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Functional "reversal" and dimensional "decoupling" of "Finance" and "Real Economy": reflection around the "Kaleckian" and "Minskian" limits to over-financialisation

Abstract

The predominance of "financial" interests in the operation of present-day capitalism is well at the centre of the research agenda within a "Post-Keynesian" inspiration. Two "Schools", well established in this tradition, and talented scholars, have provided advances for the understanding of the implications and risks brought by "financialisation". I refer to them, intutitively, as to the "Kaleckian" and the "Minskian schools. "Neo-Kaleckians" give stress to the medium-term implication for growth performance and distributive trends in the real economy; "Minskians" have recently insisted upon the impact of innovative practices of modern finance, e.g. shadow banking, securitization, etc., eventually increasing the fundamental "fragility" of capitalism, as in Minsky's seminal intuition. Although an extensive literature has produced important results in the recent years, there is still ground for more "comprehensive" reflection upon "finance-real economy" interactions. This contribution is targeted to that direction. Two phenomena are described as "fundamental" at the origin of further consequences: a) the Reversal : the relation between the financial and the real spheres of the economy is now "inverted" with respect to the conventional economists' wisdom, where "finance" services "Real Economy", intermediating savings into investments. With a reversion of ends, it is now Real Economy servicing finance, as the originator of debt obligations, upon which the assets and trades on the financial market are established; b) the decoupling : this is understood as the dilatation of values of a financial wealth, relative to of real output levels and growth. One important evidence within this notion is the decline of investment to profit ratios in mature economies. Can actual trends of growth "sustain", ever and ever, a more than proportional inflation of financial values ? May the ratios to GDP of the values of a "*Patrimoine*", meant as the aggregation of all riches (Picketty, 2013), steadily increase? If the value of financial assets derive essentially from the servicing of debt obligations out of proceeds from real activities, further "decoupling" might imply capitalism risking to engage a global "Ponzi" scheme.

Introduction

"Financialisation" has become a central notion in the research agenda on the characteristics of macro-economy and on the institutional regulation of mature capitalist countries. Pluralist inspiration from the "Post-Keynesian" traditions of research: "Kaleckian", "Monetary Keynesianism" broadly following the seminal vision of H. Minsky, French "Regulation" school, British "Social Accounting" school, etc., [1] have developed diverse paths for the description and the analysis of the implications of a "financialized economy". After the "Lehman Shock" of 2008, even scholars grown out of a "mainstream" training, have sometimes been shaken in their faith upon the equilibrating properties of competitive mechanisms and capital markets. Prospects

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[1] Van Treek(2008) for further detail and review.

of low growth of the real economy, in front of the dilatation of a financial super-structure, have actually awakened the fear for "Secular Stagnation".[2]

Specialist 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 account, for the implications of the "finance-dominated" environment of global economy. [3] An exhaustive survey would be out of the reach of this brief contribution. Focuses, and main points of reference, need thus to be preliminarily set.

The reflections in this text are, therefore, inspired by recent results of research within two "Schools", both well established within the "post-Keynesian" tradition, but with important difference in their choice of focus and methodological approach. I will here refer to them, only for intuitive purpose, as the "Kaleckian" and the "Minskian" schools.[4]

The former has cleverly integrated the influence of the increasing power of the financial interests within the solid foundations of Kaleckian macro-economics, which puts at its starting point the aggregate "macro-constraints" deriving from the income and expenditure accounts. Different "regimes" for the institutional and distributive frames have been described , in their implication for the activation and growth performance of real economy. The Kaleckian tradition, therefore, keeps at its core the attention upon "real" outcomes for the economy, after including into the model behavioural relations or parameters, accounting for the influence of the financial sphere.

On the other hand, the "Minskian" vision, has, since its origins, given emphasis to Finance, with a selective reading of the original intuitions by Keynes. 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] It would be however incorrect to affirm that scholars inspired by this "Monetary Keynesianism" remain uninterested to the results for growth or distribution: their research offers in fact rich accounts, in particular for the recent framework of financial practice and (de)regulation, behind of the mal-performance of real economy: instability, inequality, international unbalances, etc.

Stressing however, for the sake of discussion, the dichotomy between the approaches, one could say: "Kaleckians" include behavioral parameters accounting for "financialisation" within their derivations of configurations and comparative statics for the real activation and growth rates; "Minskians" posit finance, and "financial innovations" as the prime-movers, behind the

[2] Summers(2015) is a seminal reference.

[3] FESSUD(Financialisation, Society&Sustainable Development), an international research program grouping 15 partner teams throughout Europe, is on way of its conclusion. Papers and reports produced within the project offer rich and varied reference, and are all available at fessud@leeds.ac.uk.

[4] Kaleckian inspiration has been more lively in European contexts; E. Hein, from the Berlin School of Economics, is one principal contributor; the continuation of MInskian inspiration of research is mainly associated to fellows and scholars within programs coordinated by the Levy Institute of Bard College, Annandale, NY, US.

