1. Alain Parguez’s contribution to political economy

Louis-Philippe Rochon and Mario Seccareccia

Alain Parguez has been a friend of ours for more than 30 years. Mario Seccareccia was first introduced to Alain in 1981 by Marc Lavoie (see Chapter 2 in this volume), having himself first met Alain while a student at the University of Paris I in the 1970s. In the early 1980s, Lavoie invited Alain to be a Visiting Professor at the University of Ottawa (fall 1981), at the same time as one other post-Keynesian colleague in the economics department in Ottawa, Jacques Henry, had invited (in collaboration with Tom Rymes of Carleton University) Luigi Pasinetti.

At the time, Louis-Philippe Rochon was an undergraduate student at the University of Ottawa, studying under both Marc Lavoie and Mario Seccareccia, and met Alain for the first time in the fall of 1986. They have enjoyed a long friendship as well, and Alain was on Louis-Philippe’s Doctoral thesis committee at the New School University in New York, along with Marc Lavoie and Edward Nell, his PhD thesis supervisor. Clearly, Alain’s long association with us has had some obvious repercussions on our own views about economics – a relationship that proved as fruitful as it was lasting.

After Alain’s first visit to Ottawa in 1981 he made many more in the following years. Indeed, Alain has enjoyed a long and prosperous association with the University of Ottawa, which he maintained through regular visits for over 20 years and, in fact, eventually took up the official status of Visiting Adjunct Professor until 2002. This entailed a long-standing regular contact not only with Marc Lavoie and Mario Seccareccia, but also with other heterodox colleagues such as Michel Chossudovsky, Camilo Dagum, Marcelle Genné, Maurice Saint-Germain and, until his untimely death in 1989, Jacques Henry. Alain has also enjoyed close friendships with more orthodox colleagues such as Ronald Bodkin and Serge Coulombe, or colleagues from outside the economics department, such as François Moreau (sociology) and Duncan Cameron (political science). He has also had close contact with colleagues from other Canadian universities, especially Tom Asimakopulos (McGill University), Gilles Dostaler (University
Alain Parguez's contribution to political economy

of Quebec in Montreal), Jean-Guy Loranger (University of Montreal) and Pierre Paquette (Royal Military College of Canada).

The many of us who have had the privilege to know Alain during these many years in Canada, however, were not the only ones influenced by his writings. Indeed, Alain’s strong intellect has influenced many generations of students, in France and also around the world, in part because of his important work as editor of the well-known series *Monnaie et Production*, which was a quasi-annual publication under the auspices of the journal *Économies et Sociétés*, published by the ISMEA (Institute for Applied Mathematical and Economic Studies) in Paris, directed by François Perroux and later by Gérard de Bernis. Alain was editor for close to a dozen years, editing ten issues from 1984 to 1996, during which period he became the champion of Keynesian economics in France, and as such stood in sharp opposition to the policies of austerity, whether fiscal or monetary, which had taken root during the 1980s.

And while he has influenced a generation of economists, Alain’s own intellectual influences are rooted in the work of important French Keynesian economists of the early postwar period, including such figures as Jean de Largentaye, Alain Barrère, Bernard Ducros and Jean Weiller, although the latter certainly had the strongest influence on Alain. But there were other influences as well. His writings were heavily inspired by the works of Marx, Keynes and Kalecki, and from them he took the notion that money was a central element of any macroeconomic theory of production and that, as such, it had to be incorporated into the analysis of capitalism.

This influence is most notable in Alain’s first major book in 1975, *Monnaie et Macroeconomie: Théorie de la monnaie en déséquilibre* (Money and Macroeconomics: the theory of money in disequilibrium), which defines a research agenda that, in some ways, has remained with him until today at the age of 73 (in 2013), although upon reflection, Alain may now want to change the reference to disequilibrium. Nevertheless, the book contains the seeds of his approach to economics that have followed him to this day.

