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Abstract

In our view, the causes of the crisis are tied to the political change towards a Neoliberal phase from the 1970s on: a wide process of "deregulation" – from the labour market to the globalisation of production, from the national to the international finance – has allowed a partial recovery in the profitability of the capitalist system, contrasting the post-war decline of the profit rate which led to the 1970s "stagflation". The same key elements of the Neoliberal model – deregulation, financialisation, globalisation – have eventually led to a large crisis as a result of the huge increase of inequality, financial instability, and trade imbalances. In this perspective, the "financial crisis" is the signal of underlying problems concerning the global process of capital accumulation. It is now necessary to support a recovery of the public intervention ("top down") in order to create the conditions for an economic restart that, in turn, would strengthen the construction of a radical alternative (from the "bottom up") to the Neoliberal course. A wider access to education should be the key to this progressive strategy aimed at supporting a more egalitarian and green path of development. A radical rethinking of bequest taxation and, in general, of the taxation on wealth would have a clear symbolic value in this perspective, providing, at the same time, the material basis for extending the right to a "universal education".

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It seems that the considerable increase in public debt, following the “socialisation of private losses” caused by the recent crisis in many countries, has become the main problem of many Western countries, in particular in the Euro area. Many commentators argue that to overcome the crisis “austerity” measures are necessary. Others, on the contrary, think that restrictive policies will result in a severe recession, and a worsening of public finances. So, there are alternative positions with respect to the economic policy measures to fight the crisis, depending on those we think are its causes.

On the one hand, explaining the recent events as a “financial crisis” (with “real effects” such as the rise of unemployment), due to the failure of specific aspects of financial markets or bad economic policies (e.g., a too loose monetary policy that led to extreme financial risk or a profligate fiscal policy that led to excessive public debts) might suggest a “technical” solution to the problems emerged, to continue, then, on the Neoliberal path “once repaired some gaps”. On the other hand, considering the current problems as the result of a “systemic crisis”, due to “real causes” (with a relevant role of finance which first delayed and then amplified the crisis), could instead suggest a radical change aimed at supporting the emergence of a new model of economic development.

The origins of the crisis

In our view, the causes of the crisis are tied to the political change toward a “Neoliberal phase” which took place in the late 1970s and 1980s, when Keynesian demand management, implemented as a response to the Great Depression and in the aftermath of WWII, exhausted its role because of a changing structure of the US and other advanced economies (Hossein-Zadeh, 2011). Then, a wide process of *deregulation* – from the labour market to the globalisation of production, from the national to the international finance – has allowed a partial recovery in the profitability of the capitalist system, contrasting the post-war decline in the rate of profit which led to the “stagflation” of the 1970s.[1] This was followed by an ongoing decline of the labour share (especially for low-skilled workers) and a rise of inequality (IMF, 2007). The cuts to the welfare state have been partly offset by the “wealth effect” produced by stock market and real estate bubbles, while the expansion of consumer credit has “temporarily solved” the potential lack of aggregate demand.[2] Moreover, the profits derived from the restructuring of power relations due to the deregulation process were only partly reinvested in the real economy of Western countries. Instead, an increasing share of production has been set in low-cost countries (in fact the average growth rates of developed countries from the 1970s onward have been lower than in previous decades, while emerging countries grew at high rates), while another share of profits, more and more important, inflated the financial sector.

[1] On the decline of US profits and the successive recovery in the 1980s, both at the aggregate and the sector levels, see Uctum and Viana (1999). For a wide-ranging analysis of the rate of profit and its real and financial determinants see Duménil and Lévy (2004).

[2] So a growing inequality-easy credit nexus emerges underlying the financial crisis (Rajan, 2010).

