Money, the State and transformational capitalism
a post -Marxist perspective
a modest essay
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This paper is to be read as an introduction to debates. It owes a lot to friendly discussion with Daniel Pichoud, Leo Malherbe, Ivan Invernizzi, Mario Seccareccia, Slim Thabet and Hassan Bougrine. I dedicate this modest meditation to my Mexican colleagues, Alicia Giron, Eugenia Correa and Wesley Marshall whose country is under attack by the new Cortez. I must emphasize that their exemple led me to write this paper. The class fighting spirit has been over for a long time in Europe and USA, while it could be beginning again in Mexico. I cannot forget the movie. "Once, there was the revolution". How could I forget that I delivered my last conference in UNAM just under the "portrait of Ho-Chi-Minh". I take full responsibility for the ideas expressed in this essay.

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The ongoing metamorphosis of capitalism

Marx was always emphasizing the evoluting nature of capitalism, of which the core was the choice of technology used not to free society but to enslave itself to the ruling class. What are the essential factors of the metamorphosis of capitalism: first the thirst for always rising profits, next the effort to thwart the threat of fundamental uncertainty of the future, third the search for the way to tame any resistance amid the working class. I delve into a post-marxist perspective because of the ongoing metamorphosis of capitalism, which started in the late decade of the last century or sooner. Mazzucato(2013) has proven that Marx have underestimated the ability of the ruling class to get rid of all obstacles by the shrewd use of technology.
What are indeed the essential features of the new capitalism led by the so-called "high-tech" animal spirit or "devil-animated spirits" if I dare say:

I/ First, a successful strategy to get rid of labour in terms of both quantity and income (herein lies the process of the race to automatisation of all sorts) enshrining a simultaneous drop in long-run employment and a tendency to the drop of accumulation of tangible capital out of investment. This effort to minimize investment <u>excludes any conventional substitution of "capital" for "labour"</u>. It means that investment and employment are decreasing, the decrease is both in the quantity of labour and in the creation of real capital out of productive investment.

II/ The systematic use of high-tech has opened the discovery of what is deemed "financiarization" by taking wagers on wagers, ad infinitum[1]. This chain of wagers, entirely financed by banks creation of money (directly and indirectly) generates illimited rewards shared between banks, financial investors, their leadership and their <u>tool</u>, the so-called legion of professional wager-takers. Indeed, those profits are fictitious, pure paper-profits, but they are transformed into real expenditures not of investment but of ultra Roman-like luxury consomption on a scale never attained[2]. "Pure capitalist consumption" is thereby <u>realizing</u> speculation profits. Herein is a widow's cruse that bypass Keynes own interpretation (creation of money) and Kalecki vision.

III/ At the same time, thanks to the "High-Tech" counter revolution, capitalism has taken control of education and thereby of culture and the very spirit of society. Herein lies the explanation of the vanishing class consciousness for those who suffer from the new metamorphosis. "Proletariat" is no more, fighting class spirit has been killed, it is the time of resignation and desperate efforts to cope with the ruling desires of the one class that survive,

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[1] As beautifully explained by Marx in book III of « The Capital » and Before in his short book on the role of the State, during the french IInd Empire, financiarisation was the core of XIXth century capitalism. Marx explains at length the process :

Massive State Infra-structure Investment	→	entirely financed by public debt	→	sold to banking trusts like the Morgan bank

Public debt was the existence condition of this monopolist capitalist State. Private capitalist debts were quasi-inexistent at that time.

[2] Capitalist consumption most infamous mark is the expropriation of poor costal villages to transmogrify their former living space into supra-luxury hotels from Viet-Nam, Sri-Lanka, Sechelles, Bali, etc… capitalist consumption is more and more including all kinds of perverted tastes…we are far from the role of old great families, like the Sforza or the Medicis, as protector of art. The share of ultra-luxury consumption as a ratio of total consumption never stops to rise like in the golden age both in America and Europe. Herein is a mystery: how could Keynes extol the austerity and the real saving of the capitalist class at the same time?! Herein is one of the most shocking and destabilizing aspect of inequality.

the capitalist class. The new culture, on one side includes the debasement of true culture, on the other side the full enslavement of education to the needs of the ruling class.

IV/ Such a deep metamorphosis requires the total control of the State of which the rulers become full part of the ruling class. Contrary to what many people believe, Marx wrote much on this role of the State without which the ongoing metamorphosis would have failed.
To be short the State has to comply with the following norms:

A/ It must never strive to attain full-employment.

