A critique of post-keynesian economics applied to the political economy of the Eurozone.

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Abstract:
This paper will starts from the positions put forward by Post-Keynesian writers in relation to the policies advocated for the European Union and for the Eurozone in particular. We characterize the post Keynesian contributions as Hegelo-Keynesian. This is because they criticize the policies of the European Central Bank and the European Stability Pact as if they were purely the product of the application of "wrong" theories. By implication, if only the relevant Governments, and authorities listened to the "right" theories, policy objectives centred on the goals of full employment could be successfully attained. Is this happiness for all? Yes, argue the Keynesians. Capitalist firms would benefit from a higher rate of capacity utilization, and workers would benefit from full employment. After discussing the main standpoints of the Post-Keynesians, we argue that the Post-Keynesian positions miss altogether the evolution of capitalist relations in Europe in the last 25 years, as well as the nature of European neomercantilism as embodied in countries like Germany, France and Italy. On this basis we will identify the industrial divides within the European Union, which we split into five different areas, pointing out how the so-called Stability Pact acquires a totally different meaning when viewed from the angle of each area. This fact makes it virtually impossible to "correct" the Stability Pact into an overall Keynesian direction.

1. "The fanfare of the Keynesian orchestra".

The phrase under quotation marks is a term used by the late John Hicks in *Capital and Growth* (Hicks, 1965) to describe the attitude of neglect by the Keynesians of the 1950s and the 1960s towards the issue of the structure of production. For Keynesians, Hicks rightly observed, only the management of aggregate demand mattered, not (real) capital and its structure. In the last ten to fifteen years another (much smaller) fanfare is being heard in non orthodox circles, still a Keynesian one claiming to have a better set of blueprints regarding the macroeconomic policies of the Eurozone. The formation of this little fanfare began during the process leading to the creation of the Euro. Interestingly, it is mostly British located, certainly it was so at first (Arestis, McCauley, Sawyer 2001). To day it has some components in France while virtually none in Italy. The scope of this group is European and it does not, mistakenly, focus much on individual countries. In pure Keynesian fashion they start from a full employment perspective and, in a pure Keynes' fashion, they point out that free market orientated policies do not converge towards full employment and that restrictive monetary policies prevent the attainment of full employment, or a substantial reduction in unemployment.

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When the discussions about the role and the policies of the European Central Bank began in the second half of the 1990s, they were interwoven with a critique of the Maastricht parameters and of the Dublin Stability pacts. In those years the Keynesian critique of Maastricht-Dublin was quite widespread in Europe and especially in France where even a petition by post-Keynesian + heterodox economists obtained a reasonably large echo. A central point of the critique was that the notion of an independent central bank is wrong economically and in terms of the democratic functioning of institutions. In relation to the latter aspect it was argued, quite correctly, that the independence of the ECB would make fiscal policies subject to the monetary policies decided by the ECB. Hence elected bodies, the Governments of the countries of the Eurozone, would have to tailor their fiscal policies to decisions taken by an unelected, yet publicly funded, body: the European Central Bank.

The above argument proved to be correct in general but Hegelian in essence. It is true that upon governments' fiscal policies falls the constraint represented by the monetary requirements of the ECB. Yet some Governments ended up ignoring them as much as they could. These were Germany and France. To day the President of France still maintains that his government will not bring the budget deficit within the Maastricht criteria until 2012. The episode of France and Germany ignoring the Treaties reveals the country specific nature of Maastricht and of the whole "building Europe" view (the expression is an official French one: "la construction européenne"). We will elaborate upon it below. For the time being it suffices to state that now it is apparent that the Maastricht-Dublin parameters are not the outcome of "wrong headed" economic policies - as the Keynesians would maintain - to be criticized in relation to the underlying economic theories. They are instead the product of the political economy of the two main countries of the old Common-Market, namely of France and Germany, of the former in particular. Neomercantilism is the international, Europe-wide, manifestation of the political economy of those two major countries. But, *non c'è due senza tre* (an Italian expression meaning misfortunes never come singly), and in between the French and the German neomercantilisms there is the Italian one which regularly got in the way of the first two.

Let us now return to the post-Keynesians. If one believes in Keynesianism as a reasonable way to get rid of the most unpalatable aspects of capitalism (we are paraphrasing Keynes here), one is entitled to judge policies and the working of institutions on the basis of her/his paradigm. Yet once the point is made it is necessary to analyse why have those policies come about, why have those institutions been devised. This is precisely what the Keynesians have failed to do. The most perceptive critique of the Maastricht Treaty has come - albeit in a too pugnacious and vociferous manner, so that unfortunately the critical edge is somewhat blunted - from a true believer in free markets economics. Bernard Connolly (1996), in his book featuring the telling title of *The Rotten Heart of Europe*, argued that Maastricht resulted, on one hand, from the objective of German corporations to secure an area of monopolistic dominance sheltered from the danger of competitive devaluations, while France, bereft of an equivalent industrial power, aimed at conditioning Germany by encapsulating the Deutsche Mark in the Euro. In this context, the aim of the French bureaucracy was to control the new monetary institution. Connolly pointed to the right direction, identifying the two main sets of protagonists: the French bureaucracy and the German corporations. For Connolly both represent anti-market forces: etatist from the French side and monopolistic from the German side. In the book Margaret Thatcher is depicted and celebrated as the only pro-market political leader of Europe. However in the end, and as in the Keynesians, there is no political economy in

Connolly's argumentations. He does not explain why, according to him, Germany as a State has come to express the interests of the German private corporations and why France, as a State, has come to express only the objectives of its own bureaucracy. In truth our Author is not interested in those questions as his main purpose is to prove that the Maastricht Treaty was the result of anti-market forces running through the entire history of Continental capitalism. Hence his analysis is led by the normative ideal embodied in Ms Thatcher's policies.

Compared to a decade ago the intellectual picture has faded further. The European Keynesians, while being increasingly marginalized up to the point of not being any longer able to reproduce themselves as a stream of thought, have de facto abandoned the critique of the independence of the central bank. An approach which was actually quite strong politically since it pointed at a contradiction between the legally democratic form of government and the non democratic (unelected and unaccountable) form of governance by monetary policies. Instead the Keynesians receded to tampering with the positions expressed by the ECB. Thus, if the ECB states that it follows an inflation targeting strategy; the Keynesians reply "there is a different way, a better one" yet still within the unaccountable prerogatives of the ECB. This is not to deny that the dissection of inflation targeting policies and the models underlying them is of great importance given the almost universal embrace of this approach by central banks (Arestis and Sawyer 2006).

