The Great Recession and the Contradictions of Contemporary Capitalism
NEW DIRECTIONS IN MODERN ECONOMICS

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The Great Recession and the Contradictions of Contemporary Capitalism

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NEW DIRECTIONS IN MODERN ECONOMICS

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Introduction

Riccardo Bellofiore and Giovanna Vertova

According to *The Telegraph*¹, ‘During a briefing by academics at the London School of Economics on the turmoil on the international markets the Queen asked: Why did nobody notice it?’ That the mainstream(s) failed, and that capitalism was put in question, was an opinion widely shared for a few years after the 2007 subprime crisis, and the more so after Lehman Brothers collapsed in September 2008. So much so that *The Financial Times*, and even *The Economist*, had articles and series on the crisis in economics and the future of capitalism. We say mainstreams, using the plural, because the failure was equally distributed between freshwater and saltwater macroeconomics, as Paul Krugman calls them – between Chicago monetarism and new classical macro, and Harvard new Keynesian macro, as we knew them.

The country where we live and teach, Italy, is an exception to this, since even to politely ask these questions raises the suspicion of some nostalgia for real socialism or of lobbying for unproductive State employees (as happened to one of us who edited a special supplement on the crisis). In the meantime, Willem Buiter of *The Financial Times*² wrote in his blog about ‘the unfortunate uselessness of most “state of the art” academic monetary economics’, where he argued that ‘the typical graduate macroeconomics and monetary economics training received at Anglo-American universities during the past 30 years or so, may have set back by decades serious investigations of aggregate economic behaviour and economic policy-relevant understanding. It was a privately and socially costly waste of time and other resources’. In late 2008, Joseph Stiglitz compared the fall of Wall Street to the fall of the Berlin Wall, and a few years later, Paul Krugman, with Brad DeLong, changed the characterization of the crisis from a Great Recession to a Lesser Depression.

The chapters included here provide a varied series of ‘takes’ on the current capitalism in crisis, which were presented since 2008 to the students of our university in Bergamo and have their roots in a

¹ 5 November 2008.
² 3 March 2009.
heterogeneous, but qualified, set of traditions and authors that have
resisted the test of time much better than Neoclassical or standard
Keynesian economics in their various combinations: from Keynes to his
antagonist Hayek, from Marx to Kalecki, from Minsky to Schumpeter,
to the circuit theory of money.

This book opens with a general perspective on the recent dynamics of
capitalism leading to the current crisis, written by Riccardo Bellofiore.
This author deconstructs the notion of Neoliberalism and refers to
those authors, like Minsky or Magdoff-Sweezy, who already since the
1970s foresaw the exhaustion of Keynesianism and stressed the increas-
ing role of private debt. Money manager capitalism was in fact not the
return of *laisser faire* but a ‘real subsumption of labour to finance’,
because the last phase of financialization was able to include households
and workers subordinately under finance. A politically active kind of
management of capitalism through monetary policy was integral to
this model, which may be also labelled private Keynesianism, or an
asset-bubble-driven Keynesianism. Traumatized workers went hand-in-
hand with manic-depressive savers and indebted consumers. The Great
Recession started from an implosion of this model in the US, and it
was exported to Europe because of the Neo-mercantilist posture of that
capitalism. The chapter explores in more detail how the crisis affected
Europe.

In the following chapter, Gérard Duménil and Dominique Lévy sum-
marize their own interpretation of the crisis of Neoliberalism and critically
discuss other interpretations of Marxian inspiration. They contrast views
of the Great Recession as just a financial crisis with the opposed perspec-
tive seeing the crisis as the outcome of a classical falling rate of profits
dynamics, or of underconsumption. Criticizing the former views, the two
authors enquire (theoretically and empirically) into the different quan-
titative measures of the rate of profits for the US economy. Criticizing
the latter views, they analogously enter into a discussion of the US share
of wages. The restoration of the rate of profit and overconsumption are
placed on the background of the specific class structure and financial
hegemony typical of Neoliberalism.

In his chapter, Meghnad Desai outlines the three approaches to
understanding the causal explanation and the policy cures proposed by
Marx, Keynes and Hayek. He insists that the current difficulties are not
of a Keynesian nature, which typically arises from a collapse of effective
demand due to over-saving. The Great Recession was, rather, caused by
governments’ and households’ excessive spending because of too easy
credit facilitated by global imbalances: and it is here that the legacy of
Hayek’s work during the 1930s becomes relevant. The failure of Keynesian
policies implemented as a response to the crisis – deficit fiscal spending and quantitative easing – is explained through households’ deleveraging and governments’ difficulties in bond markets.

A different perspective is put forward by François Chesnais. Massive over-accumulation of industrial capacity and the persistent existence of a huge mass of financial claims on present and future production, together with the pile-up of derivatives yielding high speculative nominal profits, marked the initial phases of the global economic and financial crisis since August 2007. During the same crisis, financial institutions shaped Western countries’ government policies in an unprecedented way, to save and prolong the life of the debt-led growth regime set up in the 1990s. The chapter was written at a time when the Eurozone banking and sovereign debt crisis was in full sway: the situation has only worsened in the recent months.

Christian Marazzi presents an interpretation of the crisis based on André Orléan’s ‘conventionalist’ analysis on financial rationality. The economics of convention enables one to see true uncertainty as fundamental in the formation of financial bubbles. Financial markets are ‘cognitive machines’ whose role is to produce a reference opinion, perceived by all operators as an expression of ‘what the market thinks’. Money is the absolute convention, the principle of sovereignty and, at the same time, a vehicle of potential violence which may erupt in various forms: as hyperinflation, deflation or crisis. Marazzi’s analysis rereads the dynamics of this financial capitalism using the concept of ‘collective convention’, as well as looks at the mimetic behaviour of the market agents operating. In the last thirty years, the typical distinction between the financial sphere and the real economy sphere collapsed, giving rise to Minsky’s money manager capitalism.

Jan Toporowski’s chapter examines the social and economic impact of debt in a society in which a property-owning middle class accounts for the bulk of household saving. He rejects the Ricardian view of saving and income distribution, based on notions of usury and a class structure with only workers and capitalists. Changes in asset values are closely linked with income and wealth inequality. Inflation of asset values allows a property-owning middle class to generate cash flow from asset markets, making property owners independent of State systems of welfare for which that class pays taxes. The result is a growing middle class hostility towards social welfare paid for by the State. With saving determined by middle class debt behaviour, a ‘post-modern’ business cycle emerges, in which the working class pays the debts of the middle classes.