Therefore, in the absence of an extension of finance, the stagnation of real wages in the last decades (for a vast fraction of workers) would have resulted in an overproduction crisis (in Western economies) before the recent years. Accordingly, the expansion of finance has operated as a countertendency to the decline of the real sectors' profit rate. As time elapsed, the accumulation of debts and the growing complexity of financial products and credit interlinkages have produced an unstable system which eventually collapsed. So, we can combine two major theoretical approaches: the Minskian viewpoint on financial fragility and a Marxian interpretation of capitalist contradictions. One of the basic contradictions is that there is not a simple correspondence between *micro* aspects and *macro* properties in a "monetary economy of production": for example, the reduction of wages paid by a firm ("micro") may, by reducing costs, lead to increased profitability of the single firm; but if the wage reduction is generalised, then the cost reduction for firms also leads to a drop in aggregate demand ("macro"). In other words, a fall of wages hinders the process of valorisation of capital through the sale of commodities in the markets. As a consequence, a behaviour that can be beneficial at the individual level can become disadvantageous when considered collectively. Indeed, the crisis of capital valorisation due to overproduction involves a change in entrepreneurs' behaviour that perceive a higher risk and start thinking that the best way to accumulate (or at least preserve) capital is to hold liquid money, so an unemployment crisis follows. In recent decades, the support of aggregate demand through credit consumption, and in general through financial incomes, has postponed the outbreak of the crisis. But, the expansion of the financial sector have also resulted in an increase of *financial fragility* and, therefore, in a growing macroeconomic instability which has eventually led to a large crisis.

According to Foley (2010a), while the 1970s crisis (as well as the 1890s depression) was due to "the tendency for the rate of profit to fall" (the fundamental phenomenon that gives rise to the falling rate of profit scenario is upward pressure on wages), the recent crisis (as well as the Great Depression) is rather the consequence of "a rising rate of exploitation" (which is instead rooted in the stagnation of wages, aggressive pursuit of cost reduction, and price deflation), and then of the increasing difficulty faced by societies in managing a large and growing surplus value, with great demands on the financial system to recycle it (Foley, 2010a). All in all, the deregulation wave has boosted profits and capital accumulation through allowing labour market flexibility, a global relocation of production and increasingly risky financial transactions.

However, the same key elements of the Neoliberal model – deregulation, financialisation, globalisation – have then produced a *crescendo* of crisis, until the most recent (and maybe beyond), as a result of the huge increase in income and wealth inequality, financial instability and trade imbalances. Meanwhile, China and other emerging countries have become more and more important for the economic and political global balances as a result of an enlargement of the "container" of capitalist development, supported by the same advanced countries (foreign direct investments, multinational corporations, etc). This may suggest a shift of the centre of capital accumulation towards south-east, while the West suffers the problems arising from the excesses of the financial *belle époque* of the last years and sets off a relative decline.[3] In this perspective, the "financial crisis" is the signal of underlying problems concerning the evolution of the global process of capitalist development.

Ways out of the crisis

In our opinion, the austerity policies that should solve the problem of public finances, especially for Europe but also for other "advanced countries", not only will be unable to do it (for the reasons mentioned above)[4] but they have another purpose: to extend the twilight of the Neoliberal phase of capitalism. The austerity policies can be considered as the logical consequence of the cracks opened in the process of capitalist accumulation and they aim at postponing the end of this phase. For example, financial capital has an interest in speculating on government bonds of the peripheral European countries, resulting in higher yields, while the problem of sustainability of public finances is deferred at each manoeuvre by governments, requiring more and more sacrifices to the majority of the population to save the countries from bankruptcy. Moreover, the worsening of public finances has led or is leading some European countries to borrow money from institutions like the EU, the ECB or the IMF (or emerging countries); in fact, the conditions imposed on debtors for financial aid – liberalisation, privatisation, etc. – will contribute to expand profit opportunities for private capital (paralleling a decrease of the interest rate paid on bonds). Meanwhile, a further reduction of the "rigidity" of the labour market should ensure profit margins to keep in the productive sectors and let the capital free to move towards other productive places (for example, emerging countries), or toward finance. In this way, there is an extension in the length of the crisis, but the underlying problems remain unsolved, until the next collapse.