The *Journal of Post Keynesian Economics* has devoted the whole issue of Summer 2006 to this question. On one hand the outcomes are quite interesting in relation to the wide range of inconsistencies unearthed by the articles published there. On the other hand, however, they reveal the ambiguities and the retreat of the Keynesians. They tend to argue that inflation targeting is compatible with Keynesian approaches provided some inflation is allowed for oiling the wheels, thereby enabling government policies to pursue employment and output objectives. They then maintain that a central bank independence of a sort was contemplated even by Keynes sometime between 1914 and 1932. We have very little doubt, though, that in the *General Theory* Keynes gave absolute priority to the role of Government on all fronts otherwise he could not have written what he did in the chapters on the business cycle and on the social philosophy of his work (reducing interest rates also during the boom, socialization of investment). The upshot of these exercises is to show that under a post Keynesian regime the following will more or less occur. Policies will be set in accordance with output and employment objectives starting from the assumption that total demand is the crucial element in the determination of real variables, that is, of employment and output (but be mindful of Hicks's point about the "fanfare of the Keynesian orchestra" regarding the structure of production). If indeed output and employment objectives must have priority, the Government has to PLAN also the structure of production between capital goods and non capital goods producing sectors. Failing that, a full employment policy is likely to run aground on sectoral disproportionalities even if Europe were fully unified (More on this aspect later). On these questions the Keynesians are silent, also because they work with a most banal single sector model. They further claim that, in the case it arises, high inflation will be tamed by means of inflation targeting, thereby taking on board the main tenet of to day's central banking. Clearly the targeting must be in relation to wage costs since the Keynesians still believe in the wage inflation of yesteryear (Arestis and Sawyer 2005). How this can be done with an independent central bank is anybody's guess.

Since Keynesians are good Samaritans and believe that, in most of the cases, expansion in demand is wage led[2], the taming of inflation should be made in relation to some range within which wages are allowed to vary vis à vis productivity (can this thing be defined to day?). What is the feasible range for wage costs to rise above productivity? They do not say. But the answer is self-evident. It would be necessary first to PLAN the full employment level of investment relatively to total output. Once this is established, any residual savings should be reduced by allowing wages to rise above productivity and any shortfall should be remedied by the opposite movement. By putting together inflation targeting and demand led growth we come to a highly centralized version of the Kaldorian model. The latter was always a fairy tale for the reasons outlined by Hicks, but it had a basis in the reality of the 'fordist' mode of production and in the existence of a coordinated system of relations between strong Trade Unions and the Governments, whether in the context of Conservative (UK), Gaullist (France) or Christian Democratic (Germany, Benelux, Italy, Austria) rule. To day the Kaldorian approach is totally irrelevant, except, perhaps, in Sweden which anyway has not much followed Keynesian policies. Contemporary capitalism does not even remotely resemble Kaldor's conceptualization which attempted to theorize, albeit in a dubious manner, the processes of the late 1950s - early 1960. Wage inflation has gone long ago and there is no conflict over distribution as it has been going one way only.

The fact that in the their present works the surviving Keynesians still think that the question of class relations boils down to a conflict over the distribution of the GDP proves that they live in a mythical world. For them the system of production has not changed since the 1960s. What has changed is only the policy framework with the advent in the 1980s of economic advisors inspired by bad theories, as it were. Change the advisors, by bringing in those with an aggregate demand model where the equilibrium values of real variables are determined by demand, and we will find ourselves happily back into the golden age of capitalism! The view that inflation is the outcome of a distributive conflict is, at a first glance, acceptable only for the Golden Age regime when male blue collar full employment prevailed. It ceases to be valid when price variations occur hand in hand with the deconstruction of labour, its fragmentation and its inability to keep wages in line with both price increases and productivity growth. Yet, since the term productivity has little meaning in contemporary economies, as evidenced by the increasing difficulties in measuring it, it would be better to talk about the tempo of work and about the lengthening of working day. Wages have failed to keep up with the rhythm of work, and with prices. This IS NOT a distributive conflict. The process pertains to the capitalist organization of production based on the fragmentation of labour, including value chain processes, and, as we shall see later, on the subsumption of labour under finance qua consumers and debtors.

The main problem with the Keynesians, as part of the heterodoxy, is their economic romanticism and philosophical Hegelianism, without them being aware of either. This is odd because Keynes was such a realist as to throw the towel in by 1940; barely 4 years after the publication of the *General Theory*. In an article in the *New Republic* he expressed a most sceptical opinion about the policy potentials of his theory. He stated quite bluntly that no liberal democracy would be prepared to accept a level of public expenditure of the magnitude implied in his approach, except – he

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[2] On the assumption that the percentage of savings out of wages is lower than the percentage saved out of profits.

stressed – in the case of war. Essentially his prediction turned out to be correct. Most of what passed for Keynesian policies during the Long Boom can be ascribed to US military Keynesianism. Also the opportunity given to other countries to follow an export orientated growth, both in Europe and in East Asia including Japan, was made possible by the international public expenditure of the United States connected to imperialist and hegemonic policies: These were the Marshall Plan and its continuation as the NATO Plan, the Korean War and, most importantly, the Vietnam War. When the long boom ended in 1971-73 because the United States could not sustain – as Sweezy put it – the costs of the empire under the fixed exchange rate regime of Bretton Woods, the USA did not abandon its military Keynesianism. Instead, it combined it with the fragmentation of labour mentioned above, with outsourcing and the like, as well as with the transformation of American wage earners into creators of effective demand via indebtedness. Thus, following the big right-turn of the early 1980s (Ferguson and Rogers, 1986), the USA embarked on a path where real wages had been falling systematically along with the deterioration of employment conditions connected to the branching out of the US firms to production networks in Mexico and Asia (Galbraith, 1998). At the same time, the combination of military Keynesianism and the subsumption of labour under finance through debt, has put the United States at the centre of world effective demand in a far more significant way than in 1960s. The United States has combined falling real wages with and expansion of total demand above the rest of industrialized world thereby becoming a globally importing economy, both through the connection with Asia's and Mexico's production networks and through imports from Japan and Continental Europe. The transformations characterizing US capitalism from the 1980s onward have been prefiguring a new capitalism in which there is no room for demand management. The structural uniformity implicit in single sector aggregate demand models of the Keynesians simply prevents us from seeing these issues.

2. The Political Economy of Europe: Neomercantilism, the Keynesian Parenthesis, and the Euro

We must now move away from the particular positions of that small groups of Keynesians and try to explain why Keynesianism is unlikely to be a valid policy alternative, especially in the European context. The 1950s were the best Keynesian years for Europe thanks to the cold war politics of the United States. The attainment of full employment in Europe in the 1960s highlighted, however, the contingent nature of Keynesian conditions.

