Introduction: Why the General Theory of The Monetary Circuit is the logical and empirical principle of MMT. Why it is the key to true full employment[1]

Alain Parguez

All this essays are contributions to the General Theory of The Circuit, which can truly be deemed the General Theory the State, Money and Employment.

The Core Principle is that the existence of condition is the everlasting fight against scarcity and rationing, the very long struggle against the Malthusian state. Herein is the explanation of my life-long effort to discover the natural conditions of this escape from rationing.

Money, Real Money, access to the Real Money is the key, the pillar of this economics of freedom. Individuals or groups are motivated by their dream of a true welfare minimizing rationing. To attain their dream, they need, in a society which is no more a pure command dictatorial economy, to spend to acquire income absorbed by the acquisition or enjoyment of commodities tangible or not. As I explain in the first essay, Real Money is iddued by banks as debt on themselves. It is not a creation ex nihilo since it is real expenditures creating real wealth which transform units or numbers in computers into Real Money. Herein lies the source of what I deemed the true stability or existence conditions of a process targeting a future of always rising welfare. The Circuit law had been dubbed by Sir Isaac Newton the equivalent of the Law gravitation, "real money". Whatever its support as soon as it is created, it is charged with real value, which is the global capacity created by expenditures. It goes back to the center which issued it, when real value has been created.

But as I emphasize long run future, driven stability has nothing to do with the Neoclassical or New Keynesian stability enshrined into the tragic non-natural General Equilibrium State. It is an economy always animated by audacious bets on the future, equilibrium in the orthodox sense never exists. The General Equilibrium Theory (GET) is the vision of an end-of-time Society, out of time, where nothing may happen to deny the so-called perfection of nothingness. All happens at the same moments out of real time, all has already happened.

The ultimate energy of natural societies is Art, the most audacious bets, Imagination which abolishes all constraints.

[1] I have to pay tribute to Slim Thabet and Alexandre Wolff for this introduction with both of them I had very rewarding debates.

Where I would define the living Homo œconomicus, I would refer to the Artist, the very one endowed with the gift of projecting itself into the unknown, escaping from the petty-bourgeois pseudo rationality worth of Balzac Villains.

But the ultimate existential condition of this project of harmony is the State. Without the leading anchor role of the State, the future should be darkness. It is what I explain in the following papers: only the State, as long as it has absolute sovereignty on the currency is free to dare to imagine a future free of constraint. Yes, the role of bold Artist is crucial. Imagination is the engine propelling Society towards the future, but the State is the Supreme Artist, the Lord Protector of imagination.

It is why non no-Malthusian system may exist with everlasting growth of State expenditures, always opening new frontiers (including space, perfect health, and enlightenment for all).

I was the first to prove that, since we are not in the quasi-surnatural General Equilibrium, taxes do not finance State outlays. The State must be master of money creation though as I show directly or not. The Central Bank, one of the proof of the intellectual and social decadence, is the paranoia relative State deficits and the public debt which did not exist before 1914. The deficit is ex-post accounting which, in a dynamic conception of stability, must be the counterpart of State investment in welfare and freedom. It reflects the creation of real value, of confidence into the future. I prove that the State issues public debt just to warrant financial stability of banks and net savers. It is why I dubbed public debt as the transfer to the future, the reward of imagination.

If we have doubts about the fallacy of orthodox economists is that they cannot understand the basic principles of accounting by running willingly a deficit. The State provides profits to the private sectors (domestic or foreign). Contrary to an old belief, I bring about the rigorous proof that the balance budget multiplier is always negative and inflationary.

But to fulfil his mission, the State must be at the service of the people. Herein lies the absolute catastrophe of the European Monetary Union (EMU), a pure folly denying all natural principles, which transformed the States into agents of speculation ready to ruin their people to save banks balances sheet. In “Eurodom”, imagination, Art, and care of people vanished.

Fully support to the total rejection of the chains imposed on the people. I prove that the EMU was the final outcome of a plan which started in the interwar period aiming at a totalitarian New Order inspired by the philosophy and backwards quasi-agrarian economics of Friedrich Hayek. I must say that there is an absolute contradiction between a full dynamic Modern Monetary Theory (MMT or MMTF) building the future and Austrian Economics and Political Philosophy. Those who believe in some agreement either ignore what is the true Austrian

Conception of the world or do not fully understand the "revolutionary nature" of MMTF relative to the Hayekian New Order. Herein lies the absolute contradiction.

AUSTRIAN WAY ACCORDING TO HAYEK	**MMTF OR CIRCUIT APPROACH**
No positive dynamic role for the State but an dictatorial enforcer of God revealed Market Laws	*Learning role of an enlightened State aiming at maximising welfare*
Rejection of any positive role of money	*Real Money is the infrastructure*
Absolute Constraint of the saving fund	*No saving fund*
Authoritarian technocratic order abolishing Democracy	*March towards true enlightened Democracy*

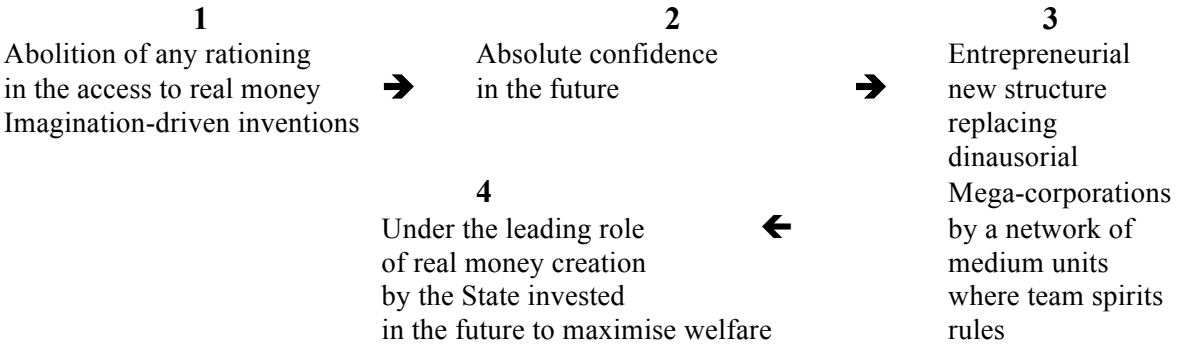
From this set of essays, the reader must draw the conclusion that abolishing an absurd system is not enough. Going back to the past is impossible. There was in the Eurodom some desperate effort to escape from the tendency to decay of Capitalism as a mode of production which started in the early seventies. It reflects the necessity of a new Agenda creating a new mode of production, a post-capitalist system free from the dictatorship of scared technocrats willing the joy-bringing power of rationing, parasite mega-corporations exacting rents out of poverty and collapse of welfare, useless financial markets which make false money out of illusion.

It proves that the Monetary Circuit Approach is truly "evolutionary". I am always surprised by those heterodox professionals dallying with evolution with proud. All great thinkers were concerned by the unceasing transformation of the natural system from Marx to Keynes. Thereby, I fully agree with Robert Skidelsky: all or most department of economics should vanish because they are under the lethal spell of General Equilibrium as an eternal present, childish rationality, and pseudo-formalisation. Why do they survive? Because the Hans and Gretel (an old German tale in which tow Children are seduced by the Devil) youth by promising fortune in the black art of finance. Dallying with illusion, they provide brain-washed youth for illusion industry. As I emphasized, denying transformation, rejecting time, wishing a God-like eternal present, herein was the core of the General Equilibrium mythical Disneyland paradise.

In the Pos-Capitalist system, Hans and Gretel can no more be seduced. There is no more a pure parasite financial system which allows the creation of fictitious wealth and the creation of false money. Indeed false money because it is depraved of any real value since it cannot generate real value.

The ultimate driving force is to raise welfare thanks to State pure bold bets on the future. Herein lies the true "Equilibrium" in the natural world. It is, as I strived to prove, the negation of the General Equilibrium State of "pure economics".

Finally, such a system of which Sir Isaac Newton had the intuition can be explained by the following graph:



It does not mean at all that the State productive investment must always rise alternative to private dynamic expenditures.

Herein one must take care of what must be deemed the dynamic intertemporal super multiplier accounting for the impact of State productive investment on the long run expectations or bets of the private sector. It has nothing to do with a proof the Keynesian multiplier of course which is constant, ignore bets on the future and rely on an equilibrium condition I=S. A proof is given by what happened with the rooseveltian New Deal: I computed a super-multiplier of 5 to 6. Inversely, what is certain as I proved is that any effort to get a balanced budget has always a strong negative and inflationary impact. Haavelmo Theorem was the worse part of Bastard Keynesianism[2].

Ultimately, the sine qua non of true stability in an always changing environment ruling the allocation of labour is two twin conditions:

1. The State must have an absolute control of its currency. The Treasury and the Central Bank could be united. Thereby never must the Treasury issues bonds for other motives

[2] Herein is the roots of Bastard Neo-classical Keynesianism. I never understood how Keynes could reconcile the equality, an equilibrium condition with the fundamental identity of chapter VI and VII of the General Theory. Did he confuse identity with Walrasian instantaneity and simultaneity? It is obvious that it could explain why fiscal policies fell into such a discredit! Obviously Keynes should have read what Leibniz wrote to Sir Isaac Newton on the Philosophy of Integration.

than stabilizing banks balance sheet. The Treasury is Master of the stock of bonds and interest rates.

2. The State must target always true growth raising welfare when they are met. Society cannot be horrified by the future. Crises are impossible.

It is why the so-called automatic stabilizers or pure endogenous positive or negative deficits stabilize nothing. They are the legacy of Bastard Keynesianism, the first effort to save General Equilibrium Theory by introducing some elements of the natural world, namely they could be all kinds of rigidities, asymmetric of information, money-shocks, the State etc. All those efforts failed and it is why the reader must ignore debates between New Classical (in fact Jurassic Park classical) economics, New Keynesians who are everything but Keynesians, media neo-new Keynesians who as columnists sustain what they rejected as economists etc[3]. Now the reader knows that most of official data are wrong because they are the tools ruling technocrats, rentiers, politicians under their spell use to justify austerity and pain[4]. I am aware of being scored as being a Philosopher ignorant of the beautiful under-graduate algebra! Yes! I share this infamy with Sir Isaac Newton, Marx, Keynes, Ricardo, while like Sir Isaac and Keynes to be a Natural Philosopher does not mean to be ignorant in mathematics. Models fanatics should read the Harry Potter Story, there are lectures on mathematical models of Block Arts!

[3] On this point, I fully agree with Robert Skidelsky in his wonderful last book, *The Return of the Master*, who mocks admirers of media deficits-fans (forgetting that they maintain strong limits and do not understand how the State all its expenditures).

[4] This religion of numbers is an obstacle to any serious empirical research.

Beyond the veil of the financial crisis
The butterfly theorem or how to reconstruct out of a genuine New "New Deal" a stable long-run true growth.

Alain Parguez October 2009

This paper is the revised and extended version of a conference at the James Galbraith seminar held at the Lyndon B Johnson school of social studies, university of Texas at Austin on september 11 2008. I have to thank all the participants for their comments and I owe much to following discussions with Olivier Giovannoni and Daniel Pichoud. As I emphasized before, it is to be read as part of a General Theory of the modern capitalist economy, and thereby as its model. From this general model one may derivate many little formalized models if and only if they are required to bring about robust true empirical studies deprived of excruciating ad hoc assumptions.

In guise of introduction : the butterfly principle

In Parguez 2009 (a,b) I explained why the core base of the modern capitalist economy is the monetary circuit process entirely relying on the leading role of the State through its fiscal policy.
In this contribution I intend to address the fundamental consequences of this process for the explanation of the so-called 2008 financial crisis.
In a first part I shall derive from this process the stability conditions of the real economy which are also the existence conditions of a long-run growth path.
In a second part, it will be proven that for some time those conditions had been violated by an accumulation of disastrous policy choices by States turned to predators.
Herein lies the sole explanation of the financial crisis which is nothing but the veil of a structural or systemic crisis, the second one, the first being the 1929 one. In normal circumstances a minor shock like the sub-prime affair would have been without a deep impact, but, in a fully destabilized real economy, it played the role of the butterfly effect of chaos theory. The landing of the butterfly generated an earthquake in Wall Street.
Thereby in a third part I shall strive to describe what must be the sole sensible agenda to bail the economy out of the systemic crisis. It goes far beyond the salvation of the financial system by State injection of money and "morality" imposed on traders. It is much more than a mere short-run fight against a pure recession. Even in the USA, the recession could be over but the crisis it has revealed could just be starting. I shall prove that what is required is to reconstruct the infrastructure of a new long-run growth path meeting more the stability conditions than the previous one that was destroyed by the predator State. The Agenda is rooted into a long-run planned deficits commitment of which the counterpart is the planned growth of public investments creating tangible and non tangible real wealth.

Part I The stability conditions of a long-run stable growth.

From the analysis of the dynamic monetary process, one may derive the set of stability conditions. As it will be explained, all ultimately depend on a long-run fiscal policy targeting high-enough planned deficits. I think of five intertwined conditions which must be simultaneously attained:

1/ A genuine full-employment excluding all kinds of involuntary under-employment. It is the golden path to a sustainable price-stability implying the inexistence of true inflation.

2/ A stable and high enough labour share in macro-economic distribution implying a sustainable and moderate inequality in income distribution.

3/ A stable banking system which requires that there is a long-run stable growth of State debts to which the growth of private debts is to be adjusted.

4/ Pure monetary policy is to be adjusted to long-run fiscal policy 3 and 4 together must ensure low enough and stable rates of interest and prevent banks to thrive on loans which do not instantaneously materialize into productive expenditures.

5/ At last, taking care of the foreign sector, the State must always spend in its own currency and public investment generated by planned deficits must in the long-run allow a sustainable trade deficit. 5 means that in an economy well-managed by planned deficits there cannot be a

true foreign constraint. It implies that the State must not target (or rather enslave itself to) a fixed exchange rate.

I-1 *The full –employment priority target*

One need first an accurate definition of what is true full-employment: it exists when all those needing to work to attain the socially normal (providing no exclusion from the dominant standard of life) long-run consumption expectations, are able to get a job providing them with enough income either from the private sector under normal conditions (out of its profits long-run expectations) or from the State (all levels together). Full-employment must thereby be defined relative to the socially exogeneous long-run household expectations which change over-time from a very long-run perspective. Its existence condition is ultimately the absence of income rationing for those able and willing to work.
From this definition stems the genuine definition of true unemployment which includes all cases of disguised unemployment taking care of existing forced under-employment. It should be obvious that true or effective unemployment is involontary since it implies rationing and failure to meet the long-run consumption expectations.

I-1.1 Let us first look at the determinants of effective employment in the private sector firms. In any accounting circuit period taking care of the exogeneous long-run consumption expectations, there must be a unique amount of effective labour income W^0 meeting them, such that:

If:
W^0 Labour income
L^0 Required quantity of labour in labour units(taking care of the socially accepted working time)
w^0 Income in money units per unit of labour to get the normal basket of consumption goods

Then:

$$W^0 = L^0 . w^0 \qquad (1)$$

Identity (1) needs three comments to get rid of false interpretations:

-W^0 is rising over time as more items are included into the targeted basket of consumption goods and more household desire to get an autonomous income whatever the precise motive.

-There is a unique combination of L^0 and w^0 providing non-rationing. It means that there is no trade –off from the perspective of income-seekers between L^0 and w^0. In other words to each W^0 there is a unique set of L^0 and w^0.

-At last, income seekers determine w^0 in terms of its purchasing power on the targeted basket of consumption goods. It means that w^0 is fixed taking care of expected inflation which implies that contrary to some widespread interpretations inherited from "bastard Keynesianism" and the "Philipps Curve" (which is fully part of it), income –seekers are free from any kind of monetary illusion. They fix w^0 because relying on what they may know of pricing behaviour they bet that it must provide them with the desired real wage in terms on consumption goods.

Identity (1) means finally that in the given accounting period, W^0 is the <u>value</u> of the existing labour force.

I-1.2 On the other side from again a macro-economic perspective, let W be the labour income firms want to pay and are to pay assuming that their expectations are endorsed by the banking system . W meets identity (2):

$$W \boxed{\times} L.w \qquad (2)$$

Where L is the effective quantity of labour employed and w the effective income paid for an average unit of labour. (2) has three characteristics:

-First, W may vary over time, rise or fall only depending on firms expectations.

-For each W there is a unique combination of L and w meeting firms expectations. It means that from firms bets on the future perspective there is no trade –off between L and w.

-No more than income-seekers, firms suffer from "monetary illusion". Through the fixation of the wage in money units, they target the real wage fitting their pricing plans taking care of the average labour productivity. Such a rule reflects Eisner proposition that firms long-run expectations embody their given production function (Eisner 1960)

We get thereby the employment function in each accounting period t

$\boxed{\times}$ long-run expected flow of profit or "permanent flow of profit"
r* long –run targeted rate of profit
W_t Wage bill

$$W_t = \boxed{\times}\,\boxed{\times} \qquad (3)$$

It relies on two fundamental motives and it seems to be supported by ongoing empirical research:

- First, firms must adjust their effective employment to their given permanent profits flow. W_t is the value of labour which according to firms bets embodying their production function, must provide them with the aggregate amount of output generating enough sales to reach the level of profits fitting the permanent flow. It has already been proven (Bliek and Parguez 2007) that $\boxed{\times}$ is an endogeneous variable depending directly and indirectly on planned State deficits (the anchor-effect). It means that a rise in realized profits which is not looked as a consequence of an increase in planned deficits has no impact on employment. It just leads to a rise in the effective share of profit above its long-run term required level. Such an effect explains why pure automatic anti-cyclical fiscal policy (the so-called automatic stabilizers) has no impact. Firms endowed with the minimum degree of rationality are to expect the future fiscal surplus out of an automatic increase in taxation and an equally automatic

decrease in expenditures. This anti-stabilizers theorem generalizes Eisner (1960) proposition that a rise in profits generated by an increase in sales looked as "accidental" has no impact on investment.

- Second (2) emphasizes the crucial role of the employment multiplier 1/r* to be substituted for the old Keynesian multiplier. It reflects the ability of firms' managers to react to the threat of absolute uncertainty or rather unknowability of the far future taking care of their creditors own fear of what could happen. Even if firms and banks managers are ready to believe that for the very long-run the State is committed to a growth of planned deficits they cannot ignore what could or rather must happen in the short-run. They are obliged to bet on short-run "shocks" embodied into sudden and sharp reversals in fiscal policy. Thereby rational managers are obliged to strive to protect themselves from those shocks which must induce sharp losses in the capital value of firms and banks. In the most straightforward way their problem is:

  By how much raise employment when we may rationally bet on an increase in the permanent profits flow?

  Their answer must be:

  The more we fear a future downwards shock in fiscal policy the more we must be cautious in our employment response, the lower is to be the employment multiplier.

The 1/r* factor must be interpreted as a structural factor of the monetary capitalist economy, a long-run insurance policy against fiscal policy shocks. Its twin is what must be deemed the long-run required share of profits m*. Assuming for the sake of simplicity that the share of net rentier or interest income in the aggregate private sector net of taxes is an exogeneous policy parameter controlled by fiscal and monetary policy, m* being the share of expected long –run profits to the aggregate private income net of interest fitting firms long-run expectations, we get with:

m* long-run required share of profits
Y firms long-run expectations of output

$$m^* = \frac{\boxed{\times}}{Y} = \frac{r^*}{1+r^*} \qquad (4)$$

(3) and (4) may stir the echo of Kalecki theory on income and employment. What the theory of the monetary circuit has borrowed to Kalecki is the fundamental duality of the profits variable. They differ in the interpretation of the distribution parameters r* and m*. In the generalized circuit approach both are not just explained by the non-existence of perfect competition, the mark-up pricing theory illustrating the "degree of monopoly" which unveils a reference to the perfect competitiveness model as some relevant state. They are only explained by the capacity of capitalists (producers and bankers) to impose on income-seekers their search for insurance against shocks in the contest of absolute unknowability of the

future. Thereby as it will be proven contrary to Kalecki both can be ultimately controlled by the State

I 1.3 –Finally the employment function relying on the (r* m*) multiplier fits some ongoing research (Giovannoni 2008 b). Being very-long –run variables it is perfectly sensible that effective levels of r and m fluctuate around their required level. As already explained any increase in the State deficit which is not registered as a change in the planned deficit, generates a rise in the share of profit above its required or long-run level. Inversely a drop in the State deficit which is registered as a pure shock generates a fall in the share of profits below its long-run level. It could explain why looking at the USA data the distribution factor fluctuates pro-cyclically around its rather stable long-term level.

I 1.4 From the employment function stems an obvious conclusion: there is not the least reason why the private employers let alone could generate full-employment. The normal case of any monetary capitalist economy is unvolontary unemployment because income-seekers own long-run expectations determining the long-run growth of W^0 do not have the least autonomous impact on the determinants of W_t. Usually W_t over time is to be lower than W^0 because of the profits motives constraint.:

- The permanent flow of profits is too low over time because of the non-existence of planned State deficits or just because they are not growing at the required rate.

- The employment multiplier is too low (the required share of profits too high)

Both constraints prevent the existence of the dynamic process initiated by household increase in debt what could be deemed the generalized dynamic accelerator process: household new debt resulting from their given long-run expectations cannot generate the future growth of their income that could pay for their past debt.

II 1.5 Full-employment must be a priority target of fiscal policy for two intertwined reasons:

A/ Beyond pure moral and social justice motives (including the very legitimacy of the political power) it is a deep source of economic waste and instability. Beyond, may be, some minimum threshold, unemployment becomes self-increasing. There cannot be a situation that could be deemed "unemployment or under-employment equilibrum". The explanation is straightforward:
Its origin lies in the increasing incapacity of firms and banks managers to fight uncertainty worsened by the non-existence of an anchor effect. Thereby there must be a widespread desire of the private sector managers of an increasing share of profits which materializes in a decrease in the wage in money units. It generates a drop in consumption (and thereby in investment) leading to more wage cuts and more unemployment.

B/ Contrary to old conventional mainstream belief inherited from the Phillips statistical curve transmogrified into a law there is not the least alternative in a modern economy between true full-employment and true inflation. In an economy directly driven mainly by consumption a sensible definition of inflation is a long-run fall in the purchasing power of labour income because of the non-compensated increase in the prices of the basket of consumption goods fitting holders of labour force long-run expectations. It is tantamount to the depreciation of labour and thereby a continuous fall in the amount of value or rather anchor-value generated by the creation of money. It means that contrary to the weird interpretation of inflation as a

tax levied on money holders (it is the famous seigneurage which could exist in old despotic or restored ones economies) inflation is an increase in labour exploitation levied by the capitalist class, firms and banks alike. This inflation exploitation can indeed be reinforced or generated by the State when it turns Predator by over-taxing prices of consumption goods or increasing the monopoly price of its own services.
To make sense of this definition germane to any capitalist economy, let us start by defining under very simple assumptions, the pricing process of consumption goods. As explained in the monetary circuit literature, prices enter the system in each accounting circuit period as key variables of the spending plans of firms. It does not mean that prices are frozen; they are determined simultaneously with quantities; they may change overtime but they are not pure "market prices" since they must be fixed by producers and only by them. They are a key part of firms own planning as John K Galbraith discovered a long time ago in his New Industrial State (1967)

If:
L aggregate employed labour in labour units
k the share of labour in the production of consumption goods
a average labour productivity
b_k the share of interest paid by firms in the consumption goods sector
R aggregate losses in this sector resulting from under-utilization of equipment
Z_k aggregate raw material costs in this sector
J_k capital losses per unit of output
z_k capital losses per unit of output
jk raw material cost per units of output
g^* cost of State services charged on household
r_k* the required rate of profit
p^*_k the average price of private consumption goods
P_k* the inflation index.
w being as always the money paid for an average wage unit
For the sake of simplicity there is no mention of the time index t.

In each accounting period the inflation index is:

$P_k^* = g^* + p^*_k$, where g* is exogeneously given since it enshrines the monopoly power of the State on its services

$$p^*_k \; k L = w a k L (1+r^*) (1+b_k R) + J^*_k - Z^*_k \qquad (5)$$

$$p_k^* = \boxed{X}(1+r^*) (1+b_k R) + \boxed{X} + \boxed{X} \qquad (6)$$

$$p^*_k = \boxed{X}(1+r^*) (1+b_k R) + j^*_k + z^*_k \qquad (7)$$

In this system one may assume that the required rate of profit r* is the same in all sectors. Since it applies to net profits, it already takes care of taxes on profits and financial amortization of past investment in terms of acquisition of equipment goods sold by the equipment goods sector. Taxes on consumption goods sales are included into the g* component of the inflation index. Because of the accelerator-led investment function we may

assume that k is a constant while a, the same in all sectors, is in the long-run rising with public investment in technology, research, education and health.
From these very sensible assumptions one may derive the following characteristics of the inflation process:

- The more the State promotes full-employment out of long-run planned deficits policy, the more a is rising, r* is falling because of more optimistic expectations , b_kR drops thanks to a continuous drop in interest rates and lower accumulation of net debts by firms in all sectors where sound household debt are substituted for firms debt. At last the more the economy converges on full-employment the more consumption-goods firms (like investment goods one depending on them) escape from losses caused by under-utilization of equipment.
- Since a full-employment policy requires planned deficits it imposes either a drop or at least a stability of the g* component.
- Contrary to the core postulate underlying the Phillips curve-led alternative and its progeny (the NAIRU the natural rate of unemployment) the more the economy is close to genuine full-employment the more the so-called wage-led inflation disappears. It would contradict the long-run expectations of labour-force holders. They are free of the weird disease of "monetary illusion" invented by neo-classical economists interpreting Keynes and endorsed by most of the neo-marxist school especially their regulationist branch (Bliek and Parguez 2007). They do not have the least motive to impose increase in the wage in monetary units, their consumption expectations being met, that would impose a collapse of their standard of living.

There remains a last factor the exogeneous rise in raw materials entering the production of consumption goods (energy, basic components of food prices, etc.). In the long run it cannot be controlled by a rise in unemployment. It must be compensated by specific long-run government policies which are part of the planned deficit strategy (development of new sources of energy for instance).

We are therefore led to the following conclusions:

A/ The sole way of promoting <u>true</u> price stability is to promote true full-employment

B/ There is not the least paradox in the so-called stagflation era which started in the seventies in USA and afflicted Europe, France for instance from 1976 onwards (Parguez, Bliek 2007, Parguez 2008). Stagflation is the normal or spontaneous situation of a capitalist economy when the State abandoned its anchor role. It is a paradox for those who ignore the genuine pricing process of modern economies. Wage-inflation leading to a profits squeeze never truly existed in economies close to full-employment. It would postulate fully irrational and self-destroying behaviour from income-seekers (organized or not).
These propositions sustain the existence of a positively sloped Phillips curve which according to ongoing empirical research (Giovannoni 2009) could fit the USA case. It should allow economic research once for all to dismiss the very notion of a NAIRU or a natural rate of unemployment à la Phelps, "the greatest misconception of all" (Eisner 1994 p 69)

C/ What must be done is the systematic very long-run intervention of the State both in the private economy and in its own sector.

C1/ In the private sector through a very long run commitment to planned deficits embodied into specific programs responding to the existing and foreseen needs of society, the State may control the determinants of the employment function in its two pillars:

- It may generate a strong growth of the permanent flow of expected profits.

- It may induce a declining required share of profit, an increasing employment multiplier. By providing all firms with the certainty of an accelerated delivery of net profits, the State leads firms and banks managers to always dare to answer positively to household new debt. Ultimately the desire for insurance against shocks could fall to a minimum (r°, m°) ensuring a perfect coordination of firms, banks, and job-seekers long-run expectations.

As already mentioned the real or material twin of those increased planned deficits embodies daring bets on the future of Society. In some way through the creation of money by its expenditures the State may invent (or strive to invent) the future. Herein lies what mus be deemed the dynamic planning system experimented only in the USA and never in the European monetary union (Europa).

Old planning	Dynamic planning
1 The private sector either does not exist or is controlled by the State	1 The private sector plays the crucial Role and behaves independently
2 The employment function plays no part	2 The State strives to have a positive impact on the determinants of the employment function
3 Consumption is squeezed and plays no part in the growth process	3 The growth of public investment does not require a squeeze of consumption
4 The accelerator –led accumulation function does not exist	4 Consumption is the ultimate direct engine of growth
5 The State planners pretend to know the future	5 The accelerator-led investment function rules. One could even think of a generalized accelerator in the employment function
6 State investment leads growth but does not entail audacious bets	6 The State or rather public investments are the anchor; they entail audacious bets to invent the future
7 Ultimate failure and shock therapy	7 No shock –therapy to end the dynamic planning

C2/ In its own producing sphere, the State generates employment in terms of the State permanent employees (or civil servants). The long-run growth of public investment requires more job creation. No dynamic State targeting full employment will indulge into policies targeting the long run disappearing of public employment in the like of the Sarkozy "New-deal" in France from 2008 onwards. There could be more: the State (all levels) could implement direct program of job creation outside the normal public service. It is the core of the ELR (employer of last resort) programs promoted by Mosler (1995,1998), Tchernova (2008) and Wray (1998). Those programs are to be included into public investment at large and thereby included into the planned deficits. Contrary to the State subsidized jobs in the private sector, the ELR program does not contradict the fundamental law of value.

I.2 *The distribution factor policy is the twin of a true full-employment policy*

I 2.1 It has already been explained why a low and stable share of profit is a sine qua non condition of the success of a full employment policy. For a given planned growth of public investment through planned deficits, there could be as mentioned a minimum required level of the share of profits m° fitting the perfect adjustment of expectations.
It means that in a dynamic monetary economy directly led by consumption there must be the following cumulative process:

A rise in m* (or r*) automatically generates a rise in unemployment because firms no more endorse income –seekers bets on future consumption ; the rise in unemployment generates a drop in consumption ; through its cumulative impact (accelerator) it generates a drop in the permanent profits flow ; which could increase the threat of uncertainty and raises more m*.

I 2.2 According to an empirical study of Giovannoni (2008 b) looking at the data from OECD countries for a long period there has been an extreme divergence in the evolution of distribution (the m* factor) fitting the cumulative process just described.

A/ In the USA from 1954 to the end of the nineties of the past century the long-run m* was remarkably stable. It started to rise after 2001 under the Bush years predator State. In the euro-zone from 1983 onwards the share of profit never stopped to rise especially in France and Germany. Even in the USA, the rise in recent years has been much more modest than in the Euro-core for such a long time.
As predicted by the theory from 1983 onwards effective unemployment never stopped to increase at an accelerated pace while in the USA unemployment only started to grow in the recent years pari-passu with the change in macro-economic distribution.

B/ How can we explain such a divergence but by deep differences in macro-economic policy relative to distribution:

> In the USA the extraordinary stability for a very long time of the share or profits can be interpreted in terms of a stable and low m* reflecting the high confidence in the future of industry and banks managers maintaining a very high employment multiplier sustaining the dynamic indebtness process of consumers and thereby the accelerator investment function of Eisner. The State contributed to this stable distribution through the constant growth of its expenditures. It is true that during that period government deficits were not increasing in the long run and it is not even sure that when they occurred they were <u>always</u> planned. At least all private long run expectations makers were certain that the

government will accept deficits when they were required to compensate for short run shocks in private expenditures (drop in consumption leading to a drop in investment or drop in investment following over optimistic bets on consumption as deviations from the long run accelerator functions). There was one exception to this anchor effect sustaining consumption expectations, the stagflation era from the late sixties to 1983. It was a time perfectly fitting the positively slopped Phillips Curve. Inflation started to accelerate as unemployment started to grow. A sensible interpretation rooted into Eisner (1994) is that the government lost its role of anchor and decided to fight an inflation caused by exogeneous price shocks and capital losses out of under utilization of equipment by a restraint on expenditures and higher taxation. The share of profits started to fall not because of profits squeeze by excess wage hikes but as the outcome of a much slower growth of consumption and State expenditures which vindicated the generalized accelerator function by the induced decline in expected profits.

C/ Contrary to the USA since the mid seventies but mainly since 1983 there has been in the Euro –core, Germany, Italy, France a long run policy targeting explicitly the increase in the long run share of profit (and thereby a collapse in the share of labour taking care of all social benefits).
As shown by Giovannoni charts (2008 b) in the whole Euro-core the share of profits rose rather at the same pace. What is more remarkable is that it started at level quite below the USA level and in the long run converged towards the USA level.
Such a stunning divergence relative to the American case is raising three questions of the upmost importance for the forthcoming explanation of the 2008 crisis.

1/ Does it contribute to explain the accelerated increase in effective unemployment in the Euro-core and especially in France? The answer is yes without any doubt. It is a perfect empirical vindication of the employment function.

2/How could we explain such a policy and how was it implemented?
Looking at the macro economic models used by the French ministry of finance is highly instructive. They relied on two postulates mixing some neo Ricardian theory of distribution and some neo classical reference to a permanent or potential income accounted into a state of full rise of factors capacity:

- Accumulation was the sole engine of growth; consumption played just a pure passive role. Investment function used by planners rejected the Eisner accelerator. Investment only depended in a dynamic economy on the expected growth of aggregate profits which itself reflected the growth of past profits.
- In any accounting period to raise aggregate profits it was enough to force an increase in the share of profits since the "significant income" was given. Thereby ultimately to get a super dynamic growth (the exhilarationist regime) it was enough to squeeze more and more labour.

What was required to implement this forced increasing labour exploitation policy was just to force an accelerate decrease of the growth of the real wage until it became negative relative to the growth of productivity which itself reflected partly the impact of more authoritarian labour conditions. Because of the concern with price stability the success of this policy depended upon the downwards adjustment of wages in money units relative to productivity. It could only be achieved by a long run State fiscal and monetary policy targeting the rise in unemployment out of a squeeze today of aggregate demand the core

of 1983 shock –therapy in France (Bliek and Parguez 2006), the true Attali plan. Euro shock-therapy plans triggered a cumulative process of stagflation :

-The initial shock raised so much unemployment that downwards wage adjustment allowed the targeted rise in the share of profits which generated more unemployment initiating higher share of profits determining more unemployment. Expected long run profits could not rise in such a self –destroying environment. Decreasing growth imposed un-wanted government deficits which had not the least positive impact on expectations; herein lies the perfect example of what must be deemed "bad deficits". These deficits just raised the share of profits above its long run rising path. Meanwhile inflation did not vanish at all. The drop in labour costs could not compensate the continuous rise in the r* factor in interest costs and in capacity utilization.

-It is thereby obvious that a policy of increasing the share of profits destroys the anchor-role of the State, it leads to a depreciation of the value of labour that creates an environment of obsessing fear of the future which explains why in the USA private managers own required share of profits started to diverge from its long run stable level in the very late nineties or early twenty first century. Its outcome was an increase in unemployment followed later by a renewal of inflation: the positive sloped Phillips curve is again vindicated. Contrary to what happened in the Euro-core it was not the outcome of an explicit State policy choice. It could be explained by an increasing uncertainty about the future relative to shocks in the production sphere. The twin of the rise in the desired share of profits was the flight from production of real value to pure speculative finance which seemed free from any shock!

3/ There remains a last question raised by the convergence. Why ultimately does the same distribution reflects such an enormous difference in effective unemployment between the Euro-core and USA illustrated in Giovannoni (2008 b)? The answer lies in the very process of convergence imposed by policy choices. It generated more and more pessimistic expectations in Europe relative to the USA. The desire to be protected against the increasing threat of policy shocks became more demanding in Europe, which let firms to thrive in Europe on a long run collapse of the employment multiplier.

I.3 *The sine qua non of a long run stable growth attaining true full employment and thereby the required distribution is a perfectly stable banking system.* It is maintained when banks are always endorsing private expectations leading to the creation of true real net wealth (its anchor being the growth of the labour –value) without believing that they are obliged to impose rationing on private spenders.
The existence condition of this long run "financial stability" is that the stock of private assets held by banks and other private institutions acting as pure intermediaries (pensions funds, insurance companies, investment banks etc) must always be adjusted to the long run growth of government debt. True "financial stability" requires that the long run rate of growth of public debt is the very one generated by the required rate of growth of planned deficits reflecting public investment in the broadest sense; it must be deemed the "financial stability law".

I.3.1 Debt titles issued by the government are for banks and all financial intermediaries the most secure asset. It is exactly the equivalent of cash in State-issued money providing a fixed income decreed by the treasury. The State can no more default on its debt instruments than on its cash directly issued by its banking department the central bank. The market value of

treasury debts title is absolutely independent from speculation thriving on fragile bets on the future. It is true that fluctuations in the rate of interest charged by the central bank may generate inverse fluctuations in the value of public debt titles because of its impact on the expected long run rate of interest. As shown by a converging set of empirical studies especially Giovannoni (2008 c) the central bank own rate being a pure exogeneous policy variable, it means that central bank monetary policy ultimately controlled the market value of public debt titles. The financial law stability requires thereby a perfect coordination between the planned deficit policy and monetary policy. The central bank has to target, as it will be shown, low and overall stable long run interest ratio. Even if this coordination is not perfect the value of private banks assets generated by private debts is much more instable than the value of treasury debts.
Private debtors, firms and household alike may default because of over optimistic bets on can unknowable future. Failure of private expectations may lead to a collapse of their market value inducing in banks balance –sheet losses which could become unsustainable. Even if banks losses are compensated by the provision of State money whatever the mechanism banks can be led to stringent rationing of private debtors (the so-called credit crunch)

I.3.2 Herein lies the ultimate reason why there cannot be a trade –off between public debt and private debt to attain full-employment stable growth.

There would be a trade-off if the growth of private net debt could be substituted for public debt in banks balance-sheet without increasing financial instability. It would mean that banks net creation of money for household is substituted for planned deficits as the anchor of full employment growth. The growth of household net debt should be henceforth the source of both the required growth of the permanent profits flow (accelerator effect) and high enough an employment multiplier.
This fall of the ratio of public debt to private debt generates thereby a drop in the private sector net saving which turns into an aggregate net deficit. Banks assets value is more and more fragile because it only depends on firms expectations of the solvency of their debtors which rooted into their bets on the future rise in the value of the collateral of the loans (houses prices). Those bets are anchored in nothing, they are purely speculative. As soon as there is the start of a reversal of expectations because of some shock (some debtors cannot meet their commitments) the whole pyramid of banks assets can be deprived of value. The depreciation process is accelerated if there is suddenly a reversal of the speculation of the collateral value for reason of a new shock.
As banks assets value collapses, fearing suddenly the possibility that their own creditors ask instantaneous repayment in hard liquidity (in our example it must be firms which invested a share of their net profits in banks interest bearing deposits) banks are induced both to stop new credit and ask their debtors to repay at once their past debt.
The economy is henceforth close to cumulative negative process as consumption collapses and thereby private investments, while the induced rise in unemployment is reinforced by a drop in the employment multiplier (a rise in the required share of profits).

I.3.3 The proof of the law should be final[1]:

[1] Herein is the reason why the emphasis put on banks "own funds or capital" is meaningless. It is only sensible if it means an accelerated forced rise in interest rates (including fees) imposed on private debtors. The financial stability law perfectly meets the empirical study of Baragar and Seccareccia 2008.

For an economy there is a long run ratio of public debt to private debts granting financial stability. It does not mean that this ratio is fixed for ever! Let us assume for instance a speculative boom in the value of stocks generated by a sudden shock (like the new technology boom in the late nineties or the house boom in the early twenty first century). There should be at once an increase in the rate of growth of public debt (higher planned deficits) to protect the stability of the whole financial structure (the so-called financial markets).
Former and still existing advocates of the public debt burden cannot understand the fundamental financial stability law in none of its twin components:

- In the long run there must be a constant growth of the stock of public debt, the pure anchor effect to which the stock of private debts is to be adjusted (or its counterpart the stock of private assets generated by private indebtness). It cannot be the same for all economies.
- In the short run a shock –induced speculative boom must lead to an increase in the growth rate of public debt above its long run component.

What underlies the law is that the growth of the public debt as long as it is itself anchored into productive and socially required public capital formation is <u>the most perfect intergenerational transfer of wealth</u> as it has already been explained.
Let us recall the multi aspects of this gift from the present to the future compared to the genuine burden initiated by a growth process entirely or mainly driven by <u>net</u> private debt.

Growth process Anchored into planned deficits	**Growth process not anchored into planned deficits**
1- Permanent creation of a net surplus or saving fund for the private sector	1 No creation of a private net saving fund. Lack of net desired savings
2-Backed by the most secure assets as State money earning interest transferred to future holders	2 Money creation is not backed by secure assets. It cannot lead to the creation of assets endowed with a true stable real value
3-Their collateral is the execution is the creation of real capital endowed with a true value independent of speculation shocks. Its own anchored by the growth of labour value fitting labour force holders expectations	3-The collateral of debts is not thereby the long run endowment of future generation with productive and socially useful capital The value of capital assets is always submitted to speculative shocks.

4-A monetary circuit initiated by State money creation provides financial stability for the future	4-No financial stability granted
5-Ultimately all expectations perfectly converge	5- Expectations cannot converge
6-Finally the growth of public debt maintains the ratio of public debt to private debt stabilizing distribution by enforcing the employment multiplier meeting full employment	6-The failure of coordination leads to unsustainable low employment multiplier (too high desired share of profits)
7-No stagflation is possible	7-Stagflation rules

I.4 *The fundamental financial stability law has a corollary* : the full support of fiscal policy by monetary policy playing what must be deemed its ancillary role

I 4.1 Banks assets must only be initiated by loans instantaneously leading to true real wealth creation whether consumption or through the Eisner –Giovannoni accelerator (Giovannoni 2008a) net new capital equipment. Such a condition perfectly fits the intermediary role of banks when they recycle a share of net private saving fund into non-banks intermediaries like insurance corporations or pensions funds or even the direct acquisition of equity sold by firms. What should be forbidden by regulations monitored by the central bank are two kinds of escape from stability requirements:

- Banks should be forbidden to create money which does not or rather cannot materialize in productive real wealth creating expenditures. Loans to pure speculators thriving on derivatives must be outside the normal role of banks
- Banks must always remain secured against speculation losses by being obliged to hold a share of their assets in State debt. Substituting the requirement of own capital for liquidity in terms of last resort money is the path to disaster. The explanation is obvious: what could be the "capital base" of banks? Either it is State debt (we are back to the traditional reserve requirement) or funds arising from the accumulated net interest income on the sale of stocks to private investors. As long as net income is provided by private debtors it is not secure at all and the value of stocks acquired by private investors (out of loans from other banks) is deprived of any stable real value, it only depends on speculative bets on the future.

Those two conditions <u>together</u> does not mean that this generalization of the theory of the monetary circuit restores the old exogeneous theory of money. It could be true that the central bank is ready to provide liquidity to banks close to bankruptcy. It does not hide the fact that those banks failed, have to pay a cost and will be tempted by more rationing of credit. <u>In any case, money is always by its very definition endogeneous but thanks to the State leading role in the process of money creation</u>.

In a stable economy which does not thrive on creating the conditions of a financial crisis banks money creation is rooted into a leverage effect on the provision at zero cost of State money through planned deficits.

I 4.2 Monetary policy implemented by the Central Bank (at least partly) must strive to maintain stable and low enough interest rates especially for household. Such a policy requires the full cooperation with the treasury that can fix interest rates on the public debt which is always on short supply relative to demand. It means that it is wrong that the Treasury has to rise interest rates to obey to "market forces"[2]

I.5 *The final stability condition is that in an open economy with a non neutral foreign sector E, the State only spends in its own currency and thereby only issue debts denominated in this very currency units.*
From this condition stems the perfect generalization of stability conditions I.1 to I.4 to the open economy.

I.5.1 The fundamental accounting identity (Parguez 2009 a b) must henceforth integrate the foreign sector net surplus or new savings S'_E reflecting the trade deficit, thereby
If:
D_G State deficit
S'_P Domestic net new savings
S'_F Firms new net savings or net profits
S'_H Household new net savings
Π Gross profits
I Firms new investments
S'_B Banks net profits

In each accounting period the following system of identities always holds[3]

$$D_G \boxtimes S'_P + S'_E \qquad (8)$$

With as always

$$S'_P \boxtimes S'_F + S'_H + S'_B \qquad (9)$$

$$S'_F \boxtimes \Pi - I \qquad (10)$$

$$\Pi \boxtimes D_G + I - (S'_H + S'_B) - S'_E \qquad (11)$$

with $S'_H > 0$ $S'_H = 0$ or $S'_H < 0$[4]

I.5.2 According to identities (8) to (11) one can already derivate important results.

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[2] It could be argued that interest on the public debt being the source of permanent income, low interest on public debt could have a negative impact on expectations. This negative outcome can be nullified by a true full-employment policy generating a strong rise in other sources of permanent income, wages and profits.
[3] For the sake of simplicity I assume that firms commitments to be met are equal to new investment.
[4] This system is more germane to a correct understanding than the usual accounting way emphasizing an I-S condition to explain(with D_G) the foreign surplus. S is a vague notion which aggregates wrongly household savings (gross or net) and firms savings (gross or net).

A/ The so-called twin theorem deficit is but a very peculiar case. It only exists when $S'_P = 0$ which requires that firms get zero net profits because of positive banks net profits and no new indebtness (net) of household. All other cases are possible and they exist in reality.

B/ A State surplus could for some time coexist with a private surplus if there is a much higher foreign deficit (trade surplus). It cannot as it will be explained be sustained in the long run.

C/ At last a State balance coexists with a private surplus if and only if there is a foreign deficit. Even in such a case the foreign deficit could sustain net firms saving if and only if it is high enough to compensate for the negative impact of forced household saving leading to an unsustainable level of their net increase in indebtness.

D/ A foreign surplus may be higher than D_G if and only if the discrepancy between both is equal to the net deficit of the private sector. In such a case firms net profits are ultimately equal to the excess of the State deficit plus household net new indebtness over the sum of domestic banks net profits and foreign surplus (identity (16) with $S_H < 0$).

I.5.3 In this identity system the State deficit is the ultimate causal factor. The State is free to determine its expenditures (strong exogeneity in econometric terms, Giovannoni 2008 a) while it partly controls its tax revenue by imposing tax rates. It is true that there are exogeneous factors ruling the foreign surplus but it does reinforce the long run stabilizing role of the State as long as are some existence conditions met.

A/ The foreign surplus depends partly on factors which are exogeneous for the State as least in the medium run:

- The structure of domestic output relative to the structure of domestic demand reflecting long run household expectations
- The relative purchasing power of labour reflecting the structure of real wages.
- The exchange rates determining relative prices in the State currency units.

According to some starting empirical studies (Galbraith 2008, Parguez and Giovannoni 2009) these factors together could explain partly the increase in the American trade deficit relative to China since the late nineties especially:

- The accelerate decrease in the share of material output in the USA and the accelerated rise of truly non productive services (most financial services) which did not meet a genuine demand but were imposed by financial capitalism following the model of J.K Galbraith supply-imposed output structure.
- The ability of countries like China to provide more and more consumption goods incorporating high technology with lower relative purchasing power of labour. Imports of those goods do not reflect at all some dumping from China. To the contrary they reflect the high quality of Chinese labour pool and the Chinese lack of supply in the USA.
- At last, exchange- rates do matter and they are in the short or medium role beyond the control of the State and such a condition is required.