B/ It must abolish all "obsolete" protection of labour.

C/ it must ensure the total submission of the youth to the demand of that ruling class. Herein lies the explanation of State-sponsored ideology of "new ultra-liberalism". It is indeed a very flexible ideology, some protectionism is perfectly sensible in this context.
Sometimes, it is written that "Keynesians" lost the war of ideas in the economic profession. As Marx wrote in his criticism of German ideology, wars of ideas are won not in the sky but on earth. What is the "profession", the intellectual reserve army of capital from which it receives bounties on an always rising scale.

D/ The ultimate essentia of this enslavement of the State is that it must be free from any temptation to act against the disaster.
The secret of the lethal ongoing metamorphosis is thereby that the State is deprived of the power to issue money at will. Thereby, public expenditures are to be financed by the issue of debts sold to banks whatever granting high enough profits to banks.
Thereby herein is the key:

As long as one rejects the power of the State to finance its expenditures without issuing debts, nothing can stop the juggernaut[3] of the destroying metamorphosis of capital. It is tantamount to two twin propositions:

1/ The sine qua non in the abolition of the dictatorship of capital is the full understanding of the monetary power of the State.

2/ The existence condition of a long-run commitment of the State to be the employer of first resort[4], the welfare source of first resort, the savior of culture whatever is to bestow on the State the indomitable right to issue money to undertake its commitment? May be it could be more accurate to recognize that the modern State enjoys this natural power which is the counterpart of the tax debt it imposes on society to be paid ex post (Parguez 2016), (Parguez and Thabet 2017).

The State as the leading issuer of the currency of which it is sovereign

It is its natural role, its ultimate existence condition, as the bold architect of a bright future. The State is thereby the wagers-taker of first resort escaping the lack of fear of absolute uncertainty.
It is tantamount that the sole natural State policy is a permanent investment into the future entirely funded by the direct creation of State money. This program aims at wiping out the destroying long-run tendencies of capitalism by providing society with the creation or rather invention of tangible and non-tangible capital.
It is the counterpart of the moral debt the State has to society when it is imposing taxation.

[3] Juggernaut in Indu mythology is a destructive and unstoppable force.
[4] As already proposed in the wonderful book of Bougrine 2016, The State as employer of first resort is the sine qua non of abolishing the class structure imposed by the decadent capitalist system.

Implementing the policy of investment into the future

It must be directly implemented by the public or social sector at large. The set of State "firms and institutions" which is directly receiving the new quantity of money in any period issued by the State at 0 interest rate, which is the true natural rate. It includes producing firms, research center, cultural and educational center, hospitals and all kinds of infrastructure (roads, railways, airports) including the search and use of raw materials and energy truly protecting and saving environment. For analytical reasons, one must take as the unit period the interval between the new wave of spending by the public sector and the payment of taxes which is also the interval between decisions of production of all kinds and the availability of commodities ,this is how through this investment into the future, eliminating or taming the spontaneous tendency of capitalism can the State attain its commitment :

Employer of first resort[5]

It means that all those who want to work at a real wage excluding any rationing without having the labour value creation potential confiscated by capital (Parguez and Thabet op cit) may find a job in the public sector whatever the part of it. It does not mean that there is no more room for a non-pure capitalist motivated private sector. It just implies that holders of the labour-force at last have a true choice. As shown by Parguez (2016), (Parguez and Thabet 2017) State policy may trigger a burst of true innovations, genuine entrepreneurial firms wishing to employ at the same wage-rate than the public sector young and hold people.

Welfare source of first resort

The public sector free from any profit constraint brings the most advanced education free of costs for users, high enough life-long pensions for those who freely wants to retire, health care affordable to anybody, unchecked research in technology. Thanks to the State, humankind is no more enslaved to an enthralling “High-Tech” debasing spirit, culture, humanity. In this process, universities are to play a leading role as Keynes once had in mind, instead of being the recruiting army of a decadent capitalist system.

Let us go further. A living real income is to be granted to artists no more servants of the ruling class and its luxury consumption and, indeed, to students whatever free henceforth both to choose their life and their future, escaping the debasing and corruption cult of business schools and their likes. Such a warranted income is only justified if it is part of the very long run State investment in the future. It must not be another symptom of the “social therapy of unemployment and inequality”, the plague of many fashionable social-democrats politicians, borrowing their “boldness” to reactionary professional economists like Milton Friedman.