Jo Michell’s chapter investigates the speculative choices taken by firms and households when making investment decisions and operating
in financial markets. A simple stock-flow system is used to demonstrate the implications of different assumptions about investment, profits and methods of financing. The Minskyan notion of ‘financial fragility’ is considered within such a system, and an alternative interpretation of the relationship between the prices of real and financial assets is presented. This serves to demonstrate some of the potential difficulties in modelling such market processes within fully specified mathematical stock-flow systems.

With Sergio Rossi’s chapter we enter into the international payment system discussion. He argues that the global financial crisis that broke out in 2007 is the result of a structural disorder that has been increasingly harming the world economy since so-called post-Bretton Woods, a regime which puts the US dollar at centre stage in international transactions. International payments have become provisional, as settlements for any foreign transactions are carried out using so-called key currencies, which are, in fact, simply promises of payment. Rossi shows that the international economy is actually a barter trade system, since money is denatured when international transactions are paid using national currencies as if they were ‘reserve assets’ beyond the issuing country’s borders. In light of Keynes’s proposal to set up an international clearing union, Rossi suggests the introduction of a real-time gross-settlement system between countries, to be run by an international settlement institution issuing supranational currency every time a final payment has to be carried out between any two monetary spaces. Establishing a new international monetary order will help to rebalance trade between countries.

In his contribution to the book, Alain Parguez, arguing from the point of view of the General Theory of the Monetary Circuit, explains the fundamental rules of a good and stable management of public finance. Austerity policies produce bad deficits, instead of good deficits. The latter are the planned result of a long-term policy aimed at creating a useful and productive stock of capital, either tangible (as material and social infrastructure) or intangible (as employment in health, education, advanced research, etc.). The dismantling of the State, by privatizing its public finance, is responsible for bad deficits. These happen when private agents expect more cuts and more poverty, thus refraining from investing and consuming. Parguez concludes that the European public debt crisis was built-in in the Euro-System, a system which violates the rules.

The chapter by Vittorio Valli is dedicated to two crises of the Italian economy: the gradual relative economic decline since 1973 and the severe consequences of the 2007–08 financial turmoil originating in the US. The relative economic decline was mainly due to the energy crises, the
vanishing of Gerschenkron’s advantages of relative economic backwardness and of the Fordist model of growth, and the processes of population ageing, de-industrialization and relative technological decline. These tendencies induced weakness in the current account balance, which led, until 1996, to periodic devaluations of the Italian lira. When Italy entered the Eurozone in 1999, the remedy of devaluation was no longer available, and so in the 2000s Italy experienced a structural deficit in the balance of its current account and a growing external debt. Since the 1980s there has been a rapid increase in economic inequalities and in the evasion of taxes and social contributions, along with a sharp rise in public deficit and in public debt. The high public debt/GDP ratio increased Italy’s vulnerability to financial distress. Restrictive policies have further worsened real GDP and the debt/GDP ratio.

In the first part of her chapter, Giovanna Vertova proposes a theoretical framework for the analysis of the current crisis with a gender perspective. The only way to do this is to analyse together the production and the social reproduction systems (a kind of ‘extended’ macroeconomic system). By looking at unpaid domestic labour, and not only at paid labour for the market, it is possible to see the invisible costs of labour carried out by women. So, the gender configurations of both systems are investigated before, during and in the aftermath of the crisis. Looking at the ‘extended’ macroeconomic system also enables one to assess the gender impact of the previous fiscal anti-crisis packages and the more recent European austerity plans. The second part of the chapter deals with the Italian case, which could be quite interesting because Italian gender inequality is still very strong, despite the fact that Italy is alleged to be a developed country. In Italy the gender division of labour is still very neat: most Italian men work in the productive system and most Italian women have difficulties in participating in the labour market, due to the burden of unpaid domestic and care labour. The results of the empirical investigation lead to the conclusion that the crisis has a strong gender impact – in both the productive and social reproductive system – and, moreover, that gender inequality may also be strengthen by austerity policy and the European sovereign debt crisis. The long and difficult process towards more gender equality is, therefore, at risk here.

In the closing chapter, Alessandro Vercelli explores the dynamic roots of two recent catastrophic events: the financial meltdown, triggered by the subprime mortgage crisis, and the partial nuclear meltdown of the three reactors of the Fukushima1 plant. The criticality of the chain-reaction dynamics is what makes both nuclear reactors and financial systems fragile and accident-prone. In Vercelli’s point of view, a systematic examination of the dynamic analogies between the nuclear and financial chain
reactions has a heuristic potential that has been unduly neglected. In par-
ticular, the common features of their dynamic behaviour impose similar
constraints on their controllability and calls for a more precautionary
policy in their design and regulation.
1. The Great Recession and the contradictions of contemporary capitalism

Riccardo Bellofiore

1. INTRODUCTION

Capitalism is once again in a Great Crisis. To understand it, I am convinced we need to refer to and innovate Marxian critical political economy and Financial Keynesianism. That is why in this chapter, before I discuss the dynamics of capitalist economies, I shall briefly refer to these theories. I urge for their renewal in light of the new realities, and especially taking into account the rise and fall of money manager capitalism.

The Neoliberal Great Moderation was a paradoxical kind of financial and ‘privatized Keynesianism’. The heart of the Anglo-Saxon model was the attempt to overcome the stagnationist tendencies emerging from ‘traumatized workers’ resulting from the transformation of ‘manic savers’ into ‘indebted consumers’. This ‘autonomous’ consumption, fuelled by finance and bank debt, was the driving force of a dynamic but unsustainable ‘new’ capitalism, manipulated by an innovative kind of monetary policy. The Neo-mercantilist export-led approach that dominated the European macroeconomic landscape since WWII, particularly since the 1960s and 1970s, was very different, but it profited from the US-based consumer-debt driven boom. The Maastricht Treaty was mainly a French project, which Germany resisted, and it was designed under the Iron Curtain. The real puzzle is to understand not only how the Euro actually came into being from such fragile foundations, but also why for many years it seemed such a happy experiment. The Eurozone’s sovereign debt crisis was imported, but the Eurozone’s institutional composition, coupled with Germany’s self-defeating obsession with fiscal austerity, ultimately drove the area into a double-dip recession. A way out of the crisis requires not only monetary reforms and expansionary coordinated fiscal measures, but also a whole change of economic model, based upon a new ‘engine’ of demand and growth. A monetary financing of ‘good’ deficits is needed.
for the realization of a radicalized ‘socialization of the investment’: a class-based and Keynesian New Deal.