Since the goal should be to overcome the crisis in advance (moving the load to the upper classes at the same time), a *default* of indebted countries could be useful, according to some commentators,[5] to avoid heavy sacrifices to a large part of population that are just profits for the financial capital. But there are some problems in such a strategy. A programmed default has some technical difficulties and consequences of national and international relevance. For example: (i) the default should be "selective", to avoid hitting the savings of that part of population that should be protected from the sacrifices required by the strategy of austerity. However, it seems unlikely to not pay back the debts associated to the same title if owned by some institutions (e.g., financial institutions) and pay them back if owned by people such as workers or retired; (ii) international markets, for a certain period of time, would avoid financing the countries that decide to go into default; (iii) as a consequence for Europe there might be a way out and a devaluation of the Euro (which indirectly could further reduce wages, through higher prices of imported goods). Furthermore, on the one hand, the break up of the Euro and the return to national currencies would make it again available to each country the instrument of the monetary policy to ensure the public debt through the intervention

[3] This interpretation is based on Arrighi (1994). See also Arrighi (2007).
[4] See also De Long and Summers (2012).
[5] See, for instance, Skaperdas (2011).

of the central bank. On the other, however, we must consider that the conversion of debt from Euro into a national devalued currency would produce effects similar to the default, with a probable wave of bank failures, with vast international consequences.[6]

In our opinion, it would be better to increase the taxation on wealth (that a minority of the population has accumulated in recent decades) to stabilise the debt/GDP ratio over the medium term, mainly through an increase in its denominator. As regards in particular Europe, this should be part of an economic policy based on a common project of public intervention. In other words, the sustainability of public finances in the Euro area would be ensured by the "credibility" of the political change at the base of a new direction for economic development, with the crucial support of the central bank. In this perspective, government bailouts should be done as "nationalisations" or participation to the capital in proportion to the intervention implemented, in a context where (also for the Euro area, with a change in the political and institutional situation) the central banks play an active role as *lenders of last resort* in support of governments (De Grauwe, 2011). This strategy, however, would be incomplete if the public sector, thanks to a direct management of the credit or a sharing of banking decisions too, did not play the necessary role of engine of a new development phase, creating the basis for new profit opportunities for private capital, in a perspective of public-private collaboration. The increased profitability would then divert the attention of the capital from profits obtainable from the privatisation of *common goods* (water, education, culture, etc.) and by financial speculation, which should be limited through a revision in the regulation of credit and financial markets, challenging the primacy given to the financial liquidity and changing those rules that have triggered a severe financial crisis (Orléan, 2009). In particular, the public sector should promote investments in labour intensive sectors (education, research, healthcare, services, etc.) – reversing the trend which is instead characterising the evolution of the current crisis – and those linked to green technologies and energy saving.

In a recession, public investment would not substitute the private investment but it rather would create the conditions for its increase when the crisis ends. The Keynesian policy of support to the aggregate demand, rightly directing the investments, would also be an "industrial policy" which, with an appropriate spending on education, would help the transition to new production specializations of the workers "trapped" in the sectors with decreasing incomes. The fall of incomes can be the result of the increase in productivity (for instance, in agriculture during the Great Depression[7] or in

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[6] This does not mean that a restructuring of public debts (for instance, lengthening the maturity) is not possible. Moreover, the complex process regarding Greece shows that even a significant 'haircut' of public debt's nominal value can be reached without causing financial disasters (despite the very negative expectations regarding, for example, the decision to consider this event as a default triggering the repayment of credit default swaps).

[7] "The Great Depression coincided with the decline of U.S. agriculture; indeed, agriculture prices were falling even before the stock market crash in 1929. Increases in agriculture productivity were so great that a small percentage of the population could produce all the food that the country could consume. The transition from an economy based on agriculture to one where manufacturing predominated was not easy. In fact, the economy only resumed growing when the New Deal kicked in and World War II got people working in factories." (Stiglitz, 2010, p. 24).

manufacturing in recent decades[8]), with a potentially negative impact of lower demand on other sectors, leading to a large crisis. For these reasons we need a government stimulus designed not to preserve the old economy but to focus instead on creating a new one (Stiglitz, 2012).[9] And the sectors in which to invest are education and green technologies so to boost long run economic growth based on "human capital" accumulation, R&D activities, and environmental sustainability.

