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Functional "reversal" and dimensional "decoupling" of "finance" and "the real economy": a reflection on the "Kaleckian" and "Minskian" limits to over-financialization

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Functional “reversal” and dimensional “decoupling” of “finance” and “the real economy”: a reflection on the “Kaleckian” and “Minskian” limits to over-financialization.

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ABSTRACT. The predominance of “financial” interests in the operation of present-day capitalism is very much at the centre of the research agenda within the “Post-Keynesian” field. Two “schools”, firmly established in this tradition, and talented scholars, have provided advances for the understanding of the implications and risks of “financialization”. I refer to the schools, intuitively, as the “Kaleckian” and the “Minskian” schools. “Neo-Kaleckians” stress the medium-term implications for growth performance and distributive trends in the real economy; “Minskians” have recently insisted that innovative practices of modern finance such as shadow banking, securitization, etc., will eventually increase the fundamental “fragility” of capitalism, as in Minsky’s seminal intuition. Although extensive literature has produced important results in recent years, there is still ground for further, “comprehensive”, reflection upon the interaction between “finance” and “the real economy”. This contribution is targeted in that direction. Two phenomena are described as “fundamentals”, giving rise to further consequences. The first is reversal: the relationship between the financial and the real spheres of the economy is now “inverted” with respect to the conventional wisdom of economists, which holds that “finance” services the “real economy”, turning savings into investments. With the reversal, it is now the real economy that services finance, as the originator of debt obligations, upon which assets and trading on the financial markets are established. The second is decoupling: this is understood as the dilatation of the value of financial wealth, relative to real output levels and growth. One important piece of evidence for this notion is the decline in investment to profit ratios in mature economies. Can actual trends in real growth “sustain”, for evermore, a disproportional inflation of financial values? Might the ratio to GDP of the value of the “*patrimoines”*, by which I mean the aggregation of all riches (Piketty) steadily increase? If the valuation of financial assets is essentially founded upon the servicing of debt obligations out of the proceeds of real activities, more and more “decoupling” might imply that there is a risk that capitalism may engage in a global “Ponzi” scheme.

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1. Introduction

"Financialization" is a central topic in research into macro-economics and the institutional regulation of mature capitalist economies. Pluralist inspirations, coming from the "Post-Keynesian" traditions of research, have developed diverse descriptions and analyses for the implications of a "financialized economy": there are "Kaleckians", "Monetary Keynesians", who follow the seminal vision of H. Minsky, the French "Regulation" school, the British "Social Accounting" school, etc.[1] After the "Lehman Shock" of 2008, even scholars who had grown up within the "mainstream" were sometimes shaken in their faith in the equilibrating properties of competitive mechanisms and capital markets. The prospects of low growth in the real economy in the face of the dilatation of a financial super-structure have awakened fears of "secular stagnation".[2]

Scholars, and research teams coordinated at the international level, have produced, in a relatively short interval of time, a quantitatively and qualitatively important corpus of analysis and empirical accounts of a "finance-dominated" environment for the global economy.[3] An exhaustive survey is out of the reach of this brief reflection. A more limited focus and related references need thus to be set as a preliminary step.

The reflections in this text are mainly inspired by the recent research trajectories coming out of two "schools", both of which are well-established within the "post-Keynesian" tradition, but which have important differences in their focuses and methodological approaches. I will here refer to them, only for intuitive purposes, as the "Kaleckian" and the "Minskian" schools.[4]

The first of these has cleverly integrated the consideration of the increasing power of financial interests within the solid foundations of Kaleckian macro-economics, which has, as a starting point, "macro-constraints" at the aggregate level that can be derived from national income and expenditure accounts. Different "regimes" have been defined for patterns of the economy, and the implications of these for the real activity and growth have been accounted for. The Kaleckian tradition therefore keeps at its core a focus upon the "real" outcomes for the

[1] See Van Treeck (2008) for further detail and a review.
[2] Summers (2015) is a seminal reference.
[3] FESSUD (Financialisation, Economy, Society & Sustainable Development), an international research programme bringing together 15 partner teams throughout Europe, is drawing to a conclusion. Papers and reports produced within the project offer rich and varied references, and are all available at fessud@leeds.ac.uk.
[4] The Kaleckian inspiration has been stronger in European contexts; E. Hein, from the Berlin School of Economics, is one principal contributor; the continuation of the Minskian inspiration for research is mainly associated with fellows and scholars within programmes coordinated by the Levy Institute of Bard College, Annandale, NY, US.

economy, even after including in the model behavioural relations or parameters that account for the influence of the financial markets and interests.

On the other hand, the "Minskian" vision has, since its origins, given prime emphasis to finance, through a selective reading of Keynes' original contributions. In Minsky's own words: "C*apitalism is essentially a financial system, and the peculiar behavioral attributes of a capitalist economy center around the impact of Finance upon the system behavior".*[5] Scholars inspired by "Monetary Keynesianism" are, however, well aware of its implications for real growth or distribution; their line of research has, in fact, offered a rich account, in particular for the recent experiences in financial practice and (de)regulation that lie behind the poor performance of the real economy – instability, inequality, a lack of international balance, etc.