Europe's economic integration was a deliberate US policy (Lundestad, 1998). Set in motion as soon as the war ended, it encompassed the whole of the Western part of the continent from Norway to Greece. It had two pillars: the Marshall Plan (1948) and the military pact known as NATO formed in 1949[3]. The institutional 'construction of Europe' had its core in France, and relied on Germany for its implementation. The first step in that direction was taken by France's Robert Schuman in 1950 by launching the proposal of a European Community for Coal and Steel, implemented in 1952 involving the very same six countries that in 1957 were to give birth to the Common Market. The point of contact between the US strategy and

[3] Charles Kindleberger, a most important economic advisor to the US government during the War and during the post-war reconstruction, openly stated that the Marshall Plan never ended as it became the Nato Plan (Kindleberger 1970).

the French one was West Germany. The US policy aimed at recreating the economic space for Germany, and that space had to be in Europe.

The Marshall Plan reflected US objectives in relation to globalism, which were quite clearly set out already in the ideas of Cordell Hull, Roosevelt's Secretary of State. It is important to underline how the Marshall Plan was funded. The European countries had to pay for it, only that they paid to themselves through the so-called 'counterpart funds' managed by an institution called the European Payments Union set up 1949 with an initial capital contribution by the United States. In practice the Marshall Plan worked as follows. The US would make a donation in kind (wheat, machinery, etc) to a European country. This meant that the US government purchased the commodities to be donated to Europe from American producers. West European countries would then pay for those donations an equivalent sum, but in each of their own currencies which were not convertible into one another. Yet instead of paying the US the European countries would deposit the moneys into EPU.

We can immediately see the advantages accruing to both the United States and Europe from such an arrangement. For the US it meant a Keynesian program of government purchases from the private sectors. It therefore created effective demand in a period where the fear to relapse in something close to the Great Depression of the 1930s was still very high. The recovery of Europe was deemed to boost both US exports and the output and profits of US multinationals already present on the continent. From the European side the arrangement created a system which protected the balance payments and helped intra-European trade. The EPU was conceived in a context characterized by what was called 'the dollar shortage' due to the fact the US ran a balance of payments surplus while, relatively to the United States, Europe had a balance of payments deficit. Furthermore the main imperialist countries of Europe could no longer rely on their disintegrating imperial areas to balance their international accounts. Therefore the impact of the dollar shortage was particularly felt. The Marshall Plan and the EPU alleviated all that, but their impact, especially EPU's impact, went beyond that. EPU helped iron out the constraint on the intra-European balance of payments. It is this factor which enhanced overall European integration.

EPU represented a quite efficient solution to the balance of payments issue in intra-European trade. Its effectiveness was predicated on (a) fixed exchange rates, (b) non-convertibility. Exchange rates were fixed between 1945-46 as per the Bretton Woods system. With the except of the British pound (and the Swiss Franc), European currencies were not put on reciprocal convertibility footing precisely to protect their overall balance of payments from undue movements in financial flows. With reconstruction as an absolute priority, speculative movements had to be prevented and a floating exchange rate would have enticed those movements on the part of the weak countries (Italy) or countries whose leading classes had ambitions which could entail inflationary pressures (such as France's decision to return to Vietnam in 1946). Thus with convertibility there was a high likelihood that countries with structural balance of payments problems would be compelled to devalue recreating the atmosphere of competitive devaluations in Europe. This would have hurt both the Bretton Woods system as well as the US design for a strong European economy with Germany at its center. Hence non convertibility was a necessary, albeit temporary, step to prevent capital and exchange rate volatility in an environment rendered fragile by business' needs for legitimacy and by the altogether new situation where the European countries needed both guarantees and a guiding hand (the USA).

Under the EPU system a country with a balance of payments surplus "deposited" it with EPU, which would then recycle it to the deficit countries through commercial credits. Central banks fixed interest rates at low levels compared to inflation so that there was little incentive to obtain gains from financial transactions. Alternative financial instruments were limited and, given currency non convertibility, could not be used as international investment vehicles, as they would say to day. Thus the only way to sustain growth and capital accumulation was by means of investment in plant and equipment plus government spending on public works, and, last but not least, by means of exports. But not everyone could hope for a persistent export surplus. Thus the crucial question was how to deal with eventual balance of payments deficits within Europe without jeopardizing growth. More specifically the issue was how to address the German surplus which reappeared in full force by 1950. EPU successfully smoothed out the intra-European balance of payments constraint by recycling into lending to deficit countries the otherwise non convertible sums of the surplus countries. Furthermore under the EPU regime countries were allowed to introduce import restrictions if their external deficit was deemed too big. This was done in a coordinated manner with the approval of the other countries. Under the EPU regime, neomercantilism, which is a persistent feature of European capitalism, was severely restricted so that export growth was no longer perceived as a beggar thy neighbour policy. Importantly, EPU was in no position to absorb severe shocks, it could only smooth out mostly intra-European imbalances. Thus when with the outbreak of the Korean war in 1950 the sudden jump in raw material prices threatened Germany's overall balance of payments position, EPU could act by lending to Germany only because the United States injected a further 500 million dollars into its coffers.

It should become apparent, at this stage, that it was the US sponsored process of integration started by the Marshall Plan and institutionalized in the EPU system that dominated the process of European integration. The conditions for Keynesian happiness began to fade in the very middle of the Long Boom when, upon returning to convertibility in 1959, balance of payments objectives began to rule macroeconomic policies, and, in particular, wage relations. If in the 1960s the major European countries were locked in neomercantilist battles aimed at achieving exports surpluses against each other, what made it possible for European growth not to falter and end up in a deflationary mode? Firstly there were long term public works projects and investment projects that were budgeted independently from short term policy objective. Secondly, and most importantly, wage growth could not be halted or slowed down, especially after 1967. The wage explosion was formidable, occurring in just about every single European country. Its impact on effective demand was bigger than on the costs of production exercising a strong pull on growth against deflationary forces.

On the basis of the European episode of the 1960s we can say that the Keynesians are right in viewing growth as wage led. However they totally miss the nature of labour processes in capitalism and the ensuing class relations both in the sphere of production and at a societal level. As already argued by Kalecki in 1943 a regime of full employment empowers workers and this very fact, in spite of generating a higher level of demand and profits, also leads to challenging the organization of production and the prerogative of management. In the continental European context the empowering of wage earners from the 1960s till the first half of the 1970s, meant that the mechanism of accumulation, in which net exports were considered to be a priority, was being jeopardised. Thus, afterwards, each country

attempted to reverse the previous trend according to its specific internal class relations and according to the internal composition of capitalist interests. The way in which they attempted to change course reveals the nature of each neomercantilism and the constraints it faces.