[5] Minsky (1967) , p.33, as reported and commented in Mehrling(1999), p.139.

fluctuations and crises of the real economy, and give stress to the consequential institutional evolution of capitalist regulation, etc.

The present critical moment of history, which we live, calls for the need of more comprehensive vision, for the dynamic interactions between the "real" and "financial" forces in the modern economy. This is not an easy task, surely out of reach of a single contribution, and we rather express here the omen for a further research interest addressed to the cross-fertilization of specialized contributions by the two "schools". Minsky himself was aware of need for further synthesis, when writing : " *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 posited as the originator of real instability, the accounting framework for profit realization, as derived from Kalecki are, admittedly, a constraining frame. It is therefore worth, in our opinion, to dedicate a further effort towards the integration of "Kaleckian" and "Minskian" inspirations, for the comprehensive and critical vision of modern capitalism.

Even when aware of the dominance of the financial interest in economy, one question emerges: does a "Real limit to financial dilatation" exist, and where does it eventually lye? Kalecki founded the conditions for profits realization firmly upon the demand activation in the "real" sphere; Minsky was always conscious that values and trades, upon the financial markets, are ultimately founded upon the faith upon the validation of titles to income appropriation out of the inflows of future profitability.

This draft is organized as follows. Since exhaustive surveys of the "stylized facts" of macroeconomic evolution in the age of financialisation, are now available in the literature, [7] only few empirical facts, central to our further reflection, are briefly recalled in the following section. We proceed then to define what, in our framing of financialisation, are assumed as two "fundamental" phenomena, at the background of most developments.

The first "fundamental" is here defined as the <u>reversal</u>. The concept broadly alludes to the "inversion of means and ends" in the functional interaction between "Finance" and "Real economy", when confronted to the conventional wisdom of economic analysis. In this latter, "Finance" is one, in a wider set, "service activity " functional to real economic circuit (together with Commerce, or Transport, etc.), namely intermediating between original creditors and final debtors. in the actual, "reverted" scene is rather "Real economy" which appears as servicing "Finance", as the provider of the primary input of some "financial production function". The real economy, in fact, is the originator of the commitments to repay obligations from titles of debt, upon which the assets and trades of the financial markets are established.

The second "fundamental" is defined as the <u>decoupling</u>. The term, in its broader sense, alludes to the apparent "autonomization" of the rise of a financial wealth, with respect to activation levels and growth of real production and income. One important manifestation of

[6] Minsky(2013), p.100.,
[7] Stockhammer(2007), Orhangazi (2008), Hein (2015a).

decoupling on an empirical ground, comes from the evidence of lowering values of a "real investment-to-gross profit" ratio. This tendency has otherwise been called, within a "Post-Keynesian" literature, as defining a "profit without investment" regime. [8]

Is this "decoupling" sustainable upon a long perspective? Final section, and the concluding remarks, are centered at reflections around this question, also for the perspectives of further research. Conclusions will include brief critical references to recent developments of the literature, which offer useful analyses and evidences, but often do not explicit the sustainability in the longer run of the trends described. One possible contradiction is evocated: "P*atrimoines"*- using Piketty's original term for the whole of a Wealth- may not, in our vision, indefinitely inflate its values and ratio with respect to "GDP" or any other measure of the aggregate results of real economic activity.

"Stylized facts": a reminder

The rise of "financialisation" , and of a "money-manager ruled" capitalism, must be traced back to those years at that turning point in the history of modern capitalism , intuitively to be posited around the final and initial years ,respectively, of the 1970's and 1980's. Fundamental changes in policy orientations occurred in that period, though with different intensity and timings in the diverse contexts. Financialisation was, both, the motivation and the result of the advances of the neoliberal "(counter)-revolution" in these years.

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

Disinflation, as key evidence of a regained control over the macroeconomic environment, was in fact achieved in the following decades.

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[8] Term and concept for the regime (sometimes called as the "intermediate" regime between the "wage-led" and "profit-led" regimes) are worked out in contributions by E.; e.g. Hein(2012), Hein(2014), ch.10 in particular.

[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, Jackman (1994).

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 premise and promise from the mainstream wisdom associating better and more stable growth performances for the real economy, to a regained nominal stability and more competitive framework for the trades on goods and factor markets, , were falsified.