European countries could follow this way by acting as a political unity to support economic growth and a fall of inequality. In other words, Europe should act as one towards this direction (from the integration of fiscal policies to the organisation of social conflict) and the idea of Eurobonds, to safeguard the financial stability of the Euro and, above all, to finance the public action on a European scale, should be carried out. This could be reached through a strategy which is at odd with the one characterising the current evolution. The peripheral European countries are now applying austerity measures to reduce the "spread" on their public debts (with respect to the German interest rate) and they are reforming their labour markets (and further liberalise other sectors) to allow more flexibility. The goal seems to be clear: a reduction of wages which should lead to a depreciation of the periphery's real exchange rates with respect to those of core countries, and an adjustment of trade imbalances among Euro area countries should follow. Indeed, peripheral countries should recover some competitiveness, so obtaining a rise of exports because of lower production costs. This result may be facilitated moving the fiscal burden from direct to indirect taxation (e.g., value added tax). Not only the fall of wages would lead to lower production costs, this also would result in a decrease of imports because a lower households' disposable income, so improving net exports. For this reason we can expect that countries now displaying trade surpluses, like Germany, are going to focus their commercial strategy on meeting the demand from (the rich of) emerging countries, given the expected compression of the peripheral countries' incomes. Therefore, it is likely that the neo-Mercantilist strategy of the Euro area's core countries will be based less on the European domestic market, including the periphery, and more on the demand from outside Europe.

To contrast this tendency in Europe, and in general to reverse the Neoliberal course around the world, alternative projects should find a strong political support, that at the moment is around different protest movements, but in many cases it is not guaranteed (it is opposed) by the ruling class. The probable worsening of the crisis will lead, in our opinion, to a wider support for a radical alternative. But we should anticipate that. To this end, the opponents to the Neoliberal strategy of the crisis management (from "Occupy Wall Street" to the *indignados* movements around the world, from some political and social forces to the trade unions) should carefully consider the economic and political assumptions of the part to fight, as well as of their own actions, in order to

[8] "Today the underlying trend in the United States is the move away from manufacturing and into the service sector. As before, this is partly because of the success in increasing productivity in manufacturing. … But in the United States and Europe, there is an additional dimension: globalization, which has meant a shift in the locus of production and comparative advantage to China, India, and other developing countries." (Stiglitz, 2010, pp. 24-5).

[9] See also Delli Gatti et al. (2012).

improve the effectiveness of social conflict. In fact, the "material conditions" of the crisis evolution (high unemployment, labour flexibility, fiscal austerity) are not the most suitable to set up a policy change. In the current situation, the Neoliberal management of the crisis tends to strengthen the bases of capitalist accumulation (with the consequence of a further working class weakening). In this context, however, violence for its own sake is to be avoided, as it constitutes a strategy which could lead to a repressive turn, we want to avoid, and that could ensure, instead, a continuation of the Neoliberal phase, through further contrasting the social conflict. It is therefore necessary to politically support a recovery of the public intervention – "top down" – in order to create the conditions for an economic restart that, in turn, would strengthen the construction of a radical alternative to the Neoliberal course – from the "bottom up".[10]

A well educated way out…

A wider access to education should be the key to this *progressive* project aimed at supporting a more egalitarian model of development. There are many differences among human beings, but in our opinion, common features outweigh the differences, which are mainly due to the socio-economic context.[11] Consider the example given by Adam Smith: "The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause as the effect of the division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature as from habit, custom, and education" (Smith, 1776, Book I, Chapter 2). Education can play a central role to reduce the negative social implications of the unavoidable *division of labour*, being a central issue for both economic development and a conscious participation of people in public life. "The purpose of education is not simply to enhance workplace skills. In an increasingly complex society, knowledge is required to act effectively as a consumer and a citizen. If democracy is to survive in the face of growing complexity, then education must play a major part" (Hodgson, 2003, p. 477). In our view, a radical rethinking of the inheritance tax and, in general, of the taxation on wealth would have a clear symbolic value in this perspective, providing, at the same time, the material basis for extending the right to a *universal* education.[12]

A large public investment plan mainly aimed at enlarging education opportunities, to support a new growth process based on knowledge and scientific research, would have a