Thereby the State is obliged to plan a deficit high enough to prevent too strong a decline in the aggregate net private surplus. By planning too low a deficit the State would impose an unsustainable drop in household net saving just to protect expected net profits and prevent an unsustainable drop in employment accelerated by an increase in the required share of profit (a fall in the employment multiplier).

B/ It is thereby not true that foreign trade is an obstacle to the efficiency of a planned deficits policy whatever the country.
On one side the import of foreign cheaper consumption goods sustains the standard of living of domestic labour, it helps to maintain or increase the value of domestic labour given the threat of a drop in wages in monetary units. On the other side the imports of equipment goods again at lower prices reinforces the stock of domestic private equipment.
The role of fiscal policy out of planned deficits is twofold:

- It must help to protect ultimately the domestic labour because if the drop in labour income is too high the purchasing power of labour cannot be maintained by imports.
- In the long run it must target the growth of public investment which directly and indirectly softens the dependence of the domestic economy by adjusting domestic supply to domestic demand. It implies ambitious very long run programs creating new activities generating new commodities (tangible and non tangible). It should lead to a reversal of the long run tendency to a rising foreign surplus.

C/ The success condition of such a policy is that the State does not pledge to maintain a fixed exchange-rate as if we were still in the gold standard regime.
Let us assume the American case today with a foreign surplus higher than the State deficit. It means that foreigners accumulate deposits denominated in State units equal to the initial net creation of State money plus a share of the money created by domestic banks out of leverage (the financial stability law rules). Domestic banks do not, according to the law of financial stability, grant loans in foreign currency borrowed to foreign banks or foreign financial institutions.
Thereby the foreigners could want to sell a share of their surplus in domestic expenditures or other ones to finance acquisitions of commodities or assets abroad. Were the State committed to buy its own currency at a given price it would be constrained by available reserves in foreign currency. It would be forced either to run a foreign deficit by deflating its own economy or to borrow abroad by running a capital account "surplus". It would no more be master of its own currency and the whole circuit model would be upside down. It means that the existence condition of financial stability is to renounce to buy its currency at a fixed price. A floatable exchange rate is thereby the twin of a planned deficit policy. Foreigners would always get the amount of foreign currency at the price they are willing to pay and the State is no more constrained by foreign currency reserves. The more foreign holders of net saving prefer to get foreign currency, the more they are obliged to bet on a lower price of the domestic currency units.

I.5.4 It does not mean that abandoning the fixed exchange rate system in a stable world economy is the path to an exchange rate anarchy system. Ultimately exchange rates reflecting preferences of foreign surplus holders should gravitate around the long run relative values of State currencies reflecting themselves the ability and will of respective States to attain true full-employment. One could henceforth define what could be deemed for one currency its normal relative value or exchange rate. It is the exchange rate which helps to adjust the foreign surplus to the requirements of domestic full employment. It does not mean at all contrary to some naive interpretation widespread in some neo protectionist circles in France that for instance Chinese surplus should be suppressed by an ultra re-evaluation of the Chinese currency equalizing prices of Chinese imported goods to domestic production. Such an argument relies on the postulated abysmal under-valuation of the Renmibi relative to the US dollar and the euro rooted into the Renminbi supported by the accumulation of reserves in foreign currency by the central bank of China.

In terms of sound theory there is not the least reason why adjustment should be borne only by China. The euro is grossly over-valued taking care of the disastrous performance of the Euro zone core relative to labour value creation (the highest effective unemployment rate in the so called rich countries, declining purchasing power of labour). The US dollars itself is certainly still over-valued taking care of the growth of unemployment (much lower than in the Euro core). The US dollar should certainly fall (and not rise) relative to the Renminbi (a drop softened by a modest re-evaluation of the Chinese currency) The euro should certainly be strongly depreciated relative to all currencies. What maintains wrong exchange rates especially in the Euro zone is wrong policy choices of governments, European central bank, European Commission alike targeting the long run deflation of their domestic economies to induce speculative inflow of "capital" (Parguez 2008 a and b)

Part II The true roots of the financial crisis of 2008. The destruction of the stability conditions by wrong predatory policy choices.

Contrary to some over optimistic interpretations the financial world crisis which started in 2008 is not just the outcome of an unbridled speculation initiated by a banking system freed of any regulation. It is much more than a "Minsky moment". What reveals the financial crisis is the systematic violation of the whole stability conditions of the real dynamic monetary economy. It was deprived of any anchor by self-imposed policy choices aiming at substituting the State as a predator for the State as the protector of the welfare of the population. As I emphasized in a previous work (Parguez 2000) herein is the difference between the ongoing crisis and the last twenties early thirties crisis of the last century. Under the guise of a dogmatic free-market ideology deprived of any empirical foundations policy makers in USA and elsewhere mainly in Europe abolished true free choice for the majority of the population (it could be deemed authoritarian or despotic free market economics!)

II.1 *The destruction of the anchor of the real economy generated the flight to over speculation.*

II.1.1 A long time ago Eisner (1986) emphasized that the seventies stagflation cannot be explained by the failure of "Keynesian policies" targeting true full employment because they had been already rejected since the early years of the Nixon administration. Looking closely at the data for the American economy, Giovannoni and Parguez (2007) sustain Eisner claim. First government deficits were no more planned and thereby part of long run policy targeting true full employment. They revealed just the failure to attain the explicit goal of "fiscal responsibility" which explains why they had a declining impact on the generation of positive expectations. Next as soon as the late seventies and early eighties the rate of growth of aggregate State expenditures started to lag behind the rate of growth of the economy and the lag accelerated during the Bush years. Since the early eighties mainly during the predator years of the early twenty first century for the first time (Giovannoni 2008b) the share of labour income started to fall. As already proven it was not the outcome of a pure labour-exploitation policy led like in Europe especially in Germany and France. At least it was encouraged and applauded by the administration as a proof of the increased competitiveness of American firms out of the ultimate victory of "market forces". In terms of the employment function both facts reveal the violation of the two first stability conditions of the real economy. Aggregate profits were still growing at the same pace but it was not true for long-run permanent profits because of the vanishing support of State expenditures .Consumption was still growing at its long-run pace but the strength of the Giovannoni-Eisner accelerator effect started to decline because of the constraint of increasing anguish relative to the far

future survival of the process supporting the rise of consumption. Such an increased uncertainty led to a fall in the employment multiplier! Both forces together explain why true unemployment started to rise in the Bush years in terms of both job creation and income paid by firms. One must never forget that when the share of wages and salaries is insufficient to sustain normal (non- excluding) consumption out of rise in labour income, unemployment in true or living terms already exists. Thereby the pre –2008 crisis years make perfectly sense of what can be deemed the fundamental destabilizing process:

1-Renunciation to true full-employment policies.	>	2-drop in the share of labour compounded by increasing inequality in pays.	>	3-effective unemployment rises
				∀
		5- increasingly negative long-run expectations of firms relative to the future	<	4-accelerated drop in both the share of labour and the share of "normal living pays" (more inequality in personal distribution)

Thereby the two first stability conditions had been simultaneously violated.

II.2 *Such a cumulative process explains the violation of the fundamental financial stability law.*

II.2.1 Phase 1 led to a fall in the rate of growth of the stock of sound public debt in banks balance –sheet. Phases 2 to 5 led to a dramatic increase in the rate of growth of the stock of private debt. An increasing number of household became forced to match the falling growth of their income by increasing their net debt to banks. The ratio of public debt to private debt fell quite below its sustainable long-term level, as already explained.

II.2.2 Henceforth two contradicting forces were animating the banking system bets on the future:

- Chasing customers they supplied rationed household with loans financing their most required consumption expenditures including of course home acquisition. Since household could no more meet their commitments (mainly mortgages) out of their future growth of income, banks managers had to rely on their own bets on the future value of the real collateral (future prices of homes). Thereby the privatisation of the credit base could not have existed without the speculation on the everlasting rise in home prices. The so-called "housing bubble" was induced by banks themselves. It helped them to acquire more and more dubious assets which meant leveraging beyond sustainability.
- On the other side as Keynes remarked in his treatise volume II (1930), bankers are a very peculiar kind of speculators. They cannot free themselves from their inborn fear of the future in their boldest bets. They want the paper profits of their bets but at the

same time they seek for insurance. Herein lies the ultimate root of the process of securitization and derivatives which increased beyond all previous levels (since the late twenties of the last century) the fragility of the credit system.

Banks managers transmogrified their dubious assets into bonds they sold to more audacious financial betters. Those bolder investors bought bonds issued by banks out of new banks loans. Banks were now feeling more secure because of the expected rise in the value of their bonds thanks to the buoyant expectations of their new debtors. Their initial debtors could fail to enjoy the capital gains on their house, their new debtors were sure to benefit from those gains.
Of course the game was not over; unfounded speculation triggered more unjustified speculation. New betters wanted to play and started to issue their own bonds embodying bets on the future of bonds issued by banks.

II.2.3 Ultimately instead of a monetary creation process rooted into State money and secure assets in the course of the Bush years a Babel-tower of private assets was built rooted into nothingness or quasi nothingness. It survived because of an increasing growth of banks loans which no more led (or for a declining share) to the generation of real wealth for the population in terms of purchasing power of labour. To be short, money creation was no more backed by real wealth and the ultimate sanction of the State. Herein is the truth of the core of the theory of value: the so much admired creation of financial wealth was a pure illusion which could vanish as soon as a shock how small it could be, could happen. Since the self –accelerating flight to pure finance was reflected by the self accelerating rise in the paper-value of stocks, herein is the justification of the corollary of the law of financial stability:

> A rise in the paper-value or artificial value of stocks which is not backed by or even indexed on the long run growth of State debt cannot last, it can be destroyed by the same little shock which reveals that the financial tower of credits was built on nothingness.

II.2.4 Monetary policy started to contribute to the tendency to unsustainable fragility. The Greenspan FRB played a crucial role in this escape to finance from an anchor-less real economy. Its contribution to the destabilizing process is twofold.
On one side it is guilty by inaction because it did <u>nothing</u> to prevent the race towards unsustainable fragility of the banking system. What explains this failure is the commitment of the Greenspan FRB to a pure private credit system no more depending upon the State creation of sounds assets. So strong was the faith of the Greenspan FRB into an anchor-less private credit system that it could not doubt the soundness of the pyramid of bets on the future on which relied the so-called "financial engineering". On the other side as forcefully proven by Giovannoni (2008 c), Galbraith and Giovannoni(2009). Under Greenspan the monetary policy was <u>only</u> targeting unemployment. It does not mean that it aimed at full-employment not at all. All empirical evidences prove that in the like of the ECB the Greenspan FRB <u>feared</u> full-employment and strongly believed in the absolute necessity of maintaining some "natural" or "normal" rate of unemployment while inflation vanished a long time ago when stagflation stopped. Thereby the FRB own rates remained too high relative to the extreme financial fragility of borrowers. They contributed to pessimistic expectations of the far future which can explain at least partly the fall in the employment multiplier. By his very commitment to an extreme form of conservative and predator free-market ideology, Greenspan finally did not get what he hoped. It could be that he believed that its targeted rate of unemployment was the "natural requirement" for the survival of the pyramid of bets on the future value of financial assets. Herein lies a truly predator vision of both "financial markets" and their protector as the

central bank: “Markets” those who bet and get credit to bet always more, dislike full-employment as long as it help them to escape in some very far future from the vision of a new wage-triggered inflation or State induced inflation. “Markets” thrive on some “natural” real constraint of the majority of the people (they do like inequality and its twin a low labour income share). The central bank is to deliver! What the Greenspan FRB had not foreseen was the inverse effect. Delivering too much it could accelerate the emergence of a dark vision of the far future requiring more and more credits to allow the survival of the financial artefact!

II.3 Ultimately, the condition for a sustainable foreign surplus was thrown away. So great were the gains expected from credits to pure financial operations relative to loans funding domestic productive expenditures that American banks started to grant credits in dollars to the foreign sector, foreign banks, foreign corporations and even foreign governments. Foreign banks hoped to thrive on the discrepancy between interest rates because American ones were still much lower than in most foreign countries (except Japan). On the other hand American banks were betting on the rise in value of their collateral, bonds sold by foreign banks that were their debtors The largest share of this creation of dollars registered in the capital account as a gross outflow of capital was undertaken as loans to foreign banks which next operated the recycling of these dollar deposits in loans to other banks of another country, or mainly, with the blessing of the IMF, to foreign governments. Finally a large share of those outflows of dollars was recycled into the American economy by their final holders to buy American financial assets.
The increasing if not dominant role of the capital account gave the final blow to financial stability in the pre-crisis years. It can be explained in terms of the final form of the fundamental accounting identity. The final surplus of the foreign sector (S''_E), its new saving fund S''_E sharply increased being the sum of the trade surplus and the capital account deficit. The whole foreign surplus had been initiated either by the trade deficit or by the initial outflow of dollars generated by banks loans to foreigners. Meanwhile the domestic private non banking sector was running an increasing net deficit because of accelerated forced householder debt. The State deficit had a declining compensating effect because it could not generate enough positive expectations in terms of the permanent profit flow. The final identity is thereby:
F_E being the capital account deficit in dollars and S'_E the trade surplus.
(foreign sector net surplus or new savings S'_E, S'_P Domestic net new savings, D_G State deficit)

$$D_G \boxed{\times} S'_P + S''_E \qquad (12)$$

With $S'_P < 0$

$$\text{And } S''_E = S'_E + F_E \qquad (13)$$

The State had a declining degree of freedom because of its own policy choices. Planned deficits had vanished and were no more on the agenda and the State deficit became more and more forced on the State to provide foreign financial investors of a minimum of sound assets. Finally the pace of the whole system to a mix of insolvency and lack of true liquidity could no more be slowed. It was henceforth relying on debts which could not be repaid on bets on some eternal illusion on collaterals deprived on any real value. The monetary circuit process could no more be closed (or completed)!

II.4 *The 2008 crisis as a perfect butterfly effect*

II.4.1 Had not reason vanished from the credit system by the very will of ideology driven policy makers for too long a time, the fact that some borrowers could not meet their commitment (the sub-prime shock) would not have unleashed forces of destruction within the whole financial structure. Even the fact that house prices started to drop would not have generated the crisis under normal conditions. Normality had been banished from an anchor-less system only driven by illusion of unlimited creation of false wealth out of money creation which was no more targeting the generation of real wealth. Such money had no more any extrinsic value it became truly created ex nihilo. It could no more be deemed as true money since it has no more any of the qualities of true money. It means that it is wrong to interpret the speculative always expanding sphere as founded on pure private money. Because of the twisted speculation of banks managers believing their financial engineers, a dangerous mix of bold bets and search for insurance, the whole financial superstructure was built on the hope that the future could be known and that an unlimited amount of wealth could be created at will out of sheer beliefs.
There happened a small shock and it was enough to reveal that beyond the veil of beliefs there was just nothingness. Doubts on the value of assets led at once to a cumulative reversal of bets on the future. The financial crisis was thereby born out of the systematic thwarting of the forces which had sustained the growth of the real economy.
As the true value of banks assets collapsed first in America and next world wide, banks were no more willing to provide loans to the real spenders. They strived to get their former loans repaid which triggered an already near stagnation of the real economy; the first stage of a true real crisis.

II.4.2 The collapse of the financial artefact accelerated henceforth a real depression which had already started. Being either bankrupted or deprived of their assets because of the collapse of pension funds which invested quasi forced saving of household into the most "rotten" speculative assets, household had to cut at once their consumption plans. The drop in consumption reinforced the drop in expected profits of corporations which had already suffered from capital losses and induced them to decrease the employment multiplier. Henceforth the accelerator effect played a negative role and new investment fell. The real crisis was now ruling, which strengthened the credit crunch. The collapse of consumption in the USA spilled other the whole world, Chinese exports collapsed, a whole social system built on private credits and Predator State was dying and it could not be restored. The lessons of the late twentieth century had been forgotten. Because of its own will the State could inflict more losses to the American and the world economy that the poor Hoover administration!

Part III Restoring the leading and animating role of the State by long run planned deficits is the sole sensible agenda.

There are two sharply conflicting agendas which reflect a contradictory interpretation of the crisis.

III.1.The conservative restoration program aiming at saving the failed private credit system. It has been pushed forward by the last "predators" governments, the Bush administration since it discovered the crisis and later by the European Union governments. Its core principle is to

build a new monetary circuit process entirely relying on private liabilities issued by banks with the minimum interference from the State. It is rooted (or seems to be) into four bailing-out rules aiming at saving the banking sector from its twisted bets:

III.1.1 Through the intermediary of the treasury the central bank is to provide enough State money to banks both to balance their losses from zero-value assets and restore their liquidity. The State hopes that banks would henceforth start again to grant loans financing wealth generating expenditures. By leveraging on this injection of State money banks could a new provide money to the real economy.

III.1.2 A share of the newly created State money may be used to buy the most value-less assets mortgages of near-bankruptcy household).

III.1.3 Financial intermediaries in the mortgage business are re-nationalized, which provides them with new State money to be used to help bankrupted household whatever the mechanism.

III.1.4 At last, credit lines in dollars are provided by the Federal Reserve to foreign central banks short of dollars, like the ECB, to allow them to bail-out their domestic banks heavily indebted in dollars to American banks.

Together those four rules give free hand to banks. Nothing obliges them to resume their productive credit activity. Nothing is undertaken to prevent a new flight to pure financial loans. Those rules cannot cure the real economy and restore the stability conditions. In some way it is the ultimate attempt to save the absolutist free-market ideology. One may go further it is ultimately the endorsement by the State of unbridled speculation since no true regulation is implemented to force banks to do their "job" justifying their existence, softening the constraint on productive spenders by leveraging on sound State money (including State bonds). The most stunning principle is the fourth one which, while there is not yet a genuine new international monetary system is just encouraging the "globalisation of finance" and rewards central banks while they praised sound finance like the ECB.
The conservative bailing-out is to raise the State deficit (since it is accounted as an increase in State expenditures) for the sole sake of the banking sector. It should not have the least positive impact on the real economy which is already in deep recession. Herein will be the legacy of advocates of fiscal responsibility wasting State money for deficits which are just subsidies to private banks! By ignoring the fundamental principle of the monetary circuit process (parts I and II) the banks bailing-out plan adds a new kind of purely bad government deficits. This agenda ignores the true nature of the crisis. It just aims atsome halt to the recession indued by the butterfly effect; it ignores the true ause of the magnitude of the shock resulting of the landing of the butterfly.

III.2Thereby the true salvation plan must reconstruct the infrastructure of a new long-run growth path more efficient and balanced than the previous one by meeting the true needs of the society.

III.2.1 First it requires planned State deficits both in the short-run and in the long-run[5]

[5] As proven in Parguez (2003) a long-run planned balanced budget (0 planned deficit) is unsustainable to reconstruct the foundations of a new long-run growth path. It is a factor of destabilization even if it aims at an

A/In the short run deficits are to be planned at a level high enough to save consumption by tax cuts benefiting to the "middle class" and save employment by emergency expenditures benefiting car corporations short of cash because of the drop in demand and the lack of new loans.
B/In the long run the increase in planned deficits must target both the strong growth of public investment as already defined and the growth of consumption by preventing a rise in induced taxation. So destabilized has been the real economy that there must be two phases:

- In the medium-run the growth of planned deficits must be stronger than its very long-run level just to reconstruct the dynamic process which sustained the leading role of consumption. Firms must again respond to household new debt by an increase in labour income. It reflects a rise in the employment multiplier or the reversal of the tendency to raise the share of profits. It must sustain the return to true full employment and a more equal distribution preventing the sub –prime disaster.
- There is more because restoring the financial stability law requires a very strong growth of the issue of State bonds to generate a sustainable ratio of sounds assets to private assets resulting from private liabilities. The ratio has to rise beyond its very long term level when stability will be fully restored. It would reflect the absolute necessity of a very strong increase of the growth of public investment beyond its very long-run normal level. It would also meet the necessity of restoring the purchasing power of household by lower taxation. It means that before attaining its far-future level the ratio of aggregate public debt to GDP has to rise very strongly.

In the long run the increase in planned deficits must target both the growth of public investment and the growth of consumption.

First let us recall that one of the long run goals of a strategy of investment growth out of planned deficits is to get rid of most of the structural failures in the structure of American output. It must target the creation of a strong equipment goods tier (to use Galbraith terminology) involving the most advanced bets on future technology and thereby on future final demand which do not yet exist. Herein lies the ultimate generalization of the Giovannoni-Eisner accelerator principle. It is true that expected consumption leads but only the State is endowed with the possibility of betting on a future which do not yet exist.
The strategy is thereby targeting the revival of the second tier in the production hierarchy, the consumption goods in their tangible or material form. No economy can survive only on services, but the Vatican may be. The issue is not to deprive household of advanced consumption goods, a share of their real capital at affordable prices relative to their incomes. It explains why I am not at all a supporter of neo-protectionism. What is at stake is the invention of a new world in which household will be attracted by a new kind of consumption goods providing them with a new capital. Only the State which spends the more in research (all kinds especially social) could create this new world with the strong rise in incomes supported by planned deficits impulse it could contribute to the end of the Wal-Mart world!

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increase in public outlays because it generates both a drop in private employment and in the purchasing power of labour income.

At last the growth of public investment by planned deficits must deeply change the last tier of the American economy the so-called services tier a "Prevert-Agenda"(from Jacques Prevert the poet) including the most basic needs (education, health, environment, legitimate recreation) to the most useless and socially destructive activities (in the like of a part of legal, financial and advertising services). For too long a time, the structure of the services sector had a deep destabilizing impact: the share of financial and legal services increased at an unsustainable pace (a root of the financial crisis as it will be explained) exacting extraordinary costs and pays while the basic services especially health and education became outrageously expansive and more and more unaffordable. Galbraith was the first to connect the rise of the share of services to the rise in inequality. Out of long-run carefully designed growth of public investment not compensated by "predatory taxation" the State may afford first-class health and education services to all citizens free them from the yoke of insurance companies and banks chasing students seeking for funds to finance their study. It would sharply squeeze inequality, raise the desire for new very high quality style of life and accelerate the decline of the Wal-Mart and cheap-food-health destroying world. As financial and legal services they thrived on the decline of the respect of the financial stability law.

Ultimately promoting a planned or intelligent design deficit policy the State is to adjust in the long-run the structure of domestic demand to the structure of the domestic supply.

- The search for new sources of energy and production consuming less energy is a crucial part of the strategy. It must cut one of the largest source of USA trade deficit the imports of oil and gas.
- At last there is not the least reason to be afraid of recycling foreign surpluses into direct tangible (possibly non tangible investment). As shown by Galbraith (2008) what deeply destabilize the real roots of American economy were the disastrous policy choices self-made in America by a predator State which increased (if not created) the dependence of the domestic economy. Things could only be better if those sovereign funds investment are animated by intelligent non predator States acting in cooperation with a new administration no more enthralled to short term predators and an economic philosophy ignoring out of a pure mix of dogmatism and short-term greed the fundamental laws of modern economy.

It has been shown that one must restore the major role of consumption as a determinant of growth of the American economy (Giovannoni 2008 a). Contrary to what is the core of what must be deemed the feudal-capitalism ideology of the European monetary union (Parguez 2009 b and c) there is not the least contradiction between the gowth of useful investment and consumption. The growth of private investment entirely depends on the growth of consumption (the dynamic accelerator effect) and ultimately the growth of consumption, through the employment function, depends on public investments. Thereby I think that one must spell out the concept of a super multiplier effect of public investments financed by the net creation of money by the State which reflects the planned deficit. This super multiplier includes the dynamic Eisner-Giovannoni accelerator effect. It explains why the planned deficit strategy must include lower taxation to prevent the rise in induced taxation that would be the outcome of a new wave of growth. It could prevent the required growth of consumption.

So destabilized has been the real economy that there must be two agendas:

The Conservative one	The Dynamic one
It relies on subsidies	It relies on net expenditures
to banks in the guise	for the real
of useless deficits	economy
squandering State money	The rise in public debt
It raises the	is a gift to the
public debt without	future because it is
any benefit for the	the engine of
real economy	future growth
It generates a true	It provides
burden for the future	the society with
The new debt is not	both a sustained
backed by the	growth in useful
rise in the stock	capital and
of useful capital	stabililizing assets
It does nothing	It helps to create
for the future	a future of hope[6].

III.3 *The dynamic agenda must be reinforced by stringent regulations of the banking sector monitored by a central bank not blinded by a conservative faith in the perfect rationality of financial markets.* Three rules should be implemented they perfectly fit the core principle of the monetary circuit process:

III.3.1/ What must be saved from the conservative agenda but generalized is the emergency nationalization of the mortgage sector as long as stability decision should be the creation of a specific national mortgage administration endowed with enough State money to buy all existing mortgage at the ongoing price to creditors. Either it would grant new long term loans at fiscal low interest to debtors or it would transform the mortgage into long term lease at affordable rent for the poorest household. In any case thanks to the agency no household would be deprived of its home.

III.3.2/There must be an absolute dividing line between pure banking activity financing productive expenditures and pure financial activity subsidizing speculation by credits. Banks proper should be forbidden to grant loans which do not instantaneously generate wealth out of expenditures. Banks should be obliged to take full responsibility for their bets <u>which requires to stop the escape to securitization and pseudo insurance derivatives</u>.

III.3.3/Banks should be obliged to respect the financial stability law by meeting a sustainable leverage ratio rooted into hard and secure liquidity (State money as reserves or treasury bonds).
Together those rules will prevent the unfolding economic scandal: banks getting State money and maintaining the credit crunch. The pure financial "industry" is to be let alone which excludes any kind of bailing-out. It has been the engine of over speculation and the ignorance of the fundamental law of value.

[6] It means that contrary to the old Keynesian multiplier, the super multiplier is not constant over time. There is not yet methods to compute it. The conventional miltipliers are meaningless.

Thanks to the dynamic agenda the State deficit will stabilize the world economy giving time to net exporting countries to escape from depression of their real economy as long as they have not yet been able to substitute domestic demand for exports as the leading factor of growth.

III.3.4/ Meanwhile new rules are required to engineer a new international monetary system aiming at softening the burden charged on the American fiscal policy by the increasing inflow of recycled dollars. It has been explained why it could increase too much the share of American public debt held by foreigners. Foreign central banks should be required to impose stringent limits on the borrowing of dollars by their domestic banks beyond what is needed for imports. Or, at least, they should impose a compulsory ratio between liabilities issued in dollars by their domestic banks and their own (non borrowed) reserves. No return to normality can be hoped as long as banks of any country are free to borrow everywhere in any currency to recycle those borrowed foreign resources into any other country to fund bold ventures creating no wealth or at least generating no resources that could be used to repay the initial loans . Such a game of rampaged bankers ignoring the most fundamental laws of economics as if they were sovereign of their own is both useless and destructive.

III.3.5/Ultimately the American Treasury would be no more constrained by the recycling of dollars initially created by American banks for foreign banks (and foreign institutions including governments). The capital account surplus would no more absorb treasury bonds lost for the domestic economy. Such a reform should open the way to a more stable exchange rate system while maintaining the floating existing order. For instance it should prevent an appreciation of the dollar which could have a negative impact on exports.

In guise of conclusion

At the time when this essay is completed, even the near-future is clouded. We may hope that the Obama administration in the USA will, sooner or later, choose the dynamic agenda. There remains a formidable obstacle to the success of a world dynamic agenda, the stubborn commitment of the European leadership, from all denominations, to that predator aspect of free-market ideology which caused the crisis. Could they change their mind under the pressure of reality? It is yet unknowable.

What is certain is that, contrary to the 1929 and aftermath crisis, the new crisis has been entirely explained by the worse policy choices everywhere. It does not reveal the disparition of the State but the transmogrification of a State dedicated to the welfare of the people to a dogmatic Predator State. I emphasized this transformation of the State under the guise of let us free hand to markets in Parguez (2008). Galbraith (2008) illustrates in a convincing both scientific and horror story the ultimate outcome of the great transformation of the State from a welfare State to a Predator State.

There is hope in USA because as the value-less pyramid collapsed, its supporting faith vanished or could vanish if reason prevails. Contrary to optimistic views, in Europa hope is still far away there. Real economy in the Euro core has been devastated for so long a time by shock therapy turned into a permanent treatment that its reconstruction will require much more new State spending than in the USA. At the same time as explained in Bliek and Parguez (2006, 2007) and Parguez (2008 a and b) the ruling economic ideology seems to survive the collapse of the cards pyramid. As nobody dares to doubt the agenda of the Predator State either from the left or the right amid the leadership with its whole paraphernalia of public debt burden conservative social reforms aiming at “flexibility” and decrease in State expenditures to increase savings.

Finally it is vain to call for the great shadows of the past. The 2008 crisis reveals that their world was dead for a long time and the past cannot be created a new. The 2008 crisis is not a new 1929 crisis because of the causing role of policy choices in economic shocks. Another world is dead with its supporting culture of Predator State-free market exploitation, negation of the law of value. What is needed is truly new economics injecting great ideas of the past into a world in creation. A lot is yet to be done I recognize relying more on sound empirical studies than on dogma!
Relative to the USA expected or at least possible victory of pragmatism shakening the conservative consensus ruling the Euro core is to be a very hard job if not an impossible one in absence of an awakening of the people!

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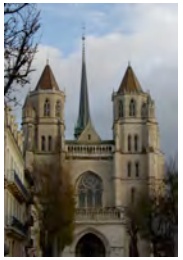
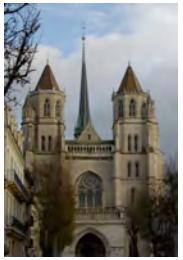


Dijon 2009

Stability conditions of a capitalist economy

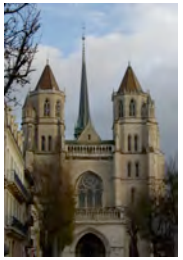
- **1/ Full employment should be the unique principle of State intervention**
- **2/ The State should impose the highest share of labour in the distribution of wealth**
- **3/ Sufficient ratio of sound public assets over private assets**
- **4/ The State should not be constrained in its expenditures**
- **5/ No fixed exchange rate in order to have no foreign constraint**



Dijon 2009

Rules of economic governance for positive action

- Rule 1: Implement at once a strong growth of long-run public investments
- Rule 2: Finance public investments by planned deficits not out of borrowing from savings
- Rule 3: The State must issue debt for public investment in its own currency and fix the interest rate of this debt at a very low level
- Rule 4: Impose high enough wages consistent with an equitable distribution of wealth
- Rule 5: Public reconstruction must include employment of last resort (ELR)
- Rule 6: As Rules 1 to 5 are implemented do not impose the least restraint on consumption out of rising taxes



Dijon 2009

Rules of economic governance for positive action

- Rule 7: Do not fear inflation no more than the foreign constraint
- Rule 8: The State must not tax to get income to spend but to prevent evil animal spirits ie: delocalisation, speculation, predatory behaviour…
- Rule 9: For emerging countries intelligent protectionism and capital controls are required to pledge to a non fixed exchange rate.
- Rule 10: State deficits should not be used to save banks from their accounting losses but to nationalize them at least for some time. Central banks should play the leading role in the supply of money for public investments.

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The State and financial Markets

A post- Hilferding View
On the socialisation of investment and Finance
Special issue in homage to Rudolf Hilferding

This paper has been written for Olla Financiera (Mexico)

September 2010

This contribution owes much to debates with Massimo Cingolani, Thomas Ferguson, Olivier Giovannoni, Joseph Halevi, William Krem, Daniel Pichoud and Louis-Philippe Rochon

Introduction: Is the constraint of the so-called financial markets on the State ability to spend a reality or a myth?

One century after the publication of Rudolph Hilferding book, Financial Capital, it has become fashionable to postulate a world economy entirely ruled by pure financial capital. Hilferding himself reproached Marx theory of accumulation for having ignored or at least just paid a lip service to the role of finance in the capitalist mode of production. Emphasizing for the first time the role of banks, Hilferding put forward three major conclusions quite ignored later by orthodox Ricardo-Marxist literature :

- Accumulation of real capital is constrained by the previous accumulation of financial capital provided by banks.
- Financial capital accumulation is more and more autonomous if not fully independent of real accumulation.
- Finally, it could entirely enslave if not extinguish in Keynesian terms, the propensity to invest in both circulating and fixed real capital. What could explain this ultimate "financiarization" of the capitalist mode of production?
-

For Hilferding, the answer was straightforward : investing financial capital into pure financial activities could generate for financial capitalists (finance providers) much more profits than investing in the production process.

Put together post marxist Helferdian theory of profits and the classical Marx circulation process :

MARX:

Money capital ⇨ commodities ⇨ plus value ⇨ profits

HILFERDING:

Money capital ⇨ financial operations ⇨ profits

Hilferding generalization of Marx lacked two fundamental aspects of modern monetary economies :

- First, the explicit understanding of the origin of financial capital monetary creation as a pure balance sheet operation of the banking system.
- Second, the role of the Sate and thereby the impact of what is, in modern parlance, financial markets as unique providers of finance on State capacity to spend.

In this contribution, to the brave post-Holferding world, I intend to prove the following propositions which are the core of the general theory of the monetary circuit :

- "Financial markets" cannot <u>normally</u> ration the State in its ability to spend.
- The "public debt" constraint thereby does not exist under normal circumstances . To the contrary, the accumulation of public debt is the fundamental stability condition of the whole financial system as long as it is the outcome of a long run planned policy of productive deficits (what must be deemed <u>good</u> deficits).

- Thereby, to fight the postulated "fianciarization" generated by the tendency of the private corporations sector to evolve towards a parasite feudal system, only planned long run productive deficits may generate full employment and, in the most optimistic case, neutralize this tendency.

First part : There cannot be an automatic rationing of the State.

In the post –Hilferding world, there are two stages in the public financial process. At none of these stages markets can ration the State.

The first stage: the realization of expenditures.

All kinds of State expenditures generate instantaneously an equal creation of money for the private sector. Since it materializes by an increase in the stock of deposits on the privat agents accounts in domestic banks, there is an instantaneous and perfectly automatic creation of money, denominated in the State currency units. To meet the balance sheet accounting principle, it is balanced in the banks balance sheet asset side by an equal increase in State liabilities to banks. Such a debt of the treasury is purely conventional; it does not involve at all an obligation to reimburse banks as if it were the outcome of an effective loan of banks to the State . In the normal case, when the currency is not a supra-national one as if it were a foreign currency, which implies (Parguez 2010) the full privatisation of public outlays, the counterpart of banks conventional claims is the creation for them of reserves in the central bank balance sheet . Finally, banks play the role of intermediary in the financial process. The central bank is the last resort source of money creation.

At this stage there cannot exist any operational constraint on the State; banks intermediary creation of money and the creation of reserves by the central bank are the outcome of a perfectly automatic mechanism. The causal process in stage 1 is explained by graph 1:

Discretionary State expenditures ⇒ creation of money by banks ⇒ creation of reserves for banks by the central bank

The second stage : the issue of public debt.

It implies to answer the question ignored by advocates of the markets constraint : why does the State issues public debt at all?
Certainly not to finance a deficit when it exists because this deficit is just a share of already realized public expenditures.
The answer implies to emphasize the fundamental identity defining the monetary economy :

The State deficit (g) is reflected by an equal surplus or net amount of new savings for the private sector which benefited from State expenditures , (S_p). S_p accounts for the increase in the stock of financial capital (F) shared between the private domestic sector, household and firms and by virtue of the fundamental identity defining the monetary economy, the State deficit g is reflected by an equal surplus S_p accounting for the growth of the stock of financial capital F (F being the stock of financial capital), F is shared between the domestic sector household and firms, and the foreign sector when there is a trade deficit.
This identity must be interpreted as embodying a perfect causal relationship .

$$g \equiv S_p \equiv F \quad [1]$$

[1] is to be reflected into domestic banks balance sheet , as shown by table 1 :

Table 1

Variation of banks balance sheet in stage 2

Assets	Liabilities
g ≡ conventional increase in claims	F
On the State ≡ reserves	
in the normal case	

Let us assume that the State never issues debts title bearing interest (bonds accounting for the public debt). Banks profits do not rise. The higher has been g for some time, the lower is the share of banks assets generating profits. Thereby, the automatic mechanism initiated by State expenditures would draw on their reserves which could fall to zero. It would just reinforce the banking crisis as private capital holders lose any confidence in the liquidity of deposits. Banks becoming out of business could no more play the role of intermediary.
Banks could indeed strive to save their net-worth by spending their reserves to acquire private financial assets, mainly stocks. The problem is that holders of financial capital in deposits would do the same and convert all their monetary capital into stocks. The outcome is to be a cumulative rise in the price of stocks which must generate an hyper-speculation leading to a general and protracted financial crisis generating the final demise of the banking system. Thereby there is only one solution to prevent the disaster without being forced to maintain a permanent balance budget :

The treasury has to issue public debt titles bearing income by an amount equal to the new reserves. Their balance – sheet becomes :

Table 2

Assets	Liabilities
Stock public debt	F

Banks thereby protect their net-worth for two reasons :

- Public bonds provide a certain and fixed income
- They are the soundest and most liquid bearing income assets since the State is able to meet always its commitment (interest income and reimbursement) which are included into aggregate expenditures in stage 1. It means that contrary to private issue of assets the State can never fell into bankrupcy or even deficit. Public bonds in a

normal system are "money bearing interest" from the perspective of holders. Anyway, they can always be cashed at the central bank through open-market operations.

It is true that private holders of monetary capital could also desire to acquire a share of those bonds in their search for sound financial investment. In such a case, they draw on their deposits to buy a share of bonds initially acquired by banks. Banks balance-sheet displays in this stage 3 a simultaneous and equal decrease in bonds assets and liabilities out of the transfer of bonds to the private sector. Ultimately the stock of bonds is shared between banks and net savers, household, corporations and the foreign sector.

From this answer to our intial question one draws the conclusions :

I- The State issues public debt to warrant financial stability in the long run.

II- Thereby it cannot be constrained by financial markets.

III- Finally, the Treasury could fix the rate of interest on bonds. Il means that the auction system of selling bonds is not at all required. It is just the outcome of an ideological "first stage" towards the privatization of public finance . It contradicts the fundamental stabilizing role of public bonds.

Second part : Financial markets cannot impose rationing because of an excess of publicdebt raising doubt over the State solvency under normal circumstances.

Normality requires two conditions : the first is that banks have just to play the role of intermediary (no privatization of public finance) ; the second is that the State does not impose on itself limit to both the magnitude and the permanence of the deficit.

Let us assume that those conditions are met, I shall not address the case of the double circuit I analysed previously (Parguez 2009)

Whatever the magnitude of the ongoing stock of debt. Markets cannot fear non-solvency of the State.

It means that the perfect liquidity of new bonds does not depend on the ongoing stock of public debt only renominated in the State currency (no double circuit). There cannot be an excess burden of the State imposing default because of past generation of liabilities.

As already mentioned, State aggregate financial commitments G_F are automatically included into aggregate State expenditures. They have two components : the reimbursement of a share l of the stock of debt K_G , the payment of an interest income y_G to holders of the remaining stock.

In stage 1, they generate for debt holders an instantaneous creation of reserves R by the central banks :

$$G_F \equiv l K_G + y_G \equiv R \qquad [2]$$

Neither banks nor non-banks financial capital holders want to accumulate a non bearing interest increase in their stock of reserve. Thereby, as already proven the Treasury to protect financial stability is obliged to absorb those unwanted reserves by an issue of new bonds. It means that the stock of bonds has to rise by an amount equal to y_G which allows :

- Both to instantaneously replace matured bonds by new bonds. Reimbursement is thereby purely automatic
- And to absorb interest income, which explains why the so-called tax burden cannot exist in a well-managed monetary economy.

Such a constraint defines the amount of the minimum new deficit in stage 2

$$g_{MIN} \equiv l K_G + y_G \qquad [3]$$

From this stability constraint stems major conclusions :

I-Financial commitments being automatically financed <u>never require</u> an increase in taxes.

II-They impose a minimum deficit, thereby a minimum increase in the stock of bonds equal to interest income.

III-Since II is finally the existence condition of financial stability, financial markets play a pure passive role. They can never impose rationing because of the outstanding stock of debt, neither in stage 1 nor in stage 2.

I to III lead to the fundamental proposition. In a well-managed economy the State is always the perfect solvent borrower. Default cannot exist, the very notion of State bankrupcy is absurd. The magnitude of the ongoing stock of debt is irrelevant as well as the amount of interest <u>income</u> which automatically raises the net-worth of all holders of financial capital . What reinforces this conclusion is that the Treasury enjoys the power to fix the rate of interest of bonds, as the monopolist supplier of them always automatically absorbed by the "market".
Constraints could only be the outcome of the violation by the State ot the requirements of a normal monetary system.
The perfect case of such a violation is when the State fully surrenders its monetary power by accepting the privatization of public finance which is the outcome of the rules of the Euro monetary system. Herein lies a situation which would have stunned Hilferding himself.

<u>What means "privatization" of public finance?</u>

It enshrines four fundamental rules :

I- In stage 1 the national central bank plays no role at all. As shown by Steiger(2004) there is a myth if not a hoax in the belief of a unique centralized European Central Bank. It is not at all the Bundesbank of Europe. As such the ECB is a very small and weak institution. Constraints are operated by the National Central Banks as part of the Euro-System of Central Banks. No National Central Bank has an account at the ECB itself. It means that money creation by banks has no the least impact on the central bank balance-sheet. It does not lead to the creation of liquidity in the form of reserves. The counterpart in banks balance-sheet of State expenditures is claims deprived as such of liquidity as if they were claims on any private corporation.

II- In stage 2, when the State runs a deficit, banks can indeed transform those claims into bonds bearing interest, but those bonds are themselves deprived of liquidity as bonds issued by corporations.

III- There is worse because of the exogeneous limits on deficits and the ultimate target of public "savings".. Public debt is looked as the proof of the non-well managed State. The State is dealt with as if it were a private corporation doomed to banrupcy.

IV- Being looked as private bad debt, State bonds cannot be automatically cashed at the national central bank or any other member of the European system of central banks

It means that in stage 1 private banks cannot refuse to create money, the automatic mechanism rules. They cannot impose an operational constraint on the State, because it would lead them out of business. In stage 2, they are obliged to buy bonds by an amount equal to the deficit. The outcome of I to IV is that henceforth they may doubt the ability of the State to meet its commitments by running permanent and rising deficits. Such a fear hides the threat of policy choices by the State to reduce or suppress its deficit to meet the Euro-rules. What makes this fear plausible is that the rules have been built in by the States themselves when they shaped the Euro-system. Now, the magnitude of the outstanding debt could matter and banks could strive to blackmail the States by invoking the possibility of a default to be compensated by increasing rates of interest. They will never stop to buy debt, it well deprives them of income. I am not aware of States unable to sell their debt, it is a blackmail cherished by the financial press.
The more the States strive to cut its non-financial commitments by policies of deflation, the less the counterpart of the debt is the creation of real wealth, which could reflect a drop in the value of financial capital held in debt.
Such a blackmail is a very dangerous game played by banks because politicians animated by fear could decide to reimburse, before date, the share of the public debt looked as "excessive" according to the Euro-norms. It would engineer a general catastrophe destroying the very condition of a stable financial system :

- First, the State would have to cut so much its non-financial expenditures, that the domestic economy would collapse. There would be no more any creation of financial capital (net savings) for the private sector.

- Next, banks would be awash with money bearing 0 interest. Their net worth would collapse; a general and cumulative financial crisis could start.

Third part : A long run policy of planned deficits is in any case the sine qua non of a non enslavement to financial markets (the so-called financiarization)
Why such an enslavement could exist?

Two conditions are required for this transformation of the monetary capitalist system into a pure quasi feudal and parasite one :

I- The possibility by banks to generate an increasing amount of financial capital without any previous real-wealth generating expenditures. Doing so they bet on an unchecked rise in their net worth. Banks fly from loans materializing productive expenditures.

Holders of that pure speculative financial capital (its value is only anchored into pure bets on the future rise on the price of assets) impose constraints on the real economy. Investing in pure speculative assets provides so much "capital gains or paper profits" that corporations fly from spending in labour and accumulation of real capital what is deemed "financiarization" is that private former productive corporations accept to spend in production if and only if spending in labour provides the same rate of return than financial assets, which is accounted by an accelerated increase in the required share of profits capitalism, when I and II rules, which is the Euro-system case (Parguez 2009c), becomes both feudal (expected profits are confused with the sheer exploitation of labour reflecting labour income deflation and parasite since it flies from the creation of real wealth

" Autonomy of financial accumulation" could have ultimately a negative impact on stage 2 as banks spend their reserves (normal case) to acquire new speculative or derivative private assets. It does not mean that the State would not find buyers for its bonds if it issues them. The truth is that it does not have to issue new bonds at all. By running a deficit the State would accelerate the financial inflation and worsen the instability of the system. Thereby policy makers could react by striving to abolish their deficit. The situation would be worse in the Euro case because of the illiquidity of State bonds.

II- Such a destruction of any anchor for the financial system, and thereby the hyper-financiarization is ultimately rooted into the inexistence of a long-run policy of the State targeting the accumulation of tangible and non tangible or human capital. As long as the State does not play its leading role in the accumulation of real wealth, indulge instead into fiscal deflation generating forced or bad deficits[1]. The acquisition of State bonds contribute no more to net worth of banks, the temptation to financiarization can no more be rejected.

One reach a new fundamental proposition:

What generates "autonomy of financial capital" and unbearable instability is not long-run planned high deficits but policies of fiscal discipline creating bad deficits.

Fiscal deflation enslaves the economy to financial capital, herein lies the explanation of the tendency to collapse of the euro-zone economy with a banking crisis worsened by a currency crisis, both reflecting the total enslaving of the State by the financial capital thanks to the choice by the State of deflation policies.

How the State could enslave financial capital: the post Hilferding required policy.
It must be deemed the true Keynesian or post-Keynesian (if not circuitist) agenda[2]
It is enshrined into ten principles meeting the long-run stability conditions abolishing the temptation of feudal-parasite transformation.

The agenda of salvation : Back to a future of hope.

Rule 1 : The State must plan the long-run growth of public investment targeting simultaneously the accumulation of tangible capital and non tangible or human capital including employment in education, health, research, protection of environment.

Those investments will never (or no more) be realized by the private sector especially in the new feudal –parasite system.

Rule 2 : State creation of real productive capital must not prevent the growth of consumption , the sine qua non of a restoration of private productive expenditures including employment and

[1] On this notion, see Parguez (2009c) Bad deficits do not have any positive impact. Their multiplier effect is negative, since they sustain the flight to financial activities of the private sector. They do not even play the role of stabilizers.

[2] I presented a first version in my contribution to the Dijon post-Keynesian conference (Parguez 2009 c)

pure private investment. The rule enshrines what is deemed the dynamic or intertemporal accelerator principle (Giovannoni, Parguez 2010 b) and its twin the employment multiplier principle embodied into the relationship [2], $\overline{\prod}_t$ W_t r* being the permanent expected flow of profits in t, labour income in t, the required rate of return on employment fixing the required share of profit m*

$$W_t = \frac{1}{r^*} \overline{\prod}_t \qquad [2]$$

$$M^* = \frac{r^*}{1+r^*} \qquad [3]$$

It has been proven that the higher is both the growth of public investment and consumption, the higher is $\overline{\prod}_t$ and the lower r* (Parguez 2009 c).