Stressing, however, for the sake of our discussion, the dichotomy between the approaches, one could say that "Kaleckians" include behavioural parameters for "financialization" to account, within their configurations of real activation and growth rates; "Minskians" posit finance and "financial innovations" as the prime movers behind the fluctuations and crises of the real economy, and stress the consequential evolution of the institutional regulation of capitalism, etc.

The critical moment in history in which we live calls for a comprehensive vision of the dynamic interaction between the "real" and the "financial" operations of the economy. This task is surely outside the reach of a single contribution, and instead we express here suggestions for further research efforts, targeting the cross-fertilization of contributions from diverse "schools". Minsky himself suggested the need for further syntheses when he wrote: "*the Kaleckian way of looking at profits leads quite clearly to a consideration of the determinants of the stability or even the viability of a financial structure".*[6] Even when "finance" is pointed to as the originator of real instability, the accounting framework for profit realization, as is made clear by Kalecki, admittedly remains as a constraining frame. The integration of "Kaleckian" and "Minskian" inspirations within the critical vision of modern capitalism is a project worthy of effort.

Even with an awareness of a dominant financial interest in the economy, one question should be proposed: do "real limits to financial dilatation" exist, and where do they eventually become constraining? Kalecki based the conditions for the realization of profit firmly upon demand-side activation in the "real" sphere; Minsky was always conscious that valuations and

[5] Minsky (1967), p.33, as reported and commented on by Mehrling (1999), p.139.
[6] Minsky (2013), p.100.

trades in the financial markets are ultimately founded upon the expected entitlement to appropriations out of the future profitability of real activities.

This draft is organized as follows. Since surveys of the "stylized facts" of macro-economic evolution in the age of financialization are now widely available in the literature,[7] only a few empirical facts, central to our further reflection, are recalled in a brief section. We then proceed to define what, in our opinion, can be assumed to be the "fundamental" phenomena that lie in the background of current financialized economies.

The first "fundamental" is reversal. The concept alludes, broadly, to an "inversion of means and ends" in the functional interaction between "finance" and "the real economy", when set against the conventional wisdom of economic analysis. According to this wisdom, "finance" is one of a wider set (whose members include commerce and transport) of "service activities" that function in the real economic circuit, by acting between original creditors and final debtors. In the actual, "reversed", scenario, "the real economy" instead appears to be servicing "finance", as it provides the primary input for some "financial production function": the real economy is, in fact, the originator of the commitments to repay obligations out of debt, and on these commitments assets and trades on the financial markets are established.

The second "fundamental" is decoupling. This term, in its broader sense, alludes to the apparent "autonomization" of the rise of financial wealth with respect to the activation and growth of real production and incomes. This "decoupling", on empirical grounds, has as its principal manifestation the decrease in the value of the "real investment-to-gross profit" ratio. This tendency has been underlined in another way in the literature, in the description of a "profit without investment" regime.[8]

Is this "decoupling" sustainable in a long-run perspective? The final section, and the concluding remarks, are centred on reflections on this question. The conclusions will include brief critical references to recent developments in the literature that offer useful analyses and insights but are often not explicit about questions of the sustainability in the longer run of the trends described. The "*patrimoine"* – to use Piketty's original term for the "whole" of wealth – may not, in our vision, be able indefinitely to inflate its value and ratio with respect to "GDP", or by any other measure for the aggregate result of real economic activity.

[7] Stockhammer (2007), Orhangazi (2008), Hein (2015a).

[8] term and the concepts of this regime (sometimes called the "intermediate" regime as it lies between The the "wage-led" and the "profit-led" regimes) have been worked out in contributions by E. Hein (e.g. Hein (2012), Hein (2014), ch.10, in particular).

2. "Stylized facts": a reminder

The rise of "financialization", and of a "money-manager ruled" capitalism, is often traced back to that turning point in the history of modern capitalism intuitively understood to have occurred sometime around the last few years of the 1970s and the first few years of the 1980s. Fundamental changes in policy orientations occurred in that period, though with different intensities and timings in different national contexts. Financialization emerges as both the motivation for and the result of the advances of the neoliberal "(counter-)revolution" in these years.

The control of inflation, described as the obsessive target of policy makers in the 1970s, was the initial background: behind the erosion of nominal values, conservative opinion saw a loss of control of distributive dynamics, with a consequent fear of a "profit squeeze".[9] Although the traditional tools of monetary repression were mainly used as operational weapons, the key policy approach behind them was very reminiscent of the "Kaleckian intuition"[10] according to which (excessively) low unemployment and (excessively) generous welfare provisions lead to excessive wage-push pressures in the context of unionized and industrialized economies.[11]

Disinflation, which is evidence of a regained control over the macro-economic environment, was in fact achieved in the following decades.

TABLE 1. *Consumer Price Indexes: decadal averages of percentage annual increases.* Source: Oecd.

	1970s	1980s	1990s	2000s
USA	7.6	4.7	2.8	2.4
EU-Oecd	11.4	8.4	7.2	3.0

However, the premises and promises of mainstream wisdom, which associated better and more stable growth performances for the real economy with regained nominal stability and more competitive frameworks for trade in goods and factor markets, were falsified.