In particular, in that book, Alain presents a flow chart of money (Figure 1.1), which is very much at the heart of what would later become the theory of the monetary circuit, an expression which would come later in an article in *Économie appliquée* titled ‘La monnaie dans le circuit’ (Money in the circuit), and published in 1982.¹

But the idea of a circuit is certainly present, as evidenced by Figure 1.1 explaining the initial creation and final destruction (cancellation) of money based on the elemental monetary flux–reflux principle. Indeed, unlike many of the standard depictions of the monetary circuit in which
non-financial business enterprises are usually consolidated into one large sector, in his 1975 monetary flow model of the macroeconomy, it is disaggregated into two monetary flows pertaining to the consumption and investment-goods sectors in a concatenated temporal process. The process begins with the initial bank credit advances (stages 1, 2 and 3 on the upper left of the diagram) that generate income flows $Y_1$ and $Y_2$ (stages 4 and 5). These income flows finally give rise to a monetary reflux through consumption ($C^*$) or saving ($S^*$), which allow business firms to extinguish their debts previously incurred (in the final stages 9 and 12 respectively, as shown in the lower midpoint of the diagram). It is worth pointing out that Alain called this ‘flow’ conception of money (which stood in sharp contrast to the neo-Walrasian ‘stock’ view), a ‘Neo-Keynesian theory of money’ – a title that he would certainly change today. But Alain’s use of the prefix ‘neo’ at the time was strongly to de-emphasize Keynes’s theory of liquidity preference, as depicted in Chapter 17 of the General Theory.

But what is important to note is how Alain, as early as 1975, was struggling to develop a Keynesian theory of money. Unlike commodities, as he has argued many times since the 1975 book, money can never be scarce. As such, all theories of money that focus on money as a ‘stock’, that individual agents wish to hold, start from the general presupposition that money is a scarce good. This is even true in Keynes’s General Theory, where Keynes adopts a Marshallian monetary framework of analysis represented by a vertical money supply and a demand for money curve drawn in interest rate/money space from which the price of money – the interest rate – is determined. In this sense, he included what in
1975 he called the ‘ultra-Keynesians’, but which we would now call the neoclassical Keynesians.

The theme of money’s non-scarcity is a familiar theme in Alain’s work, and it is, in many ways, the core of his approach to economics that has been so throughout his long career. According to Alain, the reason money cannot be scarce is that it is created *ex nihilo* (out of nothing) by the banking sector, and imposes a macroeconomic logic on the productive system – a logic that cannot be analyzed with the traditional static Walrasian tools of microeconomic supply and demand. Indeed, one cannot even speak of the concept of ‘equilibrium’ in the circuitist perspective but only of a ‘closure’ of the monetary circuit.

In fact, as he writes in the first issue of *Monnaie et production* in 1984, money is not connected with the emergence of that Mengerian ‘most marketable of commodities’, which allows society to progress from barter to a more efficient monetary economy. Rather, money is that which permits society to transform itself from a regime of accumulation via the extortion of a tribute (by requiring a prior saving fund) as it existed in highly centralized despotic ancient societies (or even in twentieth-century command economies), to a regime of accumulation via credit creation. The existence of money as the counterpart of credit advances, arising as the result of a simple balance sheet operation of a banking institution, provides the key to an understanding of why conceptualizing money along neoclassical lines (as if it were a scarce commodity) and developing economic policies on the basis of those precepts leads to impoverishment. Indeed, in denying credit, society must inevitably cannibalize itself from within, via the imposition of austerity.

This explains why from the moment we met Alain in the 1980s, he was always a fervent anti-Hayekian and a staunch critic of austerity, since the latter views deny the essential role of money in a dynamic economy.\(^2\)

Austerity policies, both monetary and fiscal in nature, impose a tribute on society in order to accumulate, by destroying the foundation of future growth:

1. Monetary austerity or high real interest rates (as in the 1980s) imposes a tribute whose purpose is to expand the income (i.e. consumption/saving) of rentiers, but at the expense of the productive sector, which stagnates.

2. Fiscal austerity or budget surpluses reduces productive public investment and imposes a ‘squeeze’ on societal consumption, the effect of which is to jeopardize the basis for long-term growth, since it is only present consumption that insures greater private investment. Hence, ‘crowding out’ can never occur, unless the economy...
is at a genuine full employment (and not at some fictitious ‘natural’ rate of output).