Are Marxian theory and Financial Keynesianism (I am referring here especially to the theory of the monetary circuit and to Minsky), in their original formulation, useful to understanding the current crisis? I suggest that we have to reformulate them outside the dominant interpretations, and to apply them creatively to the phase of capitalism we are living in. The most widespread readings of Marx’s theory of the crises are the ‘tendential fall in the rate of profits’ and an under-consumptionist view about ‘realization crises’. Those who believe the falling rate of profits story (related to the rise in capital composition) see the problem in the inadequacy of the surplus value produced. Those who are persuaded by the under-consumption narrative think that worsening income distribution led to a realization crisis. From this perspective, the problem was that there was too much potential surplus value. I find more interesting a position that starts from two of the heretics of Keynesianism and Marxism, Minsky and Sweezy, who stressed the role of private debt. We have to integrate finance, effective demand and capital accumulation. Financialization was a ‘real subsumption of labour to finance’, coupled with ‘centralization without concentration’, which produced a recovery in the rate of profits since the 1980s (against the falling rate of profit view) and turned Monetarism into a paradoxical privatized Keynesianism (against under-consumptionism). This configuration, ‘money manager capitalism’, mutated in fundamental ways the monetary circuit and the roots of financial instability, but it was nevertheless unsustainable. Its collapse opens the way to a ‘socialization of investment’ and requires policies based on permanent ‘good’ public deficits.

2. MARX’S THEORY OF THE CRISIS

The theory of crises is a most controversial area in Marxist political economy. A first line of thought is the fall in the profit rate. Mechanization of production, for Marx, is not just a reaction to distributive struggles; it is also an autonomous push by capital to control living labour. If mechanization is a powerful lever to regulate both the exchange value and the use value of labour power, it nevertheless creates a difficulty, because it may end up removing workers from production. When the ‘technical’ composition of capital (an index of the ‘material’ ratio of means of production to...
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workers) goes up, this is a factor contributing to the expulsion of workers; but living labour is the exclusive source of value and surplus value. If this is reflected in a rise in the ‘value’ composition of capital, the rate of profit tends to fall.

For Marx, a rise in the rate of surplus value could not permanently counteract the negative sway on the rate of profit of a higher (value) composition of capital. The strongest case is the reference to an absolute limit to the (surplus) labour that may be pumped out from a given population. If variable capital tends to zero, surplus value exhausts the new value which is the monetary expression of the total social working day. The composition of capital is now the reciprocal of the maximum rate of profit, which in its turn acts as the ceiling for the actual rate of profit. In other words, Marx is suggesting that the numerator of the maximum rate of profit meets a natural constraint in the living labour extracted from workers, while the continuous increase of its denominator pushes it down. At the ruling prices, individual capitalists are forced to introduce more capital-intensive techniques, lowering unit costs and gaining temporary extra-profits, even though the long-run effects of their behaviour force a ‘devaluation’ of commodities and thereby depress the average rate of profit.

This argument seems not to consider that the progress in the productive power of labour through technical change devalues all commodities, including the elements of constant capital. It cannot be excluded a priori that the devaluation of constant capital might be strong enough to raise the maximum rate of profit, removing the limit Marx thought was bounding the actual rate of profit. A parallel criticism is that – since the actual rate of profit is a function, not only negatively to the composition of capital, but also positively to the rate of exploitation – the upsurge in the rate of surplus value could outweigh the increase in the composition of capital. It must, however, be considered that Marx’s law is stated with reference to the rise in the ‘organic’, and not in the ‘value’ composition of capital. The latter fully reflects the revolution in the prices of constant and variable capital produced by mechanization, whereas the former measures inputs at the prices before the introduction of the new techniques. ‘Organic’ composition of capital thus automatically reflects the ‘technical’ composition.

Once the rate of surplus value goes up to repress the tendency of the rate of profit to fall, it is more and more likely that the system stumbles upon a second type of crisis: a realization crisis. The stress here is not so much on the ‘overproduction of capital’ (i.e., not enough surplus value is extracted to adequately valorize capital), but on ‘overproduction of commodities’ (i.e., a positive excess of supply over demand). Some Marxists (Hilferding,
Lenin, Tugan-Baranovsky) stress ‘disproportionalities’, that is, sectoral imbalances between supply and demand, due to the unplanned, chaotic nature of market economies: the unevenness of capitalist development may eventually degenerate into a ‘general glut’ of commodities. In principle, however, this difficulty should be overcome thanks to price-and-quantity adjustments, and it should disappear in a more organized form of capitalism. The other variety is sometimes labelled as ‘under-consumptionism’. It is maintained that the decrease in the wage share, and hence in the portion of income which is consumed, converts into a decrease in effective demand. A more sophisticated, non-under-consumptionist version is the one by Rosa Luxemburg as interpreted by Joan Robinson: net investments are unable to make up for decreasing consumption, since long-term profitability of new machine goods depends on future outlets, and these latter are less and less predictable. The difficulty has to do with the incentive, or motive, to invest. As in Keynes and the authentic Keynesian tradition, the problem is not located in lacking consumption, but in the insufficiency of investments.

Some insist that crises of realization are of increasing severity and lead to a final breakdown. For Luxemburg this happens when the ‘external’ factor mitigating them – net exports to non-capitalist areas – are exhausted, and capitalism is entirely globalized. Other writers in the same tradition, such as Kalecki, objected that the insufficiency of effective demand may be resolved by what are dubbed (net) ‘domestic’ exports, such as governments’ budget deficits financed by the injection of new money. A similar role may be played by the unproductive consumption coming from ‘third persons’ drawing their incomes from deductions from total surplus value. To be compatible with a smooth accumulation of capital, these ‘solutions’ call for the continuation of the pressure on living labour. In this event, the profit squeeze may eventually come directly from workers’ struggles within the capitalist labour process. Overproduction of commodities can be extended in time by credit and finance, which stimulate both investment and consumption. But sooner or later the insufficiency of effective demand makes its effects felt.

I do not think that these two lines in Marxian crisis theory are able to interpret this crisis. The tendential fall in profit rate goes against the almost complete recovery in the rate of profits since 1980. Moreover, rather than under-consumption, we witnessed in the centre of Neoliberalism a situation of over-consumption. A promising rereading of Marx’s theory of crisis looks at the ‘tendential fall in the rate of profit’ as a meta-theory of crises, incorporating the different kind of crises which can be derived from Marx’s oeuvre, and extending into an historical narrative of the evolution of capitalism. From this point of view, the tendency towards a fall in the
The rate of profit due to a rising value composition of capital was confirmed during the late 19th century Great Depression (1873–96), also known as the Long Depression. The increasing rate of exploitation, needed to overcome the tendency for the rate of profit to fall, was implemented by Fordism and Taylorism, which jointly strengthened the tendency for the relative wage to fall. The rise in the rate of surplus value, however, created the conditions for a realization crisis, the Great Crash of the 1930s. The so-called Golden Age of capitalism was predicated on a higher pressure on productive workers to obtain enough living labour and gain higher and higher surplus labour. This opened the way to a social crisis of accumulation, located inside the immediate valorization process: a key factor of the Great Stagflation of the 1970s.

