

Title	The Two Sides of the Same Coin
Name	Joe Bossano BA, BSC (Econ),
Organization	The Parliament of Gibraltar
Job Title	MP ; Leader of Gibraltar Socialist Labour Party
Country	Gibraltar



GIBRALTAR SOCIALIST LABOUR PARTY

Suite 16, Block 3, Watergardens, Gibraltar

Tel: 20050700 Fax: 20078983

THE TWO SIDES OF THE SAME COIN

Recent events in the European Union and specially the Euro Zone in relation to the problems of sovereign debt in Greece and to a lesser extent Spain, Portugal and Italy, have highlighted the apparent inability of the industrialised economies and the governments of their countries to come up with a solution to the economic consequences of the recession, triggered by the near collapse of the financial and banking systems of these countries, some two years ago.

The question this article poses is whether the current capitalist global economic model is capable of delivering sustainable growth, stable economies and a habitable planet?

Have any political leaders in their never ending, headline grabbing summits, really made a serious attempt to examine the root causes or have they just engaged in window dressing to put off the evil day?

We have had the recent examples of the steps taken by the socialist government in Spain and shortly before that the election campaign in the UK which gave no one party a clear mandate to govern and these events provide some insight. Is not the case that each and everyone of the “solutions” has been little more than seeking to alleviate the symptoms of the illness that has taken hold of the global economy rather than take the step of adopting a radical approach and being told that to diagnose the illness and come back with a cure.

The goal of ever increasing economic growth as defined and measured by the GDP has been the holy grail of post war economics.

In recent years the Western World has relied on debt funded ever increasing levels of per capita consumption to fuel and maintain this growth.

The supply of consumer goods has shifted at the same time from Europe and North America to Asia and other areas with much lower labour costs.

The decline in Western manufacturing capacity was defended on the basis that these economies were becoming “mature” and dominated by a tertiary “services” sector.

It has also been a period in which the damage to the planet and the widening gap between the “rich Western World” and the “poor Third World” has been the subject of debate internationally.

This description of recent economic history, superficial and condensed though it is, brings us face to face with one of the fundamental contradictions in these debates. These and other contradictions are what I have labelled “the two sides of the same coin”.

The core problem that precipitated the credit crunch two years ago was the defaulting on the debt mountain that had funded increases in acquisition of consumer goods and residential property with demand driven explosive price rises which produced inflated asset values. These could then be used as collateral to further drive up the debt/consumption cycle.

This has been seen many times before in history when there have been price bubbles which burst when the musical chairs stopped.

Western Governments rushed to salvage the lenders for fear of a 1930 depression following the collapse of the banking system. The fact that tax payer’s money was being used to buy non performing loans, given all sorts of names, i.e. toxic assets, to hide rather than explain what was taking place, which meant that the public debt increased monumentally.

The drop in consumer spending and the rising unemployment then led Governments to pump money into the market and lower its costs, the rate of interest, so that “confidence would be restored” and consumption would begin again as people started borrowing to buy what they frequently did not need and could ill afford. That is, the cure for the problem was to prescribe what gave rise to the illness in the first place.

Joe Bossano BA, BSC (Econ), MP
Leader Gibraltar Socialist Labour Party