[9] Glyn and Sutcliffe (1972).
[10] Kalecki (1943).
[11] The "Nairuvian" models originally developed for the UK context are explicit on this. See Layard, Nickell and Jackman (1994).

TABLE 2. *Decadal averages of annual GDP growth.* Source: Oecd.

	1970s	1980s	1990s	2000s
USA	3.2	3.0	3.6	1.6
EU-Oecd	3.2	2.5	2.3	1.4

Price stability and low interest rates did not induce high growth, although, in the orthodox view, these conditions should have been favourable to "long-term" investment options. The actual development went in quite a different direction, confirming Minsky's intuition, according to which a period of "tranquillity" breeds the seeds of instability. Well before the "Lehman shock", bubble-led booms and cracks were experienced at short intervals of time, in segments of financial trades.[12] The action of lobbies serving financial interests contributed to the creation of an increasingly deregulated space for speculative trading. The rise of "creative-finance" – "layering" out long intermediation chains from the original credits, through securitization and "originate to distribute" practices, together with the further dilatation of the options for leveraged speculation allowed by the explosion of the derivatives markets – led to the dominance of "short-term/high frequency" trade within portfolio management practices. These developments were, perhaps, detrimental to the longer-term options for investment allocation. Operators outside the professional financial circle, such as non-financial firms and households, were also dragged into the game. Creative finance thus contributed in a determinant way to the "decoupling" of the financial and the real trade turnover, as we will describe later.

Diverse indicators for "financial inflation" may be considered. In view of the discussion in this text, where the central question is posited upon the sustainability of the rise of debt-collateralized assets in the longer term, we select one indicator: the ratio of the nominal value of debt-collateralized bonds to GDP in the country issuing the bonds.

[12] For specialist accounts describing the crisis episodes, the main reference is Reinhart and Rogoff (2010).

TABLE 3 *Total debt securities (private and public origin): ratio of nominal values outstanding for country of residence of the issuer to its GDP (elaborations from Bank of International Settlements :Debt securities statistics, and OECD)*

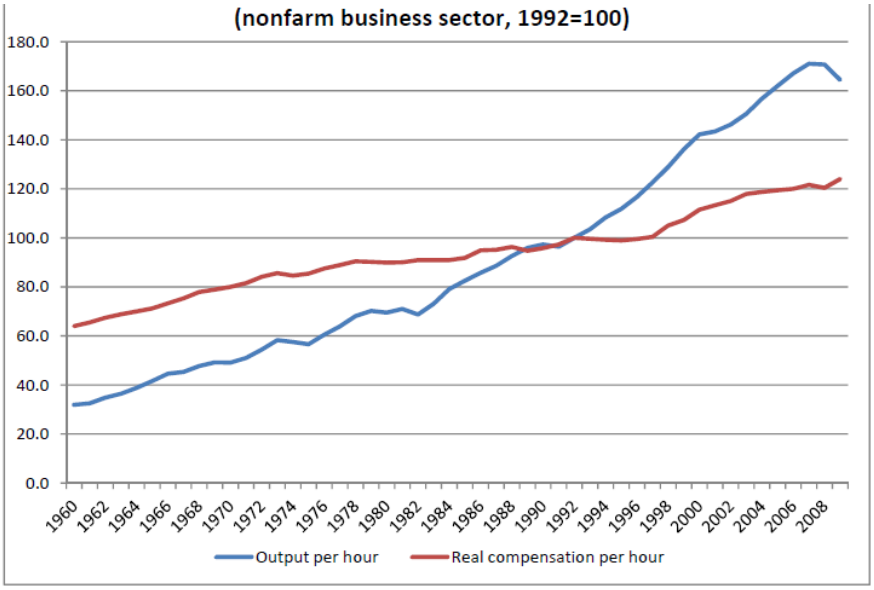
	1994	2000	2010
France	0.63	0.91	1.90
Germany	0.58	0.94	1.52
Italy	0.34	0.99	1.82
Japan	0.61	1.88	3.38
UK	0.32	1.04	2.33
USA	0.52	1.65	2.36

Although important segments of financial wealth (stocks, real estate, etc.) are being excluded, bonds, whose value is based upon repayment promises by the final debtors, appear as the key item for the linkage of the Kaleckian and the Minskian conceptions. Debt obligations may originate from private as well as public institutions. Cash flows accruing to the debtors at the due time, and the appropriation by the creditors of repayment for interest and reimbursements out of these, are in fact the foundations of the value of the assets when they are traded in the markets. As was already clear to Minsky, the rise of "securitization" (ABSs, CDOs) has more recently led to an increase in the height of an "*inverted pyramid*", where, however, "*the point upon which it rests, that which carries the largest load, consists of business profits".*[13] Financial dilatation will then coincide with financial fragility if there is not enough support from a base of real business profit.

In the meanwhile, the enlarged role of "money-managers", who are entrusted with the valorization of the "*patrimoine*", endangers the income prospects of the "have-nots", that is, households whose subsistence is still wholly founded upon the exchange of labour services against salaries; decreasing labour shares, and inequalities rising overall over the spectrum of the distribution, then appear as a side effect of "financialization".[14] We borrow, from the wide literature commenting on these trends, a graph that clearly demonstrates the regime change from the "Fordist" age to the age of "financial dominance".