From this point of view, the Great Moderation, leading to the current Great Recession, must be interpreted as capital’s reaction to a crisis originating from a rupture in the same capital–labour social relation of production. The ‘real subsumption of labour to finance’ within ‘money manager capitalism’ – that is, the subordinated integration of households into the stock exchange market, and their going deeper and deeper into bank indebtedness – is one side of this reaction. The ‘deconstruction’ of labour within a new phase of capitalist accumulation characterized by new styles of corporate governance leading to a ‘centralization without concentration’ – and then to the weakening of workers in the labour market and in the labour process – is the other.

3. FINANCIAL KEYNESIANISM

Marx’s discourse was framed in a relatively underdeveloped form of monetary institutional setting of capitalism. It needs to be integrated into a Post-Keynesian analysis of finance. I shall concentrate on the French–Italian circuit theory of money and on Minsky’s financial instability hypothesis. Both may be labelled as Financial Keynesianism (see Bellofiore 2013a and the references therein).

In the 1930 Treatise on Money, Keynes stresses ‘initial finance’. Banking sector’s loans allow the business sector to pay the wage bill to buy worker’s labour power and start capitalist production, both for consumption and investment goods. Privileged access to (endogenous) money as purchasing power let entrepreneurs fix the composition of output, irrespective of consumers’ sovereignty. In the 1936 General Theory, Keynes assumed given (but not exogenous) money supply and rather focused on the ‘final finance’ firms have to recover on the stock markets. The demand for money balances as a store of wealth may skyrocket, and liquidity
preference may lead to involuntary unemployment equilibrium, whatever the degree of price and wage flexibility. In his later articles on finance, Keynes proposed a first integration of the two views on money, as a flow and as a stock.

‘Monetary circuitism’ returns to the first theme, initial finance. Capitalism is pictured as a sequence of concatenated phases, opened by the creation of purchasing power by banks. Money is neither a commodity nor bilateral credit, but a credit instrument in a triangular transaction, allowing the payer to finally settle the payment with the payee by means of promises to pay from a third agent (nowadays, a bank). The differential access to money as finance gives way to asymmetries of power and shapes the real structure of the economy. The simplest circuit model considers a closed economy without the State: the basic agents are the commercial banking sector (the Central Bank is initially excluded, and added in a second step), firms and households (workers). Banks create credit-money, allowing firms to cover their current costs of production (i.e., the wage bill). Since loans create deposits, the banking system does not face any constraint: a view connected with Post-Keynesian ‘horizontality’. Production then follows, implementing entrepreneurs’ choices about the level and allocation of employment. Finally, workers choose how to divide money income between consumption and savings. Monetary demand for consumption against the real output firms sell to workers settles the price of consumption goods and, hence, the real wage (a similar result follows from oligopolistic firms charging a mark-up on their direct costs). Savings may be spent on the financial markets, buying securities issued by firms (on which a long-term interest rate is paid), or be kept as money balances (liquidity preference). If all savings go on the financial market, firms get back from households the whole finance they received and may then return the principal to the banks. Financial markets are where firms recover the ‘initial’ finance, which is not spent on consumption. If savers add bank deposits to liquid balances, firms remain indebted to banks: the permanence of a money stock signals an equivalent credit of households with the banking sector. If the State or a foreign sector is included, there can be inflows of money to firms that, in a sense, are ‘free’ from the payment of interests to banks.

Minsky extends Keynes by integrating an investment theory of the business cycle into a financial theory of investment. Capitalism is production of money by means of money. Economic units are ‘money in–money out’ devices, estimating money receipts from their assets, deducting financial commitments of holding positions, and assessing their liquidity. Like banks, they finance the ownership and control of longer-term, illiquid and risky assets with short-term liabilities. Availability and terms of financial
agreements govern investment; investment brings about gross profits; gross profits feed back into the financial structure. Positions in capital assets require long-term finance, and this latter is a combination of internal and external funds. They may be financed by intermediaries other than banks, or directly by savers, through instruments whose liquidity is subject to their convertibility into bank money. As commercial banks, financial intermediaries are profit-seeking agents, which constantly try to extend credits, financing new positions. A given amount of reserves may support more bank loans and demand deposits; and a given amount of bank loans and demand deposits may support a higher volume of finance. During periods of prosperity, economic units lower their margins of safety; their liability structures embody a higher degree of risk, while the money (and finance) supply becomes infinitely elastic. In a complex financial system, investment may also be financed through portfolio adjustment, reducing balance sheets’ liquidity and causing a rise in the price of capital assets. The late Minsky rejected the idea that a Central Bank is able to control reserves.

In a period of tranquil growth, the economy is financially robust, most agents are in a hedge-financing position and liability structures spontaneously shift to fragility. The validation of outstanding debts and risky projects foster euphoric growth, developing into boom, and then a bubble. A rising debt-equity ratio is associated with higher short-term financing of fixed capital and long-term financial assets. The share of speculative or ultra-speculative positions goes up, and the demand for finance becomes almost inflexible. The crisis breaks out when ‘something happens’ and the supply of finance is constrained by more prudent bank attitudes or tougher restrictive actions from the Central Bank, with a sudden, severe and unexpected increase in the cost of financing. The missing validation of cash payment commitments on outstanding debts leads to the revaluation of borrowers’ and lenders’ risks, and to the reassessment of liability structures; while rising rates of interest endanger the liquidity and solvency of banks and financial intermediaries. Liquidity preference jumps up, demand deposits contract, financial instruments may not be ‘accepted’ by the banking system. The struggle to ‘make position by selling positions’ turns out to be ruinous because of the immediate fall in asset prices. Investments completely stop and gross profits plummet. Even hedge-financing units become speculative or Ponzi. Debt-deflation and financial turbulence strike the real economy, curbing income growth and bringing about mass unemployment.

