Deconstructing Labor.
What is 'new' in contemporary capitalism and economic policies: a Marxian-Kaleckian perspective.[^]

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1. *Introduction*

About a decade ago the radical left, both in Italy and elsewhere in Europe, had been gripped by an understanding of contemporary capitalism as based on a three pronged tendency: by 'globalization' as an already accomplished state, by the 'end of labor' due to mechanization, and by the 'whittling away' of the nation-state[1]. Equally unreliable was the subsequent interpretation of the 'new economy' and of the world-economy by the authors stressing the constitution of Empire. This last view originated in the post-workerist literature ('operaismo'), and its apologetic tones were not very subtly concealed.[2] Both readings, entailing the spilling of rivers of ink, banked on the *stable* nature of the new capitalism; more or less in the same vein as envisioned by the global centre-left project of Clinton, Blair and Jospin - in Italy echoed, each in his own way, by the Prodi's, D'Alema's, and Amato's governments.

We never believed in all this. In the second half of the '90s we anticipated the crisis of the 'new economy', i.e. the collapse of the dotcoms, the resurgence of war capitalism, the coming back of the State, which followed in the subsequent years with an accommodating monetary policy and, in the Anglo-Saxon countries, with a strong fiscal expansion through the form of military spending[3]. It does not follow, however, that we are in agreement with a too-simple criticism of the hard-thesis about an hyper-globalization or of the myth of the new economy, according to which no major changes have occurred in present-day capitalism or in actual economic policies.

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1 The reference is to the book published in Italy in 1995 by Pietro Ingrao and Rossana Rossanda, *Appuntamenti di fine secolo.* which included chapters by Marco Revelli, Isidoro Mortellaro, and K.S. Karol. The book has been translated in German as Pietro Ingrao/Rossana Rossanda, *Verabredungen zum Jahrhundertende. Eine Debatte über die Entwicklung des Kapitalismus und die Aufgaben der Linken.* Mit Beiträgen von Elmar Altvater, Joachim Bischoff, Frank Deppe, Klaus Dörre, Hartwig Heine, Hasko Hüning, Martin Kronauer, Oskar Negt, Hildegard Maria Nickel, Karl Heinz Roth, Wolfang Sachs, VSA, Hamburg, 1996). Our criticism applies especially to the chapter signed by Marco Revelli, "Economia e modello sociale nel passaggio tra fordismo e toyotismo", which is present in the Italian edition but not in the German translation. For a criticism of this line of thought see: Riccardo Bellofiore: "Lavori in corso per *Appuntamenti di fine secolo*", in *Politica ed economia*, n. 6, 1995 (there exists a translation in *English in Common sense*, nr. 22, 1997, available on-line: http://libcom.org/library/lavori-in-corso-common-sense); but also "After Fordism, What? Capitalism at the End of the Century", in *Global Money, Capital Restructuring and the Changing Patterns of Labour*, Edward Elgar, Cheltenham 1999.

2 Here the key proponent of this interpretation is Antonio Negri with Michael Hardt: see their *Empire*, Harvard University Press, Cambridge, Mass.

3 Those who read Italian can see, for the last years, what we have written in *la rivista del manifesto*. The whole collection (1999-2004) is available on-line: www.larivistadelmanifesto.it.

2. *How the new capitalism has, for the time being, solved the problem of monetary realization of profits …*

The neo-liberal turn of the early 80s established a powerful stagnationist tendency, but from the mid 1990s onwards, political countertendencies were activated which solved, though temporarily, the problem of an insufficient effective demand, at the same time weakening and fragmenting labor[4]. These political processes and mechanisms - the epicenter of which is in the United States – gave way to a new kind of interventionist economic policies. At any rate, the active intervention of the State has never really disappeared, not even in the years of Mrs. Thatcher and President Reagan. Whoever thinks that neo-liberalism is a return to *laissez faire* – the actual historical existence of the latter being, as Keynes was well aware, rather dubious – is mistaking ideology for facts. All this notwithstanding, we think there is something 'new' in contemporary capitalism and in its economic policies which requires a new understanding.