[13] Minsky (2013), p.97.
[14] Stockhammer (2015).

FIG. 1 - *Productivity and wage development in USA (reprinted from Orhangazi (2011), p.24.)*



Source: Economic Report of the President, 2011, Table B-49

The basic framework of the "Fordist Compromise", in which "income policies" allowed the growth of compensation to all "stakeholders" in line with real productivity growth, was broken; a rise in inequality was the consequence.

3. The "reversal": the "subsumption" of the real to the financial?

The use of a, perhaps obsolete, Marxian term such as "subsumption" nevertheless has an evocative power. Essentially, "A" is "subsumed" by "B" when the scope for the actions of "A" is bounded by or subordinated to the behaviour and interests of "B". Now, between "finance" and "the real economy", which is "A" and which is "B"?

Conventional wisdom in economics has framed finance as one "service" (among other services) that functions in the central economic circuit of production, distribution and accumulation. "Trade" intermediates between producers and final consumers; "transport" allows their spatial separation; and "finance", finally, mediates loanable funds between agents in surplus positions to those in deficit positions in their current income–expenditure plans. In fact, finance does more than this: for example, it allows portfolio diversification and hedging for the saver, and gives advice to the investor.

In the "fundamentalist" Marxian view, these "circulation services" do not add "value" to the real economic product. However, I would not nowadays agree with this position. Financial innovations, such as "venture capital" for the start-up of innovative enterprises, might sometimes be conceived as forms of technical progress, favouring real economic growth. However, even amongst the "mainstreamers", the possible "excess" in the dilatation of finance is an object of debate.[15]

"Reversal", besides, is a term that alludes to phenomena that have also been described in other terms: "shareholder value", "finance-led growth", "coupon capitalism", etc. However, this term suggests a more encompassing, and radical, vision. In fact, it means the "inversion" of the functional relationship between finance and the real economy, with respect to the conventional wisdom held by most economists. There is an inversion, in fact, in the direction of the "subsumption" of one to the other.

In the inverted sequence, the real economy is performing a service, as the provider of the primary inputs for some "financial production function". Primary debtors from the real economy, committing themselves to pay cash instalments for interest and principal out of their future incomes, are in fact the originators of assets upon which the financial trades may establish themselves. Moreover, out of these original debts, the modern "engineering" by creative finance builds up layered super-structures of tradeable instruments, through the pooling of debts into "collateraized" assets (ABSs, etc.). Specialized "vehicles" are created and dedicated to the successive layering of the assets, with shorter maturity and higher perceived liquidity by the market at each successive step.[16] Everything is aimed in principle at the satisfaction of the diversified demand of money-managers, who have diverse requirements for maturity, risk and liquidity. This "chain" process, when continued, is bound to glide into the very short-term instruments of "near-money" mutual fund markets that are the grounds for the short-term operations of the bigger banks and the non-bank financial operators.

Anyhow, at the longer and shorter ends of the maturity chain, the values and tradeability of the assets are conditional on the "belief" about the validation of the issuers' obligations at each step. However, going back up the chain to the starting point, we will find precisely the original debtors from the real economy. It is at this point that the "Kaleckian" constraints for profit realization

[15] E.g. Pagano (2013).

[16] Shin (2010) is the main reference. I am the co-author of a working paper on this point: Bianco and Piacentini (2014).

become critical to the sustainability of the whole financial "super-structure".[17] The debt is the originator of the "production" of the financial items, and the Minskian "money-managers" play the principal role here. "Reversal", when alluding to this inversion of means and ends, appears as a radical vision, but is quite consistent with the Minskian vision of the passage from "productive" to "money-manager" capitalism. The concept perhaps has a heuristic power, encompassing other descriptions of "financial dominance" in the literature. For example, "shareholder value" essentially means the subordination of operational management to the interests of the "monetary capitalist", who merely aims for the "valorization of values" for his portfolio and is essentially uninterested in the productive mission of the firm. Similarly, "regulation" scholars emphasize the epochal shift from "Fordist" to "finance-led" regimes,[18] although doubts may have arisen about the feasibility of a demand regime that is propelled only by "capitalistic" expenditure, while labour compensation is left out of the participation in productivity gains. The interesting concept of a "coupon capitalism", which would by now have overcome a "productive" capitalism, as originally put forward by the "British School of Social Accounting",[19] is also quite consonant with our view about the inversion of means and ends in the operations of capital markets, since "*the pool of new and issued coupons becomes a regulator of the macro-economic trajectory".*[20] "Coupons" are defined widely to include bonds, securitized paper, shares in venture capital funds, etc. However, the main item in the "coupon pool" remains bonds backed by the servicing of the debt of sectors that do not contain financial institutions: firms, households and sovereign states. The money-manager acts on behalf of the portfolios of the wealthier (e.g. "private banking") or, with even greater responsibilities, for the "hedge and gain" of private savings pooled into large pension, or insurance, funds. Eventually, even the "productive" managers of non-financial firms, under the straightjacket of "shareholder value", may turn into money-managers themselves. The options for "long-term" productive investment are, in that case, likely to be "subsumed" into the short-term targets of portfolio valuations.