With a small government and without a lender of last resort, the lower turning point is reached only after monetary contraction and bankruptcies restore ‘robust’ finance. Big Government and Big Bank may instead
sustain gross profits (which are positively related to government budget deficits) and support the liability structure (thanks to the higher cash inflows helping to meet cash commitments, and to the refinancing and reserves helping to prevent banks’ and financial intermediaries’ bankruptcies). According to Minsky, ‘Keynesian’ economic policies are, however, unable to abolish the fundamental processes leading to instability. A better solution would be a ‘socialization’ of investments (through public productive expenditure), of employment (the State as employer of last resort or, better, as direct provider of employment), of banking and finance (the support to small and medium-sized banks, and policies in favour of equity finance), and other structural reforms.

One too easy way to apply circuitism to the current crisis is to see in household indebtedness the means by which under-consumption was overcome after the Volcker shock and in the Neoliberal era. To look at the Great Recession as a ‘Minsky moment’, where the financial instability hypothesis was confirmed in its original formulation, is also too straightforward. The changes in capitalism in the last few decades – but also internal theoretical difficulties – urge a reappraisal of both Minskian and circuitist traditions. On the one hand, Kalecki and Steindl showed (converging with circuitism) that when profits increase or, equivalently, household saving decreases, investment comes to finance itself. There is thus no compelling reason why an increase in leverage should necessarily materialize. On the other hand, Minsky’s approach mostly focused on investment goods demand and its financing. In the last decades, credit creation has been fuelled not so much by the non-financial business sector’s indebtedness but rather by household indebtedness. Consumption became autonomous, driven by a paper wealth appreciation accompanied and even stimulated by a new monetary policy. Households’ consumption has been financed through collateralized debt, set in motion by capital asset inflation. In its turn, capital asset inflation itself has hedged for a while firms’ financial positions. On the policy side, Central Banks acted as ‘lenders of first resort’ to support rentiers’ behaviour and ‘irrational euphoria’ on asset markets. Neoliberalism is not what it looked like, and what its ideologist proclaimed: in fact, early Monetarism mutated into an asset-bubble-driven ‘privatized Keynesianism’.

This paradoxical new form of Keynesianism is, in a sense, a third, new understanding of the label Financial Keynesianism, which can be fully understood only through a critical reappraisal of the circuitist and Minskian traditions. As Seccareccia has argued, the monetary circuit changed dramatically. The connection between firms and banks has been largely amputated, and the centre stage has been taken by the link between banks and financial intermediaries: ‘the practical disappearance
of household saving and the ever growing household indebtedness has fueled the expansion of speculative derivatives because of the demand arising from the growing savings of the non-financial corporate sector’ (Seccareccia 2010, p. 6). Minsky was right in stressing that ‘banks are not passive managers of household savings but are, instead, in the business of making profit by actively seeking creditworthy borrowers, in this case in the household sector’ (idem).

4. MONEY MANAGER CAPITALISM, PRIVATIZED KEYNESIANISM AND THE GLOBAL CRISIS

To understand the current crisis we have to look deeper into this new money manager capitalism. Already in the 1980s, Minsky himself noted that globalization promoted securitization, which spurred the banking model from ‘originate to hold’ to ‘originate to distribute’. Banks maximize fees and commissions by issuing and managing assets in off-balance-sheet affiliate structures. In this context, bankers had no interest in credit evaluation and delegated it to rating agencies. With governments trying to reduce their deficits everywhere, the household sector became a net borrower, and the non-financial business sector a net lender. Though household saving behaviour was helping to counter stagnation, banks lost their best customers. Financial innovations won the day: they reduced risk individually, but increased it globally (an example being ‘subprime’ lending).

In terms of social class relations, these dynamics had devastating consequences. Workers were ‘traumatized’ in the labour markets and within the labour process, so that the Phillips curve was flattened and wage-induced inflation was not a problem (price inflation rather came from ‘commodities’, raw materials, oil, etc.). Pension and institutional funds fostered that ‘capital asset inflation’ which, at least for a while, was hedging ex post corporations’ balance sheets: instability was hidden, the appearance was of a seemingly stabilized economy, but the unsustainability of the process was becoming ever greater. Savers entered into a ‘manic’ phase, deceived by assets’ appreciation, and the propensity to save out of income fell. Effective demand was internally boosted by ‘indebted’ consumers, providing outlets, also externally, to Asian and European Neo-mercantilism.

This renewed phase is often labelled ‘financialization’, but it should be better understood as a real subsumption of labour to finance. The reason is that workers’ and lower income households’ reliance on stock exchange and banks, and more generally from the fictitious capital bubbles, had quite non-fictitious effects not only on demand, but also on firms’ corporate governance and on real production. The traumatization
of workers in the exploitation arena and the worsening distribution for wage-earners were sterilized in its effects on effective demand, but the subordinated incorporation of households within capital’s financial dimension retroacted on working conditions, with a lengthening of the social working day and the intensification of labour, and a rise in labour supply. This ‘subordination’ of labour to finance was ‘real’ not only because it affected production and valorization within the labour processes; it also transformed the relationship between banks and firms, and endogenously boosted effective demand. The resulting full employment was not characterized by ‘decent’ wages and stable jobs. It was, instead, a full underemployment, with unemployment penetrating into the employed labour force through the spreading of part-time and casual/informal occupations.

Wage deflation, capital asset inflation and the increasingly leveraged position of households and financial companies were complementary elements of a perverse mechanism where real growth was doped by toxic finance. It was a dynamic configuration of capitalism capable of manufacturing consent and yielding hegemony. The middle classes, too, were sedated by escalating property values and found an illusory security from uncertainty (Toporowski 2010). However, households’ indebtedness in no way corresponded to a state of economic and social welfare. The US ‘over-spending’ consumer matched the US ‘overworking’ job-earner. Growing debt had its ultimate raison d’être in the insufficiency of income to support consumption of non-manufacturing goods and services. This caused an escalation in expenditures generating rents for the financial sector. Being based on a burgeoning private debt, the process was unsustainable and collapsed a first time with the dotcom crisis. The risk was there that savers turned from the ‘manic’ to the ‘depressive’ phase, with households reducing consumption to reduce their debt exposure. The risk was avoided with a return to military Keynesianism (after September 11th) and then to a revised form of the asset-bubble-driven privatized Keynesianism. This second bubble phase ended rather quickly. The new monetary policy was unable to make ends meet in inflation, considering oil and raw material prices. Although capital asset prices were not considered a problem – and wage inflation was not on the agenda – commodities price inflation worried the Federal Reserve and other Central Banks; and, from 2004, the Fed began to increase interest rates such that by 2005 US house prices softened. The proliferation of subprime mortgages, with the enticement of poor households to enter the financial swamp, was an attempt to keep the real-estate bubble inflating by any means. The hope that the increase in borrowing costs could be offset by a further rise in asset values, thereby expanding the value of the collateral used in loan applications, faded away. The widespread view that opaque securitization packages would
efficiently distribute risk and that the emerging countries’ savings would cover the deficits of the US, Britain, Australia and Spain, were revealed to be a double deception. This time the ‘depressive’ phase was irresistible, and the economy fell into the biggest crisis since the Great Crash.