Rule 3 : Thereby the planned public investment must be included into the deficit. Aggregate deficit is thereby the sum of the minimum deficit reflecting financial commitments and new public investment. It means that their must be a planned long-run growth of the State deficit which embodies what Keynes defined as the socialization of investment. In aggregate accumulation the share of the State must rise until some threshold consistent with stability.

Rule 4 ! The stock public debt must rise at the same rate to absorb the financial capital created by the deficit (according to stage 2 of the financial process. The growth of the stock of debt reflects that in each period of the plan the fundamental identity holds. The State must never fear any rationing from markets provided with the soundest assets both perfectly liquid and endowed with the highest permanent real value since they reflect the creation of real wealth.

Rule 5 : Rules 1 to 4 require that there is no privatization of public expenditures, banks have just to play the role of intermediary in stage 1. The central bank must be the last resort source of money. They are thereby inconsistent with the Euro-system which has been built to impose privatization (Parguez 2010 a)

Rule 6 : The debt must always be denominated therefore in the State own currency.

Rule 7 : The corollary is that there must be a floating exchange-rate. The so-called speculation is not to feared as long as the six first rules are fully respected. It could be proven that, at least in the long –run, what determines the relative value of currencies, real exchange rates is the fiscal agenda followed by countries. The more a country respect the 1 to 6 agenda, the more it creates a strong growth of real wealth out of its planned deficits the more its currency is endowed with real value relative to others. Here is the core of the fiscal theory of exchange rates (FTER)[3].

Rule 8 : In any case, the State must never renounce its agenda when, in our post-Hilferding world, its debt is rated low by the rating agencies. They must simply be ignored. Surrendering to them is to generate doubts amid financial capital holders. This rule is crucial for countries

[3] It will be dealt with at length in a forthcoming paper

members of the Euro zone. The capitulation of Greece, Spain, etc... has been a disaster reinforcing doubts over the value of public debt?

Rule 9 : The State must use monetary policy (Parguez 2010 b) to implement its agenda . it means that either the treasury should fix the rate of interest on the debt it issues, renouncing auction system for the sale of its bonds, or it must require the central bank to fix its own rate so as to impose a convergence of long-rates towards the required rate on State bonds.

Rule 10 : At last, which is crucial to bail the economy out of a deep structural crisis, public investment must include the direct creation of jobs at living wages (a generalization of the employment of last resort program). It allows to abolish all the social therapy of unemployment programs like the payment of quasi-charity incomes for those who were excluded from normal employment. The rules makes way for the end of bad deficits like those of France, Germany and Southern Europe.

This agenda meets all the conditions for the restoration of long-run stability of the capitalist economy.

1- It deprives financial capital of any autonomy. The major source of financial capital creation is the long-run planned deficit.
2- It means that the share of public or social capital in the stock of aggregate capital rises pari passu with share of public debt in the balance-sheet of financial capital holders, especially banks. Both ratio should rise until the system has fully freed itself from any tendency to financiarization including feudal parasite private sector.
3- The agenda is to restore true full-employment with high enough real wages to sustain the rise in consumption without hyper-indebtness of household like in France and Southern Europe. It reflects a convergence to what must be deemed the long-run share of labour which must sharply rise (it reflects an increasing employment multiplier).

In guise of conclusion: Hilferding had discovered the tendency to self-destruction of the capitalist role of production[4] because it relied on financial capital. What has been proven is that the tendency can be abolished by the State as the major provider of financial capital.

[4] Writing this conclusion, I am asking myself the question : why Hilferding is not worried by the public debt and in modern parlance. the high deficits of European countries? It is a question rarely mentioned: all European States were running deficits, it did not raised any debate before 1914. May be like other writers on finance he had already understood that the normal role of the State is to provide financial capital! In the USA an enormous foreign inflow of capital (private deficit) replaced State deficits.

In Keynesian terms, herein lies the true meaning of the socialisation of investment :

> Socialisation of Finance raising the ratio of public debt in the stock of financial capital reflects the socialisation of real capital by State investment;

No regulation of banks is needed, hyper-speculation financing activities which create no wealth and generate value less assets is to automatically vanish.

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The true rules of a good management of public finance

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Abstract:
This contribution aims at bringing about the proof that the European public debt crisis was built-in in the Euro-System.
In a first part I explain what are the real rules of a good and stable management of public finance. I derive my demontration from the General Theory of the Monetary Circuit.
In a second part I explain why the public debt crisis was built-in in the Euro-System which violates all the rules of good managment. I explain that all started from the targeted full dismantling of the State by privatizing its public finance.
The conclusion is that the system is doomed. Nothing can be done to save it because the rulers do not want to save it.

Introduction: the original sins of the euro-system

Contrary to the dictatorial ideology of the new European order in which the Euro is enshrined, running a permanent deficit, even a growing one (and thereby piling up debt), can be the proof that the State is well-managed. One should raise the question: what is the existence condition of a well-managed State and thereby of a genuine sound public finance?
The answer is straightforward: Through its fiscal policy the State must be the anchor of a true long-run growth bestowing a rising welfare on society as a whole. Since true increasing welfare requires true full-employment, which means the inexistence of income rationing for the majority of the people the sine qua non of true sound fiscal policy is that it generates permanently that true full-employment.

This definition of the normal role of the State contradicts the core postulates of the European monetary union ideology, which is rooted into three beliefs:

1- The State must behave like any individual private household or corporation. Since all rational private agents strive to balance their account, the State must endeavour to balance its budget.
2- Contrary to private agents, the State, even acting rationally, can <u>never</u> generate growth out of its expenditures. The modern State is always a "burden" destroying growth.
3- The State deficit is a net destruction of wealth. In the short run it drains production savings, in the long-run it generates debts that transfer poverty and sacrifice to future generations. Future taxes should permanently rise, which must squeeze future productive private expenditures.[1]

First part: the true rules of a good management of public finance:

A lot of converging studies prove that this purely negative vision of the State is just a fantasy, the State is indeed the true long-run anchor of a genuine growth. What hides this vision is just the full dismantling of the State which must be replaced by the absolute rule of Euro-core (France, Germany mainly) corporations.

[1] These three postulates are of pure Hayekian origin. They were adamantly spelled out in the first blueprint of the European Monetary Union written by the then leading economist François Perroux (1943). For a detailed comment, see Parguez (2008).

The State deficit can be the ultimate foundation of a true stable growth generating genuine full-employment. Since State expenditures contribute to the generation of national income while taxes have the inverse impact, it is a pure national accounts identity that the ex-post State deficit is identical to a net creation of income for the private sector as a whole, residents and non residents. It is tantamount to another pure accounting identity: the State deficit generates an equal surplus or net savings for the private sector as a whole (household and corporations, residents and non residents). Assuming a balanced budget, net new savings of the private sector are zero. There is worse if the State decides to run a surplus to pay back its debt, the surplus or net new savings of the private sector becomes negative.

The surplus being shared between residents and non residents (whose share accounts for the domestic trade deficit) one could argue that it cannot benefit to the domestic economy. Again, it is wrong belief. All empirical accounting data display the proof that the share of the domestic private sector is always strongly positive. This fundamental identity explains the absurdity of the core European countries especially Germany relative to Greece. Since their sole source of growth is exports when they impose dramatic shock-therapy on Greece they prevent Greece to run a trade deficit, they squeeze their own exports.

This is the short run impact of the budget deficit. What about the long run impact? Answering the question requires a crucial distinction between two kinds of deficits: Bad deficits and Good deficits. Deficits must be deemed Bad when they are not the outcome of a long run policy targeting the creation of a useful and productive stock of capital either tangible (all kinds of infra-structure for instance and equipment that will never be created by the private sector because it is beyond its ability to bet on an unknowable future) or non tangible (recruiting people working in advanced research, health, teaching: sectors where real capital is labour).[2]

Bad deficits may happen in two interwined scenarios:
- the shock-therapy scenario in the like of what has been imposed on Greece: the collapse of the economy because of the cuts in expenditures generates such a fall in tax revenu, that deficits appear again and could rise;
- the long-run policies of deflation: whatever the effort to get rid of the public employment and cuts in public investment, the government cannot stop the collapse of tax-revenue and abolish its deficit.
Bad deficits do not reflect the growth of the stock of social capital. Private agents expect more cuts, more poverty, so they abstain from consuming or investing.

Good Productive deficits reflect a long-run policy of accumulation of social capital. They are planned. Their long-run impact is always positive, and they generate accelerating positive expectations for all private agents, residents and non residents. They are the last resort driving force of growth.

Good deficits are backed by the issue of a public debt that can be self-financing, while being a gift to the future. National income is generated by previous expenditures. Like household and corporations the State is obliged to spend before getting its tax revenue. Income-generating initial expenditures are to be financed by money creation and pre-existing savings. Since a

[2] The distinction is purely objective, it is enshrined into the real counterpart of the deficits. I do think it reflects the distinction made by Keynes (1936) between the current budget and the capital budget of the States, especially in page 128, note1.

well-managed State must not save it is obliged to fund all its expenditures out of money creation by the banking system.

State expenditures reflect a credit of the banking system, the counterpart being a liability issued by the State. When the State becomes able to raise taxes it spends its revenue to cancel or pay back a share of its initial debt. This excess of expenditures relative to tax revenue is a source of wealth for the private sector as a whole, the modern State cannot be obliged to repay its total initial debt, it may run the deficit it wants. The State cannot be dealt with as an ordinary private corporation. In the banking system balance-sheet the counterpart of the deficit on the asset-side is the increase of long-run State liabilities, herein lies the cause of the public debt.

Since the State cannot be an ordinary private agent it must not finance its expenditures by private banks loans as if it were a mere private corporation. Herein lies the existence condition of the Central Bank as the banking branch of the State. In the Central Bank balance-sheet, the counterpart of the deficit on the asset side is the accumulation of State titles of debt earning a rate of interest fixed by the Treasury. In such a case the public debt is nothing but a debt of the State to itself.

Herein lies the self-inflicted Euro crisis. Wanting to get rid of the State as the engine of growth, the Euro founders decided to privatize the State to deal with it as any kind of corporation. They created a sovereign Central Bank forbidden to play the normal role of central banks. Domestic State were obliged to strive to balance their accounts. The Euro system cannot survive in its present structure and governance.

Is the public debt a burden in any case? Even if a share of the public debt is acquired by private banks out of sales of bonds by the Central Bank, the answer must be a strong No as long as deficits are good ones for three interwined reasons. First, being the ultimate engine of growth because of their strong multiplier impact, they automatically generate enough increase in tax revenue in the future to allow the State to meet its commitments. Second, being the counterpart of the provision of socially useful capital accumulation they provide future generations with an increase in its welfare inducing more and more dynamic expectations. Herein lies the reason why piling up debt to the central bank cannot impose inflation on the economy. Thirdly, public debt titles being perfectly liquid and endowed with a real value (contrary to most private liabilities), they maintain the financial stability of banks having acquired public titles of debt.

A well-managed State, planning permanent good deficits, can never be bankrupted. Even the European Monetary Union could not, whatever its efforts, create the possibility of a true bankupcy even for the unhappy Greece. Never the very possibility of a lack of buyers for Greek bonds was on the agenda. What was only at stake was to impose more deflation on Greece especially by slashing labour purchasing power and accelerating the dismantling on the State. The so-called plans of help are just crafted to help foreign banks holding greek bonds by sustaining the rise of Greek bonds prices. In time of dark expectations the sacrifice of the people could not be enough! Finally the euronomics is victim of its own self-made strange ideology rooted into its history.

Second part: the built-in public debt crisis

At the very start of the first black Plague (1348) , the then Pope summoned an extraordinary council in Avignon. The council decreed special exorcism against the devil and bonfires for its agents, sorcerers, witches, heretics, midwives, etc... Bonfires spread all over the christendom, two years after, the plague stopped, besides burned victims, 1/3 of the population died and it was the start of a first escape from the Malthusian iron heel.

Had the holy trinity rating agency judging souls be satisfied by the bonfires, the then austerity policies?

What about the new black plague which is destroying not the bodies but the balance-sheet of the new christendom banks, the euro land? Attained by the panic, banks order rulers of euro-land to impose the new bonfires, harsh programs of austerity destroying what remains of the real economy? It raises a question : could euroland ever recover from the plague and could it fall into the abyss? Could it be saved by the euro-bonds, could this innovation be more efficient that the decrees of the Avignon council?

What make sense of this comparison is that the first plague started in a Genoan emporium on the black sea, while the second started not very far in Greece! There is indeed a difference : The panic of the mid XIVe century was not man- made , the panic of this second decade of the XXIe century is purely man made. What they just have in common is folly, the demise of reason, and the cruelty of rulers.

At the inception, the public debt plague is the outcome of the systematic destruction of the anchor role of the State within the European monetary union[3].

Architects (all French) of the Euro- system hoped to have built the most efficient iron strait-jacket justifying iron-heel MAP (Modern Austerity Policies)[4]. They could not destroy stage one of State financing whatever their dreams. By abolishing the State sovereignty on its currency, the outcome of a supra-national absolutist set of an oligarchy of central banks, the true nature of the mythical European Central Bank, they destroy any connexion for ever between States, treasury and the central bank. They go further, central banks were forbidden to contribute to State expenditures by buying bonds issued in stage two to back deficits. It was not enough, increasing limits were imposed on both deficits and the outstanding public debt. Henceforth, the State was dealt with as a private corporation and an unproductive one! What was the secret hope? in stage 1 banks would ration States, reject conventional credits, which would get rid of the public debt. Laws of economics and Greed were still ruling. As the private capitalist sector was more and more reluctant to borrow to spend in the real economy, banks never rationed the States to stay in business.

Thereby, whatever the dramatic impact of MAP striving to abolish State investment, in stage 2 bad deficits never stopped to rise taking care of the unchecked strength of automatic destabilizers and negative multipliers.

I do believe that both were more stronger and devastating than in USA, Canada, even Japan. Henceforth Treasuries had to auction bonds more and more bereft of any real value and even

[3] This non-Minskian nature of the crisis have been wonderfully explained in Bellofiore and Davanzati (2011) and before by Bellofiore and Halevi (2010). This anchor role of the State was not ignored by Marx as shown by Augusto Graziani (2003) in his effort to monetarize Marx's theory of value. Minsky would never have dared to imagine that financial spiralling instability would spark from the public debt because of the destabilizing role of the State. I agree with Bellofiore (op cit) Minsky was a strong supporter of a "big State" he would have been horrified by the Euro-System.

[4] I created the concept (Parguez 2012) to caracterize permanent fiscal policies aiming at a systematic reduction of all State productive expenditures (with rising taxation) to get both a strict budget primary surplus and a "minimal Hayekian State". They embody a planned dismantling of the State, to impose permanent and rising deflation on the real economy.

liquidity. Bonds holders were convinced that they held assets with zero value , States could not repay in their frenzy to cut public expenditures. Logically, States being now quasi-parasite corporations. Bonds holders asked always rising interest rates, which accelerates the total collapse of the system. In a straightforward way, architects of this absurd system denying all economic laws had built in the ongoing crisis, the public debt black plague they use to advocate still more destroying policies achieving the collapse of the real economy. Adding the worse to ignorance, they shrewdly used rating agencies to impose more poverty.

Ultimately to impose MAP State rulers apparently enslave themselves to the so-called bonds market but they enslave bonds holders themselves to an increasing fragile system. Table 2 explains this race to financial catastrophe which cannot be deemed "a Minsky moment" because Minsky had never imagined MAP and the doomed system they instore. Needless to say, he never dealt with financial crisis in the bonds market with fragility being destroying because of State capitulation reinforcing the worse fears of bonds holders.
Especially in the euro-zone the ongoing economic system resulting from this race to death can be summed up by two relationships, as shown by annex I and annex II.

When the curves displayed in annex II, showing the perfectly inverse relationship between the market value of public and private assets and the real rate of growth, attain the negative real rate of growth of capacity and welfare it is the time sooner or later of the total collapse of the financial system

It reflects what I have deemed the ultimate decadence of the capitalist system. I have proven elsewhere the ongoing mechanism (Parguez 2011 a)[5]. The accelerating fall in global capacity[6] implies both an accelerating rise in true employment leading to the drop in the wage-rate as an average, while inflation rises as a by-product of MAP and labour-productivity may rise unchecked by the total collapse of the strength of the working and employee class. Thereby capitalists are henceforth free to impose the degree of exploitation they want, the ratio of labour-productivity to the real wage. It is the mirror of the collapse of the share of real labour income in distribution. So the value of stocks is, but only for a while, escaping from the automatic destabilizers.
Capitalists are free , or hope to be free from the constraint of borrowing from accumulation to get real profits.
<u>In some way , the erstwhile law of effective demand no more rules.</u>
<u>The proof is final : MAP are ultimately abolishing the dynamic aspect of capitalism, or they accelerate some tendency to the decadence and parasite aspect of the system.</u>

Third part the start of the new black plague and the total collapse of the system

It is the lethal outcome of the systematic destruction on the anchor role of the State for the sake of imposing the euro-system enshrining a medieval ignorance of basic economy principles of the dynamic capitalist system, and thereby the substitution of a mix of inquisitorial ideology and folly for sound economic laws.

The systematic destruction of the anchor role of the State generated the transmogrification of the public debt into a rats-plague disease. As I proved, herein was since the start the supreme

[5] On this critical point, one must refer to Bellofiore and Halevi (op cit), and also Cesaretto and Stirati (2010).
[6] I develop this concept in Parguez (2012) to be substituted for the neo-classical production function. It means that ultimately the Circuit Theory makes sense of Keynes too much forgotten idea that labour was the sole factor of production. Augusto Graziani had always been explicit on this point (op cit).

purpose of what became the euro-straitjacket reflecting the accelerated decadence of European capitalism towards a pure parasite- feudal rentier system.

The metamorphosis started with no return with the Mitterrand austerity or destruction plan of 1983. It had nothing to do with either Reaganism or Thatcherism.
It is embodied into three core propositions or principles that were the existential conditions of euro as the new gold standard.

The major principle was the absolute negation of any positive role for the State which became dealt with as a mere parasitical or non productive corporation. It means that on one side any effort to raise welfare had to be jettisoned, on the other side the long-run decline of welfare (including true employment) and the downwards shift of the global capacity frontier became supreme goals.
How to meet the new imposed poverty dogma? By a long-run decline in State planned investment which should become zero or negative. How to succeed, by imposing a long-run decline in the public expenditures thanks to the prohibition of planned deficits. The impact was indeed a collapse of the real economy. Euro -rulers were not too much worried by the rising effective inflation, a proof that in the modern economy if Phillips curve there is , it is the inverse of the text-book one.

As public investment vanished including investment in human capital, private productive expenditures collapsed which generated more loss of welfare. Indeed the outcome was rising <u>bad</u> imposed <u>deficits</u> whatever the rise in taxation. Herein lie the true seed of the plague :

- Together, the euro rules imposed an absolute privatization of public finance.
Thereby any connexion with the Central Bank endowed with quasi-imperial power was abolished.

- The State when it ran a forced deficit let banks with on their asset side an increase in liquidity bearing no interest balanced by accumulation of net savings of the private sector. Now, being dealt with as a failed private corporation, the State had to strive to convert all its liquid debt to banks into bonds bearing the interest fixed by banks themselves. Again by the very logic of privatisation, all the objective rules were forgotten or jettisoned.

The hard logic of the system transformed treasury net transfer into true banks loans. Thereby bonds were transmogrified into a true loan of banks to the State. Since bonds no more embodied any real creation of value, their value became purely speculative depending on banks animal spirits. Bankers and their Guide, the rating agencies, took care of two major rules:

- The bets on the certainty of being "reimbursed" for loans they had never truly granted.

- The rate of interest they could hope when they will sell their bonds to other more optimistic and greedy banks or other financial institutions. The more they bet on the demand for their bonds by those new players attracted by the interest forced on the State, the more they valued their bonds.

- Since bonds could no more be included into capital being deprived of real value and issued by the most dubious "corporations". The State became obliged to affect a share of their current expenditures, they had otherwise to shrink, to "reimbursement".

Meanwhile, in the context of the dismantling of the State, all the remaining positive effect of the deficit became forgotten. To understand the euro-system one must sadly remember that the fundamental identity explaining the creation of net saving by the State either became forgotten with all national accounting or had not the least positive impact. As I explained the whole relationships of the dynamic capitalist economy became denied: multipliers became negative.

At last, the monetary union explictly rejected any economic union. Thereby , the "market value" of bonds varied strongly between the States leading to two disasters for the future:

- Interest on bonds were more and more divergent.
- The all-powerful Central Bank was powerless on interest on bonds . Finally the emperor was naked like in Andersen tale. Fiscal policy and monetary policy are both privatized, banks fix long run interest rates, the ECB plays no role at all contrary to what happens in the USA in the Federal Reserve System[7].

The black plague appears in Greece, the poorest member, in the aftermath of the reversal of expectations of banks on the value of private assets. It revealed the sheer absurdity of the euro system and the pure folly worth of the Avignon council, of European elites.
For reasons I explained, the Greek government was forced to run large deficits , a large share of which being good one. The counterpart was an enormous creation of net savings mainly for net exporters, France and essentially Germany in the form of net profits galore. But for the sake of privatization dogma, all those deficits were decreed "bad" and Greece was forced to absorb banks tremendous rise in liquidity by auctioning bonds at interest rates decreed by banks, French and Germans. Privatisation dogma transformed their substitution into a genuine borrowing to private banks to be reimbursed at will.
The sharp reversal of banks expectations led to panic : So enormous was the debt, so high were interest rates, so strong was the violation of the squeeze of expenditures, that the Greek government would never be able to meet its commitments, henceforth the market value of its pseudo-debt started to collapse. Thereby the value of assets became more and more inferior to liabilities, the aggregate net savings . Now, the plague ruled, banks holding Greek bonds or pseudo-debt were possessed by the devil of bankrupcy. They could not resist the temptation of imposing outrageous rates on their assets in Greek bonds, henceforth their stockholders could be awash with dividends as rents.
What spread the plague was the reaction of the French and German governments ruling de facto the euroland and the panic or total misunderstanding of the Greek government.
Stage 1

Everybody was aware that under the draconian iron heel of the system, Greece could never pay back its pseudo-debt, having lost any sovereignty on the currency. The Greek government had options :

A/ To stay within the zone and comply with the iron-heel without crying for help from the euro-rulers. it means that to save its people welfare it would be obliged to cancel a large share of its psendo-debt and refuse usury rates.

[7] It could be deemed the useless Central Bank. It is so useless that the new Euro-System drafted by the new treaty imposed by France and Germany relies on “inflows of capital” from the International Monetary Fund. In some way, for the first time in history , a Central Bank would have to become a net borrower of its own currency and only to finance the postulated banks losses!

Was this option possible? Could banks close government accounts and thereby Greece would have been without banking system and thereby of currency since government had no more account at the Central Bank. Taking care of the folly blinding any reason, banks could have at least drastically rationed government ability to spend until capitulation. In any case, Greece would have been excommunicated and expelled from the euro-system. An option which horrified the government who was an harsh supporter of the iron -heel system.

B/ Thereby the Greek government had to beg for help. Herein lies the seeds of the ultimate plan of salvation not of Greece but of the euro, the Euro Bonds!

Stage 2

- First , no help could be directly provided by the ECB, or rather the ruling couple, the German and French Central Banks. They were adamantly invoking the prohibition of buying State bonds. The "ECB" dogma is to play no part in the State financing.

- Next, salvation required the intermediation of France and Germany without involving the ECB. Both were only interested in containing the plague to protect the net worth of their banks. Both rejected any kind of solidarity, willing to ignore that Greek horrendous deficits had led their exporting corporations awash with net profits and their banks stockholders (their major corporations) awash with dividends.
They acted like the Avignon council, afraid of doubts over the value of their own pseudo-debt to their banks. thereby a weird system, some Meduse raft was imagined in haste:

- Each State issue new bonds sold to their private banks.
- Proceeds were then borrowed by Greece.
- which started to meet again its pseudo-debt
- Finally, in banks balance-sheet German and French bonds were substituted for Greek bonds while in the Greek treasury new French and German bonds were substituted for former Greek bonds.

But the Meduse raft was worth of the council of frightened pope and cardinals.

- The bondfires were horrendous destruction plans of the Greek society which achieved the collapse of the economy, while generating more bad deficits that required more sales of bonds.

- Now, French and German public debt had been raised. The plague spread all over Europe, doubts on the value of Spanish, Portuguese, Italian, Irish could no more be contained, while French and German bondsvalue themselves became bad assets.

- New bondfires were decreed in the form of destruction austerity which destroyed what remained of the real economy, caused more bad deficits generating more destruction policies. The whole euro-banking system could die, all logic being ignored[8].

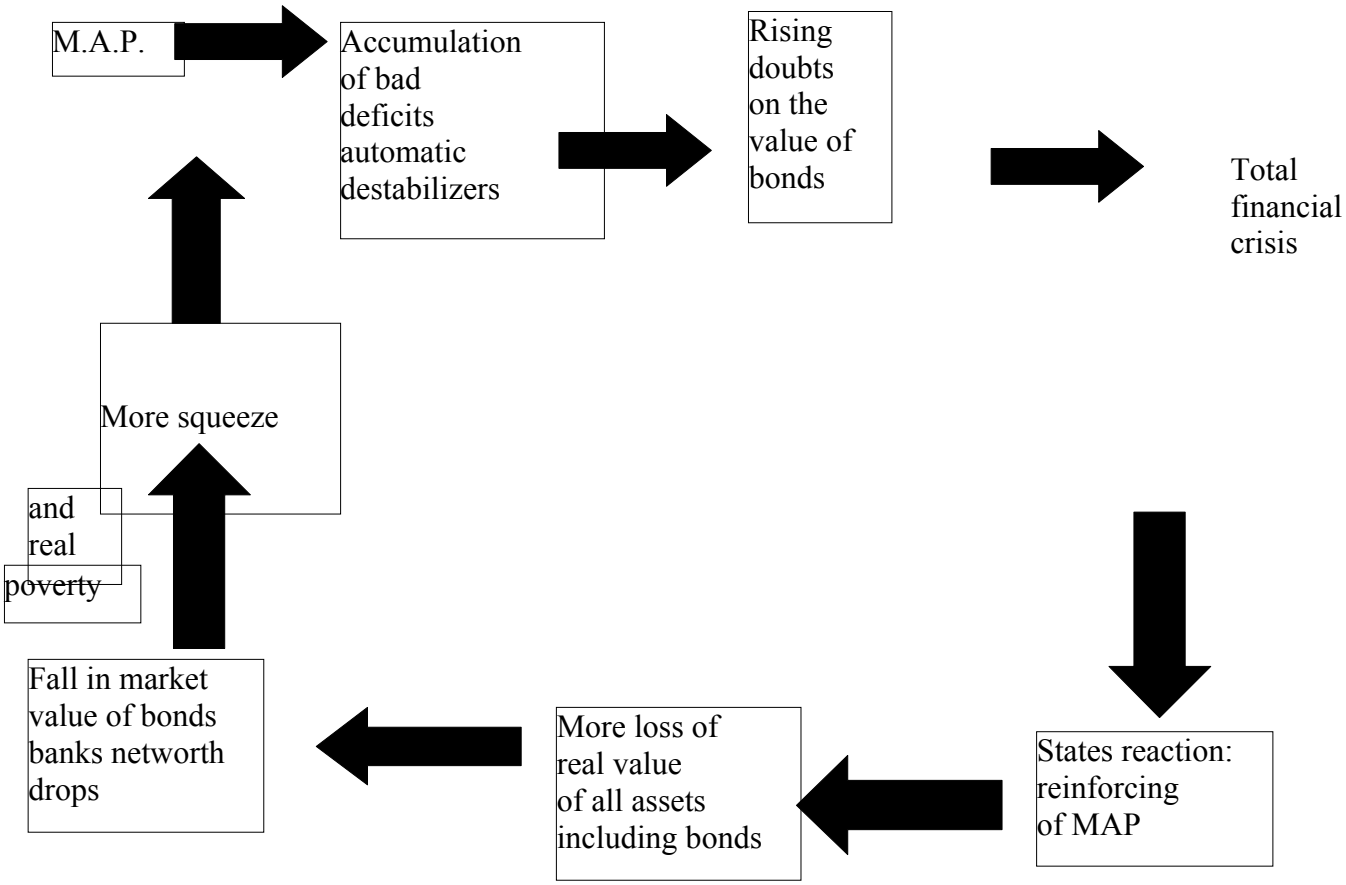
[8] Were it ever imposed, the new Franco-German iron-heel would both achieve the demise of the State, but as dictatorial enforcer of a deflation worse than any other deflation in history, would destroy, once for all, capitalism as a productive system in the Eurozone. States would be turned into the most feral predators to rely on the wonderful concept invented by Galbraith (2008).

Conclusion:

Back to Avignon and Malthus since the dismantling or hate of the State, its privatization shared by the whole eurodom rulers is the cornerstone of Eurodom, what would banks do with what has been robbed to the people, invest the spoils in private assets never issued for real value generating expenditures. Henceforth, while destroying the real base of the economy and depriving public bonds of any real value, forced "reimbursement" of what were never borrowed will generate a new wave of hyper-speculation and capital gains plus dividends to former productive corporations motivating them to abandon without remorse the real economy! As for wished reimbursement before terms decreed by Germany and France for their own debt one can only cry before such a folly of the ruling elite!!! It is no more the turnpike to slavery, It is the race to death video game transmogrified into real darkness. Finally, the loss of value of private assets, the collapse of the "financial markets" will be the twilight of the gods of Eurodom Walhalla.
No shrewd financial innovations can save what cannot be saved because it does not want to be saved. Herein lies the final proposition.
Thereby I was right in Parguez (1999) to foresee the collapse of the euro as a false money built to destroy the real economy[9]

ANNEX I
The Cumulative destabilizing process resulting from European MAP

[9] Herein lies the crucial point : The Euro was not just a single currency but a new social order which had its own but perverse logic. The most modest proposals of giving to the ECB the right to help the States are to be rejected because they contradict the "existential nature" of the system.



ANNEX II

It is the set of two curves

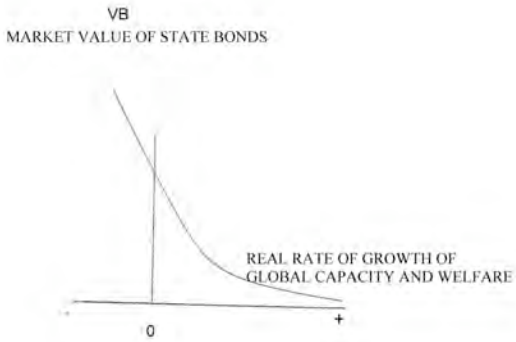


Figure 1

The more the real rate of growth drops, the higher the speculative value of State bonds.

But what happens for the value of assets V_A previously issued as the counter-part of private wealth -generating expenditures? Exactly the same, as shown by figure 2.

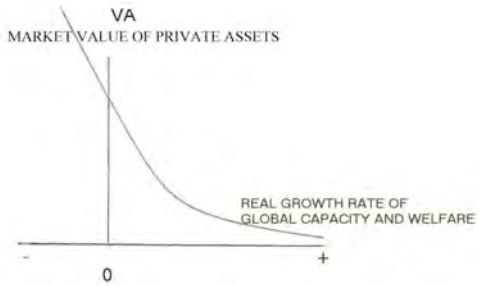


Figure 2

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The Tragedy of Disciplinary Fiscal Economics

or

Back to the *Ancien Régime*

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January 2003

Are there many ways to abide by disciplinary fiscal rules?

In the last years of the reign of Louis XVI, the then finance ministers always rejected in a very modern (or post-modern) way the most necessary expenditures by invoking the absolute scarcity of funds to spend. In the early years of the 21st century, finance ministers of the richest nations always reject the most necessary expenditures by telling the people that "the State is short of funds" and they are in the same desperate situation than Louis XVI. Orthodox experts do not seem to be worried by the obvious *fact* that there are some differences between France in the years preceding the Revolution and 21st-century America, Europe, Japan and their likes. The "there is not enough money to spend" slogan relies on the so-called "budget constraint":

> The State, whatever the underlying mode of production, has to adjust its expenditures to the predetermined fund which is equal to taxes plus liabilities sold to private savers and the Central Bank. By issuing liabilities the State runs a "deficit" which is financed by the absorption of a share of *already* existing saving and/or by money creation.

Herein lies the existence condition of disciplinary economics. There could be a *first way* to fiscal policy relying on unchecked "deficits". It is deemed today "the Keynesian way" while it was never recommended by Keynes himself, who by the ways never explicitly doubted the Budget Constraint.

It is now anathema to orthodox economists (and many heterodox economists alike as long as they do not doubted the State Budget Constraint) because it would require either an increasing shortage of "*ex ante* saving" for the private sector (taking care of the very dubious existence in the long run of strong enough Barro effect) and/or an excessive creation of money leading to inflation. Whatever the nature of expenditures, the "deficit" cannot have a net positive impact on the private sector; its net impact is *negative*, which explains the Commandments of the ruling fiscal orthodoxy.

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This paper has been presented at the 29th annual conference of the Eastern Economic Association, New York, February 2003. To write this paper, I have been inspired by Henri Sader and Renaud Bellais.

I The State must never plan a deficit.

II The State must never accept a deficit resulting from a slump generating lower than planned tax revenue and/or higher than planned outlays. It has to cancel the deficit by raising taxes and/or slashing outlays.

Commandments I and II are the mild disciplinary regime. There exists now a tougher regime enshrined into a third commandment:

III The State must plan a gross surplus by saving a share of its tax revenue to increase the *ex ante* saving fund as if we were in some fantasy corn Hobbit-like economy.

And a more tougher regime, the ultimate one enshrined into the fourth commandment:

IV The State must allocate a share of the "gross surplus" to the repayment of its debt.

A widespread belief of the so-called modern (or post-modern) "left" is that there are two ways in fiscal policy of abiding for the disciplinary regime.

The second way (the Conservative way) requiring a long-run fall in State outlays to attain some "minimal" State.

The third way (the Progressist or "Compassionate Disciplinary" regime) consisting in simultaneously raising expenditures and taxes. The "first tax next spend" policy could abide by the four commandments while meeting some commitment to social progress and growth.

In the Third Way, monetary policy could help by planning low and stable rates of interest (relative to growth in real terms) which shrinks the debt burden imposed by the third commandment while compensating for the non-existence of fiscal stimulus for private animal spirits. Such a tradeoff between a disciplinary fiscal regime and a rewarding monetary policy is the last-resort solution of the so-called "New Left" politicians and heterodox economists alike rejecting the second way and indeed the first one.

These three ways of fiscal policy ignore modern money

Sharing the belief in the Budget Constraint, they start from the same origin:

The modern State has no more monetary power than the last king of *Ancien Régime* France. It cannot create money to undertake its expenditures.

Louis XVI has not the least monetary power. For a long time the French kings had lost any control over money, which had been *de facto* privatized. The king had to abide by a dramatic budget constraint from which the only escape was borrowing to foreign banks at usury rates. One should know that the modern State since the inception of the capitalist mode of production is a monetary State whose existence condition is the control over the currency used as money. It is the State that determines the currency and therefore the unit of account by

requiring that liabilities to the State (and all other liabilities) must be discharged by payments in that very currency.

The State has therefore the power to create units of its currency (money) by undertaking its expenditures. It cannot wait for taxes to spend no more than firms can wait for receipts to spend. The counterpart of the amount of money created by expenditures is the tax liabilities imposed on the private sector. The collection of taxes destroys money and liabilities–like firms repayment to banks destroys an equal amount of money and liabilities. No budget constraint exists in a genuine monetary economy. Herein is the sole way of understanding the true relationships between the State and the private sector.

First, the so-called "deficit" accounts for the net surplus (saving) of the private sector. A "surplus" is nothing but the net deficit (negative net saving) of the private sector. One should therefore stop using the term "deficit" or applying it to the sole State. Since the outstanding empirical work of Eisner (1994), one should know that the State "deficit" also accounts for the State net investment, including non-tangible investment. Who would blame firms for not entirely financing their investment by profits generated by their receipts? They have to run a "deficit" to make desired saving.

Second, the "deficit" has not to be financed; what only matters is that it is reflected by an equal increase in banks reserves providing no yield. Its counterpart is an equal fall in firms new issue of liabilities to banks because of their increased profits. The State issues bonds to absorb all (or a share of) banks excess reserves. What determines both the amount of new public debt and the role of interest it provides is the State long-run policy relative to banks profits. As a pure book-keeping operation the share of the "deficit" which is not absorbed by bonds sale is absorbed by the fictitious sale of bonds to the Central Bank. It is the so-called "monetary" component of the budget constraint. Since this operation had been forbidden in the early stage of the disciplinary regime (as soon as the early 1950s or 1960s according to the countries efforts to impose the new regime) the State became committed to a *full* compensation of banks.

The next logical stage was to provide banks with rates of interest high enough to raise their profits while removing the threat of inflation, which cancelled the possibility of an interest-induced wealth effect. The restoration of *rentier* capitalism was the great achievement of the late 1970s and early 1980s. Bestowing independence on Central Banks by turning them again into their role of Executive Committee of the rentier capitalism followed. What remained to go back to the time of Louis XVI was to deprive the State of its monetary power. Herein is the deep "wisdom" of the European Monetary Union. Since it is impossible to restore the agrarian non-capitalist mode of production, when the State surrenders its monetary power it has to rely on the money creation of private banks for all its expenditures. It could become more dependent than Louis XVI!

A very few (or none) supporters of the Third Way understand these two crucial relationships or, for the most enlightened, they confuse the State monetary power with the restoration of the Central Bank "absorption" of the new debt. What is also missing is an accurate understanding of the prohibition. It has nothing to do with "monetarism" (whoever cared for it outside the isolated realm of professional economists?) but with the role of financial capitalism.

The Third Way to the disciplinary regime cannot be sustained

The State only abides by the first and second commandments planning to raise expenditures and taxes at the same rate of growth high enough to meet its commitments relative to health, education, research, infrastructure, defense and so forth. The outstanding public debt is constant while its yield is adjusted to the desired accumulation of liabilities. Monetary policy is effective as long as it allows banks to charge their required rate of interest, taking care of their obsessive concern with inflation that is reflected by the strong desire to maintain a stable price of output (Parguez, 2003).

Let us assume, which is the most suitable case, that wage-earners do not save–being deaf to the propaganda for thriftiness depicting a dire future of "no money for pensions, education,…". Under those assumptions, let us consider two cases relative to the relationship between private investment and the growth of State outlays:

Investment is fully exogenous relative to State outlays.

What determines investment for individual firms as capitalists is their *wagers* on a far and unknowable future. Their outcome for capitalists as a whole (the so-called "aggregate investment") determines the share of output transformed into capital by specific expenditures reflecting an equal creation of money. Firms profit (net accumulation) is equal to investment minus net liabilities or deficit (positive, negative or nil) incurred to close the monetary circuit or value cycle. They are equal to the State "deficit" (or exogenous contribution to profit) minus, under our assumptions, interest income paid to banks.

Since the State "deficit" is always zero, firms deficit is equal to banks own profit reflecting the share of the value created by firms transferred to banks as financial capitalists through the rate of interest. Just to maintain the desired growth of banks net wealth, this share z–and therefore the rate of interest–has to grow as soon as the State "deficit" starts to fall, converging on its zero long-run level.

Banks impose a minimum rate of return r* on firms wage-bill which is therefore equal, π being profit, W the wage-bill, I investment,

[1] $$W = \pi / r^* = I (1 - z) / r^*$$

While the money wage rate is always adjusted by firms to its normal level *w* allowing them, for a given labor productivity *a*, to maintain the price target p* meeting banks as financial capitalists (and therefore the Central Bank) desire for the stability of assets value (Parguez, 2003) so that, *b* being the ratio of interest costs to labor which only depends on the rate of interest and the required rate of return (*op. cit.*):

[2] $$w = a\, p^* / (1 + r^* + b)$$

From [1] and [2] stem the main characteristics of this disciplinary regime.

First the growth of State expenditures has no impact on the private wage-bill. Assuming that it has no impact on labor productivity, having no impact on wagers determining investment, it does not affect the wage rate. It is therefore perfectly neutral relative to employment and aggregate output of commodities.

Second if there is a long-run rate in growth of investment, investment being full exogenous relative to State expenditures in the context of absolute *unknowability* of the future, its rate of growth is to be always very low relative to the very high rate in growth of State expenditures. Whatever could be the fluctuations of r* and i, private labor income always grow at a rate ruled by the rate of growth in private investment. Taxes growing at the same rate than State expenditures, there must be a long-rise in the tax rate on labor income.

When State outlays rise relative to the wage-bill, the tax revenue generated by income paid by the State is not enough because it is just a share of the required rise in taxes. The tax squeeze of labor is not compensated by the rise in tax rate on banks profits because banks are to react (with full support of the Central Bank) by a higher rate of interest raising z and b. It leads to a drop in both W and w, which requires an increased taxation of labor: were the State strive to raise the tax on gross profits, net profits in [1] fall, which imposes a fall in W and again a higher taxation of labor. Herein is the full proof of what must be deemed the fundamental tax theorem:

> In a genuine monetary economy, the whole burden of taxation is ultimately borne by labor (including labor hired by the State).

Third, from this theorem, one derives the proof of the non-neutrality of the Third Way. It leads to the long-run fall in labor *net* income which is reflected by an equal fall in the share of output absorbed by consumption. The rise in the tax rate on labor generates a long-run fall in the "effective real wage rate" accounting for the purchasing power of labor, while both the price of output and the money wage rate remain constant.

Herein lie the deep roots of the instability of the disciplinary regime. Sooner or later the labor force is to react to the "tax" exploitation by requiring a rise in the money wage rate.

Either the inflation barrier is removed allowing for a rise in the rate of return, but banks (again with full support of the Central Bank) react by a rise in the rate of interest–raising the z and b factors. The wage-bill is to fall (induced tax shortage requiring more taxation) while there must be a fall in the rate of return if there is not again a rise in the price of output met by a new interest rate alike. The outcome is more taxation anew generating more compensating money wage rate hikes. Such a cumulative process is to lead to a collapse of the supporting structures of wagers reflected by the drop in the rate of growth in investment–imposing a fall in the wage-bill, more tax shortage, more taxation of labor,…

Or the inflation barrier holds. Henceforth there is a fall in the rate of return below its required level. Firms are to react by a wage-bill adjustment imposing more taxation of labor and labor is to respond by requiring a new wage hike until unemployment becomes so high that labor ha no more enough possibility to organize and resist tax exploitation. It is the time when, because of the collapse of consumption, the rate in utilization of capital collapses–which is reflected by a dramatic reversal of wagers on the future leading to a strong fall in the rate of growth of investment that could become nil or negative. The wage-bill adjustment increases the tax shortage that is met by an increased taxation compounding the drop in the rate of utilization and the cumulative process is to accelerate until the State disobeys the commandments.

State expenditures have a positive impact on investment through the technology drive

The growth of State expenditures has a positive impact if and only if channels to individual capitalists the vision of a much more optimistic future providing them with so much rewards that they have now to increase their wagers on the future. As rightly shown by Bellais (2003), through the growth of its expenditures, the State removes the barrier of time, the *unknowability* constraint by leading individual capitalists to be certain of being rewarded by increased productivity and increased profits if they raise their investment. Both effects are the outcome of *past* State investment in research on new technologies that, in some far future, could be a source of bounties for the private sector.

What is crucial is that the State is the only one actor in the capitalist mode of production providing this technology drive, because it is free of any kind of profits motive and therefore able to spend for a long time on research without any positive outcome. The State revels in ignoring the time barrier contrary to individual capitalists striving to be protected against the consequences of *unknowability*.

As soon as the growth of investment starts to accelerate labor grows which generates the tax revenue matching the rise in ongoing State expenditures. The tax squeeze of labor is prevented and therefore there is no more the threat of a tax-induced cumulative process. As soon as the new technology is embodied into capital, the rise in productivity allows a rise in the wage rate fitting the inflation barrier while compensating labor for the past collapse of the effective real wage, which prevents a rise in the rate of return that would weaken the growth of labor income.

Past growth of State investment in research had to be matched by an equal growth of taxes. Nothing prevented the tax-induced cumulative process during the research time, which could have so much decrease capitalists ability to take wagers on the future that the technology drive would be dampened too much to generate a strong growth of the wage-bill.

Assuming that past commitment to commandments I and II does not dampen the growth of labor income, tax revenue is poised to become greater than State expenditures if the State does not cut taxation.

Excess taxation revenue generates a "surplus" reflected by the fall in profits, which automatically imposes a compensating drop in the wage-bill requiring more *taxation*. If the State is truly committed to the disciplinary regime, it must revel in "surplus" because at last it enjoys the opportunity to abide by the commandment III (possibly to the commandment IV) and therefore it must freeze taxation to protect the cherished "surplus".

Herein is the proof that the "Bellais effect" is inconsistent with the disciplinary regime, which is the ultimate proof of the full unsustainability of the Third Way regime.

The second or conservative way is the sole way to the disciplinary regime and its impact is worse

To remove the threat of the tax squeeze effect, the State plans a long-run fall into its expenditures. It requires the nonexistence of daring long-run research programs, which prevents the technology-drive investment. Private wagers on the future are henceforth doomed to be more and more short run and thriftiness or speculation-driven. Investment is to fall in the long-run, which imposes a drop in labor income generating tax-revenue shortage, because there is to be some rigidity in State expenditures which are falling at a slower pace than investment. The Conservative way cannot escape from the tax-squeeze effect whatever the State commitment to its "minimal" Agenda.

Striving to attain this long-run "quasi-*Ancien Régime*" state, the second way imposes a dramatic rationing of public goods on the labor force in terms of health, education, transports, social benefits of all kinds, etc. It is reflected by a fall on labor productivity and a compensating effort to save–generating an augmented drop in profits. Endeavoring to protect their accumulation, banks (as always supported by the Central Bank) are to react by raising both the rate of interest and the required rate of return.

The conservative way is therefore the way to a cumulative process destroying the very fabric of the mode of production.

In guise of conclusion, any responsible and sensible as well politician must reject as absolute anathema the disciplinary commandments. One must *never* care for the "deficit" but for some mystical fear without any scientific foundation. What only matters–abolishing the ultimate source of scarcity: the sheer anguish of individual capitalists relative to the future (as shown in Parguez, 2002)–is to provide society the public expenditures it needs to overcome the time barrier and attain full employment while preventing the crowding-out of consumption.

Because of the strength of the tax-squeeze feedback effect of the growth in State outlays, the responsible State must pledge to a long-run decrease of taxation. Herein is the existence condition of the long-run technology drive of capitalism.

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The impotence of Monetary policy
An Andersen tale
(with annex I to IV)

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April 2010

This paper has been specially written for the Conference
<u>Central banking after the crisis</u>
Organized by the Post-Keynesian research center and the International Policy Institute of the Laurentian University

Toronto May 21-22 2010

This paper is dedicated to the memory of a French true economist Pierre Dieterlen who taught economics at the then Sciences-po Paris and to the memory of my friend the German economist Otto Steiger who very soon understood the fallacy of monetary policy especially in the absurd context of the European Monetary Union.