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 lower interest rates were not inductive of steady growth, while, in the orthodox view, these conditions should have favoured "long-term" investment options. The actual development went in a quite divergent direction, confirming Minsky's vision, according to which a period of "tranquility" breeds the seeds of instability. Well before the "crack" of 2008, episodes of local crisis , mainly "bubble-led", were experienced at short intervals. [12] The invasive action of lobbies serving financial interest contributed to the opening of an increasingly deregulated space for the speculative trades. The rise of the "Creative-finance" –with the layering" of the credit intermediation chains through securitization and "originate to distribute" practices, the further dilatation of the opportunities for leveraged speculation allowed by the explosion of the derivative markets, etc.--- led to the predominance of "short-term/high frequency" trades within portfolio management practice. This development appears as having been detrimental to the longer-term option for investment allocation. Also operators out of the professional financial circles, as the non-financial firms and the households, got dragged into the game. Creative finance contributed in a determinant way to the "decoupling", between the financial and the real values of trades turnover, as further described.

Diverse indicators of"Financial inflation" may be shown. In view of the further discussion in the text, where a central question is posed upon the sustainability of the rise of debt-collateralized assets in the longer-term,, we select one single indicator, i.e. the ratio of the nominal value of the debt-collateral bonds, to the GDP of the countries of their issue.

[12] For specialist accounts enumerating for the crisis episodes, 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 (source: elaborations from BIS)*

	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 wide segments of a financial wealth are being excluded (stocks, real estate, positions in the derivative trades, etc.) , bonds, since their value is based upon the repayment promises by final debtors, are the key item linking of Kaleckian and Minskian concepts. Debt obligations traded may be originated from the private as well as public institutions. Cash-flows accruing to debtors in the due time, and the right to appropriation by the creditors out of these, are the foundations for the value of the assets tradeable in the markets. As already clear to Minsky, the rise of "securitization" (ABS, CDO's) has meant the rise of 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 risks then to coincide with financial fragility, when not enough supported by the real base of a business profit.

In the meanwhile, the increased role and "greed" of "money-managers" may endanger the income prospects for the "have-nots", i.e. households whose subsistence is still wholly founded upon wages against labour services; decreasing labour shares, and inequalities rising overall upon the spectrum of the distribution, appear then as the side-products of "financialisation". [14] We borrow from the wide literature commenting on this a graph, which is highly evocative of a regime change , from the "Fordist" to the "Financial dominance" age.

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

PRODUCTIVITY AND WAGE DEVELOPMENT IN USA (reprinted form Orhangazi(2011), p.24.)

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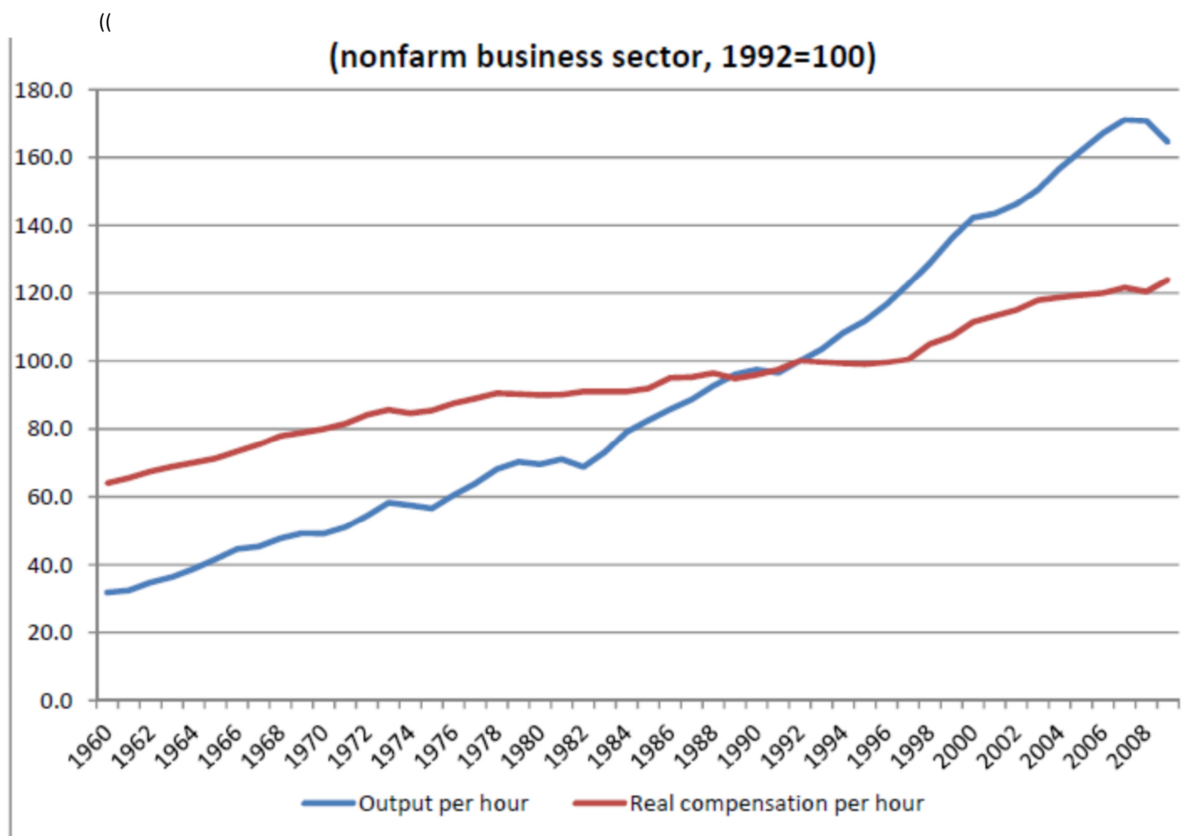