5. EUROPEAN NEO-MERCANTILISM

It was precisely the indebted consumer that had served as the engine of growth in US-centred money manager capitalism that provided the final consumers for the exports of the Neo-mercantilist economies of Japan, Germany and other parts of Europe, and, more recently, China. When the subprime crisis broke out in July 2007, toxic finance spread throughout the world. The collapse of inter-bank relations augmented the negative impact of financial imbalances. European finance was the first to crumble; and with a lag, the large exporting countries were severely hit by the plummeting demand of indebted US consumers. The consequent sharp reduction in China’s growth impacted hugely on Europe’s main manufacturing nations, with Germany and Italy at the forefront, dissolving any illusion of a ‘de-linking’.

The Neo-mercantilist model dates back to the late 1940s and the persistent German surpluses, originally recycled through the European Payments Union (1950–58), which served to reduce intra-European deficits. During the 1960s, the trade balance gave rhythm to economic policies, with ‘stop and go’ being used to gain net exports in Germany, Italy and France. Net exports for the whole European area were an impossible goal because when deficit countries compress income to adjust, this retroacts on the exports and employment of surplus countries. With no clearing mechanism, deficit countries have to bear the burden of adjustment by going into recession, with negative repercussions on the exports and related employment of the surplus countries. To maintain a net surplus, Germany had then, as now, to reduce economic activity, with a corresponding increase in unemployment. An alternative for deficit countries is to let their currency devalue. However, this alternative is not an option under a fixed exchange rate system, such as Bretton Woods (1944–71), the European Monetary System (EMS 1979–92), or today’s European Monetary Union (EMU). Nevertheless, it surfaced as an option after Bretton Woods collapsed in 1971.

The main danger to Germany and France came from Italy. During the 1970s, by pegging the Lira to the US Dollar (which was falling relatively to...
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the Deutsche Mark and the Yen), Italy more than compensated for inflationary excesses through competitive devaluations. At the time, Italy’s export fundamentals were the strongest both in Europe and in the bilateral trade with Germany. This served as a motivation for the EMS, with its exchange rate mechanism (ERM), which emerged during the 1980s as a German concern that was also strongly favoured by Netherlands and Belgium. The Netherlands were organically connected with Germany, whilst Belgium had strong links with France. These countries, together with Switzerland, Austria and Scandinavia (especially Finland and Sweden), are Germany’s ‘satellites’: their economies earn intra-European trade surpluses, while maintaining trade deficits with Germany (the only exception being the Netherlands, whose positive account is due to the fact that it provides the German economy with financial and services support). Their position is similar to Berlin’s: net exports through productivity growth, stable prices and limited fiscal budgets, plus net foreign balances to finance welfare expenditures without burdening the State deficit.

The key role of the financial sector encouraged France to take an anti-inflationary stance and to join Germany and the ‘satellites’, with the aim (less and less achieved) of gaining net exports by drastically reducing imports. In the meantime, despite the wider band assigned to the Lira in the first half of the 1980s, its devaluations did not compensate for inflation, causing Italy’s net exports to decline. This tendency was reinforced during the second half of the 1980s (especially after 1987), when the EMS mutated into a fixed exchange rate system without any change in parities. The added paradox was that the Bank of Italy fixed interest rates high enough to encourage huge capital imports, making the Lira a ‘strong’ currency in the ERM, Italy’s deteriorating trade balance notwithstanding. That policy was instrumental in forcing a capitalist restructuring and wage squeeze. But it also actively contributed to a further deterioration of the public debt because of the widening share of interest payments within budget deficits; and the government debt has been at the mercy of capital markets ever since.

The EMS/ERM caused a division of Europe into two parts, from the point of view of the current account balance. On the positive side of the ledger there were Germany and the ‘satellites’; on the negative side Italy, whose trade surplus could rise steeply any time the Lira was devalued – the more so if, as happened in 1992, wage contracts were decoupled from inflation. Portugal and Spain, with Greece, were deeper into negative territory. France represented a case of its own: mistakenly considering itself to be on a par with Germany, it slid further and further into an economic reality which puts her on the negative side. This situation encouraged the French élite to try to share the benefits of German financial stability
and command over money through a ‘single currency’. During the EMS regime – and until reunification with East Germany in 1990 – the Federal Republic of Germany realized huge net exports as a proportion of GDP, reached again (and surpassed) only in 2007–08. The EMS made Europe as a whole the primary market supporting Germany’s positive net exports and profits for its big business. Its external position with other trade partners was much more variable, based on exchange rates and product specialization. However, the price to be paid was a slow rate of growth. In the meantime, France did not profit from Italy’s declining trade surpluses; and it became more and more a service and financial-based economy.

The EMS came to an end in 1992–93 because German reunification was only partially financed through taxes; it was also financed by fiscal deficits and capital imports. The Bundesbank was very much opposed to what became known as Kohl’s ‘Reaganomics on the Rhine’ – namely, the incurring of large budget deficits financed by foreign debt instead of tax increases. It was for this internal conflict with Kohl, even more than the ever-present desire to discipline Italy and other EMS members, that Germany’s Central Bank drastically raised the short-term rate of interest in 1991–92. A consequence was the sharp appreciation of the Deutsche Mark, especially in relation to the Lira; and from 1992 to 2000, Germany’s current account was negative (although there was still a positive balance in its merchandize account). The primary reason for Germany’s deteriorating current account balance was the net export performance for Germany as a whole: while West Germany realized an enormous surplus, this was far outweighed by East Germany’s colossal deficit. It may seem that the Bundesbank’s high interest rate policy – which, in the name of fighting inflation, countered the increase in domestic demand and wages resulting from public expenditures associated with reunification – eventually failed to achieve the aim of defending the Neo-mercantilist stance of German capital. At the same time, the ability to finance the international expansion of German capital was vanishing. However, this was not in fact the case. The 1990s were not a lost decade. Rather, they were the beginning of a period of restructuring, inflicted on the German labour market and processes, involving a strong push towards the trans-nationalization of many German industrial conglomerates. During this period, German firms shifted from an automation strategy, characteristic of the 1970s and 1980s, to a strategy of off-shoring upstream activities, mainly to Eastern Europe, but also to Northern Italy and other areas in the old EU-15. Together with the introduction of the ‘single currency’ locking-in the participants of the EMU at fixed exchange rates, these economic policies and industrial behaviours were the pillars of the resurrection of Germany’s export-led capitalism during the 2000s.
6. THE SINGLE CURRENCY AND THE CRISIS IN EUROPE