The structure of financing State investment as the Michel-Angelo of the future

First, it is fully inconsistent with the existence of automatic stabilizers so fashionable amid early Keynesians and Post-Keynesian economists. Automatic stabilizers are just some version of orthodox price stabilizers. What is much more crucial is that banks play no role at all, just some accounting agency role. Even the so-called central bank is nothing but a State agency, it does not create money at all. It would be better to aggregate the treasury and the central bank. Believing that the State is running a debt to the central bank is sheer absurdity. One cannot be indebted towards oneself. Those who still believe in the central bank's creation of money are enslaved to an accounting process inherited from the past.

[5] The paramount role of the concept of the « State as employer of first resort » is emphasized in Bougrine (2016).

Thereby, assuming that each agency of the program has an account at a bank as if it was a fully independent agency lending money to the State, those banks are de facto or de jure socialized. They are deprived of profits and cannot create money.
It is somewhat absurd to accuse those who advocate such a program to be supporters of "crony capitalism"[6] because they shy away from public or social ownership.

The Keynes and Post-Keynesian and early circuitist conundrum

Post-Keynesians, in the course of their debates with the M.M.T. school shy away from the leading role of the direct money creation by the State. Like early circuitists they believe that indebtness to banks is the sole source of money creation, even for the State in the eponymous pape (Parguez and Seccarreccia 2000). It explains why they also shy away from an analysis of capitalism as an evoluting system of which the law is the effort to use technology against society as a cornucopia for fictitious profits.
Indeed they are under the spell of Keynes himself who ignored State direct financing. The same disastrous ignorance is to be found in Kalecki who postulated as a law that the State was in the same situation than private capitalist firms, it has to borrow to private banks by issuing liabilities. Thereby New-Kaleckians are sometimes forgetting money and debt with growth models in pure "physical units". None strive to derive the outrageous rise in inequalities from the metamorphosis of capitalism including the absolute control of culture.
As already emphasized, it is why in this note I am embracing a post-Marxian perspective.

The full new circuit triggered by the State long-run investment into the future
The first phase

It reflects the new injection of money by the State into the public or social sector as a whole as the set of "firms", including "social" firms like universities, research center etc…in charge of the investment of the future.
Since they must be free of any search for profits, they do not realize a profit. Herein I must emphasize this law, it is what distinguish the system from "crony capitalism". The whole invested money is thereby distributed to the private sector in wages, salaries, income to students or artists, pensions, and even what could be deemed "implicit incomes", the cost of health-care, studies (in addition to income paid to students for their living), etc…
This income is transferred to private agents in their banking accounts, banks being at this stage social institutions deprived of profits (the natural rate of interest being 0) and any power of decisions.
The banking social sector balance-sheet at the end of the first stage can be explained by Table 1 following the conventional accounting.

Table 1

Banks balance-sheet

Assets	Liabilities
$M_{0\,t} = R_{0\,t}$	$M_{0\,t} = I_{G\,t} = Y_t$

[6] Following Marx analysis of late XIXth century capitalism led by the public debt, State monopoly capitalism was a perfect exemple of « crony capitalism ».The same could be said about "corruption" of the elite ruling the State as the agent of private capitalism, they just want their share of aggregate profits. Dallying with these notions of crony capitalism and corruption is the proof that one dreams of an ideal capitalism that never existed in history. The State was always there with its public debt. It is tantamount to a hard fact: obsession with balanced budget never existed at the time Marx was writing. Being a staunch post-Marxist. I do believe that "crony capitalism" is just the natural avatar of State debt led capitalism.Those in charge of the State deserves a large share of total profits being full-part of the ruling-class!

By convention (a legacy of the past vanished ruling capitalism). $M_{0\,t}$ being the share of new money created by the State in period t to undertake its investment program, it is an automatic liability of the banking sector, its counterpart on the asset side is the amount of money just transferred to banks. It reflects what could be deemed the creation of reserves $R_{0\,t}$ by the central bank if it appears explicitly. It is the income directly created by the State public sector for the private sector.

Now starts the second phase.