*I addressed the question, in early 2001 at a conference organized in West-Palm Beach (USA) by Warren Mosler. Since that date, both through the evolution of my ideas and the impact of facts in including the new world structural crisis which is just starting , my critical assesment of the omnipotence of central bank became more radical. This contribution is to be read as the twin of my recent writings on the leading role of planned deficits, the core of the ten rules of State good management, I spelled out (Parguez 2009, 2010). I owe much to discussions with Massimo Cingolani, Tom Ferguson, Joseph Halevi, Olivier Giovannoni, Warren Mosler, Daniel Pichoud, Louis –Philippe Rochon and Mario Seccareccia, Slim Thabet). I take full responsibility for both my core ideas and my interpretations. I am aware that this contribution requires much more empirical work. I would say that it opens a door to a universe ignored by most conventional economists. On this point I agree with Robert Skidelski (2009) and Richard Koo (2008).

First part :The dual aspect of monetary policy in the wake of the ongoing second world structural crisis of the capitalist economy.

Let us start by a definition of monetary policy fitting the conventional wisdom. It is the attempt of the central bank alone, acting independently of the fiscal policy, to control the course of the domestic economy by the control of the so-called pure monetary variables: the set of interest rates, the supply of money and the exchange rate. There seems to be some broad consensus on both the strong efficiency of monetary policy and thereby the inefficiency or at least dependent role of fiscal policy and the quasi- omnipotence of the central bank in its dual function.
Controlling the set of interest-rates should be the normal long-run policy of the central bank. Herein lies the debate on what it must target, inflation or unemployment, at least directly, and thereby on the best way to grant omnipotence to the central bank for ensuring the long-run stability of growth, must it be independent if not absolutely sovereign like the supra-national E.C.B. or not .

Such a consensus relies on two postulates:

- The central bank can effectively determine the set of interest rates at least taking care of some delay.
- Interest rates do matter for the control of aggregate demand generated by the private sector. A corollary of this postulate is that the private sector desires to borrow and spend only matters. Emphasizing monetary policy hides the belief that State expenditures, gross or net, do not matter.

The very fact that most Post-Keynesians have endorsed the second postulate seems therefore a bit problematic and not very "keynesian"[1] and, mainly, not rooted into strong empirical findings. One could also doubt the first postulate, especially if we abstract from any role of fiscal policy. For a while let us accept both postulates : Herein could lie the way (the normal one) enabling the central bank to have an impact on the exchange-rate (assuming that such an impact is required).
To day, the so-called financial or banking crisis of 2008, led to a strange restoration of Friedmanian monetarism in its most extreme way under the guise of "quantitative easing". It enshrines the following causality chain :

- Private borrowing to banks-banks money creation- is entirely determined by banks desired supply of credit.
- Which is itself entirely determined by banks liquidity which is accounted by the amount of their reserves.

[1] In his wonderful new book Skidelski (2009) sustains this critique on the emphasis of monetary policy. Keynes was strongly doubting its efficienty. The same interpretation is sustained in Davidson (2007-2009). One could argue that the so-called Fiscal Theory of the Price Level (FTPL) restores the role of fiscal policy, like Woodford (2003). It is just to emphasize its absolute negative role. In the genuine non-monetary economy of Woodford the State may issue freely bonds without being constrained by the Ricardo-Barro equivalence rule. First, Woodford ignores that the counterpart of those random issues of bonds is public investment expenditures, second, the violation of the Barro rule generates an increase in the net wealth of "individuals" causing inflation which hinders the savior role of the Central Bank. Raising interest rates, it lowers the price level, which increases again the net wealth of individuals, hence more inflation! As rightly emphasized by Tcherneva (2009), the FTPL is the ultimate death blow to fiscal policy. It is the perfect justification of the Euro-straight-jacket.

- Banks reserves are fully determined by the sheer will of the central bank to acquire whatever assets private banks looked as 'insound", deprived of value.
- Finally, the central bank fully controls the "supply of money" and thereby private desired expenditures.
- Doing so, it may certainly control interest rates, both aggregate demand and supply, inflation and employment.

"Quantitative Easing" ultimately postulates the perfect exogeneity of the "supply of money" and the quasi-exogeneity of interest-rates. Like the traditional policy of pure interest rates setting, it is only addressing the private sector as the leading factor of growth. It is the ultimate demise of the State, fiscal policy has no role to play.

Having defined monetary policy in its dual aspect, it is time to answer questions it is raising.

In a second part, I intend to answer the question raised by direct or indirect control of interest rates:
It is certain that, at least in the long run, the central bank may determine interest rates as if they were strongly exogeneous? Is it certain that interest rates are the leading factor of aggregate demand and supply generated by the private sector?
Finally, is the debate over "targeting" sensible in the modern capitalist economy?

In a third part, I shall strive to prove that the ultra-monetarist doctrine of "quantitative easing" is entirely wrong for both theoritical and empirical reasons. Looking at central banks as the savior contradicts the whole structure of the capitalist economy.

Thereby, in a fourth part, I must draw the conclusion: As long as centrral banks are not the mere supporting agent of long-run fiscal policy implemented by the State, "Monetary Policy" is inefficient. To be straightforward, out of its long-run fiscal policy, the State is the anchor of wealth creating an increased stock of real wealth through its net expenditures.

To the contray, monetary policy creates nothing. It has neither a "Real Stock Effect" nor any lasting impact on spending private expectations. It is tantamount to a zero super-multiplier effect.

Second part: The dangerous illusion of central bank targeting through the control of interest rates.

I- *In the modern capitalist economy the Central Bank cannot control alone the interest rates that could matter. It may just control them very indirectly and not very efficiently.*

I -1 The ruling consensus is that interest rates which should matter for the private sector, the interest rates charged by banks on loans to corporations and household, let r_b be their average, are always determined by applying to the rate that the central bank certainly controls (whatever its decision or reaction function), r_{cb}, the rate it charges on the shortest-term loans of liquidity to banks, a given and somewhat constant mulitplier, the banking mark-up, m_b

Thereby, knowing with the highest certainty m_b, the central bank could increase or lower at will the whole set of interest rates and thereby the amount of loans.

Herein lies the pure doctrine of interest rates exogeneity explaining that the yield curve is always fixed by the sheer will of the central bank, as shown by the following equation:

$$r_b = m_b . r_{cb}$$

It raises three fundamental questions:

- First, as shown by a converging set of empirical studies, Giovannoni (2009) and Koo (2008) for Japan, the yield curve is not stable and its slope can be negative, the so-called long-run rates applied on loans falling below the central bank rate. It means that the mark-up multiplier is not constant at all, which seems true even when the slope is positive.
- There has not yet been a full-explanation of the mark-up factor (Koo, op cit)
- There are great quasi-permanent differences between mark-up both over time (Dow 1998) and between countries (Dow op cit and Koo 2008)

I -2 A proper explanation of the banks multiplier must deal with banks as mere corporations striving to attain their required or targeted increase in their net worth out of their activity, which is granting loans generating money, whatever the support of those loans (securitized or not). It is sensible to assume that this required rise in net worth, V^*_{bt}, is the same for all banks like again ordinary corporations in a given country. V^*_{bt} is the sum of two components : the targeted gross profit R^*_{bt} and the expected rise in the value of banks assets generated by their loans, v^*_{bt}.

In modern capitalism, it has been proven that the v^*_{bt} component is for banks as other corporations the major component (Koo op cit)

- Banks effective profit R_{bt} is the excess of their gross income provided by their new and past assets over their operating cost. To rely on a modern terminology, profits are themselves a flow-stock variable for any corporation.
  Income is generated by the yield of banks new and accumulated assets. Assuming that yield-generating assets are the counterpart of loans (securitized or not) to the private sector alone for its expenditures. Banks gross income is equal to the sum of income provided by new loans and the stock of loans inherited from the past. Let K_B be this final stock of loans. Aggregate gross income of banks is thereby equal to K_B multiplied by the average interest on loans r_b. Banks operating costs are mainly[2] income paid to the central bank for borrowed reserves (whatever the terms of the loan) and to private agents, household and firms, holding their savings as long-term deposits through fixed contracts with banks. Banks strive to attract savings deposits because they freeze a share of their own liabilities and protect them against the possibility of a withdrawal mainly generated by the expected fear of a fall in the value of their assets, that could reveal their past failed bets and lead to their bankrupcy. Attracting savings is the best way to escape from the good will of the central bank by reducing the need of reserves. On the other side savers may prefer fixed contracts with banks to hazardous acquisition of stocks, private bonds and even real estate or land.

[2] To day labour costs can be neglected because it is the banking corporations that minimized their labour cost with the most efficiency.

Let finally $\bar{r}_B$ be the average rate charged by the central bank and $\bar{r}_s$ the rate granted to holders of saving deposits while L and $\bar{s}_L$ are respectively the share of reserves in aggregate assets and the share of saving deposits in aggregate liabilities. We get henceforth the definition of the banking industry profits flow, K_B being as already explained the final stock of banks assets at the end of the accounting period t, A accounting for the inherited stock of assets and A for its increase.

$$K_B = A + A \qquad (1)$$

$$R_t = [\ r_b\ (1\text{-}L\ )\ K_B\ ]\ -\ [\ r_B L\ K_B + r_s\ \bar{s}_L\ K_B\ ] \qquad (2)$$

since by the logic of accounting the final aggregate stock of assets at face-ratio is equal to the aggregate stock of banks liabilities.

- The second and major component of the increase in net worth, , v^*_{bt} is reflecting the long-run bets of banks of the rise in the value of their assets, other than reserves, because of their buoyant expectations of an increase of the net permanent profit flow of their debtors or a rise in the market-price of the assets bought by their debtors. It could be positive, negative or nul. In such a case the effective net worth falls below its required level even with a positive profits income.

Ultimately we may derive the fundamental equation ruling the behaviour or interest-policy of banks.

$$V^*_{bt} = R_t + v^*_{bt} \qquad (3)$$

I- 3 In this equation V^*_{bt} and v^*_{bt} do not depend on the interest policy of the central bank. <u>They are exogeneous variables but from the sole private banks corporations perspective</u> ; both determine what must be the required profit flow of the banking industry :

$$R^*_{bt} = R_{bt} = V^*_{bt} - v^*_{bt} \qquad (4)$$

Let us take as given the stock variable K_b. The Central Bank may certainly control its average own rate on loans to banks r_{Bt} by just applying some mark-up to its base rate entering the initial mark-up rule. But what is its control power on other variable? :

- It does not have any control neither on V^*_{bt} nor on v^*_{bt} depending only on the banking industry desired accumulation of wealth and own expectations. The higher is V^*_{bt} , for instance, the higher must be R^*_{bt} and inversely. The more buoyant are the banking industry expectations, the lower could be R^*_{bt} . Being not the Gosbank as soon as banks became pure private corporations targeting accumulation of wealth, the central bank had no more control on their desired net wealth than it could have on any other corporations.

- At least, does it control other determinants of the profits flow than its own rate, V^*_{bt} and v^*_{bt} being given?

It does not control, or very weakly, neither L nor $\bar{s}$ which are inversely related L depends on banks expectations of v^*_{bt} as already proven while $\bar{s}_L$ only depends on private savers preference for saving deposits reflecting their fear of losses in other assets like stocks. One could raise the issue of State bonds, but it is outside the debate on pure monetary policy.

*Thereby the central bank does not control r_s which reflects the convergence of banks aversion for borrowing to the central bank and, possibly the determinant factor, savers aversion for capital losses. So great should be this threat, that banks may have the leading role.

The conclusion is straightforward : The central bank does not control the leading long-run r_b. Any increase in the targeted growth of banks net wealth (or fall), any increase in their optimistic view of the future (or decrease) leads to a rise in the long-run rate (fall) whatever central bank policy could be. Any change in savers fear of losses leads to a rise or fall in the long-run rate, independently of the central bank will. Ultimately the strong power doctrine bestowing some absolute power on the central bank is wrong. Central bank own rate is not at all the leading or anchor rate of the set of interest rates. One could just spell out the cautious proposition.

- As long as the central bank rise or lower its rate for enough time, it could be a shock having some impact on banks and savers expectations . There is a caveat on which I shall be back:

As long it is supported by a long-run fiscal policy of planned deficits.

It could have been the case with the Volcker shock in the very early years of the Reagan administration. So unexpected and outrageously unbound was the rise in the central bank rate that it led to a collapse of long-run private banks and their customers expectations alike. At the time, as shown by Eisner (1989) and Dow (1998) fiscal policy had been more and more restrictive during the last ten years. The v^*_b factor collapsed, banks were obliged to rise their profits flow to protect their accumulation of wealth.

I -4 From those twin propositions stems a corollary: Assuming that fluctuations of exchange-rates depend on the discrepancy of interest on loans relative to the foreign countries (an assumption needing proof), the central bank cannot change the exchange-rate at will by raising or cutting its own rate.

II -Even taking care of the very indirect and possibly weak impact of its policy on interest rates, the central bank may control neither inflation nor employment. It could enjoy to be feared or admired as the savior or the scarescrow, it is just a role hidding the true leading role of fiscal policy.

Let us remember the reader that the debate is only addressing the impact of interest rates on the expectations of the domestic private sector. Thereby, could a change in interest rates have a crucial impact on inflation, employment or both, which is the motive of the debate on targeting?

II-1 The central bank cannot acting alone control inflation whatever the channel, the aggregate demand channel or the direct production cost channel.

II-1-1 Variations of interest rates have no or a very weak impact on aggregate demand and thereby on expectations ruling pricing decisions, assuming as always no long-run fiscal policy (or a neutral one). It contradicts the channel put forward by what was the new-consensus rallying new-keynesians, new marxists, conventional mainstreamers and even some post-keynesians (Giovannoni and Parguez 2007) . Sometimes the demand channel even relies on an I-S condition as the measure of the crucial excess demand and goes so far as bestowing on the central bank the mission of adjusting the rate of interest on loans to its "natural level "à la Wicksell[3] that would adjust I (private investment) to S (private savings which do not to include corporation profits) [4].

Why is this channel irrelevant or "quasi-irrelevant"?

1- Private productive investment does not depend on the level of interest rates or the impact is extremely weak.

A robust set of empirical studies (Eisner, 1966), Giovannoni (2008 a) bring about the proof that what rules private investment is what must be deemed " a dynamic inter-temporal accelerator principle". It means that corporations expectations generating investment only depend on bets on the increase in the "permanent flow of profits[5]. What determined it, profits being a pure strongly endogeneous variable: the expected growth of the two exogeneous variables of the system, Consumption and the Net Public Expenditures, the State planned deficit. Investment is positive as long as the bets on the long-run growth of exogeneous final demand justify, taking care of the level of normal utilization of capacity, an increase in the stock of real capital.

Monetary policy could have an impact on private investment if and only if it had an impact on the permanent flow of profits.

Two cases could be possible:

2- Interest paid for borrowing to banks could squeeze future expected profits.

As already explained empirical studies (Giovannoni and Parguez 2007) do not display any significant impact for a given level of expected growth of final demand which explains the whole permanent flow of profits.
Since their result contradicts the conventional explanation it requires an explanation. Interest paid to banks are indeed a levy, a quasi-tax on profits but it is not the end of the story. Modern corporations are also holders of an increasing stock of financial assets on which they earn interest. When, thanks to the State deficit and as it will be explained household deficit, they

[3] Anyway, this restoration of Wicksell is one of most stunning aspect of the crisis of new mainstream economics. New Wicksellians had never read Wicksell who assumed general equilibrium even when he introduced the monetary circuit. They rely on the very dubious concept of a "real rate" equal to the discrepancy between the monetary rate (Which?) and the rate of inflation.
[4] As shown initially by Graziani (2003) and Parguez (2008) such a measure compensates rentiers much more than for inflation. It is a misleading approximation, a subsidy to rentiers.
[5] Needless to say that this « permanent flow" cannot be interpreted as the restoration of the Friedmanian permanent income which can only be defined by assuming an inter- temporal long-run general equilibrium.

accumulate net profits or net savings, the excess of their gross profits over their financial commitments, they lend to banks those net savings on which they earn an interest income. On the other side, at least in Europe and Japan (Koo op cit) large corporations hold a large share of banks stocks. Thereby they receive as dividends a large share of banks profits.
Thereby one may spell out the following proposition:

The modern capitalist system has increased so much the rentier aspect of corporations that the net loss of profits resulting from interest payment is too weak to have any impact on investment. The time of the conventional keynesian function is over[6]

3- Could a rise in interest rates have a negative impact on the exogeneous variables ruling the permanent flow of profits.

3-1 It has certainly not the least impact on the State planned deficits as it will be explained.

3-2 There remains the possible negative impact on consumption in which I include household investment because it is part of the accelerator effect. Very robust empirical studies (especially Giovannoni 2008a) display a fact : consumption is exogeneous which excludes any impact of the borrowing cost[7].

In my recent works (Parguez op cit) I strived to find an explanation. Usually household, like corporations, are perfectly rational in their expectations. They borrow, whatever the cost, for three interwined reasons.

- Taking care of their mainly forced [8] savings (for pensions whatever the regime, education costs of their children, insurance for health care) , their present income is not enough to meet their long-run consumption expectations and they strive to meet them to fight the interwined threat of rationing and marginalization.

- They bet on corporations rational expectations embodied into what must be deemed the employment function in normal circumstances[9]

$$W_t = \frac{\overline{\prod}_t}{r^*} = \frac{1}{r^*} \overline{\prod}_t \qquad (6)$$

[6] By conventional Keynesian function I deem a function in which the level of interest is the sole or determinant factor. Keynes, of course view, was much more complex. Expected future consumption and fundamental uncertainty played a crucial role (the consensus cohort forgets chapter 16, 17 and of course the crucial chapter 24 of the general theory)

[7] I recognize that my definition of consumption is more extensive than Giovannoni's one. Thereby further studies could be required, I dare say.

[8] Forced gross savings are a dominant aspect of household behaviour in the post-Keynesian capitalist system. They do have a negative impact on consumption, thereby on investment, employment and inflation. It is why financing pensions out of forced savings is a disaster. Conservative politicians do not understand that there cannot be a lack of funds for pensions (Parguez 2003). Pensions, like wages and salaries and like all incomes paid to household, are financed by the creation of real money.

[9] It certainly no more holds in European feudal-capitalist system or in cases of an accelerated dichotomy between the production space and the profits realization space (Parguez 2009a and Parguez 2009b addressing the case of countries like Mexico part of a dual circuit system)

where W_t is aggregate labour income in some future accounting period t, $\overline{\prod}_t$ the permanent profits flow at that time and $\frac{1}{r^*}$ the employment multiplier, r* being the rate of profit [10]targeted by corporations, which determines the distribution factor, the share of profits. I displayed the proof that the employment multiplier enshrines the effort of corporations to protect their profits from the shocks that always can happen in a system ruled by the fundamental uncertainty of the future. This factor means that corporations want to strive to be free from the bulk of excess capacity of labour. It can be proven that this function displays two fundamental characteristics: the employment multiplier is positively related to long-run plannned deficits: to each W_t, there is a unique set of wage-rate and real employment.[11]
Henceforth the borrowing strategy of household is straightforward:
They bet on the future strong increase in employment income induced by the rise in the permanent profit flow and the stability, or more, the increase in the employment multiplier, which means that they bet boldly on future planned deficits. Thereby they expect to meet their financial commitments out of the future accelerated growth of their income without having to squeeze their future consumption because of a higher cost of borrowing.

- At last as gross or net savers (even forced ones) they receive from banks an interest income . They may rationaly bet on another dynamic process. The rise in corporations permanent profits flow is to generate an increase in the v^*_{bt} factor which could lead to a rise in the rate of interest charged on savings accumulated by household.

4- One could invoke a last resort possibility, the wealth-effect induced by changes in the level of the long-run rate of interest. It could thwart expectations of both corporations and household and induce a decrease (or an increase) in expenditures.
One cannot deny the existence of a wealth effect explained but it has nothing to do with the postulated efficiency of monetary policy.
An increase (or decrease) in the value of productive capital assets held by corporations and thereby in the financial assets issued to fund them, is only explained by a strong and bold expected increase in the permanent profits flow of corporations. Since it does not depend on the rate of interest, the wealth-effect enjoyed by corporations, banks ans all holders of stocks and private bonds does not depend at all of the rate of interest. Such an interest induced wealth effect lacks thereby any empirical foundation. The proof is straightforward:both the accelerated rise in the value of real estate and stocks ant its sudden stunning reversal in Japan in the early nineties of the XX e century and in USA in the pre and post 2008 happened quite independently from the central bank monetary policy (Koo and Parguez op cit). This conclusion is tantamount to the proposition: **There cannot be a "stock-value" effect without a sharp reversal of expectations of "pure flow" variables.**

II-1-2 Assuming it is, at least, partly right to believe in its control over interest rates, could the central bank be more succesful by striving to control directly the components of the relevant average price of production, inflation being its rate of growth.
Let p^*_t be this price which is imposed by corporations to meet their long-run expectations. Like banks, corporations have only in mind the increase in their net worth fulfilling their long-run expectations. Like banks again, corporations plan to attain their targeted accumulation of wealth out of two sources : their flow of profits meeting their permanent long-run flow of profits and the rise of the value of their stock of assets . The required flow of

[10] I use for the rate of profit the same definition than Joan Robinson (Parguez 2005).
[11] which excludes any trade off between the wage-rate and employment

profits to be attained is determined by applying to the labour-cost given by the employment function the required rate of profits r^*. For reasons already explained, I shall neglect the interest cost. Now, to take care of the assets-value I shall only take care of the targeted change in the value of the stock of real-capital assets. For the sake of simplicity, I assume that rational corporations strive to insure themselves against a drop in the rate of capital utilization relative to its normal level. Thereby they include in their price planning a component J^* reflecting their expected losses because of under- utilization of their capacity.

Finally, a, E and w, r^* and J^* being average productivity in private corporations, real employment in labour units given by the employment function, the unit wage rate, the required rate of profit, expected losses because of under-utilization, t, the tax rate imposed on sales, we get two identities determining the planned price of production:

$$p^*_t \, a \, E = [1+t] \, [(1+r^*) \, w \, E + J^*] \qquad (7)$$

$$p^*_t = [1+t] \qquad [(1+r^*) \, \frac{w}{a} + j^*] \qquad (8)$$

with

$$j^* = J^*/aE$$

On which component of p^*_t could the central bank enjoy an impact? :

- None on t
- None on r^*

Both only depends ultimately on fiscal policy. It is obvious for t, as for r^*; the proof has been brought about by Bliek and Parguez (2007) and Parguez (2009c). The core argument being that long-run planned deficits abolish the threat of uncertainty for cautious corporations which allows a fall in r^*.

- None on a which, as shown in a converging set of studies (Galbraith 2008, Eisner 1994, Parguez, 2009) depends on three factors fully outside the control of the central bank: Corporations investment, possibly the weakest factor, the rate of exploitation or control of labor, its importance is rising especially in the euro-zone under its feudal capitalist mode of production (Parguez, 2009 b), and certainly the crucial factor, State investment expenditures in research, and education that creates an increasingly productive stock of human capital.

- None on j which only depends on the degree of fulfillment of firms expectations by enough growth of aggregate demand (channel one)

- There remains the wage-rate. Monetary policy could control it if and only if it could control the level of unemployment. It has been shown that it does not have any impact on employment, as defined by the employment function.

The proof should be final: The channel 2 is a dead alley.
In modern capitalist economies, inflation cannot be controlled by the monetary policy.
The so much admired or feared "Inflation targeting" hides the illusion of power sustaining the myth of all-powerful central banks.

The debate over their independence should be irrelevant as long as it relies on the sole fight against inflation.

II -2 Whatever its secret hopes, the central bank cannot control unemplyment asking central bankers to target employment so as to get full-employment is an illusion, and a very disappointing one.

II 2 1 Giovannoni study (2009) displays the robust proof that in the era of the Greenspan Fed, the Fed, while pretending to target a vanished inflation, was truly targeting unemployment rate. It believed that preventing any "excessive drop" in the rate of unemployment beyond some mysterious and quasi-secret threshold, it could prevent expected inflation in some far future.
Contrary to the myth of a benevolent king, the Fed chairman like the European Central Bank, was still endorsing some very perverse belief in the Phillips Curve rooted into the secret Non Accelerating Inflation Rate of Unemployment (NAIRU). Both wished to suppress expected inflation (not effective one) in some far future by protecting society against true full-employment. Like all central banks (an exception being the central bank of Japan, Koo op cit) they had not yet discovered that the Phillips Curve never existed and had been a dangerous illusion denounced by a very few economists.[12] As shown by ongoing research, especially by Olivier Giovannoni, the relation between inflation and unemployment is an anti –Phillips one. According to its first discoveries it is a straight line with a positive slope which means that the highest is unemployment, the highest is the inflation. I strive to explain why in Parguez (2009 op cit especially)where I display the logical process. The more the State long-run fiscal policy generates true full-employment, the more it generates stability for all the components of the index of inflation (equation 8). By the way it allows to make full-sense of the so-called stagflation of the seventies of the XX e century. Inflation was the reflect of the starting long-run growth on unemployment generated by the full rejection of any kind of Keynesian policies (Eisner 1994, op cit) for the USA and (Bliek and Parguez 2006, 2007) for France and (Dow 1998) for other countries like Germany. It led to a collapse of the rate of utilization of capacity reflected by the accelerated rise in the j^* factor. The strong rise in r^* (thereby the desired share of profits) emphasized by Steindl (1979) played also a crucial role.

II- 2- 2 Changing secretly of target did not save the power of central banks. It has henceforth be proven, once for all I hope, that monetary policy had not the least impact on employment, therefore on the rate of utilization of the labour capacity accounting for the stock of available labour, the inverse of the rate of effective unemployment.

[12] Those very few and bold great minds, one must think of Robert Eisner, JK Galbraith and James Galbraith. Endorsing the trade-off between employment and inflation debating on the NAIRU, was the demise of "Keynesian economics" in its mainstream version.

Third part: The extremely dangerous illusion of the restoration of Friedmanian monetarism under the guise of "quantative easing".

I Friedman is reborn: the core principles of "quantitative easing".

They are spelled out today by central bankers[13] relying on the absolute failure of conventional monetary policy in the wake of the Japanese protracted depression of the real economy in the nineties of the XX e century, in the pre an post financial crisis of 2008 when, contrary to expectations, there is not the least recovery out of the private sector. According to Koo (op cit) and Dow (2008), such was also the case in the pre and past 1929 years : New monetarists emphasize that Friedman-Schwartz (1963) were wrong in accusing the Fed of having maintained its "leading rate" at too high a level.
New or super-monetarism seems to be embodied into the following chain of causality.

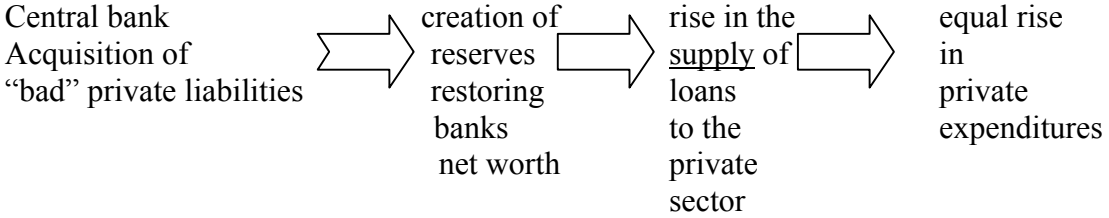
1/ Real depressions can only be explained by a lack of money supply by banks to the private sector alone.

2/ Banks money supply is rationed because of a lack of liquidity or reserves generated by what Koo (op cit) calls "a balance-sheet effect", the collapse of banks net worth caused by an equal collapse of the value of their assets resulting from loans to the private sector. Their profits flow may be positive but banks assets side includes too much private liabilities deprived of any real-value.

3/ There is only one solution: the central bank has to provide banks with all the liquidity they want by buying at face value all their depreciates value-less assets . Herein lies the core principle of new monetarism :"quantitative easing" goes far beyond conventional role of the central bank as lender of last resort. Relying only or mainly on the acquistion of private liabilities without limits, the central bank becomes somewhat a lender of first resort.

4/ Indeed, ultimately banks supply of money is entirely determined by the creation of reserves by the central bank. In its most extreme form, new-monetarists believe that, at least for some time. Banks rise in money supply is equal to their increase in reserves.
Quantitative easing postulates an extreme exogeneity of money : banks are just lending to the private sector reserves created by the central bank and the private sector automatically spend the whole available quantity of money.

5/ The causality chain can be spelled out by the following diagram.



[13] It seems the new dogma of the Bernanke –Fed and even of the European Central Bank and indeed of all the Central Banks. The problem is worsened by the weird structure of the ECB previously denounced by Steiger (2006) as a loose confederation of "National Central Banks". It was imposed by the French ruling elite for whom the monetary union was the achievement of a plan crafted since the late twenties of the XXth century (Parguez 2009a)

Interest rates control plays no part in this process. Whatever the price of acquisition of bad loans, thereby the rate of interest charged by the central bank, the causal process is to be succesful. Quantitative ultra-monetarist "easing" is beautifully enshrined into the title of the bank of England last report "Quantitative easing explained: Putting More Money into our economy to boost spending" We are beyond the Friedman-Patinkin helicopter. The new new consensus instores the cult of the celestial manna bestowed by god-like Central Banks.

6/ "Quantitative Easing" should explain why not the least stimulus by the State is required. Finally let us emphasize the difference between the two ways of monetary policy.

	The first way	The second way
Exogeneous Variable	The level of interest rates	The supply of money and thereby the very quantity of money
Controlling Agent	The central bank	The central bank
Target	Required level of unemployment To attain expected zero or quasi rezo inflation	Recovery of the real economy leading to a normal State of long-run stable growth path with equilibrium level of unemployment and price stability
Role of the State	None	None
Who leads the Economy	the private sector alone	the private sector alone No stimulus by the State is required, worse it could be dangerous Woodford fashion

II The demise of new-monetarism

II-1 All empirical studies display the very robust proof of the absolute failure of new-monetarist policies. I shall rely on the two fundamental studies I already mentioned of Richard Koo and Christopher Doo addressing the three cases invoked by new monetarists :

The Japanese depression of the nineties of the XX e , the pre and post american crisis and the past 1929 crisis in USA. What are their conclusions:

*Total failure in Japan while being awash with liquidity and benefitting from quasi-zero interest rates , banks never increased their loans to the private sector.

*Total failure in the new USA crisis like in Japan, central bank in its savior roles playing the role of Friedmanian helicopter , cannot generate any increase in the private sector expenditures.

*In retrospect, both authors reject the Friedmanian accusation of the Fed policy in the wake of the 1929 crisis. Most of president of reserves banks emphasized not their lack of liquidity but the absence of borrowers for reasons having nothing to do with the level of interest rates. Most emphasized that they were awash with liquidity (Dow op cit), they were obliged to invest in treasury bonds!

II- 2 What explains the total failure of new –monetarism?

II-2-1 Like the old one, it fully missed the fundamental endogeneity of money. Emphasizing this principle is just to cast in stone the fact that, taking care of banks net worth target, desired expenditures generate the creation of money financing them contrary to what believes the bank of England, desired expenditures boost the quantity of money. It means that what ultimately determines the creation of money by banks for the private sector is the targeted desire to borrow by household and corporations which only depends of the long-run expectations of the rise in their net-worth in the future out of their expenditures. In the case of corporations it reflects both the rise in their permanent flow of profits and, like banks, the bets on the increase in the value of their assets. In the case of household, it is both the expected rise in their future income and expected plus-value of their assets. None of those factors depends on the liquidity of banks and the will to lend by the central bank.
Thereby the so-called Credit Crunch can be caused not by banks but by the flight from credit by the private sector. Such is the case in the time of a true structural crisis generating a collapse of bets on the future.

II-2-2 This fear of credit is the strongest when, like in the crisis mentioned above, the leading private agents-corporations-have suffered from an unsustainable collapse of their net-worth because the value of their assets plummetted. To prevent bankrupcy, their sole strategy is both to repay their liabilities out of their profits flow when it is still positive (because of export surplus, State deficit, household quasi-forced deficit or negative net savings) and abstain from asking for new loans. The outcome is a collapse of their desired expenditures either for investment or labour. As long as corporations balance-sheet has not been restored and thereby generating a positive net-worth, both the employment function and the dynamic accelerator principle are deeply thwarted. The private sector is dead as the source of growth and banks like in the early thirties of the XX e century are obliged to strive to acquire State bonds.

II-2-3 Such a balance-sheet constraint inducing a credit-crunch not banks –induced has been missed even by many post Keynesian and, to be honest, by myself in my early writings on the monetary circuit (Parguez, 2001, for instance). The reason was an over-emphasis on the role of corporations as being always wishing to spend and to spend only for an increase in capacity, both in labour and real capital stock. A careful study of the long-run strategy of large modern corporations (Koo and Dow op cit) prove first that, like banks, they are mainly motivated by their desired accumulation of net-wealth, second, which is , may be the most crucial aspect, that they issued liabilities in the past to acquire a lot of assets which were not at all increasing capacity : land, pure real estate, stocks, private junk bonds, rights to have access

to raw materials etc[14]. Enjoying permanent profit-flow has not the least impact on the value of those pure speculative assets on which corporations suffer the greatest loss of net-worth.
One could even say that since may be the seventies of the XX e, corporations were less and less motivated by their production activity. It is tantamount to a fundamental proposition:

The total failure of monetary policy hides the emergence of a new capitalist system. Accumulation is still the law, but pure accumulation of wealth in which spending for production plays a declining role[15].

It is not true that industrial corporations are led by financial corporations. Both are part of an integrated system, one could even spell out another proposition defining what has been deemed pure feudal-capitalism ruling Europa (Parguez 2009a):

Corporations, even in normal times strive to minimize their expenditures on labour whatever the growth of the exogeneous determinants of their permanent profits flow.
When they borrow again, they substitute acquisition of assets for spending on labour, which reflects a collapse of the employment multiplier. In assets acquisition, buying new productive assets in the domestic economy plays a declining role.
Speculation by corporation managers is alive again and rules.

Fourth part in guise of conclusion :

The sole role monetary policy must play:to be just a mere operating agent of fiscal policy.
It is tantamount to answering the question : To whom must the central bank "lend" .
The answer is to the State and only to the State.

Restoring in the front stage fiscal policy and the State as the leading actor makes full sense of the endogeneity of money principle and may restore the exogeneity of interest-rates in some moderate interpretation:

I-One must start from the diagnostic which since the Japenese crisis and the 2008 crisis cannot be denied:

The private capitalist system in which monetary policy advocates have enshrined their hopes whatever their nature is dead for some time already as the engine of growth. Private economy let to itself, is fully enslaved to both its absolute fear of uncertainty and the desire for a quick accumulation of wealth. For this reason to the question raised by Kregel (2010) "was the new crisis a Minsky moment?", I would answer NO. Believing in the dynamism of private corporations, financial or not,is to dream of a world which diseappeared a long time ago if it ever existed outside of the enchanted world of Ayn Rand (The mother of libertarians) and Karl Marx! Indeed both shared the absolute faith into the private capitalists as the sole agents of growth. Both believed in their unchecked desire for accumulation of real productive assets. Both were at the inception of anti-Keynesianism.

[14] Including the most exotic ones memberships in golf-club (Japan) or in very hot-life private clubs (USA) or in very artificial islands in the emirates (UK), or prestigious wine-chateaux (France)
[15] Such an outcome is missed by diehard marxists, new-marxists and in Europa the regulationists denouncing the domination of financial capitalism as opposed to good productive corporations.

Thereby, there is only one agent which is free or can be free from the constraints transforming private corporations into pure predators . The State and only the State. There is of course a sine qua non condition: The State must not be enslaved to the predator capitalist mode of accumulation of wealth. It must and can free the society from the predation system by jettisoning the restored enslaving and self-imposed sound finance orthodoxy. To what I wrote before on this absolute rejection of sound public finance, I just add a paradox for those who still dare to dally with the State bankrupcy because of the public debt :

First, they forget that their rational corporations and banks accumulated assets and therefore debt just to increase their net-wealth while they were not creating real wealth and were obsessed by slashing labour[16].
Finally, they were close to bankrupcy because of the impact of their indebtness of their net wealth. Second, the State, by its very nature, is not obliged to accumulate net wealth. It cannot disappear because of a negative net wealth generating by a reversal of bets on the future. The very possibility of this balance-sheet effect, even abstracting from the fact that the law on bankrupcy does not apply to States is zero because when the well-managed State acquire assets they are only real productive ones increasing the stock of social capital.

II From this diagnostic one must derive the fundamental rules of good governance of the State through its fiscal policy.

Rule 1 : The State must target long-run true full-employment inducing price-stability.

Rule 2 : It must target the lowest share of profit (the highest employment multiplier) Empirical studies (Giovannoni 2008b) emphasize the relationship between the share of profits and unemployment.

Rule 3 : The State must plan a long-run increase in its investment generating the growth of the stock of social capital both tangible and non tangible which is to be the largest part of the aggregate capital stock. By non tangible investment, like Eisner (op cit) . I deem investment in sectors where labour is the capital factor (research, teaching, health, etc...)

Rule 4 : This planned growth of public investment cannot and must not be financed, even ex post by tax-revenue and pre-existing savings. It accounts for the planned deficits of the State which are
good deficits (Parguez 2010) endowed with a high super-multiplier effect. They must free private corporations and household from their fear of spending[17]. A perfect exemple is Japan who was bailed out of the paralyzy of the private sector in the early decade of the XXI e century by planned rising State deficits.

Rule 5 : The private sector realizes its expenditures by selling liabilities to private banks . The State cannot be dealt with as an ordinary corporation. Thereby the State must finance its expenditures by selling liabilities to the central bank which is its banking branch. The

[16] A fact ignored by deficit-haters while they indulge in dallying with law which underlines the ideological commitment and ignorance of those who modelized the “lazy worker” and “rentier public employee”. When will mainstreamers modelize the “lazy” “labour-hating” corporate rulers!
[17] Hayek credo « I want to free the economy » can only be met by the dominant role of the State through its audacious fiscal policy. It could explain why Keynes was very kind to Hayek in his comments on “The road to Serfdom”. He already understood that a derailed rentier-led future capitalist system could be the second road to serfdom. What happens in Europe is a perfect and sad proof of this expectation.

existence of the central bank has only one justification: it is to be the bank of the State. Thereby when the State runs a planned capital- stock creating deficit : the central bank accumulates public bonds in its assets which are the counterpart of the growth of the stock of social capital.

Rule 6 : Together the five rules allows the permanent full employment by the private sector and directly by the public sector. Since an increasing share of capital accumulation is created by the State deficit, it must also creates an increasing share of State creation of labour capacity.

Rule 7 : The State must thereby only spends in its own currency on which he has a sovereign control.

Rule 8 : As explained in annex III, the State must not pledge to a fixed or targeted exchange rate.

Rule 9 : Together those rules allow to attain a sustainable equality in distribution, especially by maintaining true full employment and thereby both a very high employment multiplier (low share of profits) and a strong public labour force.

The logical conclusion is that the ruling quasi-religious obsession of imposing thriftiness on the State is without any sensible foundation. Rejecting the previous nine rules of good governance, the wisdom of the pater familiae is a joke when an increasing number of household are obliged to be net debtors. Herein we are back to ancient Roman Republic when Cato the old denounced the sins of modern romans.

III From those rules one must define the sole role monetary policy may play. The central bank role is to create money at the request of the State. It is as though the banking branch of the State was lending money to its spending branch. Money is perfectly endogeneous because the central bank as such is deprived on any autonomy in deciding the amount of money created which is instantaneously transformed into wealth-generating expenditures meeting the State long-run commitments. No inflation is to be feared because money created is real money endowed with a real value (Parguez 2010). The treasury is free to determine the rates of interest on the bonds issued which are ultimately recycled in payments to the treasury. Private banks may wish to acquire a share of those bonds which are perfectly liquid. Herein lies a degree of autonomy for the central bank: it can decide, in agreement with the treasury to sell a share of its stock of bonds to private banks wishing to stabilize their balance-sheet (Parguez 2009 c) and provide them with a permanent income-flow which could allow a drop of rates charged on private loans. In such a system, the drop in the central bank rate would be the signal of more planned deficits, higher rise in assets value permanent income. At last, the causality postulated by the first way of monetary policy could be sensible

Banks will earn the rate of interest previously decided by the treasury. Henceforth, such a supporting monetary policy fits the exogeneity of interest-rates. In retrospect I think my former explanation of the interest rates exogeneity (Parguez 2001) was already reaching this conclusion.

III I have defined the ideal role of the central bank. The American system is the closest to this ideal or normal role. The Euro-system is the farthest to the normal system; it is in full contradiction with the norm since it relies on the full privatization of public finance reinforced

by an amazing strait-jacked paralysing the State ability to be the anchor and the leading engine of growth. Such a total rejection of the economic laws is, as I explained, the foundation of the feudal-capitalist system ruling over Europa. Here Otto Steiger's critique makes full sense: National Central Banks are not the least equal in the management of the balance sheet. Thereby as wrote Steiger, the singleness of the Euro is an illusion. There are French Euro, German Euro and ....Greek Euro. The illusion is worsened by the fact that States finance themselves as if they were private corporations (Parguez 2009a). Thereby their bonds are valued as if they were private corporate bonds! It was exactly the way the European Monetary Union had been crafted. Herein lies the Greek tragedy, soon the Portuguese Spanish, French tragedies could come on stage. I shall go back to this Homeric catastrophe in a forthcoming work.

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ANNEX I

The three kinds of credit rationing

Normal rationing	Pure credit crunch I	Pure credit crunch II
1- operated by banks	1- imposed by banks	1- imposed by the non-banks private sector, mainly corporations but also household
2- motive : to attain their net worth target	2- motive : because of the collapse of the value of their assets generated by their past loans, there has been an equal collapse of their net wealth They reject any increase in their loans, require the reimbursement of past loans. The cause is the collapse of the net wealth of private creditors.	2-motive : collapse of their net wealth which is strongly negative To restore their targeted net wealth they reject any long term new indebtness and strive to reimburse their past debts. It reflects a zero gross private investment. They even strive to minimize their short-term indebtness financing labour expenditures. Reimbursement is led by corporations spending all their profits flow to reimburse debts. Household strive to become net savers by squeezing consumption.
3- Channel : they reject acquisition of private liabilities which according to their . expectations, could not lead to the required increase in assets value	3- impact of monetary policy through quantitative easing None Being awash with central bank money, banks have no reason to change their expectations of the value of assets acquired by loans to the private sector.	3- Banks are short of new debtors. Monetary policy can do nothing Banks survive by spending central bank money in acquisition of State bonds. In the absence of enough State deficit, it leads to rise in the price of State bonds. Acquisition of value-less assets by the central bank. obviously has nothing to do with a rise in the deficit since There is no rise in public expenditures. The rate of utilization of labour stock drops, effective unemployment rises;
4- Impact of monetary policy. None or non significant because of its zero or quasi zero impact on the net-worth of creditors only planned long run deficits may generate less rationing.	4- Only fiscal policy matters by restoring the net wealth of private corporations.	
5- Does it reveal a banks preference for liquidity, NO. It reveals an unchecked preference for net wealth accumulation in the context of fundamental uncertainty. The search for accumulation of wealth cannot be dealt with as a Keynesian preference for liquidity		

ANNEXE II

The two kinds of credit crunch can be interrelated which worsens the absolute failure of monetary policy.
Herein lies the true systemic crisis. The second one has started.

Stage ONE

1- Flight of the private corporations from loans generating productive expenditures

2- Cause : long run fiscal policy of squeeze destroying stability conditions.

3- Private corporations bet on the growth of their net wealth out of non-productive expenditures

Stage II

1- Banks adjust their expectations to those of corporations. They finance the acquisition of non-productive assets.

2- cause : banks bet on an accelerating growth of their net wealth.

Stage III

Credit crunch I + II simultaneous collapse of the non-banking and banks net wealth. Both now suffer from a negative net wealth even if profits flow remain positive

Creation of money deprived Of any real value

destruction of false value-less money

Stage three after an ultra quantitative easing

1- Banks balance-sheet equilibrium is restored.

2- But it has no impact on their expectations of the value of private assets even productive ones. On the other side, even if banks were ready to finance again productive expenditures. Credit crunch II rules. Absolute lack of desired productive expenditures by private corporations .

4- The shock can only be neutralized by fiscal policy targeting strong long-run growth of public investment and thereby planned deficit.

5- Is the final outcome a genuine “Minsky moment”? I would say NO . Minsky could not imagine the survival of the credit crunch with quasi zero rates of interest and banks flooded with central bank money like in Japan In the nineties of the XX e and USA and Europa Today Minsky could not have foreseen that corporations issue an increasing share of liabilities to finance neither labour nor productive investment.

ANNEXE III

The most efficient monetary policy restoring the exogeneity of interest rates when endogeneity of money rules

1- Role: optimal support of the long run growth of the stock of productive public (and social) capital enforcing the anchor and leading role of the State.
2- The counterpart of public investment is in central bank balance-sheet both the rise in the stock of public debt (asset side) and the rise in banks reserves (liability side)
3- The central bank as bank of the State plays the part of conventional tender of first resort to the State.
4- Interest on public bonds is fixed by the treasury. It is the determinant of interest rates on private bonds issued to securitize banks loans to the private sector. Thereby it is the ruling factor of interest on loans.
5- The Treasury may ask the central bank to sell a share of its stock of bonds to private banks to attain the financial stability condition, the required rates of earning public to private liabilities. It allows banks to be certain of their permanent income and growth of the value of their assets. This operation absorb excess-reserves . Public bonds are perfectly liquid.
6- The long run planned rising deficits generates a rising net growth of savings for both household and corporations.

Thereby by virtue of the fundamental identity.

$$D_G \equiv S_P + S_E$$

D_G, S_P, S_E being the State deficit, net savings of the private sector and the foreign sector, S_E is always lower than D_G . Thereby, assuming than S_P materializes in fixed or term-deposits or stocks, and that foreigners want to hold their surplus in State bonds, adjustment is operated by the transformation of their deposits (usually acquired by foreign central banks) into a share of banks stock of State bonds.

7- Even if within such a framework, the central bank (and the Treasury) can control interest rates, it must not strive to control the exchange-rate which is flexible (with, as I explained in Parguez 2009, some capital controls). It does not mean that there cannot be a sensible theory of the determination of the exchange rate. In a forthcoming paper I shall spell out what could be deemed the fiscal theory of the exchange rate level.
8- In the existing sytem in the USA, where because of an absence of a policy of reconstruction of the economy, S_P is negative, S_E is greater than D_G . Adjustment requires that banks sell to foreign central banks a share of their previously accumulated stock of public bonds. The central may be obliged to sell a share of its own stock of public bonds to protect the financial stability of banks.

ANNEXE IV: on the explanation power of the anti-Phillips straight line.