In France the Barre government of the mid 1970s implemented one of the most severe recessionary Keynesian policies to date, with the precise objective of creating enough unemployment as to squeeze wages, curb domestic demand and expand exports without having to depend solely on the devaluation of the French Franc. Indeed relying on the latter would have put the financial and insurance sectors, which in France are extremely powerful also at the political level (as typified for instance by George Pompidou who in 1969 succeeded de Gaulle in 1969 as President of France) in sharp conflict with the industrial sectors, also highly integrated with the state apparatus and institutions. Furthermore, systematic devaluations would have affected France's position vis à vis Germany within the polity of the EEC. The linking of the French Franc to the Deutsche Mark became the overriding priority of the Banque de France and of the Government, whether Socialist or Neo-Gaullist, from 1982 till the introduction of the Euro in 1999.

Also in West Germany the response to the wage explosion of the late 1960s early 1970s, pointed to the inapplicable nature of Keynesianism within the EEC. The social democratic government, ruling from 1969 till 1983, supported the high value of the D-Mark, relatively to other EEC currencies and to the dollar, with the aim of compelling industries to restructure in order to gain export competitiveness through higher technological efficiency. Successive social democratic governments, in full alliance with German big business, consciously operated on a two track basis. By creating unemployment, especially among migrant workers and even paying for their repatriation, and by having a sort of accord with the trade unions in heavy and metal industries on increasing productivity and boosting net exports. These were the characteristics of Germany's neomercantilism until 1990, by which year (West) Germany accumulated such large surpluses towards the rest of the world and towards Europe in particular, as to make the EMS very brittle as other countries were had to keep interest rates up in order to stay within the EMS. In the wake of the impact of the absorption of the GDR, Germany undertook a monetary policy of high interest rates which scuttled, not as an unintended consequence, the EMS. This resulted in a strong revaluation of the Mark and in a collapse of the Italian Lira, with the FF remaining on a par with the D-Mark but at a price of an ever higher level of interest rate. As a consequence of the sharp revaluation and of the real expenses incurred with the absorption of the GDR, Germany lost its external surpluses. Once more the Government, big business, and the Bundesbank, thought that the overall surplus could be reconquered by using the country's capital good industries in order to restructure and expand both productivity and the range of high technology products. The increase in productivity would mitigate the effect of a high Mark, especially if German inflation was kept at a lower level than that of the rest of the European Union. It was not however a return to the policy of accord with the Trade Unions. On the contrary, in the mid 1990, and in particular with the Schroeder SPD Government, Germany introduced in the whole of Europe the policy of wage deflation as a new neomercantilist policy instrument. There were previous attempts to subjugate wage bargaining, such as the agreement on labor costs signed in Italy in 1992 between the Federation of Industry and the Trade Unions, however wage deflation as a permanent objective has been best implemented in Germany from the mid 1990s onward. The other countries, facing the use of that formidable tool by the most formidable

industrial country of Europe, could not operate differently. The recovery in German exports and the attainment of a much higher surplus, as a proportion of GDP, than that achieved in the late 1980s was due to maintaining, and even tightening, wage deflation after the downward realignment of the Deutsche Mark towards the Euro lock in exchange rates during the 1996-98 biennium.

If net exports become the chief objective of macroeconomic accumulation, then the economy tends to be fully Kaleckian and it leaves very little room for a progressive management of effective demand[4]. In other words, a Kaleckian analysis of Europe excludes the possibility of an effective demand policy as that advocated by the Keynesians. From the stand point of the capitals operating in each country, the objective of export surpluses clashes with the idea of a wage led recovery, thereby emptying one of the main normative aspects of the Keynesian belief in wage led growth[5]. With the convergence, after 1996, towards what later became the lock in exchange rates for the Euro, Germany successfully merged the nominal devaluation of the Deutsche Mark with domestic wage deflation. Domestic demand stagnated but net merchandise surpluses rose to levels which by 2001 eliminated the external deficits. As much as the post 1996 convergence towards the Euro exchange rates, restored German neomercantilistic dominance in Europe, it muzzled Italy's neomercantilistic *contropiede* since the country's exports always benefited from what used to be called in Italy a "dancing Lira". It was so in the 1970s and after the collapse of the EMS in the 1991-1996 period. Logically with a large single market and a single Central Bank, Eurozone fiscal policies could be coordinated in such a way as to produce Keynesian outcomes, without even changing the "independent" role of the ECB, as the recent Keynesian literature has argued, thereby suggesting a political compromise with the new orthodoxy in central banking. Yet this rather naïve view presupposes that there is a real tendency towards the unification of Europe. However, in the last 52 years each phase of the *construction européenne* reproduced, albeit in a different form, the neomercantilist dimensions of the major countries[6]. The crux of the matter is the sacrificing of domestic demand in order to obtain export surpluses seen as the most important component of profitability also because it is consistent with wage deflation.

3. The American-Asian Model: Bypassing Effective Demand

[4] For Kalecki net exports augment total gross profits. Hence the level of profits is not constrained by the domestic level of investment and of capitalists' consumption. Therefore, in a fixed exchange rate regime any rise in wages above productivity will be met by a credit squeeze from the central bank in order to generate a Keynesian recession in which the higher level of unemployment will rein in wages and help exports. In a floating exchange rate regime money wages can increase more than productivity. In an oligopolistic economy this entails a strong tendency towards cost push inflation. If the rate of inflation is paralleled by a more or less similar devaluation, the external position of exports is not much affected. However the wage increases + inflation + devaluation game, at which Italy became a master in the 1970s with good results on the balance of trade position, discourages investment, affecting, in the course of time the product mix of exports. Thus in the second half of the 1970s, while Italy was doing well in terms of exports, it was doing pretty badly in terms of investment.

[5] There is a wage led scenario in Kalecki's posthumously published essay 'Class Struggle and the Distribution of National Income'. Written during the big wage explosion of the late 1960s, Kalecki argued that Unions should avoid gains in money wages from being eroded by inflation, by suggesting appropriate taxation and price control policies. For Kalecki this was a step towards a strategy aimed at weakening monopolistic capitalism.

[6] This aspect is highlighted in Bozzano (2008).