Source: Economic Report of the President, 2011, Table B-49

The basic frame of the "Fordist Compromise", in which "income policies" allowed income increases to all "stakeholders" in line with of real productivity growth, was broken; rise in inequalities was a consequential fact.

The "Reversal": the "subsumption" of the real to the financial ?

The use of a perhaps obsolete, Marxian term as "subsumption" has nevertheless an evocative power. Essentially, "A" is "subsumed" by "B" , when the scopes for actions of "A" are bounded or subordinated to the behavior and interests of "B". Now, between "Finance" and "Real Economy", who is "A" and who is "B" ?

Conventional wisdom in "Economics" has framed finance as one, though among themain, "service", functional to the central economic circuit of production, distribution and accumulation. "Trade" intermediates producers with final consumers; "Transport" allows spatial separation amongst them, "Finance" , finally, mediates loanable funds between agents in surplus positions to

those in deficit positions in their current income-expenditure plans. Finance, eventually, does more that: e.g. it allows of portfolio diversification and hedging to the saver, and advice to the investor.

In a “fundamentalist” Marxian view, these “circulation services” do not add “value” to the real economic product. However, I would not nowadays be in agreement with this position. Financial innovations, e.g. “venture capital” allowing the start-up of innovative enterprise, might sometimes be considered as a form of technical progress, favouring economic development. There is however, now even amongst the “mainstreamers”, a debate around the possible “excess” dilatation of finance. [15]

The “reversal”, besides, is a term alluding to phenomena which have been, otherwise, indicated with other terms: “Shareholder-value”, “Finance-led growth”, “Coupon Capitalism”, etc. However, this term aims at a more encompassing, and radical, vision. In fact, it depicts the “inversion” in the functional relationship between finance and real economy, with respect to the conventional wisdom held in most economics. There is inversion, in fact , in the direction of the “subsumption”, of the latter to the other.

In the inverted sequence, real economy is the one which performs a service, as the provider of primary inputs in 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 the assets upon which financial trade may establish itself. Moreover, out of original debts, the modern engineering by creative finance is capable of building up layered super-structures of tradeable instruments, through the pooling of debts into “collateralized” assets (CDO,s etc.) . Specialized “vehicles” are created and dedicated to the successive layering of the assets, with shorter maturity and higher (perceived) liquidity at each successive step. [16] All is aimed in principle to the satisfaction of the diversified demand by money-managers” with diverse propensities for maturity, risk, liquidity. This “chain” process, when continued, is bound to glide into the very short-term instruments of a “near-money” mutual markets for the big banks and the hedge-funds.

Shorter or longer the chain, values and tradability of the assets are conditional to “belief” upon the validation of debt obligations by the issuers at each step. However, going back the chain up to the start, we will precisely find the original debtors of the real economy. It is at that point that the “Kaleckian” conditions for profit determination become critical for the sustainability of the whole financial “super-structure”. [17] The debt is the originator of a financial “production”, where purely financial trades predominate and Minskian “money-managers” are the leading men. “Reversal” , when alluding to all this might appear as a radical vision. However, the concept perhaps has a heuristic power encompassing other descriptions for “financial dominance”, already in the literature. E.g. “Shareholders-value” means essentially the subordination of the operational

[15] E.g. Pagano(2013).
[16] Shin(2010), as the main reference. There is a coauthored w.p. of mine on this point: Bianco, Piacentini (2014).
[17] The quotation above shows Minsky’s awareness upon this point.

management to the interest of "monetary-capitalists", merely aimed at the "valorization of values" of their portfolios and essentially stranger with respect to the productive mission of the firm. Alike, "Regulation" scholars emphasize the epochal shift from "Fordist" to "Finance-led" regimes[18], though substantial doubts may be arisen about the feasibility of a demand regime propelled only through "capitalistic" expenditures, while labour compensation is left out of the participation to productivity gains. The interesting concept of "Coupon Pool Capitalism", which would by now have overcome "productive" capitalism, as originally put forward by the s.c. "British School of Social Accounting"[19], is also quite consonant to our views about the inversion of means and ends in the capital markets, since: "*The pool of new and issued coupons becomes a regulator of the macro-economic trajectory.* "[20] "Coupons" are extensively defined as including bonds, securitized paper, share in funds of venture capital, etc. However, one main item in the "Coupon pool" remain the bonds backed by the servicing of debts from the part of the non-financial institutional sectors: firms, households, Sovereign States. The money-manager acts on the behalf of the portfolios of the wealthier (e.g. in "private banking") or, with even greater amount of money and responsibility, 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", will turn into money-managers themselves. The options for productive investment, will in that case likely to be "subsumed" to the short-term targets of portfolio valuation.