The distinction between the "monetary" and the "productive" capitalist is not new, and it was already fundamental in Marx's account of the accumulation process, where the valorization of capital is the original purpose and the final result. However, in his description, "values" may rise only through the productive use of labour. This duality is the possible origin of contradictions and

[17] The quotation above shows Minsky's awareness of this point.
[18] Boyer (2000).
[19] Froud et al. (2001) and (2002).
[20] Froud et al. (2001), p. 275.

crises. Keynes distinguishes between "enterprise" and "speculation" in, for example, chapter 12 of the "General Theory". The risk of having entered "casino economics" where "*enterprise becomes the bubble in a whirl-pool of speculation"*[21] appears all too real.

The two "masters" inspiring these reflections, M. Kalecki and H. Minsky, may appear, at first impression, to be on opposite sides, within a common "Keynesian" background, because of their different stresses on the "real" or the "financial" aspects of operations in the macro-economy. Kalecki's derivations from income accounting show how profits derive from investments and other "exogenous" expenditures from the real economy, and financial action seems left somewhat in the shadow.[22] Minsky, on the other hand, was in his time quite isolated in his obstinate attention to finance: quoting from a brilliant review article dedicated to his vision, "*according to Minsky, we need to understand finance not because it is an important part of our economy, but it is the very heart and motive force of that economy".*[23]

However, it is precisely when we start from this apparent dichotomy that we may proceed to reflections about the problem of the sustainability of a financialized economy, where financial trades are ultimately based upon the "validation of debt structure".[24] Then if, at the micro-level, the Minskian notion of "investment" eventually coincides with the point of view of the money-manager who is engaged in the hedging and augmentation of the portfolio of riches with no direct interest in the real object of the trades, at the macro-level we cannot avoid considering the "*integration of financial structure and basic behavior of the economy",* where "*Kalecki's emphasis upon profits and their determination leads quite naturally to study of financial structures and their relation to the cash-flows that validate the structures".*[25] Comforted by this inspiration, our thoughts on this line of argument will follow.

4. "Decoupling": more profits with less accumulation?

A comprehensive discussion of the notion of "decoupling"[26] would call for an encompassing analysis of the increasing autonomy of the innovative modes of operation of modern finance with respect to the "real" fundamentals. The nominal values involved in transaction turnovers are large

[21] Keynes (1936), p.159.
[22] Other distinguished scholars stress now the need for an integration of Kaleckian and Minskian visions: e.g. Stockhammer (2015b).
[23] Mehrling (1999), p.139.
[24] As from quotation which follows.
[25] Minsky (2013), p.99.
[26] The use of the term "decoupling" was inspired by Van Treeck (2008), p.1

multiples of the outputs and inputs in the real economy. In particular, because of the short-term pursuit of gains from "high frequency" trades, the real content of what is being traded appears to be irrelevant to the trader. This broader notion of the "finance–real" decoupling would require further specialized reflection.

The more restricted notion of decoupling, which is the one to which we mainly refer on this occasion, is focused upon the macro-economic evidence of an increasing divide between the volumes of "profits" (or "gross margins"), appearing in income accounts, and the amount of real "investments" (or "capital accumulation") appearing in expenditure accounts. Recent research shows how "profits without accumulation" regimes often prevail in the context of modern mature economies.[27] Formal results within "Kaleckian" frameworks, starting from the identities of income and expenditure and the "mark-up" pricing rules, and given diverse specifications for the investment function, allow a wide range of interactions between propensities and distributive parameters, characteristic of the "regimes" of the macro-economy. The classical "Kaleckian" result, in which a redistribution against labour is contractionary (a "wage-led" regime) still appears as the most plausible outcome. However, configurations are admissible in which expenditure by capitalists and rentiers, and any other exogenous sources of demand, may sustain profits even at lower rates of accumulation (the "profit without accumulation" regime mentioned above); eventually, with a very strong influence of profits on investment and consumption, it may support a "profit-led" growth regime. In any of these contexts, the supply side is assumed to be flexible enough to allow the capacity utilization rate to adjust and support the stimuli coming from the demand side. The improbability of a sustainable profit-led growth path "*à la Boyer"* will be discussed later, although without a formal analysis.[28] "Finance" enters with the relevant parameters, but remains essentially exogenous in these developments, which matches the Kaleckian stress upon the final outcomes for the real economy.

However, the excess of aggregate gross profits over real investment would imply that fractions of "realized" profits are not returned as investment expenditures within the reference period. The fact that profits higher than investments are in fact realized calls for a contribution from other sources of exogenous demand: government expenditure, surplus from trade, consumption financed out of non-labour income, or debt. The old-Keynesian "Big Government",

[27] Hein (2014), ch.10.

[28] In this frame of analysis the activation appears to be fully determined from the demand side. We would only mention that other approaches, also well within the "Post-Keynesian" tradition, allow for interactions between demand side and supply side factors in longer run (e.g. Domar's balanced growth, "Kaldorian" frames with "technical progress function", etc.) See Paniccià et al. (2013), and Hein (2014), ch.8.

the pursuit of a "mercantilist" surplus, or a "Malthusian" role for consumption by the wealthier, and, eventually, working class households being led into debt, or any combination of these, are required for the result. A look back at recent national experiences should confirm these intuitions.

