done. The consequence of the crisis of the 1929 in the United States and the rest of the world was to restrict the freedom of movement of capital and introduce progressive taxes with the New Deal policies promoted by Franklin D. Roosevelt. Then the welfare state appeared in Europe, after the Second World War. However, the paradox is that the response to the most important financial crisis of the twentieth century, that of 1929, was to reduce the aggressiveness of the financial system, while the response to the financial crisis of the twenty-first century has been the opposite, to increase that aggressiveness

Is capitalism incompatible with democracy?

A very traditional economist like Dani Rodrik says: “Either you have globalization or you have democracy,” and I clarify: “In a globalization without brakes, sovereignty or democracy will be limited.” That implies a risk and we are seeing it in the decomposition of the political reference systems in some very important countries: the United States with Donald Trump, Turkey with Erdogan or Brazil with Jair Bolsonaro. One of the effects of this crisis of democracy is the rise of the extreme right. But, in addition, the destruction of the economic capacity of the states undermines democracy. The financial economy destroys the possibility that the people can decide on their future.

There is the impression that democracy is not generating policies that lead capitalism on the right track: there is a certain sense of helplessness on the part of the political regime.

Capitalism now is aggressive and is characterized by a large concentration of financial income. Large financial groups have even more power than states and that makes them more invulnerable to the pressure of democracy or the pressure of the needs of the people. Controlled capitalism is a dream of the last century, but we must try to recover the capacity of the people to intervene in their economy, to make politics a thing of the people.

But neoliberalism has ended up imposing on all fields, even university chairs.

The crisis of the 1930s left us the rise of Keynesianism and the response in the 21st century has been to radicalize neoliberalism. That causes some historical paradoxes such as that the current extreme right embraces ultra-neoliberal policies without blushing when 80 years ago it was protectionist and statist. That is proof of the arrogance and strength of neoliberalism in our day.

However, in the last Davos forum there was an intense debate about climate change and inequality, and even the IMF talks about increasing social spending and abandoning austerity faced with so much global protest. Do you see a change of discourse there?

They are contradictory discourses. In the IMF for many years there have been two different discourses: one, more technical, which is concerned about the social impact of austerity policies, but then there is the official discourse, the discourse of the leadership backed by the governments, which is more aggressive now than in the past. And that has been seen with the sovereign debt crisis in Europe and with the measures imposed on Greece and Portugal and to a lesser extent on Spain and other countries. But yes, it is true that there is some vulnerability in that official discourse. This also happens in Davos with the discourse on climate change and how to reduce the impact of destructive social policies, but if one looks at the consensus reached, it must be said that the answer is null. And if we refer to social policies, the same thing happens: the European Union has decided to further reduce the budget dedicated to these policies. In fact, the European authorities have had a very negative reaction to the increase in the minimum wage in Spain and Portugal. That reaction is a legacy of austerity policies, which have been imposed as an impregnable dogma.

Can we respond to this dogma of austerity?

Yes, for sure. A government can resist. The EU can make all the reports it wants about how the minimum wage does not create employment, but the reality is that the increase in the minimum wage creates jobs, creates demand, creates investment and allows social spending to increase. So, governments can, of course.

Are the growing inequality and precariousness a consequence of this wild globalization in which we live?

Yes, sure. By reducing wages, precariousness creates a form of social discipline, prevents people from having an aspiration and therefore a capacity for collective and social representation that, as in the second half of the last century, may impose some loss to the rate of profit of companies and thus recover some real power for the workers. Precariousness divides and destroys.

Are we prepared for a new crisis?

There will be crisis, what remains to be seen is under what conditions. Now there are some differences with respect to what happened ten years ago. The first, and this works as a form of risk control in case of a new crisis, is that a very significant part of the debt is now on the balance sheets of the central banks and that implies that there are more instruments of political control. But on the other hand, it is true that the expansion of speculative policies, the size and vulnerability of the financial system itself together with the instability of the international political system, with Donald Trump, the United States trade war with China, with Germany bordering on the recession and with Brexit, increases risk. In this sense, a crisis, even smaller and with less capacity for financial pollution than in 2008, may be aggravated by the fact that policy makers do not want or are not able to intervene. That is the real problem: having George Bush in the United States was a risk, but having Donald Trump has another dimension, it is almost a statement of intent.

Francisco Louçã

P.S.

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