The distinction between the "monetary" and the "productive" capitalist is not new, and was already fundamental in Marxian account of the accumulation process, where the valorization of the money capital was the original purpose and the final result. However, within this passage, the "values" may rise only through the productive uses of labour. This duality is the possible originator of contradictions and crises. Keynes' distinction between "enterprise" and speculation", in Ch. 12 of the "General Theory", is well known. The risk of having entered "casino economics" where "*enterprise becomes the bubble in a whirl-pool of speculation*"[21] appears well actual.

The two "masters" of thought, who inspired this text, Kalecki and Minsky, may appear,at first impression, at the opposite sides within a common "Keynesian" inspiration , for their diverse stress on the "real" or "financial" operations of the macro-economy. Kaleckian derivation from income accountings show how profits derive from investments and other exogenous expenditures from the real economy: financial interaction seems left somewhat in the shadow. [22] Minsky, on the other hand, was for a 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*

[18] Boyer (2000)
[19] Froud,et al (2001) and (2002).
[20] Froud et al. (2001), p. 275.
[21] Keynes (1936), p.159
[22] Other distinguished scholars stress the need for integration of Kaleckian and Minskian visions: Stockhammer(2015b).

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 starting from this apparent dichotomy that we may further proceed into a reflection about the sustainability problems of a financialized economy, where financial trades are still based upon the "*validation of debt structure".* Then, if at the micro-level the Minskian notion of "investment" eventually coincides with the point of view of the money-manager engaged in the hedge and augmentation of portfolios of riches, without direct interest upon the real objects of trades, at the "macro-level" a consideration cannot be avoided about the "*integration of financial structure and basic behavior of the economy", where*, "*Kalecki's emphasis upon profits and their determination….would call quite naturally to study of financial structures and their relation to the cash-flows that validate the structures".* [24] Comforted from this inspiration, a preliminary reflection in this direction will be attempted.

The "Decoupling" : more profits with less accumulation ?

Comprehensive discussion upon the notion of "decoupling" [25] would call for encompassing analyses for increasing autonomy and volumes of the innovative modes of operation of modern finance. The nominal values involved in the transaction turnover result multiples, by many numbers, of output and income from the real economic activity. In particular, because of the short-term pursuit of gains from "high frequency" trade, the behavior of operators appears as completely "autonomized" with respect to the real content of what is being traded. The broader notion of the "finance-real" decoupling would require further specialized reflection.

The more restricted notion for decoupling, to which we refer in this occasion, is mainly concentrated upon the macro-economic evidence of an increasing divide between the volumes of "Profits" (or "Gross Margins") from the Income accounting, and the amounts of real "investments" in the Expenditures account. Recent advances in research show how "profits without accumulation" regimes are often prevalent in the context of modern mature economies. [26] Formal results from the "Kaleckian" frames, starting from the income/expenditure identities and "mark-up" pricing rules, consider diverse specifications for investment function, allowing wide range of interactions among propensities and distributive parameters, characteristic to the "regimes" of the macro-economy. The classical "Kaleckian" result in which a redistribution against labour is contractionary ("wage-led" regime) still appears as the most plausible outcome. However, one cannot exclude situations where expenditures by capitalists and rentiers, supported by other exogenous sources of demand, may sustain profits even at lower rates of

[23] Mehring(1999), p.139.
[24] Minsky(2013), p.99.
[25] The use of term "decoupling" was inspired by Van Treeck (2008), p.1
[26] Hein (2011b).

accumulation (the above mentioned "profit without accumulation" regime) , and eventually , where a very strong influence of profits on investment and consumption, may support a "profit-led" growth regime. In these contexts, the supply-side is flexible enough in allowing the capacity utilization rate to adjust and support stimuli coming from the demand-side. Though without formal developments, the improbability of sustainable paths for a profit-led growth path "*à la Boyer"* will be further argued. In this frame of analyses the activation appears as fully determined from the demand-side. We would only recall that other approaches, also well within the "Post-Keynesian" tradition, allow for interactions in a longer run between demand-side and supply side factors (e.g. "Domar's" balanced growth, "Kaldorian" frames with "technical progress function", etc.).[27] Finance remains mainly marginal, in these developments coherent with a Kaleckian stress upon final real outcomes for the economy.