In most conventional frames, the capital markets allow the realization of "S = I", or, otherwise, for all leakages out of the income–expenditure circuit to be eventually channelled into the financing of demand components (including public expenditure, etc.). However, when there is a departure from this, more complex institutional frames and transaction mechanisms will be involved. There is certainly still a role for "finance" to act in between surplus income positions (savings) and deficit-spending positions, offering a variety of credit instruments. In our "inverted" reading, however, it is, instead, the liquidity requirements of the debt positions that allow the origination of assets and fund financial trades. Together with traditional bank credit, which supports spending through endogenous money creation, we will have the creation of securities; the pooling of debts into tradeable ABSs will enhance the weight and the role of this second channel.

Between the appropriation of profit and the expenditures eventually coming forth from this, lies the vast sink of finance, in which the inflows and outflows of "loanable funds" may not match each other in their timings and volumes. The purely speculative super-structures of "derivative" items will contribute to building up the higher levels of the "inverted pyramid". A large matrix of intra-financial credit and debt positions is built-up from the leveraged transactions among specialized vehicles.[29] This dilatation of a financial super-structure, out of any original "real" base, normally falls outside of standard "Neo-Kaleckian" modelling. The "profit without accumulation" regime, when continued for period after period, would, however, imply that further decoupling and financial dilatation is occurring.

5. "Coupon Pool" and "Creative Finance": the multiplication of bread and fish?

In any period, the excess of profits ("Π") over investments ("I") is placed within the management of portfolios. The demand for financial "stores of value" may, in such a circumstance, be in excess of the supply coming from the originations of debt in the institutional sectors in a deficit position. Expert observers of the events in what was nearly a decade of "boom and bust" at the beginning of the twenty-first century remarked on how supplies of "safe" bonds went short for a time with

[29] Shin (2010), ch. 6.

respect to demand: the rise of financial engineering for securitized assets, from MBSs to the higher layers, was then fuelled, to some extent, by a "demand-pull" pressure for structured items on the diverse ladders of the maturity and liquidity spectrums.[30] Scholars from the Minskian school have given a good description of the rise of this "creative finance", which outpaced that of traditional banking ("OTD" vs. "OTH") and led to a system with an elaborate, and layered financial structure.[31]

Here we shall only recall some of the instruments and practices of the "new" finance.

a) "Securitization": the collation of original debts and the floating of successive layers of "collateralized" securities;

b) "leveraged trades", enclosed within the circle of specialized intermediaries, multiplying the "turnover" of financial transactions in terms of the original or final values of savings and credit;

c) the rise in the trade for "derivatives", or secondary markets for speculative bets based upon the expected variations in the value of an underlying "primary" asset;

d) the rise of specialized "vehicles", along the chain of a layered intermediation, extracting fee incomes out of their marketing services; and

e) high frequency trade among leveraged traders, targeted at very short-term gains and with the continual need for a rolling-over of their credit lines.

More "structured" finance thus claims more fee incomes; these may be explicit (e.g. commissions) or implicit (the result of assembling and marketing CDOs of a higher order and shorter maturity, which are perceived as more "liquid" by the market and which result in a "plus" on the balance sheet) .

Banking, and "shadow" banking in particular, therefore appear to extract more and more fee income out of transactions within the purely financial circuits, with this income perhaps becoming more important than the "fund" incomes derived from the traditional repayments from credit. These fees would appear as the capture, by an "unproductive" financial circulation, of a higher share of the amount of some original "loanable" funds. However, when "finance" is considered as a whole, credit and debt positions amongst traders cancel out so that, eventually, the net assets of the "enlarged" banking sector, as a whole, "*will consist of lendings to non bank*

[30] Caballero (2009).
[31] Nersisyan and Wray (2010) for evidence of the rising shares of innovative instruments on total asset of financial sector in the US. .

borrowers".[32] Real profits there remain as the ultimate source of cash flows, "*enabling business to validate debt".*[33] In conclusion, the interplay of the "longer chains" and "shorter horizons" of creative finance imply that fewer resources are being made available for final real investment funding for a given amount of original cash flowing into the "coupons" pool.

The ground is now set for an attempt at a synthesis. The joint consideration of Kaleckian constraints for real profits and the characteristics of the actual financial structure may hint, eventually, at a kind of "Kaleckian limit to financialization".

6. Is the rise of the "Patrimonial Capitalism" of the twenty-first century based on a global "Ponzi" scheme?

In fact, when the "decoupling" regime is defined as a situation in which Π > I, or gross profits exceed real investments, the simple division of both sides by "K" will yield "r> g", or, in other words, the rate of return on capital will be in excess of the rate of accumulation/growth. These tendencies can easily be associated with the recent trend in income and wealth distribution, namely, the falling share of labour incomes (particularly when top "managerial" incomes are excluded, as these are correctly considered as participation in the capitalistic surplus). With the share of capital income increasing,[34] this will imply, when the decoupling regime is extended over an indefinite horizon, the "euthanasia", or any other worse termination, of labour! Besides, if the average propensity to save rises as the consequence of redistribution, and given that $\Delta K/K = (s\Delta Y / Y) \times Y/K$, the capital/output ratio should rise for a given value of "g", further reinforcing the tendency.