The dynamic process of III reinforces the absolute impotence of monetary policy to target inflation or expected inflation in some far future.
When the two credit crunches play together, or even when credit crunch II survives, there is a very strong rise in the rate of unemployment measured as a drop in the rate of utilization of labour capacity . There is a simultaneous collapse of the rate of utilization of equipment.
Thereby in the price equation, there must be a strong rise in the J component as corporations strive to protect their gross profits flow and a rise in r*, the employment multiplier. The average productivity falls for a long time because of both too low a rate of capacity utilization and private investment falling to zero or below zero (no replacement).
Thereby even if there is a forced drop in w, p* the required price average is to rise, which leads to a persistence of inflation, a fall in the wage-rate. Since the drop in the wage rate generates more under-utilization of capacity or determines a rise in J and in r*.

What missed all those who endorsed the Phillips curve, the NAIRU or the non expected rate of inflation unemployment

is

- That a rise in unemployment reflected a drop in the rate of utilization of aggregate capacity, thereby a rise in the J component to prevent a greater fall in net worth.

- That the drop in w, if it happens accelerate the rise in the J component while a the productivity falls (dynamic accelerator principle).
- It must also generate a rise in r*
- Finally, inflation cannot be contained.
- And as proven monetary policy as such has not the least impact in capacity utilization and r*, especially in the moment of the revelation of crises

In defense of the New Deal: Yes we can, therefore I must act

a comparative history revisioning the revisionist economic historians

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December 2010, January 2011

This paper will be presented at the session on the New-deal organized at the 2011 eastern economic association conference : New York, february 27*
It is indeed a first draft.

*It is part of a project launched by the Roosevelt institute on a new appraisal of the New-deal. I have to thank Thomas Ferguson, Riccardo Bellofiore, Joseph Halevi and Olivier Giovannoni. Discussions with them helped me to write this modest contribution. I take full responsability for my theoretical interpretation and conclusions.

I Introduction : fiscal policy of the New-Deal under attack: the revisionist history.

For some time, mainly since the start of the new world structural crisis (2007 and after), it has been fashionable for conservative economists to dally with history by rewriting economic history of the thirties of the XXth century. Wishing to prove that fiscal policy of the Obama administration is doomed to fail, they strive to bring about the final proof that fiscal policy of the Roosevelt administration is nothing but a dangerous myth.
This revisionist history is embodied into five propositions which do not lead to a consistent story:

A. Not the least fiscal policy was needed to bail the american economy out of the depression because no policy at all was required. It means first that the depression was ended as soon as 1932 and, more, that sooner or later the economy would have automatically returned to its full-employment long-run path oberved in the twenties. Herein lies an extreme revision put forward:for instance, by Dow (1992)[1] which, while using a sophisticated econometric model, goes back to Hayek theory of crisis in "Prices and Production" (1935).

B. Another extreme position goes further: New Deal policies and especially fiscal policy targeting jobs creation were an obstacle to a sound recovery. The historical proof is that american economy could not go back to its pre-crisis employment level before it turned to a war-led economy in the last months of 1938. This extreme revision is put forward with some variations by Fishback (2010), Folson (2010) and even Temin (1991) who emphasized the negative impact of the rise in wages on investment, such a rise being triggered by the pro-labour policy of the Administration of which fiscal policy was a key component[2]

C. Fiscal policy did not matter at all because what only mattered in both the stabilization and the recovery was the repudiation of the gold standard allowing the required depreciation of the dollar. Herein is the somewhat dominant view amid mainstream economists for instance Eichengreen (1992) and Temin (op cit).
They rely on two main facts:the recovery started when the gold standard strait-jacket was abolished; countries, like France, which maintained the gold standard until the end of 1937, suffered with increased unemployment from 1933 to 1938.

D. In any case, if the repudiation of the gold standard could matter, it is because it helped the Federal Reserve board to implement the first experiment of ultra quantitative easing which triggered a pure private sector led recovery induced by the drop in real interest rates. Ultimately, only pure monetary policy mattered, thereby no fiscal stimulus is required in the wake of the new structural crisis, Romer (1992).

E. At last, the last resort argument is the mere inefficiency of the New Deal fiscal policy. It is explained both by the very low if not insignificant fiscal multiplier at that time barely 0,2, Romer (op cit) and the extremely small budget deficits, Romer (op cit), Temin (op cit) and Dow (op cit). Those twin facts should explain why fiscal policy

[1] Dow (op cit) p.182 « When the shocks that had depressed output ceased, the economy could be expected to resume growth at its trend rate".
[2] It was the explanation of the effort to get rid of the disastrous impact of competition out of prices and wage cuts by the NRA and the pro-union legislation. As shown by Leuchtenberg (1963) it was for a time sustained by large sectors of private industry.

played no role or a small one (Dow, op cit) in the recovery. The proof that the Roosevelt administration never intended to stimulate employment out of fiscal policy is the strong rise in tax revenue generated by exogeneous tax hikes. Thereby it is not true that Roosevelt had renounced orthodox fiscal policy. The deficits were more residual deprived of any positive impact. The insignificant fiscal multiplier was the outcome of the residual (not planned) deficits. The conclusion is straightforward:

Since one can deny the strengh of the recovery with a rate of growth quite above its trend level (Dow , op cit p. 182), it is the proof that Roosevelt was right to maintain beyond some rhetoric a sound fiscal policy. It ought to be an obvious lesson for the Obama administration!

Taking care of the true motivation of this revisionist history, both in terms of theory (a staunch rejection of Keynesian and any kind of post Keynesian economics) and policy (an equally staunch rejection of activist fiscal policy), in this contribution I intend to revise this revisionist history. In a first part I shall strive to prove that Roosevelt fiscal policy was a tremendous success and the sole cause of both the stabilization and the recovery. The very fact that deficits remained relatively small hides a tremendously high fiscal multiplier. Herein lies the New-Deal paradox which can only be explained by integrating into the general theory of public finance a set of special and extraordinary circumstances. In a second part, to prove that the "singularity" and wonderful success of the New-Deal, I shall address what happened in two countries which explicitly, but for different reasons, rejected the Rooseveltian New-Deal, France and Germany. It must reinforce the revision of revisionism. In France, very high and rising deficits (in spite of the gold standard) were reflected by an increasing unemployment which means strongly negative multipliers. In Nazi Germany from 1933 to 1935, both stabilization and return to growth generating full employment as soon as 1935 was entirely explained by the conscription of the private economy to build the total war machine ready for the Hitler's dream of an Empire encompassing Europe until theUral . The growth of employment was the forced outcome of the always accelerating growth of the State military expenditures with a simultaneous ultra- exploitation of labour (Tooze 2006) freezing consumption. Deficits were higher than in the USA but purely residual because of the rejection of increased taxation. Thereby, one could say the Rooseveltian fiscal policy never existed. Fiscal multipliers, as such, were very small certainly below 1 if not inexistent.
At last, in a third part, in guise of conclusion, I shall strive to explain what the New-Deal unparalleled success should teach to any government sincerely targeting genuine full employment.

This study should at last lead to understand the New-Deal as it was by putting in the front stage its historical context. It could contribute to the final debunking of the "black legend" of the New-Deal.
As rightly emphasized in the remarkable study of robert Mc Elvaine "the great depression America 1929-1941" (1984) it started in the aftermath of the so-called "Reagan revolution" from both sides : a majority came from conservative economists, there were also some "liberal moderate democrats", who explained the collapse of the democrats by the legacy of the New-Deal. Both ignored what was America at the time.
"It is much easier to condemn from the friendly confines of Stanford and Columbia several decades after the fact than it was from a WPA project (relief expenditures program) in the midst of the depression" (p.335, brackets are mine).

II-The wonderful success of Roosevelt fiscal policy: an experiment of very high quite above 1, fiscal multiplier.

The proof requires to answer four questions : How could we get a correct evaluation of the multiplier or as I explained in Parguez (2010) the super multiplier? Why is this super multiplier so high which is to explain the New-Deal paradox of small deficits with such an impact? Why only fiscal policy mattered, or why neither the repudiation of the gold standard nor pure quantitative easing could explain the recovery miracle? at last why the peaceful New Deal could not attain true full employment?

II-1 How could the efficiency of fiscal policy be measured or how could the super multiplier be measured?

II-1-1 The multiplier being a relationship and a causal one between two variables, the initial fiscal variable and the final outcome, the variation of the most significant economic variable, one must strive to define what is the causal fiscal variable and what must be its significant final outcome. The relationship implies that the causal fiscal variable is exogeneous relative to its sensible outcome. To fit accounting data, the relationship must be measured on an annual basis;

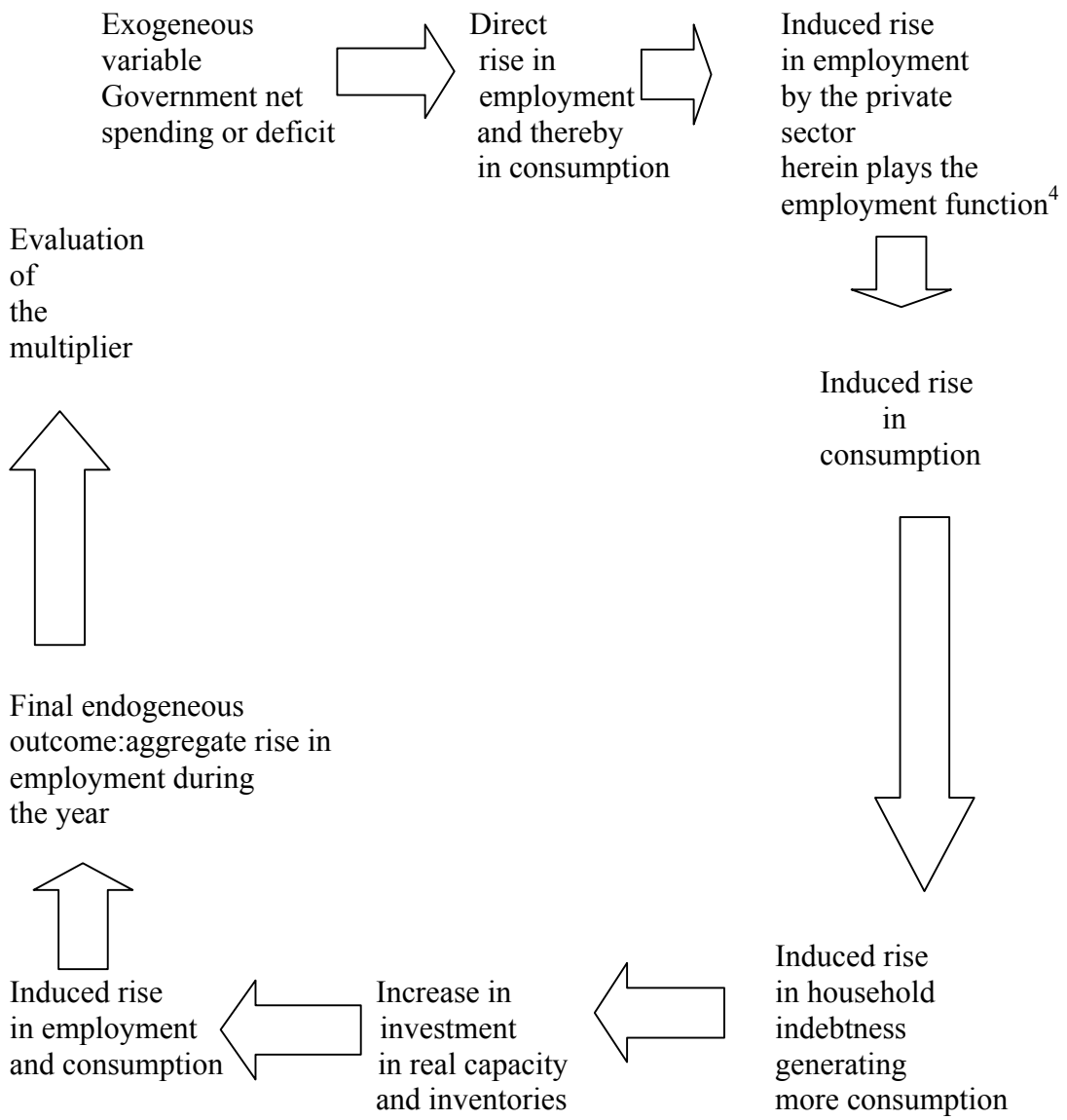
a- According to the monetary theory of public finance, State expenditures are an equal addition to aggregate income while taxes whatever withdraw income from the economy. It is tantamount to the fundamental proposition, that taxes are not financing expenditures they are induced by the dynamic process initiated by State outlays. Thereby to determine the net impact of fiscal policy, one must only look at the net addition to aggregate demand or income which is accounted by the State (all levels) deficit. The proposition that only the deficit (positive, negative or zero) matters to interpret the impact of fiscal policy had already been emphasized by Lauglin Currie (1938). It is especially crucial to determine this impact in the aftermath of a deep structural depression (Koo, 2009). It is the sine qua non of a correct assesment of the impact on private consumption and thereby of the dynamic accelerator effect (Parguez op cit) since induced of tax revenue is a drain on consumption.

b- Especially in this aftermath case, the final outcome must be the aggregate net creation of value which can be accounted as the increase in employment or in labour income. A proximate measure could be the decrease in effective unemployment rate both out of the direct impact of net State expenditures and out of induced creation of jobs by the private sector.

II-1-2 Finally, the multiplier relationship or rather the super-multiplier one (because it embodies a complex dynamic process contrary to the conventionnal erstwhile Keynesian one) can be described by the following system[3] :

[3] For a comprehensive explanation, Parguez (2010)

Table 1
<u>The dynamic inter-temporal super multiplier process</u>
(See Annex I for a formal model)



As already shown, first by Currie (op cit), Eisner (1960), Parguez (2011), the impact of the exogeneous fiscal "shock" depends on its impact on long-run expectations of firms and household, and thereby on the <u>nature</u> of the deficit and a set of factual circumstances. Both factors are too often ignored by econometric models used by revisionist economic historians.

a- There are two kinds of deficits. Good deficits with a very high positive super multiplier and Bad deficits with zero or negative super multiplier effect. As shown by table 2 the nature of the deficit depends on objective characteristics.

[4] It enshrines what must be deemed :the employment multiplier, the inverse of the required share of profit (Parguez 2011)

Table 2
Objective factors determining the nature of the deficit

Good deficit	Bad deficit
A / It has been planned reflecting a strong commitment of the State to full employment	A'/ It has not been planned It reflects the failure to get a balanced budget. It does not reflect at all a long run commitment to full employment
B / It reflects the repudiation of deflation	B' / It is the outcome of a commitment to deflation out of a drop in tax revenue greater than the drop in expenditures
C /It is the counterpart of a productive investment in labour, real capital or both	C'/ It is not the counterpart of a direct wealth creating investment
D /It targets explicitly the burst of buoyant expectations of the private sector by triggering a strong dynamic cumulative process	D'/ To the contrary it does not reflect the will to trigger such a process
E/ It is ammating an economy aiming at the growth of welfare It is inconsistent with a total war economy	E'/ It does not aim at the growth of welfare. It could exist in a total war economy. It is perfectly consistent with A' and C'.
F/ For reasons explained in Parguez (2010) it leads to the creation of a sound public debt increasing the net stock of non-fictitious financial capital. Ultimately it sustains the banking system balance-sheet stability.	F'/ To the contrary (Parguez 2011) it leads to the creation of a public debt deprived of real value It does not sustain the balance sheet stability

b- The sign and magnitude of the super-multiplier depends also on a set of subjective factors reflecting the historical environment shaping expectations or rather bets on the future of both firms and household. Those factors embody:

- The degree of despair of the private sector reflecting simultaneously the unbearable magnitude of the depression in terms of unemployment and capital losses for firms with alarming shrinking profits. In Koo (op cit) terms, firms or the majority of them are certain that they can no more sustain increasing negative balance-sheet;
- Thereby the widespread certainty that no automatic stabilization and recovery is to be expected. If there was ever a trend, it is broken, dead for ever, herein lies the deep conviction of the private sector. It was right that, in early 1933 there was not the least reason to believe in the end of the depression, the weakening of the negative cumulative process could be meaningless. I do believe like Currie and Koo (op cit) that revisionist econometric models postulating an eternal trend surviving the depression playing the role of an attractor are misleading. They contradict any sensible historical data.

- At last, the strength of the message delivered by the supreme policy-maker. Roosevelt himself.

Together those factors explain why the whole private sector was instantaneously ready to reverse all its expectations and answer positively to the unexpected positive "shock" of public investment in labour. My interpretation is perfectly consistent with Ferguson (1995) proof of the instataneous generation of a pro New-Deal coalition within the capitalist class, industrialist and financial banking alike.

II-2 Explaining the New-Deal paradox of small deficits and instantaneous stabilization and recovery.:
It could be deemed the <u>Roosevelt miracle: All the existence conditions of a triumpth of his fiscal policy were simultaneously met: as soon as march 1933</u> (official inauguration date)

II-2-1 From the inauguration until 1935 the Administration raised expenditures from around 4000 to 9000 billions$, they were multiplied by more than 2. Since they were from 33 to 36 relief work programs involving cooperation with the States, they were not compensated by a decrease in net State expenditures. So strong was the shock, that instantaneously aggregate pre-tax gross income started to rise, most of the rise in tax revenue was induced (Koo and Currie op cit, Galbraith J.K 1954). Since taxes squeeze consumption, as already proven, a correct appraisal of the net effect of the programs, to which must be added in 1936 the payment of compensatory stipends to veterans, requires to look at the annual deficit. Taking care of the evaluations by Leuchtenberg (1963) and Koo (op cit p. 115) and also by Currie (p. 28), one could put-forward the two crucial propositions.

A The annual deficit is reflecting the initial expenditures on investment in labour. Roosevelt himself decreed that spending on programs for direct job creation was a sound investment the expenditures having to be financed by "borrowing" which meant ultimately selling bonds to the Fed (Black pp 355-356). But , contrary to France and Nazi Germany "borrowed money" from the Fed for investment was not added to taxes.

B Thereby Roosevelt deficits which rose from mars 1933, around 100 billions to around 550 in the mid 1936, were the most productive deficits ever known, the perfect example of good deficits. Contrary to revisionist historians who mocked the Keynesian nature of the New-Deal. Roosevelt until 1937 never hesitated to accept rising deficits financed by the issue of public debt[5].

II-2-2 Thereby, since all the conditions for success were met, Roosevelt initial message and policies restored hope in a dead economy and brought about incomes to household and firms alike, the deficits triggered an instantaneous reversal of expectations.
The outcome was that the super multiplier of the deficits attained levels never observed after. The fact that it was very much higher that 1 is observed by comparing the deficits levels with the instantaneous and very strong decline in aggregate effective unemployment and more accurately unemployment net of the direct impact of works relief programs. Net unemployment rate fell from around 25% in mid 1933 to around 15% in 1936.
Thereby, one could be stunned by evaluations of Romer (op cit) with a fiscal multiplier around 0,2. Revisionist historians of the New-Deal are victims of their formal econometric models that cannot explain the paradox.

II-2-3 Unemployment data prove that it is fully wrong to postulate an automatic stabilization or to believe that Roosevelt just pursued Hoover's policy of increasing expenditures (Fishback op cit, Holcombe 1996). Relatively to Roosevelt deficits, Hoover ones were both late and insignificant.
In some way, they were bad deficits with negative super multipliers. They were not investments in labour but in pure infrastructures (the Hoover Dam) bringing no relief to mass unemployment. They were not wanted at all, they reflected the failure of the Administration deep ideology, they had not the least positive impact on expectations. Another proof of the absolute dependance of recovery from good deficits is what happened in 1937 and its aftermath until the transformation ot the economy into a war economy when, as I showed, dynamic Keynesian economics with its super multiplier effect does not apply, contrary to what is put forward by Gordon and Krem (2010) and even Koo (op cit) dealing with the German case (p.118).
From mid 1936 to 1938, the Government deficit sharply declined by more than half . It reflected the sharp drop in productive expenditures and the exogeneous rise in taxation imposed by the unjustified fear of inflation (Currie). The strong drop in the deficit embodied the end of investment in labour and infrastructure. The outcome was instantaneous, unemployment started again to rise attaining near 20% in 1938;
It was the end of the New-Deal , the super multiplier fell dramatically, there was a new reversal of expectations. Writing in 1938, L. Currie in his memo to the President is extremely despaired, a new depression could be expected if Roosevelt did not launch a new New –Deal. In someway, he was right, the New-Deal never started again. The recovery was the outcome of the beginning of the war economy which raised deficits to their pre-1937 levels, but they were no more good deficits bringing welfare.
Thereby the true peaceful New-Deal could not attain full employment because it was to early abandoned because of an upsurge of fiscal orthodoxy.

II-2-4 It is therefore wrong to explain, like Temin (op cit pp112-113) the failure of the New Deal by the excess of its the pro-labour policy which led to excessive wage hikes killing

[5] In some way, Roosevelt was not striving for a long time to get an enthusiast support from wall-street, contrary to president Obama.

positive animal spirits in the private sector. Wage hikes were the outcome, herein in the core of revisionism, of a technocratic management of the economy inspired by the desire to raise the super mulitplier out of a rise in consumption. What is obviously targeted is the pro-unions policy , the reinforcement of labour power already benefitting from the drop in employment. There is not the least reason why wage-hikes could explain the 1937 return of the depression. As shown by Currie, the large majority of firms both enjoyed a strong rise in productivity (which is recognized by Dow op cit p. 180.182) resulting form induced investment embodying new technology and development of efficient management. At the same time, wage-hikes were partly incorporated into price hikes. For most dynamic industries, the so-called profit-margin or rate of profit did not fell because of the wage-hikes (Currie op cit) especially in the car industry. A conclusion which is not inconsistent with a drop as soon as mid 1933 of the required rate of profit (the employment multiplier in the employment function) because of the absolute confidence in a bright future. On the other side, the wage-hikes raised consumption directly and through a new growth of household debt. Thereby they generated induced aggregate profits directly and indirectly out of new investment (the dynamic accelerator effect). Finally they contributed to the rise in the super multiplier effect, which is tantamount to a dicrease in the share of profits contrary to what happened in the twenties.

II-2-5 Since fiscal policy reinforced by wage policy fully explains both stabilization and recovery ,it is obvious that pure autonomous monetary policy both through direct quantitative easing or its impact on real rates of interest played no role at all.
It becomes also true that autonomous action of the Fed was not at all either the cause of the crisis destroying the postulated trend of the real economy nor the cause of the inexistence of stabilization under the Hoover administration. These conclusions were already put forward by Currie (op cit), Galbraith (op cit) and Leuchtenberg (op cit), Currie also proves that the resurgence of the depression in 1937.1938 had nothing to do with autonomous action of the Fed.
It is true that the net stock of money which strongly dropped between june 1929 and june 1938 (- 12,5 billions) sharply increased from june 1933 to june 1936 (+13;5 billions). It was the outcome of exogeneous fiscal policy directly and indirectly.
According to the monetary policy of public finance, in the thirties of the XXth century like now, government expenditures were undertaken out of pure money creation, the counterpart in banks assets being an increase in reserves. To the contrary, taxes destroy both money and reserves. The deficit generates both a net increase in deposits of the private sector and an equal increase in banks balance-sheet asset side in reserves. To ensure banking required net increase in their wealth (value of assets , value of liabilities +profits), the treasury issued bonds absorbing excess reserves.
Thereby cumulative deficits from 1933 to 1936 explain a large part of the increase in the stock of money which, by convention, to take care of the issue of debt liabilities is accounted as State borrowing. Such an increase has nothing to do with quantitative easing Friedmanian or Bernanke like.
As for the private sector, whatever could be the scale of quantitative easing, what only matters for money creation is its net desire to borrow in order to spend on labour or capacity including inventories. Revisionist economists seem unable to grasp the existence of money rationing or credit crunch because of the lack of borrowers. Even relatively liberal mainstreamers are bewildered by this fact they discovered thanks to Koo (op cit) and Minsky (1986), like Eggertson and Krugman (2010)[6].

[6] They are so bedazzled by their core neo-classical theory that they protect themselves by weird mathematical model starting with a pure endowment money-less “economy” without State!

Data given by Currie (op cit) meet Koo analysis: the stock of money collapsed from 1929 to 1933 because most firms managers discovered the magnitude of their losses, net worth had fallen so much that it became strongly negative. To escape bankrupcy, they stopped to borrow to banks and what remained of profits was spent to repay debts, which led to a net decrease in the stock of money while banks were ready to grant credit. Contrary to revisionist interpretations they were not short of liquidity. Monetary policy played no part at all.
After mid 1933, the rise in the money stock imputed to the private sector is entirely explained by the super multiplier process. Firms moved by ultra-buoyant expectations started to borrow again to finance expenditures they considered as compulsory to hire the required amount of labour to meet the growth of consumption and later to compensate for the deflation of inventories and the lack of capacity in fixed capital (accelerator effects).
Taking care of the reimbursement of past debts which absorbed a part of the money created by new borrowing thanks to the rise in profits, net borrowing ot the private sector from 1933 to 1936 stopped its decline, it remained rather constant (Koo p. 112) . Reconciliating the rapid and strong pace of the recovery with the fact that the contribution of private borrowing to the aggregate stock of money remained constant, is easy. A large part of new productive private expenditures was financed by the recycling of the net increase in the stock of money generated by public investment.
Finally, quantitative easing having played no part at all, could we rely on some fall in real interest rates emphasized by Romer (op cit). From 1933 to 1937, it played no role first because it was not very significant mainly because, as already proven, in an economy driven by a very strong super multiplier real wealth generating expenditures do not depend on interest rates . Capacity effects ruled by expectations rule firms expenditures, which is the core of the dynamic accelerator effect to the Eisner-Gionannoni (2008). Facts invoked by Currie, Koo, Galbraith , support this conclusion.

II-2-6 Since autonomous monetary policy played no part, it is highly sensible to debunk an old myth, the crucial role of the repudiation of the gold standard emphasized by Eichengreen (op cit) and Tewin (op cit) even by Tomer (op cit). It seems that the repudiation argument implies two propositions:

A. It allowed the depreciation of the dollar which increased competitiveness in the world market of American industry and farm sector.
B. It allowed Roosevelt to break up for ever with free-market and deflationist orthodoxy and thereby feel free to launch his investment in labour programs without being concerned by the existence of a deficit, forgetting his secretary of Treasury warnings.

Proposition A is irrelevant because it postulates that the recovery was led by exports to countries still maintaining the gold standard . Dow, followed by Koo rejects proposition A which lack empirical foundations. The rise in exports was too weak to play any significant contribution to the recovery. Many factors prevented the efficiency of the repudiation mechanism : excepting the gold block led in France, all main partners of the USA had already depreciated (UK) or started to close their economy (Germany). As for the gold block the accelerating depression prevented any increase in imports.

There remained propostion B. As rightly put forward by Dow and Koo, the gold standard was a pure ideology shared by most of the ruling capitalist class in the time of the Hoover administration. Had they been free from the yoke of gold, they would have pursuied the same policy. As proven by Thomas Ferguson, Hoover strived to impose to Roosevelt the promise to

maintain this sacro-saint commitment: no labour reflation. A proof of the absence of mechanical link between the repudiation and good deficits is what happened in UK. The repudiation was not followed by any kind of investment in labour.
What could be true is that Roosevelt had perfectly understood the symbolic nature of the gold standard. Repudiation was the signal sent to the Hooveritic zealots and to the country at large:the time of caution was over, all must be bet on the recovery all obstacles would be destroyed.

III The curse of countries which rejected a Roosevelt –like New-Deal: France and Nazi Germany .

III-1 The French case : the paradox of very high government deficits while the real economy never stopped to collapse.

Revisionist historians should pay a great interest to the case of the France until september 1937. Gold standard was maintained, France became the leader of the gold block in its most rigid form. Accordingly the French ruling class adamantly rejected the Roosevelt New-Deal. Instead of invoking a New-Deal rooted in investment in labour, it never stopped to preach deflation targeting a balanced budget and a strong drop in money wages and salaries to raise exports. Wage-deflation had to be imposed by continuous fiscal squeeze, efforts to cut expenditures and raise taxes. Herein was the dogma of French politics imposed, as shown by the greatest historian of the inter-war period Annie Lacroix-Riz (2006) by both core industrial capitalists (the so-called Comité des Forges, Heavy industry cartel) and the private Banque de France. If those who emphasize the repudiation of the gold standard as the existence condition of high deficits were right, France should have been unable to run high and rising deficits. If those who confuse the size of the deficits with its positive impact were true, France should not have suffered until the war from increasing unemployment which, according to data, was in 1936 certainly higher than in the USA in 1932-1933.
Herein lies the dramatic French turn paradox. Targeting austerity, France got relatively much higher deficits than in USA; those deficits could not prevent the collapse of employment.

Ultimately to strenghten the destroying force of the negative super multiplier in France, and magnify the difference with the Roosevelt stunning miracle, one should strive to evaluate the ratio of French deficits to the GDP and compare their evolution with the variation of employment.
It is not an easy task(it is obvious that much more work is to be done).:on one side there are no coherent set of data for the GDP in France, one has painfully to compile many sources (Dow p. 187), on the other side, as already emphasized deficits are over time more and more under-estimated. I started from an evaluation of the GDP in 1934 francs by Scevorski (1959) which I revalued in 1929 francs (with 1 F 1929 = 20 F 1954). After I strived to guess what should be added to deficits American way by a careful study of the Annuaire Statistique de la France and Piettre (op cit p. 220.222)

Finally, assuming like Koo a drop of the GDP from 1929 to 1932 by at least 15% and from 1932 to 1937 of approximalively 10% (striving to take care of prices variation). I got the following data comparing deficits ratio to a new set of evaluation of unemployment in monthly average.

Table 3
The negative super multiplier on the front stage

	Deficit % GDP	Job seekers monthly average thousands demand not met (Industry+services)	Rate of employment in France
1929			1,2%
1930	2 to 3%	13	1,2%
1931	2 to 3%	73	8%
1932	3%	307	29%
1933	3 to 4%	307	29%
1934	5%	373	40%
1935	5%	465	50%
1936	7%	475	50%
1937	9%	379	40%
1938	10%	401	48%

An enormous work was required to get estimations of rates of unemployment to sustain an approximative comparison with Roosevelt America. Sources were,from the"Annuaire Statistiques retrospectif"an evolution of the active population, 20 millions, and the share of which, 38% agriculture. I assumed which is consistent with French society of the time that no job seekers came from agriculture. Then mulitplied by the data of column 2.

The maximum of 35- 36 reflect partly the impact of the cuts in salaries of the public function and the rise in tax rates decreed by the pro-nazi government of Pierre Laval. Consumption collapsed instantaneously. The temporary relief in 1937 reflects the delayed impact of the rise of wages by 10 to 20% accepted in june 36 by capitalist leaders (Matignon agreements) panicked by the general strike. They were cancelled in 1938 : both decisions had no impact on the deficit.

From this table one draws the following (provisional conclusion):

- Deficits ratio were always much higher than in the USA, more than the double or the triple.

- They grew over time while unemployment always increased.
- The more the agonizing regime wished to deflate, the more the deficits ratio grew because of the strong negative impact on GDP from the private sector.
- Deflationary forces were not the least embodied into exports . Private investment collapsed in consumption goods industries and utilities, but the main responsible was the catastrophic drop in consumption [7] wich was already praised by the rulers of french capitalism, from the coal and steel cartels to the Banque de France. As for professionnal economists they applauded, a perfect example is André Piettre who scorned the total failure of Roosevelt (p.227), Annie Lacroix-Riz quotes François de Wendel, the leader of the steel cartel "Wages are never too low". For more details on the genuine hate of consumption in the french core one could read Bliek and Parguez (2006).

III –1- 1 Rising deficits contradicting gold standard ideology.

Data are provided by the Annuaire statistique retrospectif. They certainly under estimate the deficits because, until the Vth Republic, a large share of public investment in public works, mainly linked to national defense, while financed by "borrowing", was not included in the deficit (Jeze 1925, Pierre 1938) The final deficit was always undertaken out of the acquisition of bonds by the Banque de France which fixed the rate of interest[8].

Table 4
French budgets from 1929 to 1937
Millions of francs

	Expenditures	Revenue	Deficit
1929	59.355	64. 268	+ 4.913
1930	55.712	50.794	- 4.918
1931	53.428	47.944	- 5.484
1932	40.655	36.038	- 4.617
1933	54.945	43.456	- 11.489
1934	49.000	41.070	- 8.813
1935	49.000	39.985	- 9.015
1936	55.709	38.676	- 17.033
1937	72.759	44.224	- 28.535
1938	82.345	54.606	- 27.739

From table 4 one must draw three conclusions quite useful for a comparison with the New-Deal era.

[7] See Kalecki *The lessons of the Blum experiment.* In 1938 French standard of living was much lower than in 1932, very far from the American one. France by abhorring the New Deal had sunken into poverty and backwardness.

[8] Of course, it is a simplification. Deficits were indeed already financed by money creation. The bonds issue according to the general theory was required by the Banque de France to get a sure and rising income. It means that the Banque de France had directly financed by money creation at least an equal share of expenditures.

A. From a high surplus imputed to 1929, the budget evolved towards a permanent and always increasing deficit from 1930 to 1937. From 1930 to 1937, the deficit was multiplied by 7. From 1933 to 1937 by approximatively 3.
Comparing french deficits with Roosevelt ones, french deficits were certainly higher in % of expenditures : 1/5 of expenditures in 1933, 1/3 in 1937.

B. The major factor was the dramatic fall in tax revenue relatively to the full employment situation. From 1930 to 1936, the loss of revenue was approximatively 12 billions. From 1933 to 1936, 5 billions . Such a collapse of revenue, while there were efforts to raise taxation, is obviously the outcome of the collapse of the real economy. There was also a tendency to reduction of expenditures but expenditures were more rigid than tax revenue. From 1929 (full employment) to 1934-1935, they fall by 10 billions but from 1933 to 1936 they remained relatively constant with a maximum drop of 6 billions in 1933-1935.

C. Since deficits were not caused until 1937 by a strong rise in expenditures, the Banque de France never raised any objection to the absorbtion of the public debt (Lacroix-Riz op cit).

III-1- 2 All data relative to the economy prove that the depression could have been worse over time. The more the budget was in deficit, the worse became the state of the real economy[9].

A. To take care of the definition of the super multiplier, an approximation of the rate of unemployment, the so-called index of use of the labour force is the sole reliable source given by the Annuaire Statistique in retrospectif. It takes care of the reduction of the number of employed workers and employees in industry and services and of the forced reduction of the working time until 1936.

[9] For the period there is no accurate annual evaluation of the GDP and rate of unemployment. Data on unemployment certainly under estimate effective unemployment. There are no data for instance on agriculture absorbing in 1931 38% of the active population.

We get:

Table 5
(With 1930 as the reference year.)

	Working time	Number of employed people	Index of effective use of labour
1930	100	100	100
1931	95	92	88
1932	91	81	73,6
1933	93,7	79,4	74,3
1934	93	76,9	71,4
1935	92,7	73,5	68,2
1936	95	74	70,5
1937	84	78	66
1938	81	81	66

From 1930 to 1935, the index of the use of labour fell by 32 points essentially because of the reduction of employed workers and employees by an amount of rather 27 points. There was a temporary relief in 1937, but after when the Front Populaire program was thrown away, the depression accelerated

Taking care of the fact that agriculture is excluded , one could assume that the depression brought about a rate of employment which never ceased to rise and which at the end of the period ,just before the war, could be higher than in the USA.

B. The situation was worsened by an evolution of wages quite different from what happened in the USA:

There was a tendancy to a wage-level decrease from 1930 to 1936[10].

Taking care of those two facts, in spite of the drop in prices, the aggregate real income of labour certainly fell. It means that the share of labour fell while it rose in the USA.

C. Could there be a french paradox : rising high deficits and worsening depression? No, the explanation is straightforward : The high deficits had a very strong negative super multiplier effect on the real economy. One could argue that the fall in exports, an outcome of the gold standard, more than compensated the positive effects of deficits. The argument is not convincing. Exports indeed dropped strongly, by 41% (Dow op cit p. 137) from 1929 to 1932 after they remained constant until the war while deficits always increased.

[10] For instance, according the Annuaire Statistique for workers in coal mines the daily wage was 37 F in 1930, 31 in 1935, a drop of more than 16%. According to Lacroix-Riz it was more in the textile industry and in the steel industry.

Taking care of this fact, had the deficits generated a positive super multiplier like in the USA, the negative impact of trade would have been easily more than compensated after 1932[11].
Thereby, what remains to be explained is that amazing negative super multiplier which seems to increase with the magnitude of the deficit!
The answer lead to two fundamental propositions fitting the general theory of fiscal multipliers.

A/ French deficits were the perfect exemple of bad deficits:

- They were not planned at all. They did not reflect any commitment to full employment.
- They were , to the contrary, reflecting the commitment to impose the targeted wage deflation.
- They reflected the total failure of successive governments to attain their commitment to ”fiscal consolidation” or balanced budgets. Governments were looked as unable to control the economy.
- They were not at all reflection programs of investment in labour, the Roosevelt relief programs were rejected as the negation of sound economics (Piettre op cit). Since 1931 there had been indeed some purely technocratic programs of infrastructure, mainly for military purpose (the famous Maginot Line aiming at closing France border with Germany). They were not at all part of consistent pro-employment programs they required a very small labour force.
- Those programs did not target consumption, no accelerator effect could be possible. To be short, they ignored social welfare, a goal fully inconsistent with the ideology of the ruling class. Workers consumption at that time, like today in France of the XXth century, was looked as an obstacle to prosperity.

B/The bad nature of French deficits was outrageously worsened by the inexistence of the environment that helped to trigger the very high positive super multiplier in the Roosevelt era.

- Instead of a strong leader delivering a convincing message of hope and faith into the inbred force of american people to mobilize themselves against adversity, the “Yes we can. Thereby we must succed” spirit of Roosevelt the French leadership was a bunch of corrupt, discredited politicians, enslaved to the ruling capitalist class, only preaching resignation and austerity. “Yes, we cannot, we must suffer” was the spirit of their message;
- There never was a Fergusonian coalition supporting recovery. It has perfectly explained in Lacroix-Riz (2006). Both the “Comité des Forges”, the Banque de France deeply dispised and hated the dying third Republic for its failure to have the courage to impose true collapse of the purchasing power of the people. They organized themselves into secret organizations (the synarchy) to overthrow the regime and impose a dictatorial regime. Thereby they reacted to bad deficits by cutting more and more productive expenditures, labour expenditures, investment in capacity to impose the deflation the State was

[11] In any case, the main cause of the drop in exports was the drop in aggregate demand for imports in France major partners, the other gold block countries and Germany. One must also take care by another fact : exports were not , by far, the main source of income for France Dow(op cit p. 189) is explicit “most of the depression in France and Germany must have been home-bred”.

unable to generate. It is logical that the super multiplier became more and more negative, which explains the continuous rise in unemployment.

- There remains a riddle : those deficits could be bad but the fundamental identity held : Their counterpart was profits and rentier income for the capitalist class. Those profits and rentier income were looked as pure "windfall gains" without any positive impact on long run expectations.They were spent into dividends to a bunch of major shareholders financing luxury consumption while workers consumption collapsed, into acquisition of financial assets, especially treasury bonds, recycled into investment in the Eastern quasi-colonial empire (Tchecoslovaquia, Romania, Poland) or loans to Germany and Italy (lacroix-Riz op cit).

Finally, the deficits generated a strong rise in the share of profits reflecting the collapse of the employment multiplier in the employment function. It is the counterpart of a very strong rise in the rate of profit or a profit margin induced by the accelerated rise in productivity and the decrease in the wage-rate[12]. Management revolution aimed explictliy at saving on labour or increasing exploitation.

C/The dramatic failure of the Front Populaire reinforces my interpretation. Leon Blum could never be the french Roosevelt. The failure of the Blum experiment had already been addressed by Kalecki and Osiatyriski in their well-know paper "the lessons of the Blum experiment". Both debunk the Temin like explanation shared by the whole french economists of the time (Piettre op cit): It failed because it generated an excess –hike in the cost of labour and a strong drop in productivity out of wage-hikes and the reduction of labour-time to 40 hours a week.

One must go further, was there in Blum's program a Roosevelt-like investment in labour that could have triggered hope?

Relying on data compiled by Piettre (op cit), Yes, the government had deaded a 20 billions program of public works entirely financed by money creation[13]. Indeed, expenditures imputed to 1936 rose by 6 billions and to 1937 to a very strong increase in the deficit of rather 7 billions in 1936 and 11 billions in 1937.

The program started to be implemented in the second half of 1936 and the first half of 1937 : results were quite disappointing as shown by table 5. The index of waste of labour rose by two points in 1936, then fell again to attain its minimum in 1936. The index of employed people rose in 1937 only by four points while, it is true, the index of working time fell by 9 points in 1937 (all year). How could we interpret those data? The whole program never triggered a dramatic positive shock like in USA. There never was an investment in direct labour creation like in th USA. All depended on the multiplier effect embodying the response of the private capitalist class. Looking at the magnitude of the deficits (+18 billions for two budgets), rather the same amount than the 20 billions recovery program, one must conclude to a rise in

[12] Such a rise in productivity is explained by the fact that long before the USA, french capitalists had initiated the most modern technique of management under the leading influence of Ernest Mercier (Electricity, oil, aluminium), the all powerful technocrat Dautry and the franco-American and pro nazi Charles Bedault

[13] This program has a makeshift character. It had been framed in haste to halt the general strike of june 1936. Blum himself was a rather conservative fiscal policy supporter. The more I think of this period the more I am sure that Roosevelt was more "Keynesian" than anybody in the European ruling politicians.

the negative super multiplier effect. The private capitalist sector hated more the Front Populaire government than all governments before. Contrary to USA after 1933, from the elections of the center –left majority to the war, France was involved into a quasi civil-war state. The capitalists refused to raise productive expenditures they cut more expecting unbearable inflation or revolution. In any case, in september 1937 when the currency was officially devalued, the recovery program was thrown away and soon the government was dismissed by the Senate. The program thereby was never implemented but for a small part. After september 1937, credits were cancelled by decree-laws. The registered deficits which panicked the capitalist class were never truly realized!

Ultimately data for 1938 are not relevant for a comparison with the New-Deal. There is the start of a war economy under the quasi-fascist dictatorial regime of Daladier, the leader of the Parti Radical the hero (before Marshall Petain) of the capitalist class. War expenditures explain a rise of expenditures by 10 billions but increased taxation raise the tax revenue by the same amount. The deficit remains at its official level in 1937 of 28 billions. Looking at the real data even now with a government they should love, capitalists expectations do not change. The index of waste of labour remains at its lowest level 66 (minus 34 points relative to 1929). The number of employed people very slightly rose while the index of working time drops while the so-called 40 hours have been abolished. It seems enough to say that the negative super multiplier is still operating. I cannot disagre with Lacroix-Riz (op cit). Capitalists are waiting for a true change of regime to end what could be deemed their "expectations strike". In any case, the deficit is again entirely bad;

III-2 The case of nazi Germany.

It is often praised for its fiscal policy that would have been much more efficient than Roosevelt New-Deal.For instance, Koo (op citp.112) emphasized what could be a nazi paradox. Deficits not very much higher than Roosevelt ones "reduced unemployment dramatically" so that full employment (a true one withbarely a 1,7% unemployment rate) was attained in 1938. In % of GDP, deficits never trespassed before this date 7,5% (the max in 1936). Before deficits were maintained at around 5% of the GDP.

Thereby Roosevelt is guilty! Contrary to him, the nazi regime never tried to restore fiscal orthodoxy!

Even their deficits seemed to be of a better quality and the super multiplier seemed to have been quite higher. In the preface of the German edition of the general theory, Keynes himself praised the commitment of the nazi regime to full employment out of public works. Herein lies the legend rediscovered by modern writers of "military Keynesianism"[14].

The legend is an horrifying revision of history of the nazi economy aiming again at discrediting any contemporary fiscal stimulus, especially by the Obama administration.

III –2- 1 Taking care of the doubt raised by Koo interpretation ignoring the historical context. I shall revise his revisionist praise of the nazi fiscal policy by relying on the best book on nazi

[14] This legend has too often been told to discredit Keynes by both conservative and ultra left-wing economists like Magdoff and Sweezy (1928). Applied to nazi Germany it is an horror tale, all true historians of nazi Germany emphasized both the factual absolute contempt of Keynes ideas by nazi leadership from Goebels (see his diary) to Hitler himself. Tooze (op cit), Barleigh (2000) concur! In any case, Keynes praised Roosevelt in his open letter of december 31 1933, he never praised Hitler in the same time and he never wished to meet him!

economics (Tooze 2006) and on the most accurate book on the historical context, Burleigh (2000). Both prove that there never was any genuine commitment of the regime since the start to full employment. The public works program of the Von Sleicher government had no impact on unemployment (Tooze p. 48), the rate of unemployment only started to fall after 1933. Public works of the nazi regime, highways for instance were not at all motivated by an increase in employment, they had indeed an insignificant impact on the rate of unemployment. Hitler had rejected the very idea of Roosevelt direct creation of employment as a proof of the "decadent American society only obsessed by private welfare".

III- 2- 2 Thereby how can we explain that as soon as Hitler won the elections, the rate of unemployment started to fall at a very quick pace? The answer is straightforward : instantaneously Germany was turned into a total war economy with, as a supreme goal well-known by the whole German heavy industry and chemical industry, the conquest of a continental empire. The State started to invest massively into the formation of the required capacity and leading capitalists instantaneously took their bets on an always accelerating amount of military expenditures requiring a rapid rise in long run investment. Herein is the explanation of the induced necessity of quickly increasing employment, since capacity for imperial war was quasi zero before 1933 and until very late (when Albert Speer became supreme dictator of war economy with the help of Himmler around 1943) productivity remained lower than in France and USA. Consumption played a minor part in the growth of employment and national income (Tooze, p. 63), as shown by table 6.

Table 6
Share of GDP growth (and I assume of employment growth) [15]due to: %

	1933	1934	1935
Military spending of the State	4,2	47	42
Civilian spending of the State	27	13	-13
Private investment	79	37	24
Private consumption	- 46	11	37

Since the regime invented the partnership, a large part of private investment was financed by the State budget. Thereby it becomes obvious that consumption played a very minor role in growth of employment. Its strong negative impact in 1933 is striking. It should dismiss the myth of Hitler concern for welfare since it was the postulated year of the "great public works". It proves , what I emphasized before, that infrastructure spending employed a very few prople at quasi-substance wages and that instantaneously managers cut wages with the full support of the regime , It was a key commitment of Hitler. For two reasons : the strong wages squeeze in line with the destruction of labour power and squeeze of capacity in consumption industry, partly to save foreign currency mainly to concentrate labour into the war sector. (Tooze op cit p.95)[16].

[15] Because of the small growth of productivity
[16] Having repudiated all foreign debts, reparations and normal debts public and private without depreciating the currency, the regime was more and more short of foreign currency to finance exports. By the way de facto it had repudiated the gold standard without benefitting from devaluation . It was imposed by Schacht with full consent of Hitler to protect the gain from exports . Hitler himself believed in a strong currency.

III-2-3 None of the New-Deal existence conditions were met! The very super multiplier dynamic process initiated by good deficits never existed in nazi Germany:

- The consumption driven accelerator could not exist. Investment in inventories and capacity was entirely determined by the growth of military expenditures.
- Thereby, what animated the economy was not the residual deficit but the very amount of military spending since consumption played no part in the dynamic forces leading the system, the deficit as the net State expenditures played itself no part. Gross military expenditures equal to gross public spending were substituted for the Roosevelt good deficit as the cause of convergence to full employment.
- It means that there was no multiplier at all, herein is the best lesson taught by nazi Germany economic policy. In some way, this conclusion should be the same for Stalinian growth before 1941.