[10] On the interplay between top-down and bottom-up processes in a complex system such as the capitalist one, see Foley (2010b).
[11] For a recent analysis see Flynn (2008).
[12] For instance, starting from the empirical observation that the educational attainment is influenced by the family background, and then that people who get higher educational levels are not necessarily the most talented, Staffolani and Valentini (2007) maintained that a bequest taxation whose yield is redistributed among the "youths" increases efficiency. Moreover, according to the Keynesian perspective about the social philosophy towards which the General Theory might lead, bequest taxation (together with progressive income taxation) is the way the society should follow to counteract the tendency of capitalism towards an unequal and arbitrary distribution of income and wealth (Keynes, 1936).

relevant political impact on economic and social evolution. Indeed, the public sector would lead this development either directly, through assuming new workers in the university, research centres, and so on, or indirectly, by supporting private R&D investments and, in general, the transition towards a more "advanced" (knowledge-based and green) model of development. Indeed, the public sector would support a change towards *full employment*, taking care of orienting investments in the desired direction (as said above, Keynesian sustain to aggregate demand would function also as industrial policy), so radically changing the political bases that have supported the Neoliberal phase of capitalist development, as described above. In other words, we must consider the political aspects of full employment (Kalecki, 1943) related to such an education-based development path.

Indeed, this important change in economic policy would impact the income and wealth distribution: firstly, because the financial resources to support the public sector initiative should come from the large wealth accumulated in past decades (so reducing public debts or allowing public expenditures without huge deficits); secondly, a rise of employment (especially in high-skilled sectors) would lead to a rise of wages, due to a narrowing of the "industrial reserve army" of unemployed people, so increasing the labour share, with beneficial effects on the aggregate demand. In this perspective, the emergence of a new development model supported by the public sector would be coupled with a reduced inequality.[13]

The fall of inequality could be a possible consequence of the transition towards a knowledge-based economy in which immaterial production and human skills become increasingly important. Indeed, when the engine of economic growth is given by "human capital accumulation", lower inequality mitigates credit rationing (so allowing more investments in human capital), resulting in higher growth rates. Credit rationing is instead a binding constraint when growth is fuelled by "physical capital accumulation", because of large capitals that are required to become an entrepreneur and exploit economies of scale (Galor, 2006). This reasoning is based on the complementarity between physical and human capital, that is technology and high-skilled workers. In fact, we observed a marked increase in the wage gap due to skill heterogeneity in last decades, suggesting that inequality may rise even in a knowledge-based economy. All in all, lower inequality and higher and widespread levels of education, as resulting from full employment within a more advanced and green technological framework, are complex goals that could be achieved, but only by considering the political premises and consequences of economic evolution and technical change in a conflictual society.

Indeed, it is difficult to say if the evolution of capitalism leads to deskilling or upskilling: on the one hand, we did not observe a historical process of deskilling (proletarisation) due to technical change and the mechanisation of productive processes; on the other hand, the upskilling phenomenon may remain confined in a limited fraction of the population, and low-skilled workers are the first to suffer the effects of both

[13] All in all, an economic policy intervention aimed at reaching full employment should take into consideration the political consequences of such a strategy, unless you intend to pursue a strategy of full employment through a substantial reduction in wages or, worse, that this may be the result of a repressive political shift (which would be unfortunately not a novelty in a historical perspective).

labour-saving technological progress and globalising dynamics (from offshoring outsourcing to migrations). For these reasons, a room for public intervention emerges especially in education: to develop workplace abilities and mainly as a way to lean how to adapt and learn anew (Hodgson, 2003). If this intervention will lead to full employment and raising wages, then a decrease of inequality should follow, potentially boosting human capital accumulation and (labour-saving) technological progress.[14] In our view, however, this is not a 'natural' outcome of capitalist evolution but rather a development path to be sustained by an essential involvement of the public sector and a committed participation of people.

[14] At the same time, less-developed countries would continue to benefit from production relocations from advanced economies (due to lower production costs), even from emerging countries, like China, that are already evolving towards high value added sectors at the frontier of technological progress, relocating some production activities in countries with lower labour costs (so further enlarging the "container" of capitalist accumulation).

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