The European ‘single currency’ was born with an original sin. From the beginning, it embodied the tendency for permanent recessionary drift, differences in relative competitiveness among member nations, a wage squeeze, mounting social inequality, the dismantling of trade unions, and continuous industrial restructuring. It is understandable that, within the structurally heterogeneous European area, where there are radical variations in both the productive power of labour and (material and immaterial) infrastructures, the push for a nominal convergence cannot but give way to a progressive deepening of real divergences. The in-built and ongoing tendency towards self-dissolution of the EMU can be counteracted only through a dual strategy of common fiscal (and transfer) policy governing resource redistribution between regions within the Eurozone and industrial policies aimed at overcoming the backwardness of certain of its constituent regions. By contrast, the European Union budget (in relation to GDP) is ludicrously low, fiscal competition among States is the rule and industrial policy is officially oriented towards deregulation (though actual practices diverge).

How was such a fragile construction able to take off at the end of the 1990s? And how could that have happened after the EMS was dissolved during the early 1990s and the Maastricht Treaty entered a coma? Some legends must be dispelled. The first is that the Maastricht Treaty was a consequence of the collapse of actually ‘existing socialism’. The second is that there was continuity between the Treaty and the Euro. In reality, the Treaty was the offspring of the second term of the Delors Commission (1988–92), with the project being integrally defined in a Europe (and Germany) that had been split in two by the Iron Curtain. It is also important to note that the Eurozone was a French project, not a German one. During the late 1980s, US capitalism was considered an inferior model to Japanese and to some European capitalisms. In this context, France wanted to share control over monetary policy with Germany, which, at the time, was a manufacturing giant but a political dwarf. Whilst the UK could have filled the role of the Eurozone’s financial centre, it never truly wanted to enter the game. The dismantling of the Berlin Wall and the subsequent disbanding of ‘socialism’ in Eastern Europe and the USSR were the events that marked the failure of the strategy; this was due to the economic fallouts already mentioned, and the fact that the political underpinnings were vanishing. Germany itself started looking towards the East; but it was unable to expand its influence as a consequence of Eastern Germany reconstruction and the
turmoil in ex-Yugoslavia and Russia, where the role and interests of the US have not to be forgotten.

The answer to the question about how the Euro project was reborn from its own ashes like a phoenix, comes from the twin considerations that, during the 1990s, Germany was in a relatively weak position, and that the made in the USA 'new' capitalism was thriving. The reduction in interest rates during that decade helped the entire European area to meet the Maastricht criteria on public finance, whereas Germany had difficulties in fulfilling them completely. Germany overcame the reunification shock, while pushing forward a radical restructuring of the labour market and process. With the 'satellites', it benefited from faster capitalist development in the periphery. The real-estate bubble was spreading throughout Europe, as a consequence of which Ireland and Spain had significant GDP growth: this is why their public budgets were so 'virtuous' before 2007–08. In a world of lower and lower interest rates, the government deficits of Greece and Portugal, as well as the management of the Italian government debt, made room for on-going financial investments for German and French banks.

The multi-speed dynamics of Europe is well known by now, and can be grasped through a Luxemburg–Kalecki vision. Net exports were the driving force in the ‘core’ (Germany and the ‘satellites’), with the resulting profits invested abroad. The insertion of Europe in the ‘new’ capitalism’s financial world meant that these investments found their way into ‘toxic’ finance. Further, with the ‘single currency’, the Treasury-bonds of the European ‘periphery’ played for European banks and finance (especially, French and German) a role similar to subprime loans in the US. Germany, like the rest of Northern Europe, had an historical need to export to Southern Europe, where it realized the largest part of its profits. Thus, trade deficits in France, Italy, Spain, Portugal and Greece were crucial to Germany’s competitiveness. They also held down the nominal valuation of Germany’s currency, the Euro (compared with what it would have been under the Deutsche Mark or with an Euro restricted to the net exporters). Moreover, the ‘single currency’ deepens – not just because of wage repression, but also due to the increase in the productivity of labour – a competitive deflation, and thus a real devaluation benefiting the ‘core’ area, whose net exports rose exponentially. This structural strength is due to Germany’s specialization in technology sectors, advanced machinery and high-quality manufacturing, and not just wage deflation.

After the dotcom crisis, Germany again saw its net export model of growth flourish (thanks also to the wage repression policy related to the so-called Hartz reforms), without the risk of competitive devaluations within the area; and Italy was able to put its external accounts into better
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shape, especially in certain of its manufacturing sectors, becoming the second exporter in Europe. Capitalist growth was vibrant and strong not in the country as a whole but in particular areas: less and less the much mythologized old industrial ‘districts’, rather the so-called fourth capitalism of small and medium-sized enterprises which were strong in innovation and marketing, and became globally competitive thanks to exports and foreign direct investments. After the dotcom crisis, these ‘pocket-multinationals’ have been particularly swift in moving into high value-added production. However, this new incarnation of the made in Italy model was inherently fragile. Firstly, it lacked systematic investment in R&D; secondly, it completely hinged upon a foreign-centred model of accumulation; and thirdly, it had no structural/inter-sectoral coherence. It could survive only at the price of continuous restructuring and becoming increasingly dependent on the worsening conditions of labour – just to be able to defer the competition coming from China and East Asia.