$I_{G\,t}$ reflects the aggregate income of the private sector as already proven. It is to be entirely spent or recycled by the private sector as the set of users of State money. Recycling is operated through three main channels:

I/ Consumption of commodities and services not included into States investment. It generates the receipts of a new kind of users of State money, private firms operating under the rules of normal capitalism, having escaped the tendency to destroying metamorphosis thanks to the State program. As already explained, the role of employer of first resort does not mean that there is no room for private employment. It just means that the pure private sector enshrines a tamed capitalism of which the wagers on the future are entirely determined by the State program. It may earn profits (Parguez and Thabet op cit) which could be deemed natural or normal because they can never harm employment and confiscate the labour-value creation potential (labour productivity). Consumption of household excludes the orgy of luxury consumption generated by fictitious profits or the use of technology against society. Those deadly transformations are henceforth excluded.

II/ Payment of the tax liabilities cancelling a share of the initially created money, the counterpart of the State program. Taxes are to be used indeed to control and cancel excess profits, preventing conspicuous luxury consumption.
Herein lies a crucial question: what is exactly the “deficit”, what does it mean?
It is raising three sub-queries :

A/ The usual measure is the excess of State expenditures over ex-post taxes. The problem is that such a measure grossly under- values the impact of the State on the economy since the public sector don’t pay taxes society gross income is the sum of State investment, private users expenditures including their savings minus final payment of taxes.

B/ One must carefully distinguish as already proven between good and bad deficits. “Good deficits” being initiated by the State net investment program. “Bad” deficits reflecting the impact of austerity policies, the policies fitting the ongoing metamorphosis of capitalism.

C/ In any case, deficits are never to be financed by the issue of liabilities. Herein is the ultimate existence condition of the State as an architect of the future. They are obviously already financed !

III/ The impact of “saving” on the circuit.

Saving is the last channel through which recycling may be operated by users of State money. What is its impact, what are its aspects?

Before answering those questions, one must address the impact of recycling on banks balance-sheet.
Banks play a pure passive role. Spending income by first users transfer it to a chain of other users, there is not the least creation of money by banks since nobody has to borrow to finance expenditures. Banks still operating under the rule of 0 interest rate, cannot earn profits, are deprived of any animal spirit of threat relative to the future. There is not a change in their balance-sheet until the end or closure of the circuit out of the payment of taxes. Tax payment automatically squeeze by an equal amount liabilities and assets in banks balance-sheet[7].
Now, what about "saving" by the private users?
Usual explanation of saving by threat of uncertainty about income, pensions, health care etc… no more hold in the system. Thereby "saving" is no more an obstacle to consumption and thereby investment. There is no more State investment into the future should cancel traditional saving in the Keynesian tradition for non-profit earners household. As for private firms profits, they are to be automatically recycled into investment embodying new bold wagers on the future, taking care of the vanished and, I dare say, infamous orgy-like ultra-luxury consumption embodying the decay of society. It is the best proof of the fundamental identity between "capitalist saving" and "investment". Of course, it has nothing to do with some post-Keynesian vision shared by some heros of Post-Keynesians like Minsky (Parguez) who ignored or wanted to ignore the leading role of State creation of money[8].

Thereby how to integrate "saving" into our circuit, here is the conundrum leading to a third phase of the circuit, the sudden burst of very bold wagers on the future embodying the revival of genuine entrepreneurial spirits that vanished a long-time ago (Parguez 2016 op cit).
Les us assume that at a sudden there is a burst, an explosion of truly audacious wagers on the future not (or not yet) included into the State vision.
How could there be undertaken taking care of an adjustment of the State program?
There are two solutions:

A/ The first is private users loans (or credits) to those bold investors at a normal rate of interest just including the possibility of a failure. Herein is what must be the normal role of "saving" as pure investment into the new wave of adventures. Banks play no role at all in this process which excludes any money creation. Indeed, rates of interest must be strongly monitored by the State. Such a process is not the least hiding a new-Hayekian perspective, it does not embody the virtue of austerity. In banks balance-sheet there is just a new wave of users of State money.

B/ Indeed, one could go further. Let us imagine that the burst of audacious wagers requires more money that initial users of State money want to lend.
Herein is the sole explanation of the necessity of indebtness to banks and thereby of banks money creation. This new wave of expenditures is raising private gross income and thereby of banks money creation. This new wave of expenditures is raising private gross income and thereby tax liabilities. It explains why banks power is strongly subordinated to this State long-run commitments :

1/ First, banks must not, out of their loans, turn into a resurgence of financial capitalism. Thereby, they must not accumulate profits out of their loans, which requires a regulation of

[7] Banks must therefore hold as assets at least enough State currency for the smooth payment of taxes. The excess of assets in State currency reflects "saving".