The stagnationist tendency takes hold in the 1980s and in the early 1990s. The deregulation of capital movements, the restrictive monetary policies, the attack on welfare provisions, the aggressive competition of global players in manufacturing and service sectors, have all been at the root of the low and unstable levels of investment and of the violent compression of the share of wages, and often of real wages, hence of workers' consumption. The novelty of the last decade manifests itself in two phases. The first phase belongs to golden years of the new economy, especially after June 1995 when the long term decline of the US dollar was halted and reversed by the deliberate policy of the Federal Reserve - sustained by the Bundesbank - to stave off the collapse of Japan. The renewed strength of the US dollar and the Fed's monetary policy favored the Wall Street boom in stock prices which led to an expansion of consumption, and of investment, particularly in the technology sectors tightly linked to financial services. The whole process depended in an essential manner upon the private sector going into deficit, with expenditure higher than disposable income: thus, in the second part of the Clinton presidency, when the State budget deficit was reversed into a surplus, private debt replaced a shrinking public debt. Household rising indebtedness was, in turn, guaranteed vis-à-vis financial institutions by that very rapid expansion of financial wealth.

The collapse of the 'irrational exuberance' bubble did determine the end of the most naive delusions about the new economy but it did not produce a vertical fall of the US and – by implication – of the world economy. The crisis in the US economy was short-circuited by a quick and massive injection of liquidity and by lowering the interest rate to practically zero, as well as in the resumption of a deficit orientated fiscal policy leading - contrary to the Clinton years - to a renewed rise in the public debt. In short, the crisis was avoided by the creation of endogenous money and by relying again on war Keynesianism.

Yet, we can't stop here and conclude that the latter is the sole form of Keynesianism compatible with, and acceptable to, contemporary capitalism. We cannot conclude that for two reasons. Firstly because – as we have already hinted – the new economy, no matter how paradoxically, relied on an efficacious form of Keynesianism through the financial lever via the command over money exercised by the Federal Reserve. Secondly, low interest rates and military spending were not enough to kick-start the American economy, and that of the world. We come now to the second phase of our narrative about the novelty and changes of the last decade. Large injections of liquidity

[4] For a more detailed analysis, cf. the last sections of the chapter by Riccardo Bellofiore - Giovanna Vertova, "Lost in Space? The Geographical and Political Dimension of Uneven Capitalist Development", included in *Changing Economic Geography of Globalization*, edited by Giovanna Vertova, Routledge, London 2006.

and military spending guaranteed a floor to the fall of economic activity. However the factors that have enabled the upswing in the cycle of the world economy are related to two other circumstances which are far from being purely contingent: the United States' relations with Asia, first and foremost with China and India[5]; and then banks' willingness to finance consumption entailing a rising households' debt – a key element now being the financing of the 'real estate' bubble now on the verge of a sharp deflation. This is daily stuff by now and it heralds a message for Europe as well.

Asia has been covering United States' twin deficits for years. Schematically we may capture the essence of the contemporary situation as follows. Net world demand is predominantly generated by Anglo-Saxon capitalism and it is supplied through a productive cycle largely based on delocalized production processes. The key variable in the positive dynamics of demand is private indebtedness, which in the United States has grown exponentially. On the whole, net savings of the private sector, even of households, are now negative. Banks, busy as they are in sustaining consumption, provide firms indirectly – but not less efficiently – both with liquidity and market outlets for their production: so that finance to households' consumption is in fact finance to firms' production and guarantees an adequate effective demand. Asia is also the new world manufacturing engine, and it exploits a huge 'industrial reserve army' of labor, while deindustrialization and the new service economy at home - i.e. in the mature countries - inescapably give rise to generalized precariousness in job and working conditions.

If today there is some kind of Keynesianism, it is of this kind, and it is quite consistent with a growing 'casualisation' of the labor force, so that the consequent 'full employment' is intrinsically precarious and unstable. It is a 'financial' form of Keynesianism – initially centered mainly on the stock exchange bubble, and today on credit to consumers thanks to the real estate bubble – which is temporarily allowing to 'close' the monetary circuit from the effective demand side. It is neither a new stable regime for the extraction of surplus value (as the hyper-globalisers or the followers of Antonio Negri would want us to believe), nor is it a stagnationist regime as old and new Keynesians are fond to claim.