This being the case, the Eurozone crisis was not endogenous, but came from outside. The early chains of transmission were the already depressed state of expectations in Europe; the mortgage and financial crisis in the UK and the bursting of the housing bubble in Spain; the Eastern Europe financial troubles; and the fall in imports from the rest of Europe in all of these regions. Later came the collapse of exports to China and the fall of German and Italian manufacturing exports. In 2008–09 Europe avoided a complete breakdown because of three factors conflicting with the ‘anti-Keynesian’ rhetoric of European governments: the working of automatic stabilizers, targeted pro-industry programmes and State policies openly shielding workers from unemployment (e.g., Germany financed a temporary reduction in working hours). After having cut the rate of interest, which exceeded 4 per cent in the summer of 2008, the ECB did not follow its Monetarist prescriptions to the letter, instead rewriting its own material constitution, refinancing budget deficits in secondary markets and providing huge amounts of liquidity. The problem was that these manoeuvres were reactive, in the wake of the crisis, rather than providing the firepower or showing the determination needed to put an end to speculation: too late and (at that point) too little. It is curious that if, at the beginning of the crisis, Greece’s debt had been wiped out, the costs for Europe would have been serious (because of balance sheet interconnections) but acceptable. As the domino effect spread the crisis to Ireland and then Portugal, even a cancellation of their debt would have been dangerous but still tolerable. During the summer of 2011, after having hit Ireland and Portugal, the crisis hit Spain and then Italy; at this point, the quantitative change in the dimension of the countries involved caused a qualitative leap in the scale of the crisis.
The crisis in Europe is not due to Greece, nor is it the result of government indebtedness of a particular country (both in absolute terms and in relation to GDP). As Toporowski (2011) argued, what matters is the willingness (or not) of the ECB to refinance government deficits. Even with a hypothetical Euro limited to Germany and its ‘satellites’, the sovereign debt crisis could burst. Belgium, for example, has a debt to GDP ratio close to 100 per cent. Excluding default, a first way out could be inflation, a second growth, a third a mix of the two. Both inflation and growth increase the denominator in the deficit (or debt) to nominal GDP ratio. Another misunderstanding is that global imbalances within the Eurozone ought to be a problem for the EMU. As Lavoie (2013, p. 22) recently wrote:

> there is no limit to the debit position that a national central bank can incur on the books of the ECB, that is, its liabilities with respect to the rest of the Eurosystem are not limited. [...] Furthermore, national central banks in debit are charged the main official rate, which is also the rate gained by those with claims on the Eurosystem. Thus these imbalances can go on forever . . . [I]f there is some lack of confidence in the system, we should observe an increase in the size of the balance sheets of the central banks of the countries under suspicion, as well as an increase in the size of the balance sheet of the ECB. [...] A current account deficit of Spain or Italy with respect to the rest of the eurozone is no more meaningful than the current account deficit of the Mezzogiorno relative to Northern Italy.

7. **THE SOCIALIZATION OF INVESTMENTS, AND THE GOOD DEFICITS**

This is not the occasion to review the day-to-day policy recommendations accompanying the evolution of the European crisis. The proposals to solve it are multiple: from the banking union to the fiscal union, from the Eurobond to an upsurge in public investments – each appearing unable to work alone. The unblocking of the European real ‘imbalances’ involves an intervention that concerns not only a reflation on the demand side and/or a recoupling of wages to productivity. A strong intervention on the supply side and in the productive structure, along with financial stabilization, is also called for. Being a fiscal union in the short term is a utopia. The *Eurobond* solution, as a common guarantee for all the public debts of the Eurozone countries, and a coordinated fiscal expansion, going at a higher speed in the ‘core’, are part of an alternative platform. Eurobonds have to be regarded as the foundation for a coordinated expansion of expenditure and investments on a European scale. It amounts, in fact, to a proposal for a renewed and innovative *New Deal* for Europe with the potential to
directly affect the structural basis of growth by improving the quality of output and increasing the productivity of labour. Given the nature of the world-wide crisis, originating from the collapse of the asset-bubble-driven ‘privatized Keynesianism’ centred on indebted consumption – and given the apparent impossibility to start a new phase of development on investment or net exports – a new policy based on an expansion of public expenditure looks to be the only way out. An increase in wages and a reduction of inequality would multiply the expansionary momentum.

Insight into a genuine way out of the current crisis may be found in the structural Keynesianism of those who are explicitly critical of capitalism and of the ‘really existing’ Keynesianism implemented after WWII. There is no such thing as economic development not based on debt. Recent decades have confirmed that ex post government deficits are the condition for the net creation of income in the private sector. However, as Parguez (Chapter 9 in this volume) insists, we should not forget that there are ‘bad’ and ‘good’ deficits. ‘Bad’ deficits are the non-planned result of the tendency to stagnation, of shock therapies, of deflationary policies, of the unsustainability of toxic finance, and so on. By contrast, ‘good’ deficits are planned ex ante ones. Their aim is to build up, and improve, a stock of productive resources. They are means for the production of wealth: a long-run investment in tangible goods (infrastructure, green conversion, alternative forms of transport, etc.) and intangible ones (health, education, research, etc.). A gender-balance and nature-friendly approach becomes inherent and crucial to this policy. Welfare itself has to be transformed from supplying nominal subsidies to direct intervention ‘in kind’, as part of a wider horizon of ‘planning’. A deficit spending programme of this type immediately raises the government debt to GDP ratio – but the subsequent growth in the denominator will make this jump only temporary. Such an intervention may have positive effects seen from a capitalist point of view, those which fascinate Post-Keynesian economists. It would support the real economy from the demand side, it would stabilize the financial sector by providing ‘sound’ financial assets, and it would increase the productivity in the system. This kind of intervention can – and must – be part of a minimum programme of a class-oriented left. It is clear, however, that this yields not a stable model of a new capitalism, but rather an ‘imbalance’: an uneven terrain where the issue of overcoming capitalism in the end has to be dealt with.

Minsky’s perspective of a ‘socialization of investment’, coupled with a ‘socialization of employment’ and a ‘socialization of banking’ is also to be reclaimed3. Minsky claims that the ‘bastard’ Keynesianism of the so-

3 The main reference here is to the last two chapters of Minsky (1975).
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called Golden Age had its origin in Keynes’s ambiguities. He would object
to a return to ‘Keynesianism’, which has never been adequate. It was a
form of capitalism where taxation and transfers governed consumption,
monetary policy ruled investments, government spending brought about
either waste or military expenditure, and where rent-positions and finance
were nurtured. He called this a strategy of ‘high profits–high investment’,
leading to an artificial consumption and putting at risk the biological and
social environment. We have to come back to square one, he insisted:
to 1933. We have to rethink a Keynesian New Deal that deals with the
fundamental questions: ‘for whom is the game played?’ and ‘what kind of
product do we want?’ Minsky favoured a society in which the real struc-
ture of consumption is determined by government investments, the driving
force building a different supply side. Minsky explicitly supported a
‘socialization of the towering heights’, a ‘communal’ consumption, capital
controls, the regulation of finance, banks as public utilities, and so on.
Minsky, like Parguez, asks the State to create employment ‘directly’. This
might be inflected as a Piano del lavoro (‘Employment Plan’) in the tradi-
tion of Paolo Sylos Labini and Ernesto Rossi. The Great Recession –
the final crisis of Neoliberalism as we knew it – and the European disaster,
as the deadlock of Neo-mercantilism, are precisely putting the issues of
‘how’, ‘what’ and ‘how much’ to produce on the agenda.

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