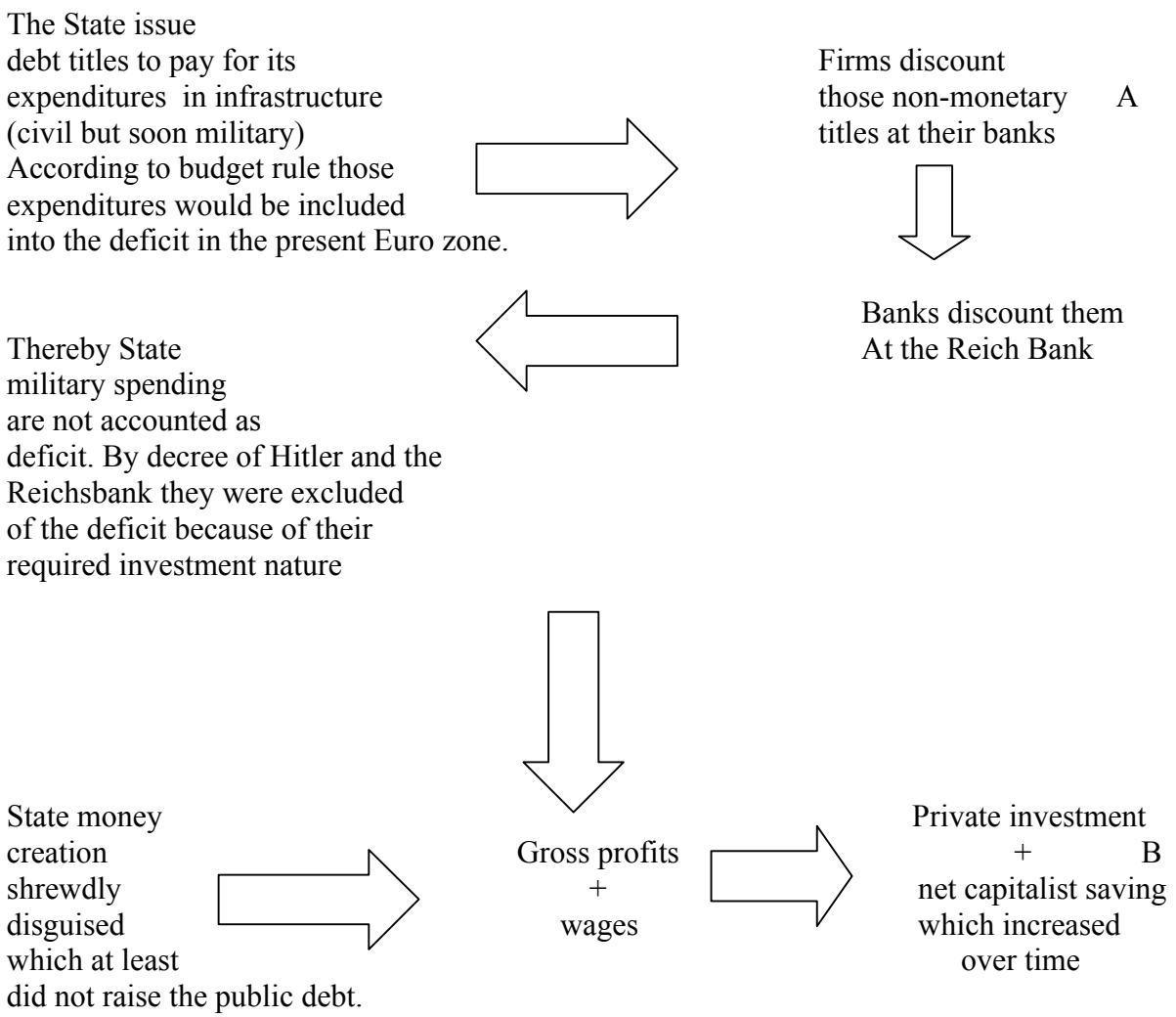
III-2-4 Ultimately , instead of the New-Deal nazi fiscal policy never aimed at the true welfare of the people. A proof is given by the dramatic change in distribution.:

- Contrary to what happened in the USA, the share of labour collapsed, it was the time of an ultra exploitation of labour even before the war. According to German national accounts, the share of labour was around 70% in 1933 and barely 55% in 1938. It is confirmed by the amazing rise in the rate of return on capital in industry profit, from 4,8% in 1932, it raised to 15,5% in 1935. It was multiplied by 4 (Tooze op cit p. 109) in three years since most of the rise occured from 1933 to 1937. Just before the war (1939) it attained the record level of 18%.
- It is easily explained with wages frozen and dictatorial management, all receipts from military expenditures turned into gross profits, workers bearing the bulk of taxation. A share was recycled into investment, what remained was a gigantic accumulation of net profits for the capitalist class[17].

III –2-5 At last, monetary policy was fully enslaved to war fiscal policy, money creation was the outcome of fiscal policy . As shown by table 7 , contrary to the USA, the private sector thrived on money creation by the Reichbank (The Schacht miracle for some revisionist historians).Let us (op cit) recall that the same procedure was used in France but on a much lower scale, for investment in “priority infrastructure”.

[17] One must not forget that social expenditures were entirely financed by contributions paid by workers. It was a perfect privatization experiment of social security.

Table 7
The financing of the non-Keynesian German "recovery"



IV In guise of conclusion to sum up the results of this study in comparative economic history:

Table 8

Roosevelt	France	Nazi- Germany
New-Deal	No New-Deal	No New-Deal
Small deficits very strong positive multipliers	High deficits strong negative multipliers	Total war economy no multiplier at all
Success	Shameful failure Worsening of the depression	End of depression but the way to catastrophe and destruction.

What lessons for the new structural crisis and the future?

Lesson 1/ The inexistence of an automatic stablization and recovery from a deep structural crisis having destroyed the past "trend" ? It is true in all three cases. Even Tooze is too optimistic when he finds a stabilization in 1932. There was a very small drop of the rate of unemployment then it rose over. It means that it is vain today to believe in the "market forces" or the dynamism of the private sector to restore prosperity. The lesson is to be heard in the USA, it should be heard also in Europe when private capitalism is dead as a dynamic force, the worse case being France, followed by Germany.

Lesson 2/ Why did the New-Deal could not restore full employment! Because even with the highest super multiplier possible good deficits were too low. Public investment in labour should have been higher mobilizing more labour at higher wages . There is more it should have been not only maintained but raised until full employment. The dramatic reversal of policy in 1937, with higher taxes and abandomnent of programs of employment was a dangerous mistake. In a writing in 1938 L Currie expects a new start of the depression. Roosevelt mistake is to be never repeated by an Administration committed employment. Herein is the reason why the commitment of President Obama to stabilize and reduce the deficit is a dramatic error, From Roosevelt he could turn to Hoover. Of course a new Roosevelt no more than Roosevelt, must rely on monetary policy, even with quantitative easing. He must pladge to increase good deficits until a true full employment has been restored. Induced public debt should be directly "sold" by the Fed, at least for a share taking care of the necessity of providing bonds with sound assets (Parguez 2011). There remains the necessity of absorbing the Chinese surplus created by USA trade deficit by issuing bonds. But the impact of strong good deficits à la Roosevelt on the trade deficit is to be weak or nul!

Lesson 3/ Fiscal stimuli of the Obama Administration could have a much smaller super multiplier effect than Roosevlet deficits. The main reasons is that they are not enshrined into genuine creation of jobs programs at a living wage, they are not true employment of last resort programs as defined by Mosler (1997-1998) and Wray (1998). Their impact on consumption, their accelerator effect could be insignificant, they would not trigger private investment.

Lesson 4/ A President wishing to be the Roosevelt of the XXIst century should declare not only "Yes we can" but mainly "Therefore I must". He should ignore the absurd faith of his opponents into dead market forces. A new "New-Deal coalition" could be built if the President never stops to say "It is strong stimuli or death of the American capitalist system".

Lesson 5/ Roosevelt had contempt for international cooperation . A new Roosevelt had comptent for international cooperation. A new Roosevelt should share the same contempt for the G 8, G 20 etc... since its members, especially members of the EU, maintain their race to suicide by the race to deflation. Roosevelt would have joked at a G 20 chaired by Sarkozy, the French President, whose policy is destroying his country. In his wonderful biography of Roosevelt Conrad Black (2003) beautifully explains how Roosevelt sabotaged the London conference on monetary cooperation targeting the restoration of the gold standard (p. 293, 294), a Hoover project sustained by France and Great Britain.. For Sarkozy and the German elite, the Roosevelt New Deal was an abomination, they are back to the thirties' accumulation of bad deficits with negative super-multiplier (Parguez 2011). President Obama should therefore have rejected forever any dream of cooperation with the new deflationist and quasi suicidal economic block policy led by Germany and France.

Needless to say , a new Roosevelt must not act following the present "experts". He is the expert. Therefore like Roosevelt he must ignore the high priesthood of conventional academic economists and their paraphernalia of pseudo historical models. With Robert Skidelski and Paul Davidson there are voices to be heard, the voices of free true scientific minds concerned with welfare and doubting the mythology of market forces, the voice of Keynes indeed, the voice of those who endeavoured to develop his message! It is why I have confidence that the presently dominant academic profession belongs to a dead past; the future belongs to Post-Keynesians in the broadest sense. A new encompassing General Theory is needed to support a true New Deal for the XXIst century.

ANNEXE I

An attempt to get an evaluation of the super-multiplier process described in table 1

$d_t \equiv I\,g_t$ Good deficit ≡ State direct investment in labour

$C_1 \equiv$ Direct increase in consumption equal to d_t

$W_1 \equiv$ First wave of induced employment generated by investment in inventories responding to C_1 (accelerator round 1)

$W_e \equiv$ Second wave of induced employment generated by investment in capacity responding to C_1

a*1 Accelerator 1 coefficient embodying the rise in the permanent flow of profits induced by acceleration 1;

a*2 Accelerator 2 coefficient embodying the rise in the permanent flow of profits induced by acceleration 2

$W_p \equiv$ aggregate rise in labour income or labour core value

$$W_p \equiv \frac{d_t}{r^*}(a^*_1 + a^*_2)$$

The super multiplier is thereby

$$k^*_t \equiv \frac{a^*1+a^*2}{r^*}$$

so

$$\mathbf{W_p \equiv k^*_t\ d_t}$$

To make sense of the Roosevelt miracle one just needs to assume

- Extremely high a^*_1 and a^*_2 <u>quite above 1.</u>
- $\mathbf{r^*}$ being a function of $\mathbf{d_t}$ so high is the burst of tremendous positive expectations so that $\mathbf{1/r^*}$, the employment mutliplier stricto sensus is very low. It means a very low required share of profit;
- $\mathbf{k^*_t}$ is therefore extremely high quite above the levels given by revisionist models

A level of 6 is quite sensible.

It explains why an average deficit from 1933 to 1937 of around 3,5% led to a decrease of net unemployment from 26% to in 1937 around 12%. A drop of a little more than 60%.

This simple model sustains the theorem <u>the existence condition of a true Keynesian multiplier process is the very sharp increase in labour income and consumption induced by the good deficit.</u>

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The tragic and hidden history of the European Monetary Union

© Alain Parguez*
November 2009

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This paper is the extended and actualized version of an intervention I made a long time ago at the Centre for European studies (University of Massachusetts, Boston, Harbour campus). It owes a lot to Thomas Ferguson who unceasingly asked me to write this paper and to discussions with James Galbraith and Olivier Giovannoni. I must also recognize my intellectual debt to the greatest and the last french economic historian Jean Lhomme. This article is an homage to his works and teaching.

In guise of introduction : In the wake of the second system crisis of the capitalist system the euro-zone paradox.

Whatever the doubts about the long- run strategy of the Obama administration, at the time when this article is written there is an increasing conflict of economic and social policies between the USA response to the crisis and the Euro zone. Such a conflict seems to be the repetition of what happenend in the thirties of the XX e century. As soon as president Roosevelt started the New-Deal the European establishment, economists, high officials, business leaders both in France and Germany denounced the folly of the New-Deal[1], expected its failure and reinforced their strategy of deflation. Today in both countries with the full support of the Euro-zone institutions the European central bank and the European commission, the ruling establishment whatever its political denomination, never stops to criticize the dangerous fiscal profligacy of the USA and strives to maintain or reinforce a shock therapy policy of deflation. Again, in the Euro-zone, it is fashionable to foresee the collapse of the dollar, the weakening of USA economy and the ultimate victory of the Euro-zone (Europa)[2] protected by its quasi-gold currency the Euro.
How could be explained this war of policies between the two most powerful economies?
The answer is to be found into the very nature of the European monetary union which is rooted into a long run historical process that may be dubbed the European plan which started in the early twenties of the XX e century in the aftermath of the treaty of Versailles. Born in the most traditionalist elites of France and Germany, those who hoped to restore a mythical European order, the Europa plan was finalized in the late XX e century by the regime of François Mitterrand for the sake of a social futurism embodying a super-determinist vision of history. What explains this stunning success is that since the start the European ideology enshrined into the creation of a quasi gold standard got the full support both in France and Germany of the whole capitalist class whose ideal model has always been a feudal capitalist system fully contradicting the true new american model initiated by the New-Deal of Franklin Roosevelt. European monetary union was shaped to ensure the triumph of this feudal capitalism which explains as it will be ultimately proven why the Euro-zone is doomed to permanent deflation whatever the magnitude of the crisis.

First part : The generation of the Euro from the traditionalist ultra conservative right to the social futurists.

Such a story seems so strange that it deserves a careful explanation of the link between the inter-war traditionalist right and the social futurism, the ruling ideology of the François Mitterrand regime advisers. This story evolved out of four stages

[1] For the German critique the reference is Adam Tooze (2006). Even Hitler despised the new deal as a proof of the weakness of Roosevelt. On the French side, there was a unanimous critique (Annie lacroix Riz 2006) One of the most stunning example is a book written by a well –known economist André Piettre (1938) On the traditonalist critique of the new deal see more in the first part.

[2] Since Great Britain is part of Europe, I shall use the word Europa to Qualify the Euro-zone

Stage I : The time of the traditionalist right; the inter-war period in France and Germany

At the beginning European Union is the rallying myth of a group of intellectuals, technocrats and politicians which must be deemed "the traditionalists". They shared a dream to restore a social order that was the legacy of a very ancient tradition going back to a mythical past of wisdom which has been destroyed first by the Greeks philosophers and partly restored in the blessed time of the coronation of Charles the Great (800) as Holy Roman German Emperor. They applauded the fall of the heir of rational Greece, the Roman empire . Herein was history they believed in. The initial founders of the traditionalist school were two Frenchmen, Chateaubriand with his "Génie du christianisme" (the genius of christianism) and, much later in early XX e century René Guénon widely read in France and Germany with his most influencial book "Le roi du Monde" (The king of the World). The fall started again and wisdom destroyed since the early middle ages accelerated by the "Renaissance", the Reformation of Luther and Calvin, the age of enlightment restoring the tradition meant to strive to destroy the influence of modern "scientist", philosophical liberalism and free-market economics. Driven by their deep aversion for modernity they never stopped to emphasize the decline and fall of old holy Europe whose death had been sealed by the treaty of Versailles and the increasing temptation to follow the anti-order, the American model of a society ruled by money, consumption and sheer "materialism" that led to the rule of an ignorant "Mob" in the name of "real democracy"[3].
"Europeans" of this first stage endeavoured to determine what should be the new order restoring into a far future the tradition. They agreed on two "holy rules"[4].

Rule 1:Europa of the future must be to enforce the rule of France and Germany over the industrial borders of Europa including Portugal, Spain, Italy, the Benelux countries and Scandinavia. They excluded England and thought of Poland and eastern Europa (excluding orthodox countries) as quasi colonial satellites empire. Their model was thereby an enlargement of the holy roman empire to France , Southern and Northern Europe. They shared the dream of the fusion of spiritual and political power in their imaginary holy roman German empire of Charles the Great partly restored by the Hohenstaufen dynasty of Frederik I and II . The death of Frederik II abolished the last effort to stop the fall (Keyserling 1931). It explains why the traditionalists denounced the usurpation of the temporal power by the Pope Innocent III the such enemy of Frederik II who started the fall (Keyserling op cit)

[3] In Germany the traditionalist group main speakers were Keyserling (1931) and Junger whose treaty "Die arbeiter" le travailleur (1932) was an absolute rejection of the bourgeois liberal culture of the XIX e century and the philosopher Martin Heidegger (Herf 1994). In France they included mainly Bertrand de Jouvenel, François Perroux, the philosopher Mounier founder of the "personalist school" close to Perroux "communitarism" (Bruneteau 2003 and Linderberg 1990),Celine, Maurras, writers like Paul Morand, André Siegfried. Keyserling, Junger, Perroux, Celine, Morand had written the most anti american panphlets in the name of true cultures of old times. What shocked them the more was the youth infantile consumption culture" (Keyserling 1931) and the cult of technology . For all of them their voyage to America was a visit of hell!(Celine)
[4] With an exception Mauras and the french royalist party. Mauras was reluctant to endorse the European dream (Bruneteau 2003)

Rule 1 required a strong symbyosis between France and Germany the true heirs of the old (and quasi forgotten by modernists of all kinds) tradition. It explains their true aversion of the Treaty of Versailles and their rejection of the French Republican regime that masterminded the Treaty[5].

Rule 2 The future new order had thereby to be a hierarchy of "orders" or "communities" enforcing the absolute supremacy of the "traditional elite" over the "ignorant mass"[6]. Power should be devolved to a set of decentralized institutions under the leadership of some supreme authority in the like of the holy emperor of the past.

From those sacred principles they even started to work on a first blue print of the political and economic organization of future Europe.
It should never be the United States of Europe since federalism would require a strong democratic State with an elected all powerful Congress. It should be a full "rupture" with the "power of money rulers" and their "culture of greed"[7]. What does it mean exactly? The pure first way, American capitalism was rejected. All early Europeans had a deep horror of the second way, the class war society in the like of the USSR. What was required, to invent a third way adjusting the feudal system of the past to the modern time.Herein lied a contradiction : how could we reject the modernists despising the past while being obliged to be conscious that the economy of the holy roman empire could not be fully restored[8] . To be more straightforward the European new order was concieved as a "modernist restoration" which indeed was a full paradox. A second stage was imposed to strive to solve this paradox.

Stage II : <u>The age of traditionalists technocrats from the late thirties to early seventies of the XX th century.</u>

Solving the paradox, enshrining the traditionalist ideology into modernity, was the great achievement of a group of politicians, staunch traditionalists themselves, but also de facto chief lobbyist of the ruling powers in France, the "Comité des Forges" (Forges Committee) with the de Wendel trust as its chief and the Banque of France and french investment banks. They could succeed because they were working with the German greatest trusts and, being only interested in the supremacy of Franco-German capitalism. Thereby they had only contempt for the alea of politics, they supported indeed for a time the Vichy Regime in France and the "collaboration" with the Third Reich but they never had any special interest in both of them. They were only tools that must be rejected as soon as they could jeopardize the European

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[5] On this point they agreed with Keynes but not for the same reasons and all of them rejected the Weimar republic and wished the restoration of the German empire under the rule of natural elite the high noblity and a true emperor. On this point they agreed with the Vatican (Annie Lacroix Riz 1996)

[6] They are the very words of Keyserling and Junger (on cit) and later of Perroux (1942)

[7] The concept was coined by both Junger and Perroux the french leading economist before and after the war.

[8] The most lucid of the traditionalists were conscious of the contradiction, Junger the first (op cit) and Perroux in all his works before 1945 and Heidegger himself (Linderberg 1990), who dreamed of a technology rooted into the past. For comments by Junger on Heidegger view of Europe (Junger 1980).

planning. Herein is the explanation of the rallying of European planners to USA very early, and next to both the Gaullist Fifth Republic in France and the Christian Democrat German Federal Republic.
Their achievement was on one side the planning of a full integration of the French and German Economy, on the other side the draft of a Monetary Union required by the economic integration.

A Planning the full economic integration of France and Germany.

Since the early twenties the key crusaders of a full-economic integration, as the cornerstone on the Europe of their dreams were two French politicians Robert Schuman and Jean Monnet[9]
In retrospect both shared the same contempt for the Third Republic the rule of ignorant mobs motivated by narrow-minded interest. They dreamed of halting the decline and fall of France accelerated by the triumph of anti-tradition forces free masons, syndicalists, teachers, protestants. Schuman was the mastermind the "great thinker" because, as deputy for Moselle, supreme-lobbyist of the French heavy industry, he never stopped to promote the cause of its leaders, while being also an ultra- conservative catholic hating, like the whole traditionalist school, Enlightment and its dark progeny, he "forged" a strong alliance between the ruling capitalist class (especially the heavy industry sector, metallurgy, coal, steel) and the Vatican.
His life struggle, it started in the late twenties, was to promote the vision of a Euro-core entirely ruled by the leading capitalists endowed with absolute power. He convinced them that their very survival and rule depended upon the suppression of State interference which would allow them to get rid of all the forces of destruction the very ones demonised by his ultra- reactionary ideology.
Schuman went further because he understood that French and German capitalists could not win if each group pursued its own agenda. Herein lies what must be deemed The great fight for economic integration.
Only a progressive integration of the two majors European economies, leading ultimately to a fusion, a perfect symbiosis, could reinforce so much the strength of Europa-core capitalism that, having get rid of their domestic adversaries, they could successfully compete with the USA and become the leading economic power in the world.
Economic integration itself required the demise of States discretionary power, the creation of a Community of interests ruled by technicians acting as super delegates of Europa leading capitalists. The community will act as what Marx could have deemed "The collective Franco-German unfettered capitalism" imposing for the sake of salvation of Euro-capitalism the progressive abolition of un-friendly legislation.
It was indeed a very bold program. On one side, it would reinforce both capitalist sectors by their ultimate fusion on the other side, doing so, it would embody the reactionary traditionalist crusade into the institutional structure of Europe. Robert Schuman must be deemed the true father of the feudal capitalist system which is now ruling over Europa.
Since the late twenties he received the support of Jean Monnet. An international banker hating democracy, the republic, the rule of majority like Schuman, he was less prone to the restoration of a catholic order, and closer to the USA, especially

[9] For references I relied on Bruneteau (op cit), Annie Lacroix-Riz (op cit, especially for the commitment of Robert Schuman before the war).

Franklin Roosevelt. Both Schuman and Monnet worked together, Monnet being more involved into the technical and institutional aspects of the community that should monitor integration.

Under their joined efforts, integration started in the early thirties, when the French high industry became the major source of German imports until 1945, of coal steel, iron, textile and food.
Being free of any true faith into both the Vichy Regime and the Third Reich, Schuman and Monnet pursued their crusade after the war. They got the full support of the USA, being shrewd enough to convince them that economic integration under the sponsorship of an authoritarian technocratic supra-national authority, was the sine qua non of a successful fight against USSR and all the forces of decay!
Thanks to the Banque de France during the whole period France remained one of the most important source of credits in hard currency to Germany. Jean Monnet played a crucial role but Robert Schuman also since François de Wendel was the de facto ruler of the Banque of France.
In 1945, Jean Monnet published " The plan for the modernization of France" and in 1949 with Robert Schuman they published the famous Plan Schuman endorsed in 1951 by the creation of the CECA (The European Community of coal and Steel). The new community was ruled by a supra-national technocratic commission promoting under the guise of free-market the absolute rule of high industry capitalists. It was the dream of the Wendel Trust of the twenties made the embryo of the constitution of Europa.
The treaty of Rome (1957) generalized the integration planning under the rules drafted a long time ago by Schuman and Monnet . Their remains a last enigma: why did General de Gaulle applied the Common Market Treaty, and thereby endorsed the traditionalist agenda of early planners?
The explanation is simple : the Gaullist "Europe of Nations" perfectly fitted the vision of Schuman and Monnet. Both had always rejected any kind of Federalism because it would create a European Super State jeopardizing the rule of capitalists. The concept of "Europe of Nations" was a staunch conservative traditionalist vision. Nations remained but with States progressively dismantled, monitored by a supra-national set of institutions achieving the de Wendel Trust.

B <u>Towards the Monetary Union</u>
It must be deemed the age of invention of monetary union to solve the early traditionalist paradox. The solution was rather simultaneously spelled out by two french economists, François Perroux (1943) who came from the most traditionalist right as already mentioned and Jacques Rueff (1945) who was mainly a pure right wing technocrat less involved into the early dreamers projects of restoring a mythical past. In retrospect the role of Perroux the most traditionalist and anti republican of both was determinant (Bruneteau 2003). Perroux emphasized that the existence condition of the new order was to impose to all members of the future Europe a supra national currency managed by a sovereign central bank endowed with absolute powers.

Thereby the ECB will bestow on the single currency the supreme value of gold through its dictatorial powers relative to the issue of the currency that would grant to the monetary union permanent zero inflation. Perroux and Rueff to a lesser extent had no confidence at all in the pure free trade doctrine and in the XIX th century

"bourgeois" economic liberalism. Perroux dreamed of a monetary union in permanent "autarcy" free from the danger of "capital international markets" . Rueff emphasized the necessity of a permanent trade balance which required to be free from the constraint of imports from the outer world.
Perroux and Rueff drafted the rules that would bestow the ECB with this absolute power on States within the Union . Reading the 1943 blue print of Perroux it is as though one was reading the treaty of Maastrich :

1- All States should be deprived of the power to issue the currency. Granting the State to issue currency (to create money at will) was the open door to both inflation by the issue of false rights and its twin political parliamentary democracy.

2- Thereby no State could run a deficit because the existence condition of deficit is money creation by the central bank to grant "false rights" to real output.

3- Recessions and true crisis had to be fought by pure deflation policies requiring cuts in expenditures and higher taxes. Thereby a world crisis required a dramatic reduction in the issue of currency by the ECB. Scarcity of money was the key to a true restoration of stability.

4- Within the Union the States should get rid by authoritarian powers of any obstacle to market laws. The supreme authority of the ECB required perfect flexibility of labour markets and inexistence of social welfare in the like of what existed since the new deal in USA.

Ultimately the Perroux blue print and Rueff doctrine of false rights [10] bestowed on the ECB the ancient guardian role of order played by the holy roman emperor of early middle age!
The Perroux blue print was carefully studied by the third reich technocrats and economists. It was the twin to another blue print of the Monetary Union the plan written by Walter Funk the president of the Reichbank (1943) (Tooze op cit).It reveals the unceasing sharing of ideas for the future between France and Germany at that time. Such a community of futurist plans was the "super structure" of the accelerated and enthousiast-driven from both sides integration of economies (Annie Lacroix Riz 1999)
Together these protecting rules prove that inventors of the monetary union shared a stunning vision of the nature and role of money contradicting both the modern theory of endogeneous money as expressed by the Theory of the Monetary Circuit and the Conventional Quantity Theory of Money of "liberal economics" rejuvenated by Friedman and the Chicago school progeny (like the Rational Expectations

[10] The concept of "false rights" was already in Junger'essay (op cit) and in early medieval theology as shown later by the monumental treaty of the two German economists Gunnar Heinsonh, and Otto Steiger. It can be found in Adolf Hitler speech (Tooze op cit) whose economic orthodoxy credentials were beyond debate. Hitler "scorned the Roosevelt obsession with full employment" (Tooze op cit) and all German economists and Goebbels as well had only deep aversion for the New Deal like the German philosopher Heidegger article of 1942 (Herf op cit). In his biography of Roosevelt, Black (2003) emphasized that Goebbels critique on the New Deal (sustained by Schacht) had persuaded Hitler that Roosevelt was weak and that the USA were doomed!

Theory). Never for Perroux and Rueff the future Euro should be neutral in the modern sense. To the contrary it was the ultimate engine of the restoration of the mythical past into the bright future. Depriving States of their monetary power was the sine qua non of the destruction of the "modern State" inherited at least from the Renaissance. Being forbidden to issue money the State lost its existence condition, to grant false rights to his citizens, which allows to abolish at once the parliamentary system and its ultimate form, the end of the tradition real democracy[11].

There was much more at stake. Perroux and Rueff shared also a deep aversion for banks credit. For them banks power to grant credits in excess of savings was a by-product of money creation by the State[12]. Thereby in the Monetary Union banks could only recycle pre-existing "real savings" which allows to remove for ever the threat of credit inflation[13].
Finally, transferring the monetary power to a supreme central bank as the Warden of Order would destroy also "liberal capitalism" inherited from the age of enlightement. It should restore the supreme law of scarcity or saving by forcing modern economy to function as if it were an agrarian feudal economy.
Forbidding the State to run deficits destroyed the ability of the State to retain its power by tapping the saving fund depriving private firms of the savings they need to invest.
It explains why strong constraints should be permanently imposed on the States by the central bank and supporting institutions independent from any electoral control[14].
Absolute rejection of Keynesian economics was the last resort consequence of the Monetary Union. Perroux himself wrote a devastating critique of the general theory[15]. Like Hayek before (Hayek 1941)[16] he accused Keynes of ignoring the fundamental law of scarcity as the
ultimate adversary of the tradition. The two last rules had therefore to be enshrined into the pact creating the Monetary Union. It was impossible to destroy the power of the State without imposing deflation as the sole sensible way to respond to a crisis.

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[11] On this point they agreed with Hayek (Bliek and Parguez op cit) and the German philosopher Martin Heidegger who endorsed Junger critique of this Mob-rule system. Junger in his philosophical novel Heliopolis (1950) imagined an ideal city ruled by the Perroux system while he never explicitly referred to Perroux. Heliopolis is obviously the ideal Europa rooted into the inexistence of any interference of the Mob leadership on the holy "Thesaurus" (the central bank).

[12] It means that none of them understood the true role of banks.
[13] Here again they agreed with Hayek (Parquez op cit)

[14] Perroux (he had been impressed by Chateaubriand most reactionary work, "Le Genie du Christianisme") went so far in his critique of the republican system that he explained the accelerated 'fall" by universal access to learning. No true order could exist with free access to teaching. Thereby like all traditionalists he rejected laicity and free access to primary, high schools and university. Like Hayek the feared too much access of the poors to economics.(Lindenberg, 1990)

[15] On Perroux in his devastating and infamous critic of Keynes (1944) both shown his scorn of Keynes and his unconditional faith in neoclassical economics of the Austrian tradition mixed with the French faith into Walrasian economics! Perroux a very aloof theoretician is not aware of their inconsistency (Bliek and Parguez op cit 2006)
[16] See (Bliek and Parguez op cit) and Hayek (1941)

Modern readers could be puzzled by a contradiction in the anti State doctrine of the fathers of the Monetary Union. On one side they wished to "dismantle" the State, on the other side only the State could force deflation generating the required collapse of real wages[17].
A clue is to be found in their weird restoration agenda of dreaming the future as a modernization of their ideal past "before the fall" (Bruneteau op cit referring to Perroux).
In the Monetary Union, States would behave as Lords and True Kings of the past, vassals of the holy emperor enjoying supreme temporal and spiritual power[18].

His role would be played by the ECB and supporting institutions. Dismantling the State only meant to abolish its ability to act against the laws of the supreme order enforced by its European wardens. It did not (and could not) deprive the state of its authority used to enforce by any means the requirements of order on their population. They could cut their expenditures raise taxes, cut wages, forbid unions, destroy at will the legacy of the democrats so far so good!
Doing so they would act as the true lords and kings of the federal past! They should be deemed "Reformers". Reform meaning adjusting the future to the mythical past.

Stage III : The age of the social futurists. It covers the Mitterrand regime from 1981 onwards

A lot remained to be done especially relative to the institutions supporting the ECB. There was more again at stake : how could a plan of Monetary Union born on the most traditionalist European right could survive in the aftermath of World War II when the ultra-traditionalists lost their impact? Who will achieve their plan and attract enough public support?
To be more straightforward, who will lure the European left, especially in France and Germany, to transmogrify the ultimate legacy of the inter-war extreme right into an apparently genuine progressist agenda?
Answering those questions is to solve one of the deepest mystery of he late XXth century!
The clue is to be found into the role of a group of French economists and technocrats who succeeded in getting full control of the new Socialist Party when François Mitterrand was elected First Secretary and soon in 1981 President of France. Becoming advisers or Ministers and high officials of the new regime, this new generation of Europeans could at least with the full support since the start of the President achieve the dream of early Europeans by the treaties of Maastricht and Amsterdam.

It is true that, as earlier, they won the support of german economists of the Berlin school (Riese, 1981) and mainly of the Bremen school later especially in the nineties. The support of the so-called ordo-liberal school of Walter Eucken was total

[17] Perroux (1944), Bliek and Parguez (2006)
[18] For Perroux and most European Union crusaders, feudal age was "true modernity" and Keynesians, Republicans, true Socialists, the past! One cannot understand European ruling class ideology if one ignores their core belief. Restoring the ideal past by reforms is to be truly on the side of progress. To be truly futurists, they dreamed of projecting the past into the future. Finally, there main aversion for the American model was the inexistence of a genuine hereditary ruling class because of real democracy.

since the start, even during the nazi era (Tooze op cit). The truth remains that, as earlier, the french socialists or rather new-socialists led the way. They included Jacques Attali the supreme economic adviser of Mitterrand, the so-called regulationist school with Aglietta[19], Boyer, Lipietz as its main speakers but also Jacques Delors and a close friend of Mitterrand, Trichet, the ongoing president of the ECB!
As proven by Bliek and Parguez (2006, 2008) and Parguez (2008 a) nothing could have happened without the very peculiar culture of the french economists and technocrats of the new left. They shared the absolute anti keynesianism of the traditionalists because of two reasons. On one side they had been trained in the french versions of neo classical economics the general equilibrium theory inherited from Walras. Attali and Aglietta had been also influenced by Perroux's views, the intellectual master of Raymond Barre under whom they learned economics. On the other side most of them (especially Attali and Aglietta) had been under the spell of a crude and naive versions of marxism of strong Stalinist pedigree[20]. Their economics was a strange synthesis of the two legacies that could be deemed authoritarian anti Statist economic liberalism (Bliek and Parguez op cit). It could be expressed by four propositions that fully explain the convergence with the old traditionalist far right :

1- All believed in the decadence of continental Europe relative to the USA because of the constraints imposed on capitalism by States enjoying the power to issue money at will to bestow false rights to the population. They looked at the modern State as the arch-adversary of true market laws. The monetary power of the State was contradicting general equilibrium existence dubbed perfect "Regulation". Herein the legacy of Walrasian economics met the core belief of the traditionalist school of earlier Europeans[21].

2- The conclusion was obvious : the power of the State must be destroyed or rather enslaved to the requirements of regulation. It could only be achieved through a European Union relying on a supra national central bank with absolute control of monetary policy including the issue of the currency and interest rates determination. The sovereign central bank will stop the decline of Europe by imposing the most perfect capitalist regime. Both Attali and Aglietta shared thereby the postulate that the true capitalist systems no more existed in USA since the new deal. On this point they were right (Galbraith 2008) but their conclusion was wrong : true capitalism had to be restored thanks to the Monetary Union. That restoration would transform Europe into the super power of the future.

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[19] Aglietta, a former member of the communist party one of the future main architects of the treaty of Maastricht. He expected the decline and fall of the USA (Aglietta 1976)

[20] Have they ever read Marx? I am not sure. They ignored of course the work of Kalecki and Marx beyond a short abstract of book I of "The Capital".

[21] Walras himself as proven by his studies on applied economics and social sources had a deep aversion for democracy and especially both the third republic and the USA Mob ruled. He believed that only an absolute authority could impose general equilibrium.

3- Herein their marxist training had a devastating impact. From Marx they draw an ultra determinist vision of history which excluded any freedom of choice for those in power. Thereby to be "on the left" was to comply with the commandment of history. To be "socialist" required to allow society to be adjusted to the commandment of history by enjoying the best mode of production. All believed that it was unfettered capitalism since command economy, the soviet model and new deal welfare orientated american capitalism were both doomed. Henceforth true or new socialism was obliged for the sake of the already determined future to enforce the European Monetary Union. Thanks to this naive vision of Marx, new socialism could remorseless achieve the traditionalist dream of restoration of the holy roman empire in the future.

4- The Stalino-marxist legacy also explains why the new socialist elite fully ignored that modern capitalism was a monetary economy. They believed that at least in its final and most efficient form it relied on accumulation to death out of an always increased surplus value generated by the exploitation of labour. Like Perroux and Rueff , Attali and its regulation school went back to some neo-agrarian economy generated by the Monetary Union. It was indeed explaining their aversion for Keynesian economics and Keynes himself at least the true one[22].

This version of socialism endorsing ultra exploitation of labour was reinforced by the weird intellectual environment in France in the late seventies and eighties. It is a story which has not yet been written abroad. Most of new socialist elite fell under the influence of René Girard, a former litterary critique turned into an ultra conservative theologian[23].
His "theology of liberation version" relied on the sanctity and necessity role of the sacrificial lamb (or Goatee). Extolling this necessity of a culture of sacrifice as a way to happiness Girard fully endorsed both the ultra exploitation economics of Attali, Aglietta and their likes. In some way he was the ultimate link between the new socialist European agenda and the early inter-war cultural traditionalism[24].

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[22] They never had read the general theory of course. On Attali's writings on Keynes see Bliek and Parguez (2008). Of Keynes they made a scarecrow which is still fashionable in France. One could praise Keynes as long as we ignore his core thinking ;see for instance Alain Minc book (2007)

[23] On Girard see his most influential book: "Des choses cachées depuis la fondation du Monde" (Attali and his team had also been deeply influenced by the pseudo anthropologist turned apostle of witchcraft as the way to super-humanity Carlos Castaneda (1974). A full history should be written of the strange cultural milieu of the social- futurists who crafted the final version of the Union.

[24] It could only have happened in France Aglietta and another fashionable regulationist Orleans wrote a general theory of money rooted into the pseudo mystical theology of René Girard "La violence de la monnaie" (2003) in which the Sacrificial theology of Girard is used as the true foundation for a sound currency!

Stage IV The end of the story the "coup" of 1983 and the achievement of the structure of the Monetary Union

IV 1- "The coup d'Etat" of 1983

The conventional story of the Mitterrand righ turn of 1983 is not true history. It has been unceasingly repeated that Attali had initially convinced Mitterrand to dare a Keynesian policy after the election. It failed so much that to save France the regime had to go back to a shock therapy policy worse than Barre's own one (1976-1981). It would explain why from 1983 onwards the French socialists, the German Social-Democrats, all the left wing parties fully endorsed the conservative agenda.
That story is not history. As already proven neither Attali and his followers nor Mitterrand himself had ever been Keynesians or even Socialists. Mitterrand speech on the "rupture with money driven capitalism" were an echo of Keyserling and Junger in the thirties.What was their critique of the then conservative right governments from the fifth republic : they had been too soft they never dared to imposed the genuine ultra sacrificial agenda required by the European Monetary Union of the future. Such a critique was to be hidden from the natural constituency of the left to win presidential election. Mitterrand asked Attali to build a makeshift program of reflation. Both hoped to go back to their true agenda as soon as they would not fear the threat of a revolt of the population. Thereby Attali and his team worked hard to build a self-destroying mechanism of the reflation program. While everybody knew that the currency was grossly over-valued they imposed a fixed exchange-rate relative to the Deutch Mark and the Dollar while rejecting capital flows control.
As soon as the reflation program was implemented it was a great success as proven by a converging set of studies (Bliek and Parguez 2008). Unemployment fell, profits rose inflation did not accelerate but the currency fell as expected while there was quite a sustainable rise in the trade deficit. With a massive affort of propaganda it was enough to justify the shock-therapy program of 1983 of which France never recovered. At last public opinion had to renounce any hope it had to accept the inexistence of alternatives.
There remains a last mystery why did the communist party stayed for a while in the restoration government. The clue is again its economic Stalino-agrarian economics leading to its absolute anti keynesianism. It swallowed the story told by the regulation school it was the true end of history[25].
Herein lies the explanation of what must be deemed a hidden "coup d'état" which ended what remained of true democracy in Europe. Nobody henceforth dared to oppose the European Monetary unification plan under the threat of being accused of being both a conservative ignoring the future and a mere ignorant .

[25] I may refer to a personal story I was told as soon as Mitterrand had been elected by prominent economists from the communist party or still very close to it like the father of the Regulationist school, Robert Boyer, that nothing can be done against the verdict of history! Keynesian economics is the past. It is doomed because of the super-determinist law of their ultra-hegelian metaphysics.

IV 2- The achievement : the building of the structure destroying for ever the power of democratic States.

The conventional story again contradicts history on two crucial points. It has been told that the Germans played a key role in the final architecture of the new european order by imposing the sovereignty and the mission of the ECB; wrong! Who was the key player but François Mitterrand who imposed a bargain to Germany : accept monetary union and thereby a sovereign ECB I shall accept reunification of Germany. French economists including Aglietta played the main role in the final draft of the treaty of Maastricht.
It has also been told that the inquisitorial strait-jacket of the growth and stability pact enshrined in the treaty of Amsterdam had been imposed by the conservative German government . How strange it could be it is again wrong. The Socialist government of Jospin did not raise the least objection, there was no objection within the new socialist elite. The explanation is obvious: the pact was the ultimate consecration of their commitment to the Monetary Union made a long time ago . Henceforth and for ever continental Europe could be freed from the dangers of democracy since the people could no more express their opposition to the economic and social true European model, a genuine feudal capitalist system. I am convinced that the ultra-traditionalists of the early inter-war would have applauded this restoration of the past in the guise of the predetermined future. What was the role of the European Commission, of the European Council, of the European Parliament? just to play the role of the supporting institutions of the supreme ECB! Junger wisely compared the treaty of Maastrich to the coronation.of Charles the great. The European strait-jacket was indeed a poor subsitute for the Holy emperor (Junger 1980)

Second part: How could we explain the absolute commitment of the European capitalist class to a Monetary Union contradicting the core principles of modern economy.

Political support of the new socialists was not enough in their attempt to invent a "fourth way"[26] as the social model of Europe. Monetary Union would never have been achieved without the full support of the European capitalist class. Herein lies another deep paradox : it has been proven that the union contradicted all the principles of modern capitalism. Thereby how is it possible to explain the unanimous support of the capitalist class in France, Germany and other member States? How did it support a project which would have been rejected by the majority of capitalists, industrialists and bankers in the USA and Great Britain? Taking care of the inexistence of awareness of this paradox in continental Europe, I shall start by relying on the political investment theory of the most well-known american political scientist Thomas Ferguson (Ferguson 1995). It gives a clue to solve this enigma.

[26] I invent this concept because there is nothing in the Mitterrand regime policy that could be compared to the third way of Tony Blair new labour. The french new Socialists were so far restoring the right that they made Blair a true socialo- keynesian

A/ *The General Theory of Political Investment*

The general theory of political investment, while being a general theory of politics operating a true revolution in political science, is supported by an impressing set of empirical studies using the most advanced econometrics relative to American history since the start[27].
I think it could be summed up by three fundamental propositions or true laws.

1- In a democratic society to succeed in politics requires over time a quasi exponentially increasing amount of capital. Politics becomes the activity requiring more capital investment than most other social activities, including the production of tangible commodities.
2- What determines the amount of capital invested into the "production" of a candidate is the expected rate of return in terms of policies she (he) pledges to deliver.
   Political investment covers the whole political process since the start : financing writers, columnists, media programs long before the beginning of the campaign and during the campaign.
   Thereby at every level of power candidates <u>compete</u> to attract the scarce factor, available capital. It means that over time as the required amount of capital is rising since the stakes are of increasing magnitude politicians are more and more depending on those who are the source of capital.
   The second Fergusonian law is thereby: the more the role of the State is rising (and it has been rising since the time of Abraham Lincoln) the more the capital constraint is strong which means that before being elected by the people one has to be elected by capital investors!
3- Meanwhile America remains a true democracy an oligarchic form of democracy may be, forbidding the emergence of a totalitarian power rooted into a single idelology. Ferguson's third law emphasized <u>four protecting factors</u>:

   3-1- First capitalists are not the sole source of capital even if we abstract from federal funding. A large amount of capital is raised by unions, various organizations and mere individuals (it happened for Obama's campaign)

   3-2- Capitalists are the main source of capital but they were never a united front wanting to get the same policy. They are divided into many factions of which the ultimate goals could be conflicting.

   3-3- Over time american capitalists became free from any a-priori non economic ideology

   3-4- At last the third law may be supported by the very fact that there still exist in America a true separation of powers. I am using this concept not in

[27] European and especially French political science is pure rhetoric. It is the twin of French and German academic economics pseudo science without any empirical foundation. I am not aware of French studies of Ferguson general theory . I take full responsibility for my interpretation of Ferguson's theory.

the naive Montesquieu meaning but in the more complex meaning of the great french historian of economy of whom Ferguson is quite aware Jean Lhomme in his wonderful book "la grande bourgeoise au pouvoir" [28] (1960) Lhomme distinguished three powers : the economic power, the political power and, for him, the most important the social power. By social power he meaned the ability of a class to shape and control public opinion. When a class is endowed with social power whatever the existence of a formal democracy its absolute power is accepted because it enshrines "legitimacy". No one dare to oppose its agenda!
A careful reading of Ferguson's works, Galbraith (op cit) and all books and articles on american history, especially the biography of Franklin Roosevelt by Conrad Black (2003) proves that the Lhomme separation of powers still exists. Whatever its insider conflicts the capitalist class never enjoyed the absolute power because it could never at least since the time of Lincoln and Roosevelt capture the three powers whatever its efforts! Even during the GW bush era, the predator capitalists could control the political power of the predator State but they were never anointed with legitimacy.

The European exception in terms of the general theory of political investment.

It is true taking care of the poor state of political science in Europe that nobody strived to apply and test Fergusonian theory excepting Ferguson himself for Germany to explain the success of Hitler (Ferguson and Voth 2008). This paper analyses the evolution of the German stock market in the aftermath of the election and nomination of Hitler as chancellor. The result was the following one: companies which enjoyed the highest rise in the price of their stock were those which had invested the more and for some time in Hitler's campaign; their share holders expected an amazing rate of return on the capital invested. Notwithstanding this failure, I assume that being the sole sensible general theory of politics the theory of political investment is perfectly relevant to explain the success of the Monetary Union.

Let us raise the question : what reveals Ferguson's laws of this process?

1- The first law obviously applies may be it is more compelling in France (and Germany) that in the USA because European societies are much more class divided and thereby much more ridden by conflicts. Thereby much more capital must be invested to get enough electoral support.

2-The more ambitious is the agenda in terms of attracting supports from those who could suffer from it, the greater is the amount of capital required to "buy" or rather "to shape" public opinion. May be, more than in the USA, political investment must be planned a very long time ago to finance media of all kinds advertising (more and more hidden), fashionable intellectuals interviews, conferences and books more than often from high officials etc

[28] Jean Lhomme was both the greatest and the last economic historian in France and more he was a true Socialist. His book described Louis Philippe regime (1830-1848) but his law is I think general.