While the theme of austerity has been a central element of Alain’s thought for more than 30 years, in recent years he has developed his views on the monetary circuit even further, by developing within that analysis a theory of the State. In doing so, he has built bridges with the Chartist perspective on money (nowadays dubbed modern monetary theory), since the latter is merely an extension of the basic circuitist flux–reflux principle extended to the State (Parguez and Seccareccia 2000, p. 120). Of special policy importance, Alain refers to the ‘paradox of redistribution through taxes’. According to the neoclassical belief (especially in social democratic regimes), the so-called budget constraint of the ‘Robin Hood welfare State’ has erroneously brought policy-makers to believe that taxes are merely recycling income within the private sector and that tax revenues must be raised in order to engage in public spending. As a result, policy-makers believe in long-run balanced budgets in order to generate growth and achieve a more equitable distribution of income in society. For Alain, this is completely wrong-headed and brings society back to the principle of growth by tribute.

While being a strong socialist intellectual committed to an egalitarian view of society, Alain’s conception and critique of macroeconomic policy clearly transcends, therefore, the traditional Right–Left policy divide. Alain has been as universally critical of the Mitterrand regime after 1981 and the Hollande government nowadays, as he has been of the previous Chirac and Sarkozy administrations, since all these regimes were and remain committed to austerity in France. Ironically, social democratic regimes have historically often been even more addicted to austerity than right-wing regimes, as was the case in the United States (US) between, say, the Clinton and the Reagan administrations. Despite his original association with the French Socialist Party during the 1970s, and with its research unit, IRIS, led by Jacques Attali, Alain quickly broke ranks and achieved political notoriety as an ardent critic of the Mitterrand regime, just as he repudiates the austerity measures of François Hollande since the victory of the Socialist Party in France in 2012.

However, his strongest critique nowadays is reserved for the euro, which from its emergence in 1999 he labeled a ‘false money’ against the real economy, with this false money now enshrined in the constitution of the European Economic and Monetary Union (EMU). In fact, Alain published a paper in 1999 in the *Eastern Economic Journal* (presented at the Eastern Economic Association the year before), in which he strongly criticized the euro and predicted its future. Not only are all his predictions
as to its eventual downfall appearing to be coming true, but tragically all of this is happening to the poorest and most vulnerable populations of Europe who are paying the tribute.

Although he does not like the orthodox–heterodox classification, the contributions of Alain Parguez ought to be essential to modern post-Keynesianism with its central focus on money and its link with the production sphere. The new challenge ahead is how to adapt these fundamental ideas of the circulationist perspective to a better understanding of the financialization of the productive apparatus of contemporary capitalist economies. And, perhaps even more importantly, the true task is to address how these new emerging forms can eventually be tamed, as the recent financial crisis has so forcefully brought that out.

We can certainly rely on Alain and his prolific mind to meet the challenge head on and to provide us with answers. For Alain, it is not a question of providing an understanding that is consistent with a certain established point of view, whether it is circuitist, post-Keynesian or Chartalist. It is a question of how to most effectively get to the truth.

Remarkably, Alain has not yet slowed his research or his writing. His current work focuses on analyzing the transformation and metamorphosis of modern capitalism as it develops into a financialized regime. He is also currently busy working on a collection of his best essays, tentatively titled *Money, State and Capitalism*.

This book is in honour of Alain Parguez and stands in recognition of his outstanding contribution to economic theory and policy. It is the result of a conference held in Ottawa on May 31 – June 1, 2011, where a number of eminent post-Keynesians and like-minded economists gathered to celebrate his long career. Held at the University of Ottawa, the conference was generously funded by the Social Sciences and Humanities Research Council of Canada (SSHRC), as well as the University of Ottawa and Laurentian University.

### NOTES

1. In fact, the paper (Parguez 1982a) was the lead article of a 360-page special issue, which carried the same name as his lead article, this special issue in *Économie appliquée* being Alain’s first try at editing a large number of papers, which gave him the impetus to start the *Monnaie et production* series a couple of years later.

2. Hayek became the main target of Alain’s criticism as Alain started to develop what he called the pure theory of the circuit, as he compared Keynes’s monetary production economy to Hayek’s real equilibrium theory in a long working paper (Parguez 1977). This early critique of the Hayekian order and of Hayek’s analysis of crises was developed further a few years later in two papers (see Parguez 1981, 1982b), and he continues to be such a staunch critic even today (see Parguez 2012–13).
REFERENCES