However, the excess of aggregate gross profits over real investment implies that fractions of "realized" profits are not returned, within the reference period, as investment expenditures. The fact that profits higher than investments were in fact realized, calls for the contribution from other sources of exogenous demand: government expenditures, surplus from trade, consumption financed out of non-labour incomes or debt. Old Keynesian "Big-Government", or a "Mercantilist" surplus, or the "Malthusian" role for the consumption from the wealthier, or eventually, the inducement to debt of the working class households ("Fanny-Mae" economy….) , or a combination of all these, are required for the result. The hindsight from recent national experiences should confirm the intuition.

In the most conventional frame where capital markets allow the realization of "S = I", or otherwise, all leakages out of the income-expenditure circuit are channeled into the financing of demand components (including public expenditure, etc.). However, when departing from it, a more complex institutional frame and transaction mechanisms will be involved. Surely, it is still the role of "Finance" to act in the between of surplus income positions (savings) and deficit-spending positions, through the variety of credit circuits. In our "inverted" reading, however, is rather the liquidity requirement of the debt positions which allow the origination of the assets funding financial trade. Instead of traditional bank credit supporting spending through endogenous money creation, we will have more securities creation ; the pooling of debts into tradeable "CDO's" will enhance the weight and the roles of this second channel.

Between the cashing and savings from profit, and expenditures eventually forthcoming, lies the vast sink of Finance, in which the inflows and outflows of "loanable funds" may not match in their timings and volumes. Purely financial super-structuring of "derivative" items will contribute to build-up the higher levels of the "inverted pyramid". A large matrix of intra-financial credit and debt positions will emerge from the leveraged transactions among specialized vehicles. [28] This dilatation of a financial super-structure, out of any original "real" base, is not normally considered within the "Neo-Kaleckian" modelling. "Profit without accumulation" regime, when continued period after period, would however feed further and further decoupling.

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[27] Piacentini, Prezioso (2014), Hein(2014), ch.8.
[28] Shin (2010), ch. 6.

“Coupon Pool” and “Creative Finance”: the multiplication of bread and fish?

In any period, the excess of profits (“Π”) over investments (“I”) in any period, must then find placements within the portfolios. The demand for financial “stores of value” will, in such a circumstance, likely to be in excess of supply coming from debt originations by the institutional sectors in deficit position. Expert observers of the events in the near decade of “boom and bust” of the 2000’s remarked how supplies of “safe” bonds went short for a time with respect to the demand: the rise of a financial engineering for securitized assets, from “MBS’s” to higher layers, was then fueled, to some extent, from a “demand-pull” pressure for structured items at the diverse ladders of a maturity and liquidity spectrum.[29] Scholars from the Minskian school have well described the rise of this “creative finance” outpacing that of traditional banking (“OTD” vs. “OTH”), giving rise to a system “*with an elaborate, and layered financial structure”.* [30]

Here we shall only list some instruments and practices of “new” finance.

a) “Securitization”: the collation of original debts and the floating of successive layers of “collaterized” securities; b) leveraged trades enclosed within the circle of specialized intermediaries, multiplying “turnover” of financial transaction with respect to original or final values of savings and credit; c) the rise in the trade for “derivatives” , or secondary markets for speculative bets based upon expected variations in the underlying “primary” assets values; d) the rise of specialized “vehicles”, along the chain of a layered intermediation extracting fee incomes out of their marketing services; e) high frequency trade, among leveraged traders targeted at very short term gains and continuously in need of the rolling-over of their credit-lines.

More “structured” finance claims more fee-income; these may be explicit (e.g. commissions) or implicit (assembling and marketing CDO’s of a higher order and shorter maturity, perceived as more “liquid” by the market, and appearing with a plus in balance sheets) .

Banking, and in particular “shadow” banking , appear then to extract more and more fee incomes out of transactions within the purely financial circuits, and these become perhaps more important than “fund” incomes deriving from the repayments from traditional credit. These fees appear as the capture, by “unproductive” financial circulation, of higher shares of the original “loanable” funds. However, when “Finance” is considered as a whole, credit and debt positions amongst traders should cancel out; so that, eventually, the net assets of the enlarged banking sector, as a whole, “*will consist of lendings to non bank borrowers”*. [31] Real profits therefore remain as the ultimate source of cash flows “*enabling business to validate debt”.* [32] In conclusion, the interplay of “longer chains” and “shorter horizons” of creative finance would imply that lesser

[29] Caballero (2009).
[30] Nersyan and Wray(2010).
[31] Shin (2010), p. 113.
[32] Minsky (2013), p.99.

resources are being made available for real investment funding given any amount of original funding incoming within the "Coupons" pool.

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

The rise of "Patrimonial Capitalism" of the XXI Century is based on a global "Ponzi" scheme ?

The title of the paragraph clearly alludes at the monumental book by T. Piketty. It is worth in fact noticing that our main meaning for the situation of "Decoupling" broadly are coincident with the principal phenomenology described by Piketty for the capitalism of the XXI century, with the increasing concentration of riches within the availabilities of a restricted minority of general population.