A proposition should be tested: in a society like France where "intellectuals" still enjoy respect, intellectual investment is an increasing share of political investment.
Thereby Capital is the dominant sector of the political process it is the scare resource determining the winners.
3- Contrary to the USA the third law does not apply because there are not the least protecting factor of democracy:
3-1- Capitalists are the main if not the quasi unique source of political available capital. Unions are too poor, private individual household small contributions do not exist and the State funds only the pure electoral process which is just an insignificant share of the true cost of politics. For instance, the State does not fund the militia of intellectuals whose books can shape the opinion.

3-2- European capitalists since the early twenties were a united front sharing the same long run agenda, to impose what I called the feudal capitalist system the fourth way rooted into ultra exploitation of the domestic labour force out of quasi subsistence wages and salaries, the permanent squeeze of consumption and the absolute rejection of social legislation. Both in France and Germany they wanted to restore their absolute power on labour. It required enough unemployment to destroy once for all the negociation power of workers and salaries. They played all on exports thanks to the race to wage deflation.
Very soon they understood that they could only achieve their new order within the European Union. An ideal feudal captialist system had already been described by Ernest Junger in his novel Heliopolis (op cit), a Europe of the future as already explained. Thereby they started to invest enormous amount of Capital in the European Union as soon as they became convinced that it shall be a Monetary Union protecting them for ever from the threat of non Capital friendly State interventions. As in Junger's Heliopolis such a system should at least for a time instore an "Iron Heel" on the people like in Jack London's novel without having to rely on sheer force.
So high was the expected rate of return of the Monetary Union that supporters of the single currency became awash with capital financing the most amazing propaganda effort since the end of World War II.

3-3- Contrary again to their American counterparts the future euro core capitalist class was deeply motivated by a pure a priori ideology. They could pretend to play the role of future lovers, their core beliefs were close to the ultra traditionalist Europeans as beautifully explained by Annie Lacroix Riz, Adam Tooze and Bruneteau (op cit) and in Bliek and Parguez (op cit). They had been deeply influenced by the pseudo mysticism of Girard and Castaneda. It helped them to extol the virtue of poverty for the mass. It may explain why since the start the ruling capital class was strongly animated by its deep aversion for the modern culture as long as it denied absolute power of those deserving it by their training as rulers. They were obsessed by their inferiority complex relative to the old nobility they strived to copy. The inbred contradiction of the Franco German "high bourgeoisie class" has been shrewdly analyzed by Ernest Junger for Germany in his master piece "Der arbeiter" (1932) and for France by Jean Lhomme himself and in the masterpiece of Jean-Paul Sartre "l'enfance d'un chef" (the childhood of a Führer).

On one side they had the highest possible aversion for "modernity".They rejected both American-consumption driven and mass-culture society and any kind of democracy granting true rights to the people. As Junger wrote they looked at themselves as the new high lords of society. It explains why they were that addicted to the authoritarian feudal capitalist system while it contradicted the objective laws of modern capitalism .

On the other side they strived to justify their power by always invoking "modernity" and historical materialism.

Their commitment to a new order of feodality explains that they are ready to invest an unlimited amount of Capital in new Socialism whatever its last effort rhetoric of leftist pedigree. Since the new Socialists were committed at last to achieve the Monetary Union dismantling the State and abolishing for ever true democracy, let a flow of gold be its bounty. In retrospect it is easy to understand the absolute anti keynesianism of the capitalist class from the Rhein valley to French core industrial base. It has nothing to do with pure economics it rather ignored (it was let to their paid economists, a part of political investment). It was only motivated by its ultra traditionalist culture of restoring an order fitting the dream of absolute power, total control and quasi slavery of the mass[29].

3-4-At last the ultimate protection, the Lhomme separation of powers was more and more explictly rejected. France and Germany went back to the time of the Louis –Philippe monarchy in France (1830-1848) at least since the new socialist regime of Mitterrand and its progeny the Sarkozy regime in France for instance. It was possible because the Monetary Union was built to restore the union of the three powers in the same hands.

The ultimate victory of the Monetary Union would not have been possible without an enormous amount of Capital to convince a public opinion against which it was explictly shrewdly built. Such an amazing amount of Capital transformed the dictatorship (and expected failure) of Franco-German feudal capitalist order into an hymn of joy to a bright future. It required a full concentration of the three powers.

For already a long time there had been in both countries, mainly in France, a perfect symbiosis between the economic power and the political power. Such a symbiosis reached its full and perfect stage in the Mitterrand regime it was the existence condition of the fourth way of new socialism. Henceforth the capitalist class had access to State expenditures to promote its agenda. Herein lies a crucial aspect of the European predator State. Public funds are available as subsidies, grants, rewards for the sake of culture without limits to buy or seduce public opinion and hide what is really at stake. Controlling the State the capitalist front could easily get rid of any dissenting opinion.

Such a fusion between the two first powers explains why it is wrong to look at France and Germany as socialist States (old way). There is more. It allows the

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[29] Annie Lacroix Riz (op cit) and Adam Tooze (op cit) emphasized in the thirties the obsession of the capitalist class to cut until bare subsistence levels wages, salaries and pensions and to impose high unemployment both in France and Germany. It is proven by Tooze data, unemployment disappeared in Germany when the regime played all on total war while the share of labour collapsed from 1933 to the end. It is still their ruling motive. It explains why they preach for a dramatic cut in consumption. Attali wrote it could be the way to the spiritual ascension (Bliek and Parguez op cit). The hymn of joy the Europa anthem is rather a hymn to blessed poverty

Euro core ruling class to capture the political power to plan its future demise in the Monetary Union. There remained a last obstacle to convince the people to vote for the feudal capitalist new order. Legitimacy had to be usurped by seizing the social power. In retrospect legitimacy usurpation was the final masterpiece of the new Socialist regime of François Mitterrand. Having now the full support of the President, the heir of kings, capitalists had an unbound access to State funds to buy the support of a whole new group of "intellectuals", columnists, writers, philosophers, media people and of course economists.
The last act of a tragedy that started in the twenties could finish thanks to the cornucopia of gold coming from the State. Nobody but a very few dared to resist the temptation.

In guise of conclusion Expecting the holy emperor back from his grave.: Born on the extreme traditionalist right could European Monetary Union die of its own excess and illusions it generated.

Finally the Fergusonian theory of politics perfectly applies to the euro core countries. It brings about the final proof that built to restore and impose a feudal capitalist system of sheer exploitation the European Monetary Union was achieved by the most amazing political investment in history. Even Marx would not have dared to imagine what money could buy: the electoral support of a system of sheer oppression of the population and ultimately the enslavement of a whole continent to an economic system contradicting the whole laws of modern capitalism. In retrospect the European monetary union brings about the proof that enough political investment may turn a democracy into a disguised authoritarian or totalitarian system. People can be fooled for a very long time, it just requires a profligacy of expenditures far beyond the pure cost of the electoral process[30]. From this study one may draw a new law of political science : the single supra-national currency is the twin of the single expressed or audible opinion. Henceforth there is no mystery in the increasing conflict of policies in the wake of the new world crisis between the USA and the Euro zone. The sole economic policy consistent with the feudal capitalism is more and more deflation more and more "reforms" to destroy all obstacles to the single ideology of "sacrifice"[31]. For how long could the euro system survive from its own

[30] Those who are deemed "intellectuals" today absorb such an amount of political Capital they could rightly be deemed "mass producers of ideological comfort". Attali's beyond accounting books on everything and everybody, Alain Minc (2008) book on Keynes transforming Keynes into a hero of Hollywood movie(never reffering to the monumental biography of Skidelski) René Girard etc are perfect examples of this mass production. It is a specific modern France output, may be because french capitalists are aware that to buy legitimacy they need this "output" in a country where intellectuals still enjoy high respect and people are hard to be fooled. Of course they would have been rejected by true intellectuals of post war France like Sartre, Simone de Beauvoir, Malraux and even traditionalists true thinkers like Junger, Heidegger, Keyserling and Perroux himself. Such a people intellectuals do not exist (or are not looked as reliable or relevant thinkers in Germany and Italy and of course not in the USA.. By the way they know nothing on true great American writers and thinkers from Melville to Norman Mailer. J. K. Galbraith etc. Instead they rely on "charlatans" like Castaneda

[31] For a detailed analysis of the deflation authoritarian led Euro institutions and their disastrous impact on the economy , the Strait-jacked to which States surrendered is beautifully built to justify their demise. see Parguez, Seccareccia and Gnos (2003) and Parguez (2006

predatory agenda? For how long could people be fooled whatever the rise in propaganda investment? Herein are the crucial questions for the future. What are the alternatives : chaos induced by increasing despair and poverty or evolving more and more to the authoritarian right by imposing the iron heel on the people but who could enjoy enough power. May be herein lies the self destroying contradiction of the european Monetary Union. It enshrines the demise of member states rejects any genuine strong central authoritory and the hope of truly restoring an holy emperor is quite a dream(or a nightmare)
Thereby who will protect in last resort the euro Walhalla? Could the prediction of Jack London be right? Ultimately for how long feudal capitalism could not generate slavery or selfdom capitalism?
Zero wages could bestow absolute competitiveness or capitalist high lordship reformist. The restoration would be ultimate and the ECB could vanish! Money would only be needed for speculation, free banks could exist like in the first feudal age and in the roman empire at its apex (Parguez 2005 Wray 1998). Herein lies the contradiction between orthodox economists ignoring money and assuming a perfect agrarian economy and reality of the past (Wray 1998 Parguez 2003)
It could be argued that there could be at least hope in the race to industrial and banking concentration in the Euro core. It could restore at last the best equivalent of old feudal great Lords. Modern historian spell out this competition between lords and the spontaneous tendency to concentration. The most "efficient" were those who were the more a washed with money and could thereby absorb the weakest. Concentration of power is not the least remedy to deflation and ultra exploitation. It just increases the absolute power of the capitalist rules exactly like in the thirties. As the domestic market shrinks and competition fo exports rises, building industrial or financial quasi monopolies is nothing but an effort to get rid of competitors. There is no more any doubt about the true agenda of the Union European institutions. Neither the ECB nor the European Commission do anything to stop this race to industrial and financial super firms. As Galbraith (2008) wrote: In a predator system predators are doomed to prey on their weaker members. It happened on an accelerating scale in the Monetary Union[32] as it happened in the thirties and it happened first in the first feudal age : European feudal capitalism is repeating history but it ignores the lessons of history . Soon there could be nobody to prey on for the great corporations. Like in Wagner "The twilight of gods" The gods would have no more options but either to disappear or to instore the most awful iron heel, an option Wotan rejected! Who could be sure that the super lords of Europe would act that wisely!

[32] This race to absorption of competitors within the Euro zone is especially the last bet of German firms. It reinforces the death of any possibility of counter power saving democracy (Parguez 2006)

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Yes we cannot

The dark deal of the European elites : the choice of accelerating poverty.
Beyond any economic logic, the economics of self destruction.

Alain Parguez* March 2011**

The paper has been written for the international post Keynesian conference at the University of Roskilde Denmark May 13-14 2011

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** As usual , I have to thank Olivier Giovannoni, Thomas Ferguson, Daniel Pichoud for the time they spend discussing with me. I am the sole responsible of the theoretical corpus, interpretations and data

.

"*Those who assume hypothesis as first principles to get the conclusion they wish may indeed form an ingenious romance but romance it will still be*" Roger Cotes preface to sir Isaac Newton Mathematical principles of natural philosophy second edition (in latin) 1713

Forewords : This contribution is a part of a work in progress on the true meaning of the General Theory of the Monetary Circuit. I intend to bring about the proof that it is indeed the general theory of the existing system, the capitalist society. Herein lies the dividing line between a general theory starting from the fundamental objective law, the monetary circuit, as the anchor or infra-structure of the system free from any tautological postulates and the so-called orthodox economies entirely anchored into the Smithian metaphysical and tautological notion of "Market with the invisible hand". As I will explain later the monetary circuit law has the same objectivity than the laws of nature emphasized by the natural philosophers of the XVIIth century and early XVIIIth from Descartes to Newton and Leibnitz. Compared to their masterworks, essentially Newton's Principia Mathematica, Adam Smith and his progeny are pre-scientific philosophers rejuvenating out of the quasi- theological concept of market the pre-ordained world of the great medieval theologians.

If I am right, the theory must explain both the capitalist system in its perfect form and its transformations or deformations over time when it becomes a burden or a parasite for society. Contrary to what had been postulated by the erstwhile french theory of regulation, this evolution is not the outcome of a determinist hegelian law of history. The general theory of course rejects the very notion of micro-economic foundations, in the post Smithian sense, of the state of the system. As I will show, the so-called microeconomics is itself purely tautological and pre-scientific : it postulates that society is already in a state of market general equilibrium. It does not mean at all that as Newton wrote: "Free will, choice, does not exist for actors within the system."

Herein starts the story of the absolute economic and social disaster which is engulfing Europe. I will address essentially the weird fate of the Euro-zone, led by France and Germany, and its quasi-colonial empire in southern Europe. The fate could be a total collapse, its impact on the world economy could be a "tsunami". Such a fate, worth of a Greek tragedy, had never been pre-ordained by the gods. It is the outcome of a set of disastrous choices made by the Franco-German ruling class which imposed an anti-Rooseveltian deal, a dark deal on the society. Nothing would have been possible without States long-run policies playing against the stability laws of the system, but States rulers were themselves key parts of the dark deal of the ruling class.

In a first part, I intend to describe the Euro-absolute disaster, France being the center of the earthquake that destroyed the very foundations of society. Contrary to what is told by State – sponsored economists, Germany is not in a better shape. I will explain that the exports miracle is both partly a statistical illusion and contribute for a very minor part to domestic employment. It will be the occasion to explain at last its origin.

In a second part, I shall explain the causes of the disaster: on one side a private capitalist system having transformed itself into a parasite-feudal organization, on the other side State rulers having provided capitalist rulers what they want while never striving to fight against their self-destroying deadly games. Thereby, it could bring on the frontline the true role of the Euro-system. Brussels and Frankfurt were "built" to help the ruling elites to protect them against the desperate reactions of a population having lost any hope.

Finally, I shall strive to make some sense of those deadly games. Yes, there is an ongoing war of policy with USA. Yes, we cannot bring you any hope, suffer in joy, herein is the medieval

if not Augustinian hymn of Euro rulers. Is there some deal, some dark deal, hidden in their agenda, Yes, as I will explain but such a deal is doomed, self-destroying, like all deals with the forces of darkness. It is beyond any economic logic, even a post-Smithian one. It could explain why German and mainly French economists are, when they do not openly sustain the dark deal, flying to the most obscure pseudo-mathematics which have nothing to do with Newton Principia Mathematica. Newton relied on "calculus" to express the laws of the natural system without any remnant of pre-scientific metaphysics. The so-praised French mathematical economics school is only relying on calculus to ignore or hide the reality. The very notion of pure economics is absurd !

First part: painting the Euro disaster, a true Jerôme Bosch painting :

In 2011, the Euro-situation seems worse than it was at the open of the first structural crisis of the thirties. The case of Germany since 1933 being quite special, an economy entirely betting on the total war and empire conquest the regime wished.
Let us emphasize the case of France.

France : a dying society

* An always accelerating effective unemployment.

* Accelerating drop in labour income paid in money.

* Collapse of standard of living and purchasing power of an overwhelming part of the people.

* A society surviving out of charity and outrageous over-indebtness of household.

*Collapse of hope. To the yes we cannot do anything for you of the ruling elites the population answers, yes we are lost; we have no future. To be crucified on the golden cross of the holy Euro has not yet been the root of a new gospel.

I- According to my estimations, at the apex of the first structural crisis in 1938, the rate of unemployment in France was 50% (Parguez, 2011 b). The French elites had rejected the Rooseveltian new deal , sustained a policy of deflation they fostered by their decisions to cut jobs and wages.
Today, 2011, the situation is worse as shown by Bliek and Parguez (2006), one needs first a definition of full-employment germane to the modern system. It is the state of the system meeting three fundamental rules.

Rule 1 : anyone wishing to work in order to get an income must get a job on normal circumstances : long term contract at least to be free of the permanent anguish of being fired at will and jettisoned like a used tool.

Rule 2 : Jobs must provide enough income to maintain a decent standard of living, an escape from rationing now and in the future.

Rule 3 : Jobs must fit the degree of knowledge and formation acquired, which could be deemed the rule of optimal utilisation of human capital.

My rules fit the definition Keynes had in mind especially in the famous chapter 24. It explains why true full-employment bestowing welfare and abolishing rationing did not exist either in Nazi Germany or in USSR.
Thereby, to account for effective violation of the full-employment principle, one must take care of all the situations violating those rules. They include registered unemployment, the legacy of social-therapy of unemployment invented by the Mitterrand regime, the worse being the charity income (R.S.A.) of 470 € bestowed on those who cannot find a job and are not more registered as unemployed and a lot of dire situations which were invented over time openly violating the three rules. I made an estimation for 2005 (Bliek and Parguez op cit). Recently I tried painfully to actualize the data for 2011 (Annexe I give details) of course, I confess that this last estimation contradicts data of the INSEE[1] and that it is just an approximation. Results are spelled out in table 1 .

Table 1

Variations of the effective degree of unemployment in % of the active population

1938	2005	March 2011
50%	34%	60%

II- During the thirties, money wages dropped but until 1935 prices of food fell . After 1933 they rose while money wages were still falling. Finally, the share of labour collapsed after 1935 with the mix of a drop in real wages and a strong rise in productivity.
Today , the situation seems to be worse !
It is the outcome of a set on complex mechanism :

- First, firms use to impose a drop in wages to the 40% normally employed. They substitute young workers or employees paid at low wages under non long-term contracts for old ones paid at much higher wages invoking the lack of experience. At the same time they use to fire old ones, below the legal age of retirement, for the lack of adjustment to modern management. It helped them to save much on pensions. Many ways to led seniors to accept have been invented by the so-called departments of human ressources. There are more authoritarian ways, to blackmail unions when they exist (Germany) to accept new collective agreements, using the ultimate weapon of going away to ultra low wages countries.

- For the remaining 60%, the drop in income has been much greater. What income are they earning , unemployment compensations for those officially registered. Charity RSA income of 470 € for those who can recieve it, half the minimum income (1 100 € net) for those working on short term contrats for 13 hours a week and less and for the destitute highly educated young people obliged to work on false probation while working 35 hours a week or more. As far as I know they are booked at some reservoir of perpetual students earning less than the RSA (460 € on average)

[1] Which is a State agency . Its published data are what the government wants or rather dares to recognize. I shall explain the origin of my estimations in Annex I.

- What achieves the final lack of labour is the fact that the French State has already de facto abrogated the special statute of public employees. Going further than the 10% cut of public employees income decreed by the government of Pierre Laval in 1935 the State no more hires public servants at the salary fitting the statute. For the sake of efficient management , it hires an increasing number of job seakers under quasi private contracts paid at the RSA level or a bit less . Thereby, the State while itself cutting employment is also cutting incomes[2].

III At the same time, effective inflation determining the cost of living is quite beyond the official core inflation rate of the ECB and the Finance ministry.
Contrary to what happened in the early thirties, food prices are rising because of two factors : European policy subsiding farmers out of high prices at the expense of consumers, mainly because of the cartel of the so-called "large distribution corporations" rents, utility prices (electricity, gaz), oil for car-users (taxes being the dominant factor of the price of oil), prices charged on cell phones users , prices of railways that have been unceasingly pushed upwards. The outcome has been the sharpest collapse of purchasing power since the early twenties of the XXth century. Even the population never trully benefitted from the famous imports of consumer goods from low wages countries. Domestic multi-national corporations sell those commodities to consumers at price so high, in euro, relative to the cost of production, that they reap enormous profits. In any case, the share of those commodities is quite insignificant in average household budget (10% being an extremly high approximation, 5% could be more sensible).

From I to III stems an empirical relationship which should forever help to get rid of any belief in the "Phillips curve".

In the Euro zone, the collapse of real labour income (a more general expression than real wages) and the collapse of employment have been twins.
The more money labour income fell , the more true inflation rose , the more true unemployment increased.
It is extremely painful for France and Germany to compute true inflation. According to some studies (still not published) by young public servants in various ministries (especially the finance minister) and personal inquiry, all starting from the study of simple family budgets , today it could reach 8% to 9% a year for France (it is expected to rise).

It is the obvious absolute denial of the Phillips curve and its progeny, it seems also true for USA. As shown by Parguez (2011 c) it has perfectly sensible theoretical foundation which shocked only those still believing in the Smithian mystic of markets.

IV- An obvious impact of I to III is the collapse of consumption on a scale possibly greater than in the thirties in France, even for the most basic needs. I confess again the absence of a sensible objective empirical study. My opinion is rooted into a lot of converging studies and observations (even by myself). The fact is not denied even by

[2] There is not yet any possibility of an estimation of the drop of labour incomes. We must rely on complex studies which are yet to be done. The enormous disguised unemployment seems the most important factor. The legal minimum wage will never be attained by this wretched share of the population. It fits the opinion that those "guaranteed income" or "charity income" suppress any restraint to abandon full employment by policy makers and private capitalists.

official economists paid by governments and banks alike, all agree of a negative variation of consumption, a genuine free fall of consumption is postponed by the explosion of household over-indebtness, I shall return to this question. Again one must rely of exhausting deductions from partial data (like the number of bankrupted household files dealt with by the Banque de France). The exact numbers are officially unknown : I would dare to make a guess.

> When debt is replacing income to maintain a minimum of consumption, the ratio of household debt to their income and to GDP should be the highest amid rich countries.

Herein lies a deep self-destroying process : in France , Germany, the Euro-zone household debt is led by misery.

Contrary to what happens in a capitalist system where long-run stable growth is maintained, debt is henceforth substituted for income and a large majority of household is de facto bankrupted. Instead of the virtuous process when the rise in debt generates the rise in income that would pay for financial commitments while sustaining the rise in consumption, the Euro-zone, the Franco – German model is possessed by the impish process : the vanishing labour income generates a rise in debt on a scale never realized, which maintains a minimum of consumption, which accelerates the race to labour purchasing power cuts between the private sector and the State. Officially the amount of household debt in France is unknown (or State secret) but, extrapolating the over-indebtness cases officially declared one may reach two conclusions :

> The ratio of debt to income is becoming the highest in rich countries, it is unsustainable, may be, in France the ratio of household debt to income should be around 200%.

The Bedazzling paradox is that while the irrational obsession of the public debt is haunting the elites, nobody amid them seems to worry about the drama of an over-indebtness of the population striving to escape poverty.
Nobody amid the ruling elites and their paid economists understands the connexion between efforts to reduce the public debt out of deflation and household over-indebtness.
Finally, what is today the society of mighty France and Germany but a society rotten by despair, horror of the future, having nothing to hope, despising its rulers but ignoring how to escape its fate !
Academics who ignore this tragedy bedevilled by their algebra are not "natural philosophers" Newton-like. They are in the best case metaphysicians "their ivory tower is rooted in hell"[3].

Second part: This Jerôme Bosch-like tragedy is the logical outcome of free but disastrous choices of the Franco-German ruling class.

This dark deal involves both the radical transformation of the private capitalist system and the deadly transformation of long-run State policies.

[3] I draw this beautiful quotation from the book of Jack London the "Iron Heel" p.13

At least since the inter war period the French capitalist sector was driven by motives which were in total contradiction with the long-run stability conditions of the system :

I- *To minimize, whatever the state of aggregate expected demand, wages, salaries (and pensions)* all the capitalists leaders dreamed of increasing profits out of an increasing cut in labour expenditures. Such an ultra-exploitation strategy required:

I-1 Long run cuts in employment out to a sharp rise in productivity. Such a race to productivity was engineered by progress in management which made french corporations champions relative to American and German ones (Parguez 2011 a,b).

I-2 Unceasing efforts to cut money wages and salaries. They strongly believed in the inverse relationship between profits and wages. "Fordism", high wages policy of Roosevelt were sheer horror for French and German capitalists. It means that they never wished to foster the growth of "workers consumption".

I-3 They always wished to get from the State subsidies in various forms including tax cuts, commands charged at the highest price, support to their high prices policy. Squeezing real labour income was looked at the sine qua non of high profits.

Together those policies were certainly largely the cause of the thirties'depression.

II- *This capitalism rooted into both eliminating labour and ultra-exploitation of remaining employment, what must be deemed feudal capitalism, <u>evolved towards a pure parasite system</u> at least since 1983 with the social therapy of unemployment.*

II 1 First, this strategy of elimination and ultra- exploitation of labour in both France and Germany was endorsed by governments. It became the anchor of the Euro-system. The more governments indulged into deflation, the more capitalists became convinced that they had to cut jobs and incomes while rising their prices to increase their profits. It was the time when governments and capitalists became twins. Such a confusion is now the essence of the Euro-zone. It never existed before on such a scale, but, in France, from the early twenties of the XXth century until 1944 and in Germany during the Nazi-regime. The difference between those early corporate States is shown by Table 2[4].

[4] For the sources, Parguez (2011 b) relying on Lacroix-Riz (2006) for France, Tooze (2006) for Nazi Germany and Parguez (2011 b) for modern Euro zone.

Table 2

Exploitation of labour in early corporate States and now.

France 1929-1944	Germany 1933-1939	France and Germany today Euro model
Sharp cut in wages rise in prices after 1935 dramatic cuts in employment enormous rise in productivity	sharp cuts in wages and salaries rise in jobs for Hitler's empire financed by the State no inflation until 1939 but rationing of consumption to meet labour income decrease	sharp cuts in wages and domestic employment plus inflation

II-2 The new Franco-German capitalism cannot ignore that its strategy imposes a long-run decrease in consumption (over-indebtness of household sinking into misery cannot be sustained).
It has been proven (Parguez 2011 c) relying on Keynes, Kalecki and empirical studies of Eisner and Giovannoni (2008 a b) that one of the objective laws of the modern capitalism system is the perfect endogeneity of investment relative to consumption and good State net expenditures. Thereby the flight from labour expenditures generates a flight from domestic productive investment in the Euro-zone. It means that private capitalism flies from borrowing to generate expenditures creating real wealth in the domestic economy. It explains why the ultra-quantitative easing policy by the ECB, indeed by domestic central banks controlling the ECB, would be useless.

III- *Herein could lie a deep paradox if not a dark mystery.*

Taking care of the objective laws embodied into the fundamental accounting identities of the monetary circuit. What could be the source of profits in this new stage of capitalism?

III- 1 The paradox is emphasized by table 3

Table 3

The dark mystery of the Euro-Franco- German capitalism

The fundamental profits identities.

π Agreggate profits including dividends, managers income.

I Domestic investment

C Domestic consumption out of income

W labour income

d_G State
net expenditures or
State deficit

d'_H Net rise in household debt

E Exports surplus

J Capital losses reflecting excess capacity

$$\pi = I + d'_H + d_G + E - J \quad (1)$$

with I and J depending on C and C depending on W in real terms

All terms take care of inflation which is entirely borne by wage –earners.

3-2 Since W is always dropping C must drop, d'_H cannot compensate.
Thereby I must drop and tend to zero.
J must rise
Since, as it will be shown d_G is tending towards zero or negative amounts, E being largely exogeneous.

π is to fall[5], ultimately depending on d_G which should vanish to comply with the Euro-system!

We are henceforth in a capitalist system which by its own will no more bets on profits out of a production and thereby of accumulation.

[5] Thereby, capitalist consumption out of the distribution of true profits is also to fall.

IV-*The solution is to be found mainly in a new definition of profits and partly expecially in Germany in delocalisation of exports.*

IV-1 In the new system capitalists account as profits what are pure capital gains, the rise in the market value of their financial assets acquired by borrowing to banks.

A/ The monetary circuit is still the core law of the new system but as a mode of accumulation of fictitious wealth generating fictitious profits, no more as a mode of production (Parguez , 2011 a). It requires the perfect complicity of banks and, indeed , in the new system former productive corporations and banks are interlaced by crossed shareholding !
Looking at Euro large corporations, like in Japan (Koo 2009), most of their assets are pure financial assets, including a large share of their own stocks. Former productive capitalists borrow money to banks not for real wealth creating expenditures but to acquire financial assets issued formerly by them (their own stock), or by other firms (the so-called merging), banks, financial institutions, real estate of any kind etc...
Banks grant those loans betting on future gigantic capital gains that will increase their own net wealth without limit. They are aware that the new money will automatically be spent into acquisition of those assets and push upwards their value, generating tsunami of speculation. Initial spenders could sell their assets with enormous capital gains, pay back their debt when banks want to be paid back. <u>To sustain the babel tower of paper profits, banks could prefer to postpone for a long tim repayment</u>.

B/ Within such a system, labour is no more useful. Firms have a strong incentive to get rid of it, which bestow on holders the certainty that they are so well managed that they are quasi free of costs and thereby on uncertainty shocks letting them with an excess labour capacity so great that firing it could be difficult and... not cheap.
Henceforth , the employment function of productive capitalism no more holds, as shown by table 4.

Table 4

Determinants of labour income or value

Normal productive system	Feudal-parasite system , the Franco-German model
The monetary circuit law generates real money	The monetary circuit law generates false money
W_t = labour income[6]	
$\bar{\pi}_t$ = long run expected or permanent flow of real profits in t	$\bar{\pi}$ is expected rise in capital gains inversely related tow positively related to r*. The rise in r* accelerates the drop in W Thereby W_t is doomed to fall
r* required rate of profit	
$W_t = \frac{1}{r^*} \bar{\pi}_t$	to sustain the rise in $\bar{\pi}$ while the required rise in r* requires a drop of the real wage relative to productivity
$\bar{\pi}$ is ultimately determined by consumption and State productive deficit (Eisner, 1960 Giovannoni&Parguez 2007) r* reflects uncertainty depends ultimately on fiscal policy (Parguez 2011 a) so that the higher the planned deficit, the lower is r* [7]	It enshrines thereby ultra Exploitation of labour. It is tantamount to a transfer to Capital of the surplus value generated by productivity. Thereby it can sustain the rise in the market value of financial assets

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[6] It is a dire fact that many center-left reformers of the Euro institutions do not understand. Were the ECB authorized to buy directly public debt, nothing will change as long as French and German rulers do not abjure their ideological pledge. The we cannot dogma explains the Euro-rules that were created to help its reenforcement.

[7] A full proof is brought about in Parguez 2011e. This proposition is both a theorem and a strong empirical truth.

In the feudal parasite system, the employment function is dead. It means than in its final phase the system ignores the "principle of effective demand". Capitalism has abandoned the real economy, as such the private sector becomes a burden, a pure source of waste of destruction of real ressources.

IV-2 The paradox of exports : the false German miracle.

It is true that German capitalism still earn real profits out of exports in equipment goods and more generally goods embodying very advanced technology. The problem is that amid "rich countries" Germany is just second to France for the labour deflation in jobs and wages. Thereby those profits out of exports contribute to nothing for saving domestic employment. The employment function does not hold.
The explanation is straightforward German corporations have heavily delocalised plants to Czesh republic. Slovakia, Hungary etc... benefitting from extremely low wages relative to their German level whatever its accelerated drop. Next, they import those commodities to Germany at production cost price and export them to France, southern Europe, USA, China etc... at much higher price.
An increasing share of exports are not produced in Germany.
Thereby out of those re-exporting they ripe enormous profits they invest in financial assets to enter the game of the race to capital gains.
German corporations enjoy quasi-monopoly prices because of what had been spent in the last years of the war by the Nazi regime bestowing on them so advanced technology that they could not be applied before a long delay. Gigantic profits accumulated during the Nazi era (Parguez 2011 b) were recycled into investment sustaining the technological advance.

V- *The destabilizing transformation of the State fostered by the Euro strait-jacked.*
It both endorses and accelerates the transformation of Euro capitalism into a feudal purely parasite system.

V-1 By its long run commitments to fiscal deflation for the sake of abolishing the State deficit and thereby meeting what became the Euro straitjacket, the State in each country abolished any obstacle to the quasi inbred tendency of capitalism to fly from the real economy.
It is true, especially in France, that deficits were permanent and rose so much that they had, like unemployment to be disguised. Various expenditures, mainly induced by the social therapy on unemployment, became off-budget . This lucky accounting became quite the rule under the Sarkozy regime.
Meanwhile , as already shown, those deficits were the perfect exemple of the worse deficits possible like in the thirties. Let us briefly emphasize what made those deficits so bad that, like in the thirties, their multiplier effect is strongly negative.

Table 5
The deficits of destruction
2003 - 2011 (see also Parguez 2011 d)
The making and unmaking of the Euro economy : The outcome of the yes we cannot alleviate your burden.

- They were not planned because more and more they were the unexpected outcome of policies aiming at their abolition.
- The deficit was never the outcome of long-run investment in the creation of real wealth including direct investment Roosevelt-like in labour.
- The deficit like in the thirties of the XXth in France was for a large share the impact of unexpected collapse in tax revenue because of the deflation. Such an impact being worsened by the total enslavement of the State to whimsical desires of corporate leaders leading to tax gifts, disguised subsidies etc...
- Another share was the rising burden cost of social therapy of unemployment.
- To those weirdly non-wished impacts the State answered by more cuts in productive expenditures.
- Ultimately, by the law of the monetarycircuit, those bad deficits raised real profits but those profits had not the least positive impact on employment. They were not included into the long run expected flow $\overline{\pi}$ and the total failure of the State increased so much uncertainty that the employment multiplier 1/r* collapsed.

We are led to the conclusion

Euro-core States had so much take the oath of imposing poverty on their real economy, an oath before the altars of unfettered capitalism, that their deficits reflected a break of their oath and suppressed any anchor of stability in the system.
Herein lies the explanation of the public debt panic. The market value of this debt collapsed (Parguez 2011 a).
Governments rulers took solace in this debt panic mania encouraged by the full privatization of public finance to justify more fiscal deflation. The Euro "Titanic" was sinking !

V-2 What got rid of the last obstacle to the lethal transformation of Euro-capitalism was, especially since 2004, the metamorphosis of the State into one of the most feudal parasite corporation. Wishing to be looked at the most efficient corporation, the State, mainly in France committed itself to a policy of slashing public employment while striving to squeeze State employees income, sometimes more than in the so-called private sector .
Herein lies the explanation of the pledge of the Sarkozy regime in France to detroy the public employment statute, a pledge that even the Vichy regime and the Nazi regime never wished to swear !
What is the impact : henceforth to be faithful to the full privatization of the State, a key part of the Euro gospel, euro-core governments <u>directly</u> contribute to the destruction of jobs and the drop in incomes.

Third part : In search of the dark deal which could be the clue to this eirie full commitment of Euro rulers to a dangerous and unstable system.

The Euro straitjacket, both the growth and stability pact and the rather mythical all powerful ECB, is not the clue. Both were created by France which bought the support of Germany (Bliek and Parguez 2007, 2009). Both exist as long as they reflect the will of France and Germany rulers, private and public alike.

I- Such a system is fundamentally instable and self-destroying : the flight from the real economy rooted into illimited creation of false money bereft of value generates a tendency to financial crisis destroying fictitious wealth. Balance-sheet of corporations and banks dispplay such a negative wealth that they could vanish. As I have already striven to explain, the collapse of the Babel tower built in Euro-land was the "revenge" of the fundamental objective laws of stability.
Thereby , the ruling Euro-elites cannot find solace in a new Versailles-model as the new "Sun King" surrounded by ubiquitous misery. At least Louis XIV could act to protect the absolutist feudal system while the Euro elites destroyed the anchor power of the State which dismantled itself for the sake of the Euro game.
In both core countries, fiscal policy destroys real wealth, the State has been transmogrified into a fiscal predator beyond what James Galbraight has imagined in his wonderful book (2008). It blesses ultra-exploitation of private labour while indulges itself into a worse exploitation of its own labour force. What explains charity income is not good will but the Marie-Antoinette fear of the desesperate mob. There is worse : Any kind of economic logic any concern for the objective laws of the system is henceforth rejected by the ruling elites, public and private.
In my contribution to the financial crisis in the Euro-zone (Parguez 2011 c), I brought about the proof that the so-called salvation plans imposed by Germany and France on southern Europe to save the Euro are to generate a total catastrophe that could achieve the destruction of the "temple", while being intrinsically a "hoax" , the plans, just to save the market-value of the debt issued by those States, are conditional : Portugal, Spain, Ireland, after Greece, have to take a solemn oath : unbound fiscal deflation in an already ruined real economy. Those who still praise the Euro should be aware that those countries are dealt with as if they were South-american backwards countries in the XIX e century or during the big stick T. Roosevelt era. I studied some of those plans before 1914, conditions were most benevolent than now in the Euor-zone !
Is there any reminant of logic?
Obviously, NO, and for three fundamental reasons :

I-1 French and German rulers pretend to fight panic-mania horror of the public debt. Capitulating or surrendering to all-powerful banks just abolish any restraint to speculation.
I-2 They do not seem aware that fiscal deflation would destroy so much what remains of purchasing power that exports to those countries from Germany (and France) are to collapse since no exchange rate adjustment is possible. Soon what would remain of Germany customers?!
I-3 At last, there could be a hidden dream : Those countries, having proven their "virtue" will attract enough capital inflow from everywhere that they could import more, domestic production having vanished. Herein was the way England banks dealt with Argentina and Chile in the XIXth century.

Like those Countries. Southern Euro-zone would have to sell all public assets to foreign Banks? The example of Greece dismissed this dream . The Greeks had to sell public assets to Chinese investors, south-Korean ones , etc...
In any case, those countries are to lose what remained of their sovereignty if not dignity. The French and the German banks, sharing avidity for capital gains and fear of losses, being that reluctant, southern Europe, overflowed by financial investments from Asia, could fall away from the Euro-core. Soon they could be tempted to get rid of the Euro.

II- Since the neo-Versailles or neo-colonial model is not the clue , is there another clue to the dark deal of the European elites or are they simply either beyond any reason or enthralled to a pre-scientific, pre-Newtorian, quasi religious ideology?
Obviously, there could be a clue fitting the history of French and German capitalism but mainly the strange economics of the ruling elites, what I deemed dictatorial liberalism or rather corporate neo-absolutism, quite foreign to the conventional economics of American elites. It is one dangerous progeny of the Smithian pre-scientific market metaphor.
I spelled out its key postulates in Parguez and Bliek (2006), Parguez (2008). Contrary to the American version of market economics, it embodies the most reactionary beliefs of the pre-scientific age. It can be summed up by five postulates evoking an eirie agrarian system :

II-1 The rule of the market must be imposed by a strong remorseless iron hand forcing the mythical Walrasian general equilibrium on society. Only the corporate State may get enough strength to attain this goal as long as it is itself protected by a set of supreme rules forbidding any doubt.
II-2 The system resulting from this dictatorship enlightened and enforced by the norms has nothing to do with a happy welfare-state of the population. High unemployment, inflation are required to impose enough poverty generating a collapse of the share of income going to labour, bestowing the required collapse of consumption freeing real ressources for accumulation out of forced savings embodied into profits.
II-3 The State as the agency of enforcement must be remorseless in destroying all obstacles to the supreme power of the capitalist class including intellectual "resistance"[8].
II-4 II-1 to II-2 allow some creation of a new people ready to work for Ricardian wages at the early XIXth level of subsistence. Herein is quite possibly the secret dark deal or pact of the Euro-elites.
II-5 In the pre-war period, gold standard was the incarnation of the iron hand. Today, it must be its avatar, the Euro.

Herein lies the core of Euro-economics since the start. While Isaac Newton as master of the mint, wrote "that the currency is strong if it brought about wealth for all", Euro founding fathers believed the contrary : To be strong the currency required ubiquitous poverty until some final day of atonement. European economists , French and German, being foreign to the american ideal of true liberty and free choice, were ready to embark into their restoration. In my paper on the history of the Euro, I support this dire conclusion with many examples.

Now one could have the clue. Perpetuating the poverty agenda, the population could be so horrified by its fate, that young middle-age men and women, seniors will accept to work

[8] It is striking for France. As the State metamorphosed itself into an agency of parasite capitalism, all intellectual life vanished. Instead of Malraux ,Sartre, Simone de Beauvoir, etc…we have paid pseudo-intellectuals worse than those Louis XIV was fond of.

under harshness for misery incomes. France and Germany would become the capitalist paradise, a quasi-slave economy, the super-China of the future. It could generate a cornucopia of profits out of unbound exports. Domestic investment supplemented by a tsunami of foreign investment from everywhere including China would respond to this illimited expected exports, the export-accelerator would be substitued for the consumption –one.
Unemployment , true and false would vanish like in southern China today but at the cost of misery and quasi-enslavement.

III- Such a deal is indeed dark and malevolent , could it succeed and maintain that slave-capitalism system worth of the Dickens era, Marx had in mind, if not worse !
I dare to doubt this success, the system would be self-destroying more than ever and lead to a world catastrophe.

III-1 First, how could such a system be imposed to a population having nothing to hope now and in the future. Sooner or later the rising poverty would require a totalitarian distatorship with other weapons than the preach of the Euro wardens. Having cut army and police, the french State , the most advanced in this path would have to rely on internet and media controls , weapons that the Chinese regime cannot impose. Some fourth Reich for the sake of the Euro would engineer , were it possible, the outcome must be a world wide scandal and discredit the Euro for ever.

III-2 Abstracting from the social impossibility that backwards new order would be quickly self-destroying for pure economic reasons.

III-2- 1 The enormous inflow of capital would push the Euro to the stars, generating such a rise in prices of commodities produced in the Euro-zone relative to their level elsewhere, that either exports would collapse or more cuts in wages would be required making them falling below the subsistence level. Productivity of such a mass of destitute workers could fall to zero preventing any new rise in output.

III-2-2 Herein lies a crucial obstacle : in the course of time, everlasting cuts in public expenditures would have an impact on education and productivity . Euro zone would be unable to restore the third Reich strategy which invested amazing sums of money in technology research , education. An Albert Speer strategy requires to take bets on a war for empire. It is inconsistent with the privatization and dimantling of the States. What could the Euro zone of the future export, so as to be awash with profits?!

III-2-3 At last there would be reactions in the rest of the world in terms of tarifs, quotas, depreciation of the currency ...exactly what is invoked against China.
Finally, lacking of buyers , the system would collapse but meanwhile the worse reactions can be feared.

In guise of conclusion : From this study, I draw three propositions which tally perfectly with my forewords.
The first is that it is impossible to escape from the Euro tragedy simply by changing the statute of the ECB authorizing the issue of Euro-bonds endorsed by the ECB etc...
Meanwhile, there is not the least reason for countries like Denemark to submit themselves to the “folly” of core countries.
The second is that I was perfectly right to qualify the Euro as “false money against the real economy” (Parguez 1998). Being for an increasing share issued to finance non real-

wealth creating expenditures , the Euro is indeed what I deemed a money deprived of any extrinsic value, a false money. There is worse taking care on its enabling strait-jacket, the Euro enshrines the destruction of the real economy.
It is the straightforward proof that by revelling on money bereft of value, the wardens of sound finance rely on inflation, which they cannot understand. Such an unlimited creation of false money in the twin of the prices inflation I emphasized!
The third is that Euro elites revel truly into a dark deal , a deal against their own people, leading to a self-destroying system. This dark deal is revealing the ignorance of the objective laws of the capitalist system, it is doomed. It could explain why official economists are that shocked by the objective theory of the monetary circuit!

ANNEX I

Unemployment in France

-Unemployed	3 500 000
- Recipients of charity income by the State RSA of whom 60% get the so-called anchor rate of 470 euros. 40% receiving the difference between the minimum wage 1100 € and their wage.	5 000 000
-Those forced to work less than 15 H a week and not benefiting from the RSA	3 000 000
False probationers paid much below the minimum wage average 500 euros per month	2 000 000
- Never employed below 25 years old (0 income)	1 500 000
- Others; forced retirements, part time employees...	2 000 000

Cautious total 16 millions (waste of labour) on a potentially active population of 27 millions; 60% waste It was 38% in 2006!!!

So France and Europe (Germany is not in better shape; its exports surplus does not benefit enough to domestic employment) is near disaster and with a rate of effective unemployment close to its pre-war level, the worse is to be expected.

Note:
In effectively unemployed, no job , no RSA, I account 1 million for those who were suppressed for the most eirie motives and get no income at all hence my difference with INSEE data.

"Official" State deficit: 7% of GDP

Estimation of ultra over indebtedness of household around 200% of available income of which 120-130% of household earning less than 2000€ per month; most is contracted at Shylockian conditions with a lot of financial institutions playing the role of banks but not officially registered banks.

Sources : Various non-published studies by experts asking for anonymity and personal studies on various and sometimes not very consistent data.

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Out of the Euro strait-jacket
The economics of a Man-made catastrophe
The true nature of the Euro zone crisis and how to escape from the race to the abyss

(To be published in ROKE the review of Keynesian economics)

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* Paper written end of 2012 to be published in the review of Keynesian economics (2013). It ows much to debates with Riccardo Bellofiore, Thomas Ferguson, Warren Mosler, Daniel Pichoud, Louis-Philippe Rochon, Slim Thabet, Bernard Vallageas, Alexandre Wolff, Paolo Barnard and militants of MMT

Introduction : The Euro crisis : an extraordinary event.

It never happened in the past, it has nothing in common either with the 2008 financial crisis, it is not a mere financial crisis. It is not a Minsky moment (Bellofiore and Halevi 2010), it has nothing in common with the early thirties world crisis of the XXe century not only because of its greater and accelerating magnitude but because it is the final outcome of a free choice, the creation of the European Monetary Union (EMU). It reveals the end of the capitalist mode of production, not because of some excess accumulation of capital but because of the flight from production and real accumulation. Governments are only interested into the banks panic, they do not seem to understand that it is the veil of the new economic system, a pure rentier economy driven by speculation which is itself driven by the death of the real economy. Did they expect the catastrophe when the EMU was imposed? If the answer is *yes,* what did the Euro founding fathers have in mind?

In a first part, I shall emphasize this singularity of the Euro crisis relative to other crises. In a second part, I shall prove that it is the logical outcome of the Euro which was not just a single currency but a new economic, political, social order planned a long time ago. Determinism here is perfect, the crisis was enshrined into the Euro. Herein lies the answer to the question : *Yes*. Euro creators had in mind through their new order, the transmogrification of Europe into a super China to enjoy outrageous trade surpluses thanks to ultra-competitiveness. In a last part, since the fragility of the new order is unsustainable, it is doomsday for Europe with catastrophic impact on the rest of the world, there is a sole salvation road for any member, it has to decide unilateraly to get rid of a currency which is a killing iron-heel. Contrary to the dogma of the ruling elites, there will be no catastrophe, it could even be the time of reconstruction of a new Europe without an iron-heel supra-national currency. I shall prove that a pro-people "Keynesian" Euro is an absolute impossibility like a church without a revealed god.

First part : The singularity of the Euro zone crisis, an event which should not have happened!

I. For the last four or five years, the ruling elite of the Eurozone, governments and European institutions alive are only concerned by the expected bankrupcy of the largest banks. Why? Because banks never stopped to invoke their imminent bankrupcy that should be caused by member States own bankrupcy, which means their impossibility to pay back their debt, an outcome of their scandalous over-indebtness caused by their profligacy.