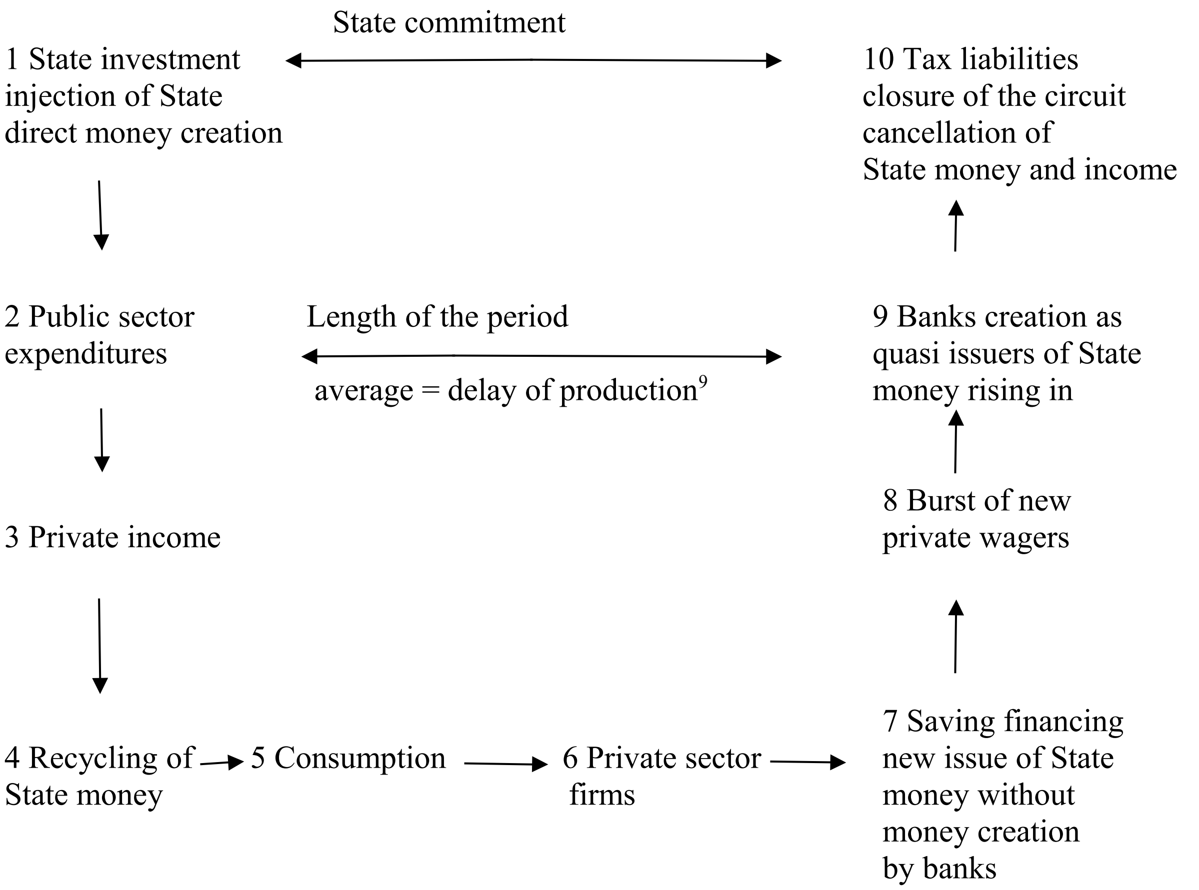
[8] The proof is that Minsky wished to impose surplus in the long-run on the State operations to maintain « confidence ». It is the proof that he did not take care of State currency issue free of effective debt.

their rate of interest that is to be just high enough to protect them against losses induced by failures of their borrowers.

2/ There is more, when banks grant loans, they play the role of issuers of State money. Thereby, their existence condition as State auxiliary, is that they hold as assets enough true State money especially when taxes, raised by their activity, are to be paid.

In guise of provisional conclusion: the framework of the full circuit is a society freed of enslavement to a decadent capitalist system

Figure 1: The full monetary circuit generated by the State commitments



<u>It is no more question of the absurd duality: initial finance and final finance that was the core of early Stateless monetary circuits.</u>

There remains many questions to be answered in, I hope, the following debates.