The neo-liberal turn of the early 80s established a powerful stagnationist tendency, but from the mid 1990s onwards, political countertendencies were activated which solved, albeit temporarily, the problem of an insufficient effective demand, while at the same time weakening and fragmenting labor (see Bellofiore and Vertova 2006 for a more detailed analysis). These political processes and mechanisms – the epicenter of which is in the United States – gave way to a new kind of interventionist economic policies.

The stagnationist tendency takes hold in the 1980s and in the early 1990s. The deregulation of capital movements, the restrictive monetary policies, the attack on welfare provisions, the aggressive competition of global players in manufacturing and service sectors, have all been at the root of the low and unstable levels of investment and of the violent compression of the share of wages, and often of real wages, hence of workers' consumption. The novelty of the last decade manifests itself in two phases. The first phase belongs to golden years of the new economy, especially after June 1995 when the long term decline of the US dollar was halted and reversed by the deliberate policy of the Federal Reserve - sustained by the Bundesbank - to stave off the collapse of Japan. The renewed strength of the US dollar and the Fed's monetary policy favored the Wall Street boom in stock prices which led to an expansion of consumption, and of investment, particularly in the technology sectors tightly linked to financial services. The whole process depended in an essential manner upon the private sector going into deficit, with expenditure higher than disposable income. Thus, in the second part of the Clinton presidency, when the State budget deficit was reversed into a surplus, private debt replaced a shrinking public debt. Household rising indebtedness was, in turn, guaranteed vis-à-vis financial institutions by that very rapid expansion of financial wealth.

The collapse of the 'irrational exuberance' bubble did determine the end of the most naive delusions about the new economy but it did not produce a vertical fall of the US and – by implication – of the world economy. The crisis in the US economy was short-circuited by a quick and massive injection of liquidity and by lowering the interest rate to practically zero, as well as in the resumption of a deficit orientated fiscal policy leading - contrary to the Clinton years - to a renewed rise in the public debt. In short, the crisis was avoided by the creation of endogenous money and by relying again on war Keynesianism.

Yet, we can't stop here and conclude that the latter is the sole form of Keynesianism compatible with, and acceptable to, contemporary capitalism. We cannot conclude that for two reasons. Firstly because – as we have already hinted – the new economy, no matter how paradoxically, relied on an efficacious form of Keynesianism through the financial lever via the command over money exercised by the Federal Reserve. Secondly, low interest rates and military spending were not enough to kick-start the American economy, and that of the world. We come now to the second phase of our narrative about the novelty and changes of the last decade. Large injections of liquidity and military spending guaranteed a floor to the fall of economic activity. However the factors that have enabled the upswing in the cycle of the world economy are related to two other circumstances which are far from being purely contingent. The first is expressed by the United States' relations with Asia, first and foremost with China and India (Halevi and Kriesler 2007). The second circumstance relates to banks' willingness to finance consumption entailing a rising households' debt. A key element of such willingness has been the financing of the 'real estate' bubble, which was on the verge of a sharp deflation in 2006, giving way to the subprime crisis of 2007.

The subprime crisis can be seen as a bubble on a real tendency based on the stagnation of real wage earnings. The bubble was connected to a paradoxical form of financial Keynesianism based on asset price inflation and banks willingness to refinance and extend debt. For the period it has lasted this paradoxical speculative Keynesianism has enabled to circumvent the negative impact on effective demand arising from real wage deflation. The crisis in the subprime markets was loudly announced and yet it became inevitable because prudential behavior had been eliminated by the fact that capitalists' financial rents have become the main objective of accumulation. Indebtedness, initially by business corporations and now overwhelmingly by households, lies at the roots of contemporary financial system in a way which is different from debt creation in a context of the expansion of real incomes and the effective demand it engenders. Corporate debt was the product of the stagnation of the 1970s and household debt is essentially the outcome of stagnant real wages. The economic trick, initially applied in the United States and later spreading to Europe, has been the systemic transformation of debt into a source of future financial gains. This is a purely institutionalized Ponzi situation abetted by governments and monetary authorities. The subprime crisis can therefore be seen as the unfolding of the mechanism of new capitalism and its corresponding economic policy. When the 2000-01 crisis was overcome in mid-2003, and the rise in interest rate after 2004 risked to cut short the revival of economic growth based on the house bubble, this latter was kept alive thanks to the subprime borrowers. All this notwithstanding, the house of cards collapsed when price of real estate started to decline: a modified version of the 'financial instability hypothesis' leading to a 'Minsky moment'[7].

At the international level, Asia has been covering United States' twin deficits for years. Schematically we may capture the essence of the contemporary situation as follows. Net world demand is predominantly generated by Anglo-Saxon capitalism and it is supplied through a productive cycle largely based on delocalized production processes. The key variable in the positive dynamics of demand is private indebtedness, which in the United States has grown exponentially. On the whole, net savings of the private sector, even of households, are now negative. Banks, busy as they are in sustaining consumption, provide firms indirectly – but not less efficiently – with both liquidity and market outlets for their production. Hence, finance to households' consumption is in fact finance to firms' production and guarantees an adequate effective demand. Asia is also the new world manufacturing engine, and it exploits a huge 'industrial reserve army' of labor, while deindustrialization and the new service economy at home - i.e. in the mature countries - inescapably give rise to generalized precariousness in job and working conditions.

If today there is some kind of Keynesianism, it is of this kind, and it is quite consistent with a growing 'casualization' of the labor force, so that the ensuing 'full employment' is intrinsically precarious and unstable. It is a 'financial' form of Keynesianism. It is an asset-based and 'privatised' Keynesianism, crucially dependent on the ability of the banking system to support or even generate bubbles. Initially, in the heydays of the new economy, it was centered mainly on the stock exchange bubble, later on the real estate bubble: both pushing up, through a wealth effect, consumption through indebtedness. All this is temporarily allowing to 'close' the

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[7] On the resurgence of a 'Minsky moment', see Bellofiore and Halevi (2008). Relative to the original Minsky's argument, this time the increase of leverage affected mainly households, the driving component of demand was consumption thanks to a wealth effect due to speculative bubbles. Monetary economic policy was for a while effective in boosting effective demand, but the process is unstable and unsustainable.

monetary circuit from the effective demand side. It is neither a new stable regime for the extraction of surplus value (as the hyper-globalisers or the post-workerists like Toni Negri would want us to believe), nor is it a stagnationist regime as old and new Keynesians are fond to claim.