Nobody seems aware that first the so-called infamous public debt is just a relatively tiny share of aggregate banks assets (around 5 to 6%) for the largest French and German banks leading the crusade) and second that, at the time of the gold standard, public debt was the preferred assets of banks even for debts issued by country like Imperial Russia and Greece which financed 80 to 90% of their expenditures by foreign banks loans.

Banks managers are not the least concerned by household overindebtness no more than they mention their enormous losses on loans financing the derivatives markets.

Thereby EMU is rooted by a sheer horror of the public debt itself which has become the bad asset. Better to acquire fictitious assets by lending to private speculators than to acquire public debt.

Herein lies a crucial aspect of the EMU : The absolute horror of the State, much stronger than during the gold standard year. From this weird obsession, stem two propositions :

- The Euro crisis is certainly not a "Minsky moment" because Minsky never addressed a panic resulting from an horror of the State

- It is not true that Euro order is embodying neo-liberal principles. It reflects rather some weird archeo-liberalism, the one reflecting Hayekian ideology.

II. Beyond the veil of their Hayekian quasi- psychotic horror, there is the accelerating collapse of the real economy : relative to this catastrophe, governments display a stunning serendipity at least when they address their population. They do not show any reluctance in their manipulation of statistics. They just strive to hide the magnitude of the catastrophe. I shall rely on three crucial aspects of the real economy : the effective rate of unemployment (ERU), the effective rate of growth (ERG), the effective rate of inflation (ERI).

II-1 The ERU: I invented this concept (Parguez and Bliek, 2006, 2007) to take care of the inceasing efforts of governments to invent disguised cases of unemployment since the late seventies and early thirties of the XXe century. France being the champion in this race to hide the bottomless vanishing of employment. To get an accurate measure of the ERU one must rely on the share of labour force holders who, against their will, cannot find a job granting them an income high enough to escape sheer rationing, equal or even below the subsistance level. Thereby ERU includes registered unemployed people, plus all those forced to survive on "social incomes" barely or below the subsistance level (taking care of true inflation), plus an always increasing number of disguised unemployed people.

In 2006, for France (Parguez and Bliek op cit) the ERU was around 36% of the active population. In 2013, I may compute a rate of around 60% and all sensible expectations allow to put forth the proposition which would have stunned Marx and Keynes.

France is locked into a tendency towards a quasi zero unemployment!

Germany is just a little in a better situation. Southern Europe including Italy are in a worse situation[1].

Thereby, for France in 2013 the ERU is far above its level of 1938 when it reached its maximum during the thirties collapse (Parguez 2011).

II-2 By ERG, I mean a measure of real growth of the production of commodities whatever much germane to compute the real collapse than the official GDP. To get this estimation one must rely on the production identity.

$$y = AL \qquad 1$$

[1] For my 2006 evaluation I relied on a compilation of data from a multitude of sources. For 2013 I strived, starting from 2006 data, to compute an average multiplier based on data from charity income holders officially registered as unemployed. It is certainly a gross under evaluation.

where L is the labour force integrated into production, A the real value creation potential of labour and y the aggregate real wealth created measured in labour value[2].

Since in six years on the average the rate of use of L has fallen by at least 24% while A is, in the best case constant (if not dropping see annex I) , the rate of growth has more and more fallen and must be now strongly negative. Thereby y on the average has dropped. Relative to the quasi full-employment of the early sixties and seventies of the XXe century, real production or creation of real wealth has fallen in 2013 by around 60%, more than during the thirties for
France (Parguez op cit)[3].

II-3 One of the major differences between the Euro crisis and the thirties is that instead of a strong drop in prices, there has been an accelerating inflation which from the last five or six years in the core countries has been around 7 or 8% a year[4]. Herein lies the best proof of the inexistence of a trade-off : it has been replaced by an anti-Philipps curve : The more real output is falling, the more true employment vanishes, the highest is the effective rate of inflation.

Together those three anomalies reveal the unchecked decline in welfare of the Euro-zone population, excepting a tiny class of rentier capitalists and technocrats.

II-4 There is an ultimate paradox, the perfect proof of the anomaly of the Euro crisis. It must be spelled out by the following twin mysteries :

A. Why did the bottomless collapse of the real economy have not yet triggered a genuine collapse of banks balance-sheet? Why banks net-worth has been maintained and is still rising? The following diagram 1 illustrates the mystery...

	Banks net worth		Real economy		Inflation
early thirties of the XXth century	collapse	→	collapse	→	prices deflation
Euro-crisis	not the least collapse but imaginary	→	collapse	→	strong prices inflation

B. Why instead of a Rooselvetian-like New-Deal, all governments; reacted to the race to death of real economies by a race to accelerating real deflation generating a cumulative process of negative growth (Bougrine 2012)? Euronomics is much more anti-Keynesian

[2] It means that the official GDP is not an accurate basis. It gives an overvaluation of growth.
[3] It is why I reject the cautious concept of great recession used by conventional heterodox and mainstream economists alike. Why do they never use the word "crisis", because Recession, refers to a cyclical auto-stabilizing vision. Sooner or later we will return to "the trend".
[4] I compute this average for France relying on various data ignored by the European central bank core inflation Jorge Bibow it reaching for Germany the same result (2011)

than the most orthodox neo-classical mainstream in the thirties! Why such an absolute rejection of the lessons of history? It is obviously related to the religious horror of State deficits, and of the State itself which did not exist before. At he apex of the gold standard, using modern way of computing States deficits, all European powers were running relatively large deficits and never strived to fall into the anti-deficit obsession.

Second part : What explains those anomalies, the Euro itself

I- One cannot unravel the mystery of the Eurozone drop into the abyss if one does not discover the true nature of the monetary union. It was never implemented as an ad hoc last resort effort to save the European ideal. It was never imposed in a Mundellian spirit to bring welfare by abolishing transaction costs and uncertainty relative to exchange-rates . It enshrined a totalitarian new economic political and social order rooted into the economics and social philosophy of Hayek (Parguez 1999, 2009). It was the ultimate phase of a plan which started a long time ago whose authors, all of them (or most) were French. They strived to imagine the best way to transform Austrian ideology into an order, both sustainable and eternal.

I- 1 Euro anomaly comes from another universe than the modern world. It reveals some alien civilization, the return of a forgotten past, the ultimate Austrian conception of the world of his French apostles from Perroux (1943), Monnet, Rueff (1945, 1958) and later, during the reign of François Mitterrand, Attali (Parguez and Blieck op cit, Parguez op cit) and Delors they wanted to transform an abstract vision of another world into a viable system, at least it was their hope.

A- The core concept of Austrian socio-political philosophy was the "natural - transcendental Order" embodying the supreme laws of reason. Reason itself was "incarnated" into the "market laws". Hayek rejected the narrow rationalism of neo-classical economics he looked at a pure tautology. The individual was not spontaneously rational, he will strive to escape the implacable fate of the Order-incarnated. Herein lies the four rules of the order.

1. First, all obstacles to market laws, all efforts to escape the Fate decrees, are to be abolished by a set of institutions requiring the abolition of the modern democratic State.

2. The State is to be replaced by Wardens enjoying absolute power to impose obedience to the laws.

3. In a society reconstructed as a rigid hierarchy, not the least equality is promised, there will be a fierce competition allowing that only the most able will survive and ripe the surplus. Austrians never believed in the perfect competion of neo-classical economics. They mixed their transcendental dream of perfection with some ultra-Darwinian philosophy. No help, no charity, no solidarity here are the commandments of the Order.

4. There remained a question : how to destroy the modern State? By depriving it of any freedom in its capacity to spend! How, by abolishing the State monetary power, the currency should become a supra-national currency ! Herein lies the "raison d'être" , the Existential condition of the monetary union!

5. Without the efforts of a team of french economics and technocrats, never would Hayek's political philosophy have been transformed into a new reality. It explains that the Euro order was ultimately a creation of the french Elites ! (Parguez 1999, 2002)

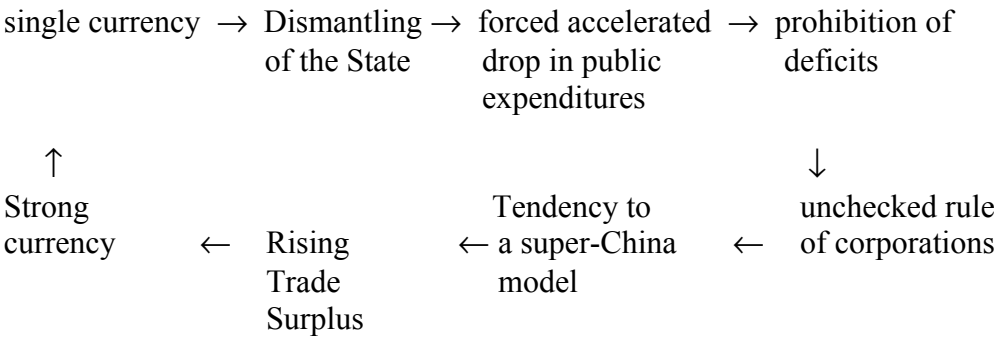
How could we explain that the Hayekian anomaly became the cornerstone of the EMU ? Four reasons explain this incarnation.

A- At the inception was the dream of an integrated European economy, at least between France and Germany (Bellofiore and Halevi op cit)

B- Early Europeans from Perroux to Delors were a weird mix of ultra-reactionary ideology hating socialism in all its aspects[5], but also the "decadent American consumerist" society. In their search of perfection, there was the search for power, the ultra-capitalist society. What is the proof of power, it is to become the most competitive economy able to exact a surplus of exports out of the rest of the world.

C- What was required? To build in Europe an Hayekian order out of a supra-national currency imposing the debasement of the State, its unchecked dismantling thanks to a perfect rationing of money.

D- Henceforth, one may understand the deep logic of the euronomics, it is illustrated by diagram 2.



II- The anomaly explains the coexistence of a collapse of the real economy and the threat of a financial panic caused by the public debt. It also explains why governments ignore the real economic and social disaster !

II-1 Since the late seventies of the XXth century, all governments, the French being leading[6] governments started to impose permanent fiscal policy targeting a real deflation they looked as necessary to extirpate the seeds of false growth and false employment (Bougrine op cit, Calcogno, 2012 Parguez 2010). To justify their addiction to deflation they targeted ultimately full balanced budget if not a surplus. The race to real deflation became EMU core principle, no limit was maintained to true unemployment, rising poverty.

[5] Thereby they rejected the republican -democratic State

[6] Parguez (1999) It has been argued that this choice reflected the failure of "Keynesian policies" I never understood what "Keynesian policies" and what failure were targeted? At least for the French regulation school (of which Robert Boyer was the prophet) the answer was honest; too high wages, too low a rate of profit (Parguez and Bliek 2007)

In some way, in the name of the future glory one must destroy the existing reality to start from zero and attain perfection. Herein lies the apocalyptic quasi-religious nature of euroeconomics foreign to academic neo-classical orthodoxy. The will to create a new people for the future renouncing any hope of a better welfare, the triumph of this European neo-imperialism : exports are the sole proof of the perfection domestic economy is irrelevant. Lenin has written "imperialism as the supreme goal of capitalism" what is euronomics but imperialism as the supreme goal of poverty-led decadent capitalism.

II-2 Why did this "greatest resurrected Europe plan" derail ? Herein enters the tragedy, the so-called banking crisis which had never been expected ! The "crisis' is the outcome of a total ignorance or rejection of fundamental macro-economic laws (Parguez 2010 op cit). Euro creators were so much blinded by their fanatical anti-keynesianism and misunderstanding of the role of money, that they could not imagine that in their anomaly their policies of salvation out of destruction would have a disastrous impact on a banking system henceforth out of control. One could even go further : what they had in mind was some neo-agrarian economy, euro being the super gold-standard (Parguez, 1999), in which the scarcity principles rules and finally money is just a "veil".

Meanwhile the whole dismantling process of the State relied on three postulates :

A-. The State has to finance its expenditures out of taxes and the sale of bonds to private banks.

B-. Bonds issue are to be privatized : banks will grant loans to the State as if it were a private corporation and worse a corporation never creating real wealth. Nobody understood at that time amid lay-people that the privatisation of the State was the ultimate supreme dream enshrined into the new Order.

C-. The State cannot create real wealth, when it borrows to banks, it is diverting savings since banks cannot create money, they recycle savings. Thereby automatically the anomaly would tend towards zero deficits and the share of the public debt in banks assets is to drop. Limits imposed by the Euro strait-jacket must be automatically met. It is nothing but a warning to banks, ration the State ! Let it die!

A and B are a gross misunderstanding proving that neo-Hayekians ignored time and had still faith into some general equilibrium vision where everything is instantaneous, where there can be no delay between expenditures and revenue both for State and firms (like early Austrians themselves) [7]. It should be obvious that, like firms , the State cannot undertake its expenditures by spending its tax revenue or what banks want to lend to it (Parguez 2002). The State is obliged first to spend out of loans granted by banks, next to get its tax revenue. Under the new order, having lost any connexion with the Central Bank, the State is obliged to beg money to banks which impose their credit worthiness conditions harshest that the woprst Ponzi-like speculators.

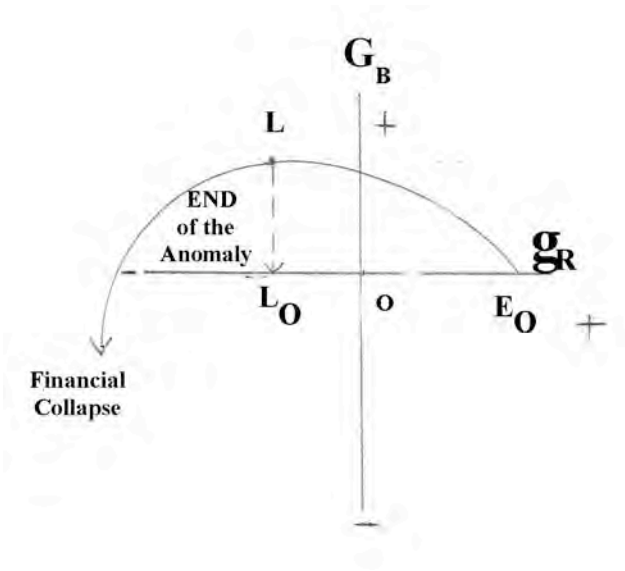
II- 3 Banks did not ration States because as real deflation became more and more drastic, private borrowers started to fly from production expenditures and became more and more reluctant to ask for loans. Because of this shortage of new borrowers for productive expenditures, banks had only two alternatives to rise their net-worth : loans to pure private

[7] It is true that Hayek rejected Walrasian general equilibrium models but time never enters his theory , instantaneity rules.

speculation and loans to the State. Loans to States raise hopes of more net wealth, States being deprived of any power except on their people and despised. They could always exact tributes out of their population like Louis XIV.

Euro creators had such an ignorance of macroeconomics that they could not imagine that continuous real deflation would generate ex-post non planned and forced deficits.Thereby banks had to accumulate State liabilities whatever their doubts on their real value. They forced States to transform those liabitities into bonds bearing interest. Contrary to what happen in a normal dynamic capitalist system (Parguez 2009 b), banks ruled, they impose both the quantity of new bonds, the terms of reimbursement and the rate of interest.

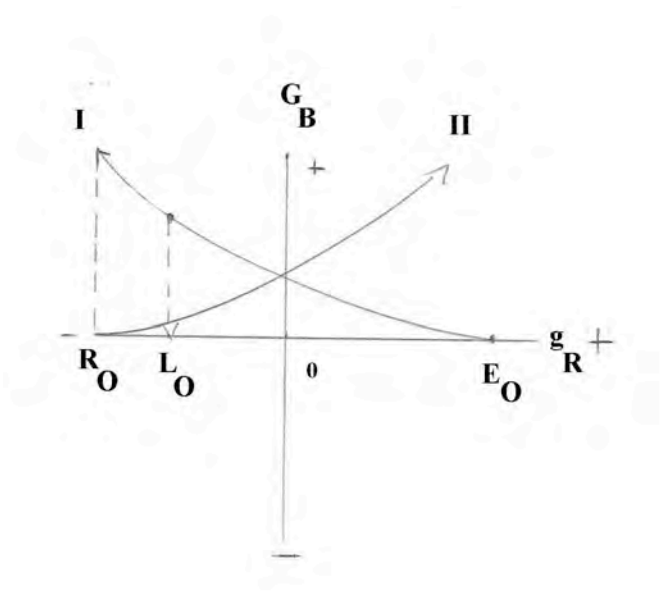
II-4 The State having lost any privilege, banks being aware that public bonds had not for counterpart the creation of real wealth, the value of public bonds became ruled by pure speculation on the ability of the States to pay interest and reimburse at the required time. The market -value of public bonds became entirely dependent on their future scarcity, thereby on the final success of real deflation in abolishing deficits out of an unchecked fall in expenditures. Banks net-worth was a bet on the ultimate victory over basic macro-economic laws. Herein is the origin of the ultimate anomaly of the perverse value-cycle which is today the essentia of the Euro-system. It is illustrated by diagram 3.



E_0 is the start of real deflation targeting the Euro creation. g_R is the real rate of growth. G_B the rate of growth of banks net-worth. Real deflation lowers g_R until it becomes negative, which generates positive expectations for banks relative to the growth of their net-worth out of plus-value on their assets in public bonds and interest rate exacted from the State . This I curve is indeed from another universe. It explains the paradox of the obsession of governments with deflation. Real deflation, negative g_R, sustains buoyant expectations of banks, until some limit L when the contradiction becomes unsustainable. Finally governments reinforce unceasingly the perverse speculation : as soon as banks invoke the threat of bankrupcy, the very existence of the Euro is jeopardized. Governments respond by more real deflation, generating more "bad deficits", more panic of future bankrupcy, more real deflation etc .
To be honest, even Hayek would have been stunned !

Third part : Ultimately Diagram 3 illustrates the reality of the Euro order, the substitution of a decadent rentier-parasite system to a dynamic system targeting full-employment in the braoadest sense.

The transmogrification has been achieved by the new "fiscal compact pact" imposed by France and Germany (end 2012)[8]. It reveals some desperate effort to freeze time, abolish forever the laws of normality to maintain society in situation L or to attain a curve I always rising in diagram 3. Financial fragility is still only explained by doubts over the State capacity to reimburse and pay interest. Since those doubts should be caused by a lack of true and unchecked austerity, the pact imposes the worse straight-jacket, abolishing simultaneously any hope of restoring some welfare and democracy. All is now ready for the ultimate Armageddon, the creation of the new super- imperialist Europe, the super-China only motivated by the conquest of market. In Parguez (2011 b) I qualified this obsession of neo-imperialism sustained by barely subsistance labour-cost lower, as the super-China dark deal of European elites both in Germany and France. The paradox is that the new imperialists know nothing about China but what people magazine say. It means that no members of the EMU should get a trade deficit and that a whole the new Europa should exact an increasing surplus out the rest of the world. This weird project is illustrated by diagram 4.



In L , thanks to the supreme pact, I curve starts to become exponential, while II, the real curve starts to rise from R because real deflation to death has -at last- created the existential condition of neo- imperialism. Herein should lie the start of the salvation of the Euro-project.

To defeat the law of economics, the pact has a twin aspect.

III-1 Deflation to death all States pledge to do any effort to maintain permanently a zero deficit whatever the real situation of the economy, by accelerating the speed of the drop of their expenditures and raising taxes on household.
Finally expenditures will be just equal to the reimbursement of accumulated debt plus interest and pure "regalians costs", the cost of public order. Since payments to banks are exogeneous,

[8] A dangerous myth is that Germany is the evil in this Euro garden. It could do nothing without the full support of french governments. France created the new order, and the hypocrisy of its elite saves it !

public order is to be maintained by the lowest possible costs , including charity incomes and mainly ubiquitous feeling of despair amid the people!.

Public employment is to vanish, public services are to be privatized. Social , education, research, expenditures are also to vanish whatever the disastrous human impact. The quality of teaching collapses. Universities and the so-called Great Schools are only tools of brain-washing and a new way of hiding true unemployment.

No new public debt will be issued ; thereby in the long run aggregate public debt is to fall to zero, a situation that never existed !

It could be argued that there are three loopholes in the strait-jacket, the lethal iron-heel of Jack London prophetic book.

A. Some argue that, especially in France, there could be a strong balanced multiplier effect because the French version operates some transfer from the poor to the rich and subsidize industry. It has been proven (Parguez 2003), that the balanced budget multiplier is always strongly negative because it leads to a collapse of consumption. The distribution effect is sheer illusion since the pact operates a transfer of taxes from firms to household, especially by transferring social contributions from firms to all the working force[9]. In any case, this transfer is a proof of the neo-imperialism of the Euro zone. Domestic economy no more matters. Industry must only target net exports out of an unchecked drop of labour-cost. The famous transfer is the strongest form of subsidy of firms by the labour force (see Annex I).

B. What is targeted is only the so-called structural deficits. The deficit which exist when the economy is on its potential growth trend. It is sheer hypocrisy because there is no objective definition of this trend germane to the normal system. It is the sustainable full use of "production factors", the very one consistent with the stability of the euro and thereby of its financial banking infrastructure . Abstraction of the fact that it relies on a neo-classical production function, after thirty years of real deflation, there has been such a destruction of production factors that real effective growth, while negative reflects the potential growth. Thereby the so-called structural deficit is identical to effective deficits. There is more, since the negative effective rate of growth g_R (diagram 3) is required to protect banks net-worth and the Euro itself, it is the only one which is sustainable.

C. The pact includes some strange mechanism of aid to the most indebted countries. One could have dreamed that it would involve the European central bank lending directly money to those poorest States. The answer is no!
One could have expected some automatic recycling of German surpluses, again No!
The principle is that richest countries should issue bonds sold to banks, which rises their public debt. Proceeds are to be borrowed by poorest countries which spend them to repay a share of their own debt. Now, they become indebted to initial lenders and forced to savage real deflation to sustain the value of their liabilities, efforts monitored by the Commission !
It raises the question of the very role of the European central bank !
It gives a clue to the anomaly which is the Euro-system. It gives absolute power to banks which create money for themselves. They finance their own net-worth !
For the first time in history, banks, the so-called financial markets, are fully independent from real welfare.

[9] For the sake of imperialist war to exact net exports. This transfer implies a strong drop in labour-cost reinforcing the fall in labour income caused by free unemployment.

The disaster threshold L_0 (diagram 3) could be abolished !
It reveals the obvious fact that the so-called all-powerfull ECB is some useless monarch (Parguez 2010).

III-2 A genuine authoritarian fiscal policy achieving the demise of the State.

Some pro-Euro reformers want a true quasi-federal fiscal policy allowing to escape from the race to a neo-Malthusian trap.
They miss that fiscal policy is already perfectly harmonized, it is eaxctly the underlying dream of the consolidation pact. Harmonisation is strictly monitored by the devolution of States functions to non-elected technocratic institutions, which was the proof of perfection of the new order fo all his founding fathers, especially Perroux (1943).
The fiscal compact blue-print was the institutional frame work of the new currency spelled out as soon as 1943 by the ultra-Hayekian and staunch anti-Keynesian french economist, François Perroux (Parguez op cit). Perroux explictly wished to get rid once for all of the modern State, the rule of ignorance, by devolving absolute power to a hierarchy of scientists, technocrats in modern parlance, entirely devoted to the mission of restoring scarcity and transforming Europe of the future into the mightest imperialist power. There will be no place for the weak in the new order. It is exactly what is the underlying ideology, sacred mission of the new pact :

A. Having already lost their monetary power, States have lost fiscal policy and thereby social policy in the broadest sense.

B. Budgets have to be drafted, applied, monitored by - like in France - a supreme independent fiscal authority enjoying absolute power to cut without debates expenditures if a deficit appears . Ultimately all budgets should be monitored or voted by the European commission.
Democracy inherited from the enlightened age will be dead for ever.

C. This dictatorship will be sustained by a rigid and totalitarian ideology worth of a true new religion.

In this totalitarian brave new world, abolition of deficits and public debt, surrendering all powers to technocrats believing, like new inquisitors, in the new religion restoring a world that never existed, all those dogma coming from another universe are to be beyond debate !
To call "the single thought" the totalitarian Euro ideology is to be too kind.
It should be deemed the age of non-thinking !
One may thereby draw the conclusion:

Thanks to the Euro, the State has been metamorphosed into a pure predator restoring some new command. economy relying on increasing poverty and hate of the future.

III- 3 From this conclusion, one is obliged to look at the Euro-system as an age of ubiquitous decadence ultimately relying on an absolute horror of the future, the will to restore a competitiveness which is a quasi-war, finally denying reality for the sake of illusion. Euro has become some new Baal demanding sacrifice to survive. Historians of the future will compare the Euro religion to the Aztec culture (Mann 2010) where society was believed to be so fragile that gods required human sacrifices to postpone the end. Indeed, what is the new role

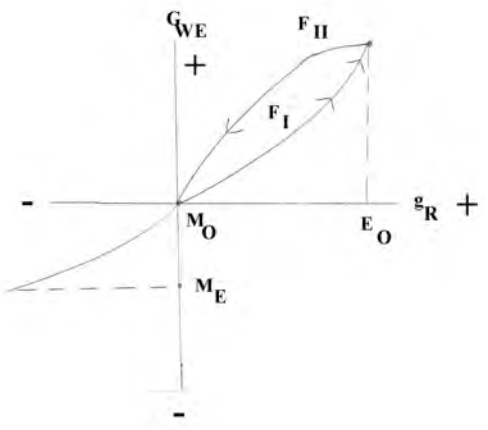
of technocrats, bankers official economists but some reincarnation of Aztec or Phenician priesthood![10]

A-. The bottomless decadence : the death of capitalim and dynamism in Europe, towards a pure rentier-parasite system.

In a former work (Parguez 1999) I called the Euro system a new feudal-age. May be I was to harsh against early feudal-age. The lords could not ignore the real economy and their true christian culture prevented from the sheer cruety of the Euro lords relative to the destruction of their people.
At the same time, early feudality was the age of universities while today there is obvious cultural decadence. Euro-lords including leading politicians from right to left are less cultivated than the average baron of early feudal age.

They are obsessed by trade-surplus but where could those exports surplus be realized, not in the Euro-zone with a constantly falling aggregate demand reinforced by the race to labour income deflation. Not elsewhere because it would require a country accepting to be the net importer of last resort, could it be China ? In truth, all countries will react against European imperialism (see annex I) using the same strategy and the whole world economy, henceforth, will be doomed to the race to death !

In any case what an horror world! where domestic market is dead, and the sole targeted demand is from the foreign sector !
Rosa Luxembourg and Lenin following Marx had imagined an imperialism caused by the saturation of domestic markets. For the Eurolords, it is the escape from the targeted poverty of domestic economy !
Again, one cannot escape that the Eurolords come from another universe!
No best proof of the anomaly is given by diagram 5 depicting this return to some mix of Mercantilism and neo-Malthusianism invented to save the Euro.



[10] All the core concepts, austerity, rigor, even deficit are religious. Initially , deficit meant the lack of communication with God in St Augustine theology. Relative to catholic theology, the Euro enshrines a counter reformation quasi Jansenist vision.

$F_{I, II}$ are what must be deemed the productive resources frontier, G_R being the real rate of growth of capacity sustaining G_{WE} the rate of growth of welfare.

F_I rules in a normal system where the State is free to target the growth of welfare , including true full-employment for now and the future. It starts from M_O the agrarian Malthusian drop. F_{II} is the resources frontier starting in E_O when all is bet on the future euro. It is downwards sloping until M_E , the maximum sustainable regative growth of welfare beyond which society collapses ! M_E is the ultimate poverty drop towards which Euro order converges. The future is entirely ignored, dedadence rules, there is no more hope, everybody expects a worse future, we are back below the Malthusian age :
Diagram 5 illustrates the full contradiction between two systems :

- In a dynamic system always changing for a better future. Welfare is rising exponentially . It was always the rule. Money is the fuel of this metamorphosis, the energy of hope.

- For the first time, the Euro order turns money into an engine of destruction welfare is decreasing until a minimum level with no hope of salvation. For the first time, for the sake of its currency society has freely choosen poverty out of scarcity and do not want to abandon its death-led ideology[11].

B- On F_{II} capitalism as a mode of production no more exists. We are in a rentier parasite system that cannot survive. Instead of becoming the employer or welfare -bringing of last resort, the State is henceforth the disemployer, poverty-bringing of last resort. Marx emphasized that an ideology cannot survive if there is no powerful class benefitting from the system it has created. On this part, Marx was more lucid than Keynes who overemphasized the weight of benefits inherited from old masters.

To be short who benefits from the new order ? It is what must be deemed the twilight rentier class. Rent is the aggregate income which is earned thanks to the scarcity forced on the labour-forced holders. Thereby twilight rent is either provided without any involvement into the production process or by the flight from production and the destruction of capacity . Rent is the reward for always rising effective unemployment, collapse of purchasing power for the labour force, threat of the future. It is bestowed both on financial capitalists and what remains of productive capitalists by the predator -State in the name of the Euro.

The State is itself a cornucopia for twilight capitalism . It pays interest income fixed by banks which have full control with banks will. In any case, the ECB in a world where the State has renounced its monetary power has no control over banks targeted net-worth
(Parguez 2009 b).
By becoming the key player in the anti-reality value process (diagram 3), the State provides banks with rising "market value" of their public assets, which raises their net-worth .

Next, those expenditures gains may be transformed into dividends for banks stock-holders (a large share of them being non-banks corporations). The "trick" is to let banks create money for themselves, which means their stockholders.

[11] The anthropologist Jared Diamond(1999, 2005) has discovered examples of society having chosen death because of their rigid ideology and moral. (Easter Island, Viking Greenland, some South-western american societies). Eurozone is unique into this choice of decadence by one of the richest society to attain perfection by rejection of the laws of nature.

The role of the State goes further towards the quasi social-security of the rentier class. Bottomless real deflation helps non-banking firms to rise at will their share of "scarcity-led" profits, which raises the value of their assets and the value of banks holding of firms stocks or bonds.

Firms may transform those capital gains into income by transforming them into collateral of new loans. It means that in diagram 3 the value curve applies to all assets public and private.

The gifts of the predator-State are much more. Real deflation generates net profits transformed into dividends. Scarcity ruling all the economy, real estate owners or water resource owners participate to the feast.

Ultimately the Euro order is the negation of capitalism because the last resort source of capitalist income is the frightened speculation over the future.

Eurozone is evolving towards a non-emerging third world country, it attains levels of inequality and poverty unknown before and elsewhere. One understand the necessity of a totalitarian power, propaganda, preach on the sanctity of sacrifice one shamlessly used to kill above, and at a minimum cost, any opposition.

Fourth part : Alternatives are simple : Either die with the Euro, or destroy the killing strait-jacket by renouncing the Euro thus breaking the iron heel of the new order.

There are many who, playing the role of new St John, are horrified by such a choice. They depict catastrophes, collapse of the standard of living, countries unable to import, the end of Europe. They strive to think of a Euro-of the people without killing strait-jacket.

Or worse, there are some who pretend to lament, like the French President François Hollande, but invoke that there are no alternatives, like good pupil of Margaret Tatcher. They could be socialist but It is a joke to be socialist today to accept slavishly the decree of history. Europe is to be great, greatness needs poverty for the society, here is the last way for socialism (see Annex I).

IV-1 The sole reason explaining the Euro was to debase the State. Why ? To destroy the the march towards serfdom explaining the backwardness of Europe. It could not exist without the dark succession of poverty-bringing strait-jackets. Eurofathers had good reasons to reject European federalism. Besides the obvious fact that Europe will not be but in far future the united State of Europe they did not want a true federal State which would not accept its debasement so joyfully.

IV-2 It should be enough to desmise the dream of a "Soft Euro order" of which the mentor would be Keynes and not Hayek. But there is more ! The twilight rentier system, the anti-production mode cannot survive for eternity. It is doomed sooner or later, reality is to win and the value of assets would fall into an abyss. Now the time of financial catastrophe will happen, and the Euro itself will collapse. No more pact would save it.

IV-3 Before the catastrophe, it is the time when bold politicians have to denounce the obvious failure, save their economy, society, culture by denouncing unilateraly the Euro, abrogating for their country the pacts of destruction and slavery.

Taking care of the slavish behavior of French and German politicians, Italy could lead the economic and social revolution, restoring its monetary sovereignty by restoring the Lira. Why Italy should lead the revolt against the anomaly ? Because there is in Italy a strong grass root movement which has escaped from the totalitarian-propagand one must also rely on the fact that the new rentier order is much less strong in Italy than in France and Germany. It would be a repetition of history but not as a tragedy : feudalism was always much weaker in Italy than in France and Germany[12].

Anyway, only bold people could generate those courageous politicians wishing to save their country from destruction.

Would there be a catastrophe like the wrath of god against the unfaithful daring to escape from their fate ?
My answer is a strong No, for the following compelling reasons :

A. As soon as the Italian State is free, it shall solemnly take the oath of restoring the law of value by targeting true zero effective unemployment out of carefully studied program of productive investments. Priority being given to investment in labour.

B. Taxes should be cut for middle-size and small firms and household.

C. Thereby, there will be a planned increased deficit, a good one. Private banks will no more finance expenditures out of loans at the rate of interest they will. State money creation will be undertaken, directly or indirectly by the central bank having lost any sovereignty . The State will no more be obliged to issue bonds to meet banks desired growth of their worth.

D. All outstanding debts will be converted into the new currrency. In a first stage the rate of conversion could be 1 to 1.

E. What about imports ? The exchange rate between Lira and the Euro, Dollar, etc... should be floating. Would there be an unbearable depreciation of the new currency leading to a collapse of purchasing power ?
The sensible answer should again be NO ! The inverse is to happen ! The Euro will soon strongly depreciate relative to the new engine of growth currency. This proposition stems from the theory of exchange -rates. According to the general theory of the monetary circuit (Parguez and Seccareccia 2013) the real value of a currency is the amount of real wealth created by productive expenditures in this currency. To be simple it is positively related to the rate of effective employment. Thereby the real or natural exchange-rates is equal to the ratio of effective rates of unemployment.

Now the effective exchange-rate is determined by "speculation" bets on the relative market value of the currencies.The effective exchange-rate should converge towards the normal rate and stabilize at this level, or at least gravitate around it. This theory is supported by second empirical data for Argentina (Forstater 2012).

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[12] Italy also escaped absolutism, the culture of sheeping obedience to an authoritarian State. There never was an Italian Louis XIV or Frederik II of Prussia. This is a tradition of gross rates activism against tyrany (one must think of the Italian opera of Verdi). The French are foreign to this spontaneous revolt born from apostles of tyrany. Euro is protected by the sheepishness behaviour of people relative to their new tyrans and their absolute despair, the death of any culture of free choice and hope. Euro would have been impossible were Jean-Paul Sartre , his mentor Martin Heidegger in Germany still alive.

From this theory one must conclude that the exchange-rate of the Euro, its relative real value, is grossly overvalued relative to most currencies, entirely driven by speculation following curve I in diagram 3.

Thereby were Italy targeting again real growth, creation of capacity, the real value of the new Lira will become much higher than the relative value of the Euro. Speculation will follow, the market value of assets in Euro will converge towards their real value . It is tantamount to the proposition.

Euro will depreciate relative to the new Lira (see Annex II).

Since it is sensible that other countries, Spain, Portugal, Greece, will now decide to follow the Italian exemple, the flight from the Euro will accelerate its depreciation.

Could France and Germany resist, it would require new savage real deflation unable to beat the market forces. It is highly probable that their rulers , pushed by their people, will surrender, it would be the end of an order that should never have existed.

F. As for the threat of a rejection of the new currency(ies) by exporters, China, USA, emerging countries, it is sheer impossibility. Exporters would have a choice . No more exports, severe drop of their profits, or accept the new currency (ies).

Ultimately, those six reasons for optimism are just the choice between death by deseperate fanatism and an open future of rising welfare in the broadest sense and true democracy.Could we fear a death of the European dream, the ultima ratio of conservatives ? Not the least exchange-rates between the new currencies of countries targeting true long run maximum welfare would stabilize[13]. What will die for ever is the reactionary aspect of European mystic. The Europe of the holy alliance of 1815 to 1848 that was the explictly build against the forces of progress. What was the Euro but the army of the new holy alliance[14]. In some way, the Revolution has been undertaken in Euro Europa from the highest level of the ruling class; Entrepreneurial capitalism is dead. It can only be ristored by destroying before it is too late the chains of Atlas (the set of european monetary and fiscal pacts) to quote the well known book of Ayn Rand.

[13] Those who refer to the unbearable fluctuations of exchange-rates are reasoning in the disastrous framework of the Bretton-woods system imposing arbitrary fixed exchange rates. It is the best way to engineer unbearable speculation (Parguez and Seccareccia op cit). The conclusion holds for the so-called " forced devaluation". They are no more required into a system combining full employment and floating -rate.

[14] One could imagine Prince of Talleyrand in the guise of François Hollande and Prince of Metternich in the guise of Kanzler Merkel. Ultimately Metternich disguised in woman has to leave Vienna in 1848. All share the ignorance and hate of the modern capitalist society ! Hayek could be the connexion between the two holy alliances that wished to go back to fictitious past when time has been frozen for ever. For both Europe is to be the land time forgot because they dreamt of abolishing time for ever! It was always the dream of the so called General Equilibrium Theory from Walras to his most modern less-talented disciples. Ultimately it was the reason why Keynes rejected them may be his most cherished hope was capitalism for the welfare of the people and a future of enlightment and progress which is the true meaning of the conditions of stability I developped in my 2009 (b) paper presented in Dijon.

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Annexe I

The pink iron-heel or the cult of ignorance and towards the end of times
The Gallois report : the perfect child of the Euro.

To reinforce both the Euro, President Hollande asked to one of the highest french technocrat a report to boost the french economy within the iron-heel of the new fiscal pact.

I. A brief analysis

1. First, a contradiction. It is not the least question of solidarity. France must win within the Union.

2. All depends on the competitiveness of french existing industry. It is not question of creating new activities. What is competitiveness? The ability to maintain industry in France and to allow french industry to defeat its foreign competitors, even within the EMU.

3. Thereby the report which is the doctrine of the regime relies on two postulates:

P1. Only existing industry matters : the creation of one industrial job generates 3 or four elsewhere ! Why ??
P2 Labour cost only matters.

4. Thereby an industrial trade surplus is to be targeted by France (and implictly everybody else) . Growth, employment are only or mainly generated by the trade surplus.

5. But how ? By defeating all foreign industrial producers, even within the EMU.

6. How ? By raising the price, competititveness (mainly), plus providing firms with an enjoying environment.

Hence the great measures:

A/ Raise the profit margin which dropped because of wages rigidity. Why ? Because aggregate profits are <u>only</u> determined by the rate of profit (or the share of profits) and all profits retained or not are the first source of investment.

B How ? By generating a shock therapy : social contributions paid by firms must be paid by wage earners directly, taxes even on dividends are to be transformed!
Let us take an <u>example.</u>

1. Demand factors are ignored. The fact that wages are to drop, generating a collapse of consumption thereby of investment (Eisner) in every aspect is ignored. The impact of State austerity is ignored, worse, it is wished !

2. The pink technocrats are not conscious that all their competitors will react. Europe is to be trapped within a cumulative deflationary cycle. The Germans are drafting the same plan !

3. Domestic economy is irrelevant. This obsession with conquest of markets, even within the EMU is sheer imperialism without the belief of old ones that domestic saturation was the cause !

4. The will to control education and research is preposterous.

5. Finally there is no future orientated project.

6. All this to save the currency that could be slightly depreciated.

7. Finally who will benefit from the deflation war of all against all.

Firms pay 1000 for labour
700 in wages
300 in taxes
Now firms pay 700 to wages
Gain for firms 300
Loss for wage-earners 300

So prices could drop, at least, by 30% (plus impact on income tax transfers).
It is a subsidy of firms by their employees whose purchasing power is reduced by 30%. Since this subsidy should allow a trade surplus wage- earners do not benefit from lower prices !

All this within the context of ultra-austerity. All public expenditures must drop excepting education and research as long as they are directly profitable. A cultural pro-business is extolled : corporation must be loved, bad propagange against working conditions eliminated.

II A Comment

This report illustrates the new imperialism of the ruling techno-capitalist class, its total lack of culture and understanding of basic laws. A caricature of the supply-side economics.

Final conclusion.

I/ What is worse is that Euro technocrats, politicians like Hollande, obviously want absolute power. They hate the State. Could they be accused of being some Post-Fascits ? No. Fascists and Marxist planners had idea, (impish indeed most of the times). Hollande the archetype of the ruling class has not the least idea, he is "ignorant", some manager lacking basic culture horrified by the future !

Hollande and his technos are not conscious that finally they conduct a metamorphosis of industry into an ancient regime nobility. It will survive awash with a tribute exacted on the new serfdom.

What a bright future ! The proof that the Euro was really a backwards order restoring a command-rentier economy.

Finally profits are levied on wage-earners, while they could be fired at will. What remains of capitalism?

II/ Even Hayek could be shocked by this neo-imperialism but amid the ruling politico techno elite who knows it. It is why I am relying on the concept of the "syndrom of Marie-Antoinette" to qualify this late-of-time regime. In a field of ruins, a castle where the new lords extol rents to the desperate mob with a smiling king !
We are far from the synergy which is the core of new capitalism (Silicon Valley, Palo Alto)

III/ The worse aspect is the extolling of manager-culture. All the rest is to vanish. Never in the USA they went so far. At least , here, we may go back to Hayek who despised intellectuals
" the fatal concert".

IV/ An ultimate conclusion : I do not mean that a trade surplus is bad in essentia. I just say (like Kalecki)

- that imperialism cannot be a permanent factor of growth.

- that all depends of the content of the surplus. To be net importer of sophisticated computers could generate in the future a buoyant research leading to a new genuine growth sustaining new yet unknown activities and exports . But I repeat <u>conquering foreign markets by imposing poverty at home is the twilight avenue.</u>

V/ Large corporations do not want to invest because there is to be no demand . Interests are not an obstacle. They are the biggest stockholders of banks and receive as dividends what they pay as interest.

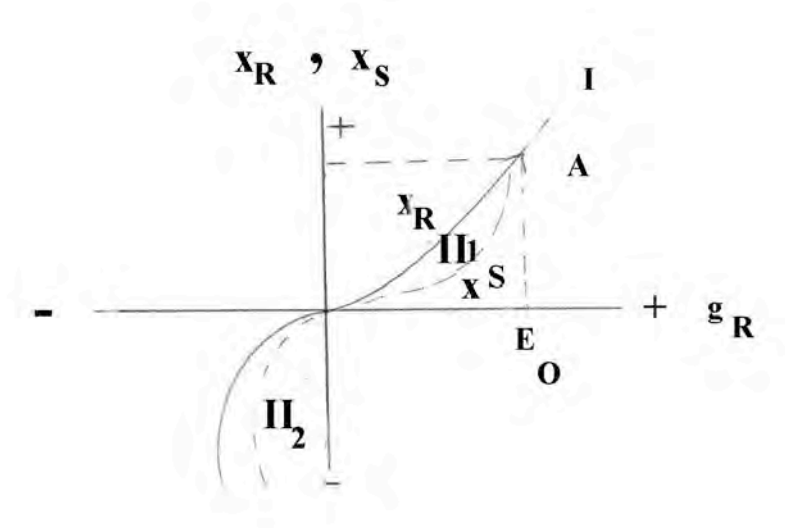
VI/ Finally what about that mysterious European investment bank ? It is controlled b the commission (1)from where funds are to come (2). Why not from the ECB? So they will come from banks and we will be back to the good time of JP Morgan.

ANNEXE II

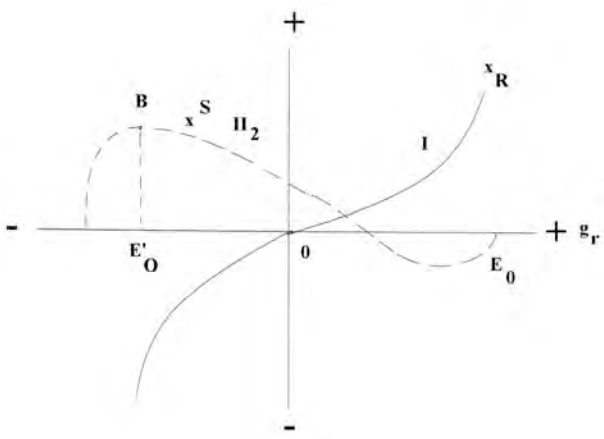
A new Verdi opera
Italy revolts against imperial Euro
<u>Leaving the Euro, the Turpike to salvation</u>

Annexe II enshrines some post-Wicksellian theory[15] of exchange-rates for Italy.

Let x^R be the relative real value of currency Lira. It mirrors the relative real value of public assets denominated in euros, x^R is a perfectly objective data. Let x^S be the relative value of a Lira driven by pure bets on the future of assets in euros . In a normal economy when x^R is not fixed by decree, x^S which itself reflects relative true creation of capacity generating welfare, g_R by good deficits.



At a sudden in E_0 we enter the anomaly embodied in the euro rules, all is upside down, speculators encouraged by governments force x^S to rise while x^R tends to zero. If x^S cannot rise above B it is because unbearable sacrifices are required to prevent the collapse.



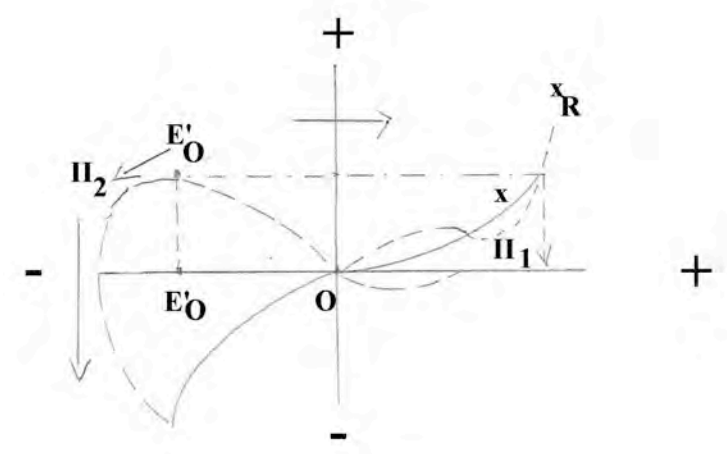
[15] The real rate x^R could be the natural rate and x^S the monetary rate, to use Wicksell's terminology.

The coup d'état.
The anomaly is enforced . I vanishes as an anchor to II, Italy surrenders its monetary sovereignty

I rules as the false reality.

Return to genuine stability

The salvation of Italy
x_R, x_S relative value
with respect of the dying euro



The anomaly vanishes. Normality is restored, instantaneous depreciation of the Euro. x^S again converges on x_R.

II_2 vanishes . It is replaced by the normal curve dominated by I which is restored !

The new Verdi opera ends.

Italy is free.

Indeed, it should be free of his political elites ; appointed not by Vienna but by Paris, Germany and the new capital of the new holy alliance; Bruxelles.
It happened once . It must happen again.
Like Keynes, Heidegger, Sartre and before, Hegel, I do believe that ultimately the forces of life, the essentia of the being always win. The shameful collapse of the Monti-regime , simple administrators of poverty law is a warning !.
The reader could be stunned by such a call to philosophy but he (she) should remember the title of Sir Isaac Newton book "mathematical principles of natural philosophy".