In fact, when the "decoupling" regime is defined as a situation in which $\Pi > I$, gross profits exceeding real investments, the simple division of both side by "K" will yield "r> g" , i.e., the rates of return on capital will be in excess of rate of accumulation/growth. These tendencies are easily associable to recent trends in income and wealth distribution, namely, the falling share of labour incomes (in particular, when top "managerial" incomes are excluded , when these are correctly considered as participation to the capitalistic surplus). With the share of capital income increasing (in Piketty's original formulation, the parameter "$\alpha = rK/Y$") this will imply, when the decoupling regime is extended over an infinite horizon, the "euthanasia", or any worse termination, for labour! Besides, if saving propensity rises as effect of redistribution, given that $\Delta K/K = (s \Delta Y / Y) \times Y/K$, the capital/ output ratio should rise at any value of "g", further reinforcing the tendency.

The macro-economic, and social, sustainability of such projection is worth a discussion. Piketty's notion for "capital" differs from what commonly understood in the growth models as a factor of production., and rather refers to the notion of *patrimoine* , i.e. the value of all riches, whatever the form of their placement: financial assets obviously being one item, but together with other "stores of value" (real properties, gold, other valuables, etc.). This is to be kept in mind, since it introduces a complication with respect to the frame which was so far assumed, where only the financial assets backed by credit/debt management were considered. Keeping "real stores of value" still aside for the moment, and considering riches held in collateralized assets, a target of "r>g", relentlessly pursued by the wealthy community, for any situation of the real economy, would imply that rentiers' appropriations will exceed profits from realactivities, period after period. Such a prospect raises worrying questions, in particular in these times when the growth rates for mature economies are lower, and are being projected, in a pessimistic vision, into the perspective of a "secular stagnation". [33]

[33] Summers(2015), for deeper insight and fundamental reference to Steindl on thris point, Hein (2015b)

If claims for appropriations increase by more than the cash-flow of real businesses for the servicing of the debt, the process would lead, quite automatically, the overall economy to proceed along the Minskian path to "fragilization": from "hedge", if ever, conditions, to "speculative" finance, where interest payments are met but debts rolled over, and eventually more and more operators in the real sector finding themselves unable to honour their commitments overall, and falling into a "Ponzi" position. Minsky crises are likely to arrive at some point in the continuation of this decoupling regime…. In the meanwhile, the "leverage" ratios of the whole system will keep rising: but this is equivalent to further dilatation of the financial sphere….

Let us add, at this point, the familiar Kalecki's identities for profit determination as these follow from the National Income identities.

From the fundamental identity between expenditures and incomes:

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

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

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

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

Actions and interactions, in the real world, are somewhat more complicated: e.g. a consumption out of incomes non-deriving from current labour participation, will include the spending , e.g., of "pensioners" dissaving from entitlements from once paid-in saving schemes along their life-cycle and either publicly or privately funded (when not directly paid out of public deficit); in fact, larger shares of demand for assets come out of institutional investors pooling precautionary savings of the greater part of population. It would be in fact incorrect to identify, then, "C_Π" , wholly as a "rentier" expenditure.

For the importance of the link between the Kaleckian accounting constraint and the Minskian description of paths to instability, we quote once more from Minsky himself : " *the Kaleckian way of looking at profits leads quite clearly at the consideration of the stability , or even the viability, of a financial structure".* [34]

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

Flow accounts for income/expenditures and "portfolio" accounts in which assets are capitalized values of future income flows out of the debt-servicing, are then strictly connected, in the sense that any "shock" or tendency affecting one side are bound to have consequences on the counterpart, within stock-flow interactions.

Counterfactuals from recent experiences in mature economies are only evocated: "fiscal compact" aiming at balancing public budget within the EMU experience has reinforced "Mercantilistic" pursuit of net exports as the only propeller for growth; the US experience of the rise and bust of a debt-financed housing bubble; the increasing weight of wealthy "City" traders and their "conspicuous" consumption on UK economy's sectoral composition and demand activation. We proceed now to the conclusions, with an attempt at a summing-up.

Concluding remarks: a real limit to financial dilatation ?