The macro-economic, and social, sustainability of such a projection, within the longer term, is worth discussion. Piketty's notion of "capital" differs from what is commonly understood in growth models as a factor of production, and refers instead to the notion of *patrimoine* – that is, the value of all riches, whatever their form. Financial assets are obviously one item, but *patrimoine* includes other "stores of value" (real property, gold, other valuables, etc.). This is to be kept in mind, since it introduces a complication with respect to the frame so far assumed, where only financial assets founded on credit/debt management were considered. Keeping "real stores of value" on one side for the moment, and considering only that part of riches held in collateralized

[32] Shin (2010), p. 113.
[33] Minsky (2013), p.99.
[34] In Piketty's original formulation, this is the parameter "$\alpha = rK/Y$".

assets, a target of "r>g", if relentlessly pursued by the wealthy community in any situation of the real economy, would imply that rentiers' appropriations will exceed surpluses from real activities, period after period. Such a prospect would raise very worrying questions at a time like this when the growth rates of mature economies are low, and can be projected, in a more pessimistic vision, into the perspective of "secular stagnation".[35]

If claims for appropriations increased by more than the cash flow for the servicing of the debt of real businesses, the process would, quite automatically, lead the operation of the overall economy to proceed along the Minskian path to "fragilization": from "hedge" conditions, if they ever existed, to "speculative" finance, where interest payments are met but debts must be rolled over, and eventually, with more and more operators in the real sector finding themselves unable to honour their commitments overall and falling into "Ponzi" positions, to a "Minsky crisis", which is the likely outcome at some point in the continuation of this regime. In the meantime, the "leverage" ratios of the whole system will have kept rising: this is equivalent to the further dilatation of the financial sphere.

Let us recall, at this point, the familiar Kaleckian identities for profit determination from the national income identities.

From the fundamental identity between expenditures and incomes:

$$C_W + C_\Pi + I + G + NX = W + \Pi + T,$$

where NX are net exports and C_W and C_Π are consumption out of wage and non-wage incomes, eventually, allowing for positive (or negative) saving by workers' households ($S_W = W - C_W$), the identity for profit realization is:

$$\Pi = C_\Pi + I + (G-T) + NX - S_W$$

The excess "$\Pi - I$", in the "decoupling" regime, when profits are not immediately and wholly returned as investments into the income/expenditure circuit, necessarily requires a demand-side actuation coming out of: a) " G- T"; b) "NX"; c) "C_Π"; d) - S_W. Deficit spending, "mercantilistic" trade, high consumption by the wealthier, or inducement to debt of the working class, or any combination of these, are necessary conditions for continued decoupling. In the ideal equilibrium with a balanced budget for state and trade, non-invested profits may be validated only by the "luxury" consumption of the rentiers and the debt of the workers!

Actions and interactions, in the real world, are somewhat more complicated: for example, consumption out of incomes that do not derive from current labour participation will include

[35] See Summers (2015), for deeper insight and fundamental reference to Steindl on this point, and Hein (2015b).

spending of, for instance, pensioners drawing down on entitlements from paid-in saving schemes that are either publicly or privately funded (when not directly paid out of the public deficit); in fact, larger and larger shares of the demand for assets come from institutional investors pooling the precautionary savings of the wider population. It would thus be incorrect to identify "C_{Π}" wholly as "rentier" expenditure.

This important link between the Kaleckian accounting constraint and the Minskian description of the paths to instability is accounted for, once more, by Minsky himself: "*the Kaleckian way of looking at profits leads quite clearly to the consideration of the stability, or even the viability, of a financial structure".*[36]

Flow accounts for income/expenditure, and "portfolio" accounts in which assets are capitalized at present-day valuations of future income flows out of debt-servicing, are then strictly connected, in the sense that any "shock" affecting one side is bound to have consequences on the other side, within the stock–flow interactions.

Counterfactuals from recent experiences in mature economies can be evoked: the "fiscal compact" aiming at balancing the public budget within the EMU experience has reinforced the "mercantilistic" pursuit of net exports as the only propellant of growth; and we can consider the US experience of the rise and bust of a debt-financed housing bubble. We proceed now to our conclusions, with an attempt at a summing-up.

7. Concluding remarks: a real limit to financial dilatation?

The debate around "wage-led" vs. "profit-led" growth regimes has been a key topic in the line of research following the original inspiration of Kalecki, with fruitful contaminations of the taxonomies from the French "Regulation" school. The implicit criticism that has already been made of these results consists in the argument that, while the possible "steady states" of the economy within regimes is cleverly described, the longer-run implications, in particular for the sustainability of the financial structure in the background, are very often overlooked. We have focused only on the regime where $\Pi > I$, and profits are sustained by weak real accumulation, which corresponds broadly to our notion for "decoupling". The excess of Π over I must then be explained by some component of an exogenous demand for its realization; at the same time, the surplus cash flow, once subtracted from the consumption "C_{Π}", is added to the demand side for

[36] Minsky (2013), p.100.

