Introduction
Riccardo Bellofiore and Giovanna Vertova

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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