1/ Could the circuit generate inflation?

2/ What about the impact on foreign account?

3/ <u>and</u> mainly, how to endeavour to have it accepted in the wake of the destruction of society and the misunderstanding of objective laws?

A/ As for the first question, one must answer <u>No</u>.
To the contrary, the State leading and guiding role out of issuing money debt free is the road to genuine price stability while the ongoing metamorphosis of capitalism may generate both rising unemployment and inflation (Parguez and Thabet 2017). It requires indeed an "honest" measure of inflation reflecting the true price burden imposed on the majority of people.

[9] Delays of production are required to prevent any going back to instantaneity, the plague (amid others) of general equilibrium models. As explained in Parguez and Thabet (op cit) most circuitist models postulated instantaneity, ignoring money and time.

State money creation allows an unchecked growth of productivity allowing the fixation of wage income at a rising level which excludes any wage-cost inflation. At the same time in the private sector, it allows the drop of the required rate of profit to a fixed minimum which makes impossible any kind of profit inflation abolishing the confiscation of labour productivity by a fall in the purchasing power of labour. In any case, what is crucial is that the State issue of money generates the growth of true real wealth out of the supply of public and social capital, tangible and not tangible which ultimately is the source of the real value of the currency. Assuming that the State policy-makers fear too strong a growth of private expenditures out of the issue of State currency by banks, they may raise ex-post taxation.

B/ Could the State long-run creation of net wealth generate an unbearable deficit in the balance of payment requiring some protectionism and (or) rate of exchange control?
As for the trade account, I do believe that the answer is again a strong No. To the contrary the State commitment could generate such a structural advantage that a trade surplus should be expected[10]. What is indeed absolutely rejected is borrowing to foreign banks or institutions to finance expenditures. When the State still exist as enjoying full sovereignty on its currency, borrowing to foreign banks in foreign currency is adamantly excluded since it is excluded for domestic banks.
It is why the debate on protectionism is irrelevant. Not the least protection is needed as long as the state is implementing its program of creating the future.
To close the debate, I believe that fixed exchange rates are an obstacle to full stability. They are the source of speculative attempts by foreign capital.
It explain why for countries enslaved by the euro order to an unsustainable amount of debt to the financial sector the road to freedom, the first step towards a State led circuit is the repudiation all State debts imposed by the euro order.

C/ I here remains the ultimate question: how such a salvation program could get support?! Obviously, it is a waste of time to rely on the so-called “profession” whatever even on formal democracy maintaining the class structure. As already proven social-democrats agenda of ubiquitous income paid by the State is doomed. Nothing is thought about the financing of this neo-Friedmanian solution but more taxation of profits without addressing the ruling transformation of capitalism. It could be part, as I mentioned, of an encompassing agenda of State investment in the future abolishing the class structure. As long as the leading role of the State as issues of money is ignored, all those social therapies of disaster are to increase the disaster. From our post-Marxist inter-disciplinary approach, the question remains open. We cannot rely on technocrats who are full part of the ruling class. One could only hope in a true enlightened grass-root “mobilization” led or taught by the new generation of true intellectuals whatever, like Sartre, Simone de Beauvoir…and Marx himself, Rosa Luxembourg and Leon Trotsky to whom I must add Jack London in his wonderful “Iron Heel” that must be some compulsory reading, “The Iron Heel” could be our future!
To this illustrious people, I must add the highest mind in Mexico who could animate the alliance with learned youth! I do not despair of the young generation. I do not reject the new channels of spreading information and debates. It is too easy to accuse adversaries of the ongoing false intellectual dictatorship of “populism” meaning some kind of fascist temptation “populist bashers” prove by the way their absolute contempt for the “people”.

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[10] Especially on profits of the restored entrepreneurial sector. In any case banks cannot be turned into greedy private banks delving into unchecked financing operations because they are constrained by the necessity of having always true State money in their assets to support confidence.

Regulation forbidding financiarization could be less efficient than this constraints. Nobody would borrow to banks for financial operations since everybody is to believe that banks are fraudulent issuer of true money never accepted for tax payments another obstacle lies in the necessity of banks, now striving to escape their natural role, to pay taxes on their fictitious net worth. Taxes are paid in true State money!

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