the “coupon pool” of assets. Engineering by “creative” finance is capable of endogenously inflating this pool, through securitized items, the diffusion of platforms for “short-term” trading, etc. The “layering” of intermediation chains breeds an increasing number of specialized “vehicles” for sophisticated financial trades (although often these are emanations of the larger operators in the investment banking or insurance oligopolies). An increasing part of the original amount of money that is cashed as profits from real activity, once it enters this circuit, is likely to be captured by it. Money managers, entrusted with portfolio management, will claim fee incomes for their services. Fee incomes will, indeed, be appropriated by all intermediaries in each segment of the primary and derivative trades, as payment for their issuing and marketing services. Surpluses of Π over I that continue to accrue will, period after period, contribute towards inflating the pool of financial worth, motivated only by the target of the “valorization of the values” (Marx’s D- D^{+}), and will have lost all vision and interest in the collateral and the fundamental trends of the real economy.

Further, the sustainability of “profit-led” growth, where a redistribution from “W” to “Π” positively affects real activation and accumulation, appears, at this point, highly problematic. Avoiding the formalities, let us suppose that £1 of a “wage” is shifted in favour of “profits”. For demand-side activation to rise, additions to investments and other demand components ought to compensate for a “Kaldorian”, negative, impact on consumption arising from the differential propensities. The “animal spirits” of “real” entrepreneurs, or the craving for increased consumption of luxuries by rentiers, need to be stimulated to a highly consistent degree. However, the “shareholder value” regime implies that a greater part of this £1 of additional profit will not be retained by the firm engaged in the real activity. While retained profits for investment are income with an expenditure propensity equal to one, profits paid out to claimholders for dividends and interests will, in the amount of (1- “C_{Π}”), be diverted towards the financial circuit. Will they ever wholly emerge as additional credit for the spending agents? A portion of our £1 might remain in the “store of value” with diverse maturities, risks, liquidity, and returns. Professionals in portfolio counselling and management will charge fees. These managers, often operating within leveraged margins, are likely to invest their surpluses in the shorter-term instruments of a “high frequency trade”. Eventually, what is left of our £1 may slip into the “near-money” markets, where, every day, bankers close their trades through overnight credits/drafts. In conclusion, the original shift of £1 from wages to profits is likely to reduce aggregate demand, with a stagnation implication as originally suggested by Kalecki, and it is highly probable that the “long-term” options of real investments are sacrificed along this path. The continuation of the $\Pi > I$ (and $r > g$) regime requires

the financial circuit to be capable of continually feeding the “valorization” process and aiming at returns in excess of real growth for income and cash flows. Cases of an inability to pay by some debtors tied to “real” incomes then become more and more frequent. In traditional banking, such an event would result in the devaluation of bad credits on the asset side of the balance sheet of banks. Where debts are floated into the market as CDOs, etc., these events lead to asset devaluation, or worse, illiquidity. Leveraged agents will need to sell “good” assets to meet their commitments, and the spectre of a “Minsky moment” materializes. All this has happened, and might happen again.

In conclusion, the simple parable about the destinations of just this £1 warns us that when a “decoupling” situation is found, we must think about the implications of this on the viability of the financial structure in the background, as Minsky was aware. Moreover, a question should be posed about “from where” returns to the *patrimoine* higher than the real growth of aggregate incomes might come.

Actually, “wealth” does not need to be wholly invested in shares and bonds, etc., that are based upon collaterals; real stores for wealth, real estate, gold, art, etc. are available for portfolios, directly through ownership or indirectly through shares in specialized funds. May these placements “keep” and increase their patrimonial values for ever? The initial burst of excess demand should eventually be followed by the rise of a flow supply, dis-inflating the “bubble”. Exceptions may come only for goods with intrinsically low elasticities of production and substitution (unique masterpieces, etc.).

One store of value, which is characterized by low values for those elasticities, is, as Keynes explains, “money”. In the periods of deepest uncertainty, claims for returns may be sacrificed to the target of merely “keeping” nominal values. The increasing volume of wealth that is “parked” in some “safe harbour” (such as a Swiss Franc account or a German “Bund”, etc.) and earns zero, or even negative, returns means that eventually “r” is drawn back to the stagnation of “g” in the real economy!?

Starting from this link between “Kaleckian” stagnation and “Minskian” instability, there is room for a wider set of research suggestions. Those with a “Marxian” background may recall the awkward passages (in Book III of “Kapital” or in the “Grundrisse”) where “fictitious” capital is distinguished from “real” capital, and crises triggered by the deflation of the former in relation to the latter are evoked. The actual revival of “stagnation” theories, in which the opportunities and motives for “I” are seen to fall short of the availabilities of “S”, even at zero, or negative, rates of

interest, is another line of reflection that may be reconnected to our description of the decoupling of finance and the real economy. If the outcomes of distribution imply positive savings with zero growth, and these savings (which may be aimed, say, at retirement incomes) are in "need" of a return, where might such an appropriation come from? Out of further restrictions on the share given to labour? But this would worsen demand stagnation!

The Kaleckian identities show how surplus may be derived from the other sources of exogenous demand. But here we are back to Big Government, mercantilism, or even Malthus, where high spending by the wealthier benefits all. A thorough reflection should make us worry, at this point, not only about the macro-economic, but also about the social, sustainability, of these regimes.

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