Workers are sucked into the vortex of this infernal whirlpool activated by this 'financial' Keynesianism not only as workers (squeezed by restructuring at home and competitive pressure from outside), but also as savers and as consumers. They are involved in the financial markets, in different degrees depending upon the institutional set up of the countries concerned, as investors of their own monetary savings (these are being now mobilized without any impediment and national controls following the dismantling of the national pension systems and the concomitant rise of institutional investors), and as debtors towards the banking system (because of consumption and mortgage loans to households).

The axis of this new model – which, it must be stressed, presupposes in the United States the primacy of expansive monetary and fiscal policies, i.e. exactly the opposite of the European Central Bank + Maastricht parameters + Dublin's Stability Pact model – can be then portrayed as follows: low wages, precarious jobs, budget deficits, high indebtedness, plus absorption of wage earners in the financial circuits qua investors[8] and debtors. *The problem of effective demand,* that is, *the question of the monetary realization of profits* is, as a consequence, temporarily solved. It would be difficult to predict how long can this sort of solution last since it contains unstable and, in the long run, unsustainable elements and forces. These are to be seen both within the dominant economies, in geopolitical factors, and, perhaps increasingly, within the global Reserve Army economies of China and India[9].

4. and Europe

The nature of the new American-Asian model is such that Europe plays the role of a residual actor. The axis USA-Asia requires that the US dollar remain the pivot of the world financial system, even under conditions of systemic but controlled devaluation. This factor, together with the rise of the Asian manufacturing sector, hurts the Old Continent. It does so at and increasing rate with the acceleration of the dollar's devaluation. Within Europe the weakest areas, such as Italy, are particularly hit. Yet, were the new US driven model – which we described only in the most general terms – to implode, it would bring to a halt the only global economic locomotive still active despite all its limitations. Europe would simply not be in a position to replace it even if it wanted to. Nor the idea of a decoupling of Europe from the United States is very convincing, as long as the new exporting areas like China and Asia, are closely tied to the United States.

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[8] With the privatization of pension schemes and with the continuation of compulsory contributions, but now to private or corporatized funds, wage earners become captive investors although the decisions about actual financial placements are made by the exceptionally high paid managers of the now private pensions funds. This is not a minor point. No government favoring the privatization of pension schemes has ever suggested making contributions optional. Hence all the rules and laws regarding compulsory contributions are in place while the flow of funds is redirected towards the privatized institutional investors**.**

[9] A recent study by the Asian Development Bank (2006) has highlighted that the persistence of low wages and an expanding, job-wise unstable informal sector may actually bring down the growth rates of both China and India to the relatively low level of 3% per annum, which in per capita term would be less than 2%.

The European impotence ensures that the United States will always hold a significant blackmailing power. It is necessary to avoid a serious misunderstanding. We should not believe that the Maastricht Treaty and the Stability and Growth Pact of Dublin and Amsterdam, were just mindless or a stupid thing, to quote the former head of the European Commission and former Italy's Prime Minister, Romano Prodi. Instead, the Maastricht Treaty and the Stability Pact represent the alibi behind which proceeded in Europe industrial restructuring, the creation of a financial space, the formation of new regional articulations and the dismantling of the welfare state based on acquired rights. These processes, however, stem from much more substantial factors which are bound to persist, and they will, even in the case of the relaxation – which has been already happening in the last few years – of the Treaties' constraints on public finances. These processes not only admit but require divergent dynamics for the different areas of the European Union. The divergent dynamics are rendered more dichotomous by the new entrants from Eastern Europe with their disguised unemployment and low wages also of their skilled labor force.

Our scenario identifies 5 different and divergent areas within the European Union and the countries gravitating towards it. A quality based manufacturing pole centered on the traditional Franco-German heart of Europe, which therefore includes Belgium but also Austria and, de facto, the regions of heavy industry of Switzerland. This pole has, through Germany's activity of restructuring, a small industrialized periphery in Eastern Europe mostly in the Czech Republic and to some extent in Slovakia. The Western European side of this pole still has a substantial system of welfare provision which is being gradually thinned out. We then have a pole based on niche productions of advanced technologies located in the Scandinavian countries, including Finland which has created an outsourcing periphery for its own high technology sectors in tiny Estonia. On the whole in the Scandinavian pole, the essential features of the social democratic model seem to be still holding pretty well, but the generalization of such a model to the rest of Europe is out of the question. Then we have the United Kingdom, fundamentally a pole onto itself, but with strong ties to the Netherlands and Luxembourg qua financial and service centers, linked mostly to Anglo-Saxon capitalism. The fourth pole is centered on Italy and is characterized by being an area of relocation of low level industries, as evidenced by the outsourcing of the small Italian firms in the traditional sectors to countries until recently outside the EU, like Romania, or yet to be brought in like Albania. The last area is formed by countries such as Spain, Portugal, and Greece. Neither possesses companies and sectors which are crucial to capital accumulation internationally. Spain's major industrial firms are either branches of, or are tied to, multinational companies. Its telecommunication companies developed rent seeking activities in Latin America, especially in Argentina, and played a significant role in the financial crisis of that country in 2001. But Spain's growth is essentially due to housing construction and is connected, like that of Greece, with an expanding external deficit larger, in per capita terms, than that of the United States.

Until now the European Union financial system has bankrolled both countries' deficits but such a situation cannot be assumed to last indefinitely. The new economic geography of Europe both updates and confirms the old one: some countries, like Italy, slide down the ladder abandoning their previous positions and roles, while at the same time there are tendencies to establish also an imperialist pole centered on Mitteleuropa.

Within this context one cannot bury his/her head in the sand and not see that in the first few years of the new millennium redefining, not just on paper but in practice,

the Stability Pact has become the lever with which power relations are exercised and altered. The ways in which countries pretend to apply it or decide to bypass it, highlight in full the predominantly national dimension of European policy making. The European nation states (countries) constitute the pivot of the political and institutional dimensions of the Continent's and of the European Union's class articulations. The most relevant proof of the pivotal role of the nation states in Europe comes from the fact that no country, even those where the wage rates are similar, advocates the unification of labor norms. In the core countries of continental Europe, and certainly as far as Germany, France, and Italy are concerned, capitalism developed on a neomercantilist basis. Until 1939 such neomercantilism vis à vis each other was connected to the construction of multiple conflicting imperialist peripheries which were supposed to provide both raw materials and net financial flows to the metropolis. In the post WW2 period the process of European integration emphasized the reciprocal, hence incompatible, neomercantilist orientation of European capitalisms. Indeed European macroeconomic accumulation was largely based on an export led growth towards Europe itself and even today the macroeconomic performance of Germany is crucially dependent upon its net exports towards the EU. Thus European treaties and agreements always implicitly express the neomercantilist balance of power ruling during the phases that led to the formulation of those very treaties.