The debate around "wage-led" vs. "profit-led" growth regimes has been a key issue in the development of a line of research following the original inspirations of Kalecki, and with a fruitful contamination from frames for taxonomies from the French "Regulation" school. The implicit criticism, which has been addressed to these results was that, while describing cleverly the possible "steady states" of the economy within these regimes, the longer-run implications, in particular for the sustainability of the financial structure behind, were overlooked. We have focused only on the regime in which $\Pi > I$, profits sustained by weak real accumulation, corresponding broadly to our definition for "decoupling". The excess of Π over I must then be warranted by some component of an exogenous demand for its realization, in the same time, the surplus cash-flow, once subtracted "C_Π" must be added to the demand-side for 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 increasing number of specialized "vehicles" for sophisticated financial trades (though, often, these are emanations of the greater operators, in the investment banking, or insurance, oligopolies). An increasing part of the original amount of money coming out of profits in the real activity, once entered this circuit, is likely to be captured, within it. Money-managers, entrusted with the portfolio management , will claim fee-incomes for their service. Fee incomes will be appropriated, in the meanwhile, by all intermediaries active at each segment of the primary and derivative trades on behalf of their issuing and marketing services. Surpluses of Π over I, when continuing to accrue, will , period after period, contribute at inflating the pool of a financial worth managed with the sole motive of the "valorization of the values" (Marx's $D\text{-} D^{+}$), and having lost vision and interest upon collaterals and the fundamental trends in the real economy.

The sustainability of a "profit-led" growth regime, in which a redistribution from "W" to "Π" affects positively real activation and accumulation, appears, at this point, more and more unlikely. Avoiding formalities, let us suppose that one "£" of "wage" is shifted in favour of "profits". For activation to rise, additions to investments and other demand components ought to

compensate the “Kaldorian”, negative impact, on consumption arising from the differential propensities. “Animal spirits” of “real” entrepreneurs , or crave for increasing consumption on luxuries by the rentiers, need to be stimulated in a highly consistent degree. But, “shareholder value” implies that a greater part of this “£” of additional profit will not be retained by the firm engaged in the real activity. While retained profits for investments are incomes with an expenditure propensity equal to one, profits paid-out to claimholders for dividends and interests will, for a quota of (1- “C_{Π}), be diverted towards the financial circuit. Will they ever come out as additional credit to the spending agents ? A portion of our “£” might likely stay placed in some “store of value” with diverse maturities, risks, liquidity, returns. Professionals, for the portfolio counselling and management , will cash fees. These managers, often operating with highly leveraged margins, will likely invest their surpluses in the shorter-term instruments of the “high frequency trade”. Eventually, residuals of our “£” may slip into a “near-money” market, where bankers close everyday their trades through overnight credit/drafts. As conclusion, the original shift of one £ from wages to profits will have likely reduced aggregate demand , with a stagnationist implication as originally in Kalecki; and it is highly probable that “long-term” options for real investments have been sacrificed through this path. The continuation of $\Pi > I$ (and $r > g$) regime require a financial circuit to be capable of continually feeding the “valorization” process, aiming at returns always in excess of real growth for income and cash-flows. Cases of inability to pay by some debtors then become more and more frequent. In traditional banking, such an event would result in the devaluation of credits on the asset side of the balance sheet of banks. Where debts are floated into the market as CDO’s, etc., these events lead to asset devaluation, or worse, illiquidity. Leveraged agents will be in need to sell “good” assets to meet their commitments, and the spectre of “Minsky moment” materializes. All this has happened, and might happen again.

In conclusion, the simple parable about the destinations of one “£” teaches us that when “decoupling” situation is ascertained, we must think about the implications upon the viability of the financial structure on the background, as suggested by Minsky. Moreover, the question should be posed, about “where”, returns to *patrimoines* higher than real growth of aggregate incomes might come from.

Actually, “wealth” needs not to be wholly invested in shares and bonds, etc., based upon collateral obligation ; real stores for wealth, real estate, gold, artwork, etc. are available for portfolios, directly through ownership or indirectly through shares of specialized funds. May these placement “keep” and increase their patrimonial values for ever? To the initial burst of an excess demand might follow the rise of a flow-supply, dis-inflating the “bubble. Only exceptions may come for goods with an intrinsically low elasticity of production and substitution (unique masterpieces, etc.).

One store of value, characterized by low values of those elasticities, is, from Keynes’ , “money”. In the periods of deepest uncertainty, claims for returns may be sacrificed to the target of a mere “keep” of nominal values. The increasing “parking” of wealth into some “safe-harbour” (e.g. Swiss Franc accounts, German “Bund”, etc.) may earn zero, or now even negative, returns; eventually “r” is conduced back to the stagnation of “g” in the real economy !

Starting from this linkage between a "Kaleckian" stagnation and "Minskian" instability, there is room for wider range of reflections and research suggestions. Those with a "Marxian" background may recall the awkward passages in Book III of "Kapital" (or in the "Grundrisse") where a "fictitious" capital is distinguished from a "real" capital , and crises triggered by the deflation of the former to the latter values are evocated. 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 reflections which is connected to our description of Finance/Real economy decoupling. If the distribution outcome imply positive savings at zero growth, and these savings (say, e.g. for retirement incomes) are in "need" of some return, , with $r>g = 0$, where this appropriation might come from ? Out of further restriction for the share of labour ? But this would deepen 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 back to Malthusian intuition where a high spending propensity of the wealthier benefits all. A through reflection should think about, at this point, not only the macro-economic, but also the social sustainability, of these regimes.

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