In this context, the small countries support the Stability Pact precisely because they went through heavy sacrifices to comply with it. For this purpose they had, as in the Dutch case, to impose sacrifices which redefined the relations with Trade Unions and social relations within the society. In the Netherlands, for instance, the path to compliance has entailed the mutation of around 40% of the total employment into part-time jobs. Neither capitalists nor any standard government would, in all good faith, call this outcome into question and say "sorry we were wrong, let us pay no attention to the Stability Pact for which we put 40% of you into precarious occupations". Thus to fence off the possible repercussions coming from the (large) countries which are not abiding by the criteria, their defense is, for the Netherlands, a way to defend the new class articulation achieved through the imposition of those sacrifices.

For France and Germany the situation appears to be altogether different. Already with the launching of new single currency these two countries were, without fudging the data, outside the parameters. These two were also the countries that most adamantly opposed, by throwing their weight around, the creation of a truly European budget. They were exercising their pressures while they were successfully demanding to be allowed not to respect the rules that they imposed upon the smaller members of the EU as well as on Italy. It is equally significant that France and Germany are crucial contributors, at the EU level, to the reformulation of the discretional rules in a way which would favor a greater severity regarding the criteria of public debt. The new discretional rules that France and Germany are supporting, are constructed on the basis of an ideal culprit, Italy, so that Paris and Berlin can continue to use the Stability Pact the way it fits them, while Italy will have to converge towards its parameters being treated as a repeated offender. France for instance, has already stated that it will not abide by the pact till 2012. Germany, after years of violating the rules, has shown a rekindled interest in enforcing the Pact, thereby clashing with France. This is due to powerful export surplus it has obtained within the European Union which has, for the time being, restarted the growth process and, with it, the net fiscal revenues of the German Federal Republic.

It follows therefore that it is impossible to see on what kind of common interests can emerge a European form of Keynesianism in the traditional meaning, leading to a coherent reform of the Pact. There is simply no scope for this kind of action.

Europe has been in effect a unified territory for quite a long time, but not because of the impact of the overarching process of globalization. Rather, what unified the European territory was and is political intervention. It is a unified space in terms of markets which are regularly the target of neo-mercantilist forays by the very same national capitalisms forming that space. It suffices to take a look at the German current account surplus of more than 218 billion dollars estimated for 2007 by the OCDE. If we now add the Swedish, the Dutch, the Belgian and the Swiss surpluses, we obtain a sum of 187 billion dollars, not far behind the German level. The bulk of these surpluses are realized within Europe itself. That is, through intra-European transactions. This fact points to a problem that, for the Continent, has by far deeper, more structural and graver implications than the supposed constraints of the Maastricht parameters. Indeed, in Europe there is absolutely no mechanism to recycle in a Keynesian manner the current account surpluses of the countries accumulating them. The recycling used to occur quite swiftly before the creation of the European Community. This was in the 1950s thanks to the European Payments Union set up to receive the counterpart funds of the American Marshall Plan. While the balance of payments issue is unavoidable[10], the Maastricht parameters can be manipulated and even ignored, as France and Germany (and Britain) have done in some years of the last decade.

We can rest assured that also in the case of the external surplus Germany will never accept the formation of a European wide clearing union in the way suggested by Keynes during the negotiations at Bretton Woods. This reason is rather elementary. For Germany the surpluses are profits obtained on the external transactions by German companies or by the German affiliates of foreign multinationals. And profits must remain profits: it is not acceptable to 'socialize' them. If one follows our non 'idealistic' reading of Keynes' analytical apparatus and, in this context, sees the anti-Keynesian implications of the surpluses in the current account, it is easy to grasp the present-day impossibility of a European wide true Keynesianism. Hence our reasoning uncovers the flimsy nature of those analyses which end up merely advocating greater margins for budget deficits and for the public debt in matters of economic policies and stronger wage demands in matters of social policies and actions.

Our analysis leads us to reject the Stability Pact and the present mechanisms of income distribution without any delusion concerning the possibility of opening up today new spaces for Keynesian policies. We deem that both the Pact and the distributive mechanism at work nowadays are structurally tied to the capital-labor relation that has been established in the European neo-mercantilist context. Instead our analysis suggests that it is urgent to tackle politically from the left the neglected issue of the structural determination of the productive system – 'what' and 'how' to produce. This alternative discourse and policy project – at the European level – cannot but be grounded on the explicit integration into the conceptual and policy frameworks of class analysis. This is so because the current configuration of the capitalist system

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[10] The balance of payments deficit is a concrete phenomenon. In Kaleckian terms it states that the consolidated accounts of the capitalist units within a country do not generate net profits in their international transactions. This is true also for the United States, but US capitalism is a world capitalist economy and is not characterized by neomercantilism.

and of actual economic policies is framed in a way coherent to the re-making of the immediate valorization process, something which is deepened by what may be labeled as the *real subsumption of labor to finance* – referring both to the investment in stock exchange and to the bank generated debt to sustain consumption. This reality cannot be opposed and transformed without understanding the changes in the capitalist labor process. Unfortunately most European progressive economists, be they Sraffo-Keynesian or Post-Keynesian, make only a liturgical reference to class, and then proceed to suggest reforms to the existing arrangements as if all that was needed was a team of non orthodox economic advisors (Bellofiore and Halevi 2006).

5. The New Modalities of the Old System of Exploitation

We have already pointed out that, at least as far as the pressure on the labor force is concerned, the so-called European model increasingly appears to be a local adaptation of the Anglo-Saxon model. The long run growth rate is low and unstable, the composition of demand depends in a growing measure on rising inequalities in the distribution of income, and finance has acquired a commanding role with direct repercussions on firms' corporate governance. What is crucial to understand in the present capitalist dynamics is that these factors allow for a 'systematic' control over labor whatever the skill levels.

On one hand, the new forms of command over 'flexible' and precarious labor force, appear as imposed upon firms by markets' profound unpredictability and fickleness: though, as we have shown, they are also the product of political decisions regarding the global macroeconomic management. The monetary and fiscal policies pursued in the Eurozone of the European Union are certainly playing a role in creating such a situation. Yet beneath those policies lie the harsh substance of the social relations of production. No progressive economic policies can be conceived without first addressing the nature of the social relations of production prevailing today.

On the other hand, the 'fragmentation' of labor and its 'destructuring' are generated from within the firms on the basis of the new microeconomic criteria of corporate governance. All this is deeply affecting the dynamics of valorization directly in the production process. Work is no longer performed according to productivity criteria defined a priori in a stable productive and technological context (production as a plan to be sequentially and rigidly implemented). Instead it is being organized around objectives and targets which will be evaluated ex-post (production becomes a task to perform with flexibility). The penetration of the market into the mechanism of production has been going on at least since the 1980s. At first, the market 'entered' into the process of production with a reorganization of the holdings where each unit is judged on whether or not it is a profit center, and as such it must virtually exchange with the other internal profit-centers. More and more the choice to be made is *make or buy?*, i.e. if to produce internally or to purchase on the market. The process has being accelerated with traditional outsourcing, but becomes dramatic in the late 1990s with in-house outsourcing. Here, workers of the same production line end up belonging to different ownerships, different contractual frameworks, and are even unionized differently. The new regime is conducive to the expansion of casualization. Living labor itself is treated *as if* it would be a 'commodity' just like any other, to be performed and paid 'just in time'[11]. It is in this context that the "real

[11] In this respect Italy, precisely because it is a periphery in Europe and relatively weak, has been and is an experimental laboratory of anti-labor policies, starting with the "Pacchetto Treu" of the first Prodi

subsumption of labor to finance" can be exploited by the capitalist class also at the ideological level[12]. Wage earners are effectively 'incorporated' within finance thanks to the changes in the pension system, by the ensuing redirection of workers' savings towards the financial markets, and in Europe also by the reform of the banking system along the lines of the Anglo-Saxon model. The wage squeeze and job uncertainties should – according to ideologues – be counterbalanced by higher returns obtained by investing workers' savings in the stock markets.

We therefore have a two pronged tendency: a sequence that goes from the predominance of finance to the control over labor via the volatility of markets and the macroeconomic dynamics. Another sequence goes from the predominance of finance to the control over labor via the internal decentralization of firms. The current world-wide expansion of wage labor - which in itself shows the futility of the arguments which just a few years ago were advanced by the 'end of work' literature - translates itself into a fragmentation of the working class. The latter does not disappear but its social consciousness and strength are dramatically weakened.

In this context it is also important to criticize those who portray contemporary capitalism as increasingly based on non-material, knowledge-intensive, activities. It must be stressed that in Marx the term 'working class' is not a sociological-descriptive concept covering only industrial labor strictly sense of the word. More than that: the relevance of the working class does not lie in its numerical expansion as a growingly homogenous subject. Its importance as a class resides in the fact that the new value, and hence income, produced by productive workers is nothing but the monetary expression of their living labor. This is true even today, when often the increasing centralization of the commanding heights of capital (both in finance and production) is going on hand-in-hand with a decrease of the size of the immediate productive units, and also of the amount of workers employed by the same individual capital: in Marxian terminology, and opposite to what was true until a few decades ago**,** we are witnessing a 'centralization without concentration'. This means that capital's drive to divide and fragment the working class is much more powerful than ever in the past[13]. After some decades when it decreased as a share in total employment (the 'Fordist' era), nowadays wage labor, the labor dependent upon capital, is significantly expanding again, not only in absolute terms but also as a proportion of total employment. Both in the world arena and in 'mature' capitalist countries.

Lastly, the manufacturing sector has intrinsically an important role in the occupational structure. Although the data may seem to tell a different story, in reality many occupations appear as belonging to the service sectors simply because they have been outsourced by the industrial firms, whereas previously they were integrated into the data on industrial employment proper. 'Manufacturing matters' also in the pure technical productive sense. Without a strong advanced industry nothing can be produced not even services, since they require significant industrial inputs such as computers. The case of the United States proves this point. 'American' capitalism does have its industrial sector, only that it is increasingly located outside the national territory and outside the direct realm of the US dollar. Thus unless one wishes to

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government in the 1996-98 period and then with the so-called "Legge Biagi" of the second Berlusconi government, maintained by the second Prodi government.

[12] On a criticism of the so-called pension-fund capitalism, see Bellofiore (2000).

[13] The unity of the working class has however never been the outcome of some spontaneous process: it was and is, always and everywhere, the product of a conscious social and political action against the 'deconstruction' furthered by capital.

maintain that the US balance of payments deficit does not matter, the US case confirms, by default, the national importance of having and nurturing a strong manufacturing sector[14].

Although ‘turbo-capitalism’ can coexist both with military Keynesianism and industrial hollowing out, its impact is severe for the population of the country originating it, as argued by the inventor of the term, the former Reagan advisor Edward Luttwak (1999). Similar processes are bound to occur, and indeed are occurring, in Europe as well. Hence the organization of the oppositional struggle must have as the first item of the agenda the social reunification of labor, ‘from below’. An exclusive focus on economic policies ‘from above’ is only a necessary but far from sufficient condition to advance the unification of labor. The crucial issue is the centrality of class relations and of the mode of production both within the inquiry of contemporary capitalism and the configuration of alternative economic policies. These twin elements must become the defining elements of any political and economic strategy of the left.

We can now summarize the essence of contemporary capitalism from the point of view of labor. The unstable equilibrium of today’s capitalistic growth rests on *scared workers* (because of the transformations in the labor process and in the so-called labor market), *terrorized savers* (because of the modifications in retirement systems and the uncertainties related to financial investments), and *indebted consumers* (because of the increased dependency of consumption expenditure on banks’ credit)[15]. This is nothing but the dialectical aspect – from the angle of wage earners – of the process centered on the formation and expansion of an industrial reserve army on the world scale, on global migration flows, and on the planetary delocalization of manufacturing industries. In each economic area this harsh global class reality is politically managed according to a different specific macroeconomic dynamics. If in the 1930s State intervention was the condition for restarting the process of expanded reproduction, under contemporary capitalism the management and the very reproduction of ‘instability’ and even ‘crisis’ becomes the political and economic condition for the governance of the phases of accumulation. It is therefore futile to separate growth from instability and crisis in assessing the dynamics of the system.

The Achilles heel of the Post-Keynesians approaches lies precisely in the unwarranted separation between, on one side, the dynamics of accumulation and, on the other side, the reproduction of instability and crisis, the latter being a condition of the former in these decades: as if a renewed Keynesianism or a wage-led accumulation were possible without at the same time structural transformations pointing towards a break of capitalist social relations.

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[14] Of course, if a country loses its industrial base, demand polices in the Keynesian sense by themselves cannot bring it back – and the same is true for Italy nowadays.

[15] Actually, ‘scared’ workers are nothing but the ‘traumatized’ workers, whom Greenspan talked about. A more precise definition of ‘terrorized’ savers would be savers affected by a ‘manic-depressive’ syndrome.

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