Workers are sucked into the vortex of this infernal whirlpool activated by financial Keynesianism not only as workers (squeezed by restructuring at home and competitive pressure from outside), but also as savers and as consumers. They are involved on the financial markets, in different degrees depending upon the institutional set up of the countries concerned, as investors of their own monetary savings (these are being now mobilized without any impediment and national controls following the dismantling of the national pension systems and the concomitant rise of institutional investors), and as debtors towards the banking system (because of consumption and mortgage loans to households). Such is the general economic tendency everywhere, supported and driven by the active 'new' economic policies. In a vicious circle of expanded reproduction, it produces an accelerated 'deconstruction' of labor as well as a radical redesign of the modalities regarding the extraction of value and of surplus value.

The axis of this new model – which, it must be stressed, presupposes in the United States the primacy of expansive monetary and fiscal policies, i.e. exactly the opposite of the European Central Bank + Maastricht parameters + Dublin's Stability Pact model –

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[5] On East Asia, Japan and China see, by Joseph Halevi: "The accumulation process in East Asia as compared to the role of Germany in European post-war growth", in *Global Money, Capital Restructuring and the Changing Patterns of Labour*, edited by Riccardo Bellofiore, Edward Elgar, Cheltenham (UK) 1999; (with Bìll Lucarelli) "Japan's Stagnationist Crisis", in *Monthly Review*, February 2002; (with Peter Kriesler), "The Changing Patterns of Accumulation and Realization in East Asia since the 1990s", CAER working paper 2006/9, University of New South Wales, Sydney. Available at http://www.caer.unsw.edu.au/DP/CAER0609.pdf. Forthcoming in *Marxist perspectives on South Korea in the Global Economy*, to be published by Ashgate.

can be then portrayed as follows: low wages, precarious jobs, budget deficits, high indebtedness, plus absorption of wage earners in the financial circuits qua investors[6] and debtors. *The problem of effective demand*, that is, *the question of the monetary realization of profits* is, as a consequence, temporarily solved. It would be difficult to predict how long can this sort of solution last since it contains unstable and, in the long run, unsustainable elements and forces. These are to be seen both within the dominant economies, in geopolitical factors, and, perhaps increasingly, within the global Reserve Army economies of China and India[7].

3. … *meanwhile in Europe the Stability Pact is not the main problem*

Europe does not belong to a different narrative.[8] The reasons, however, are quite different from the vision of a homogenous world put forward by the mythology of globalization or by Negri's equally mythological notion of Empire. To begin with, the nature of the new American-Asian model is such that Europe plays the role of a residual actor and appears as a loser. The axis USA-Asia requires that the US dollar remain the pivot of the world financial system, even under conditions of systemic but controlled devaluation. This factor, together with the rise of the Asian manufacturing sector, hurts the Old Continent, and within it the weakest areas such as Italy, whose decline has become a free fall. Yet, were the new model – which we described only in the most general terms – to implode, it would bring to a halt the only global economic locomotive still active notwithstanding its limitations. Europe would simply not be in a position to replace it even if it wanted to. The European impotence ensures that the United States will always hold a significant blackmailing power. Furthermore, Europe is increasingly taking the social and financial reality of the United States as its model, albeit in contradictory and, sometimes, reluctant terms. Lastly, Italy, and with a vengeance compared to other European countries, precisely because of its relative backward conditions, is implementing at reckless speed the reorganization of financial institutions, of the labor market, of production processes, and of the governance of firms along criteria imported from Anglo-Saxon capitalism. Indeed, Italy is the last carriage but of the same train!

It is necessary to avoid a serious misunderstanding. We should not believe that the Maastricht Treaty and the Stability and Growth Pact of Dublin and Amsterdam, were just mindless or a stupid thing, to quote the former head of the European Commission and now Italy's Prime Minister, *Signor* Romano Prodi. Instead, the Maastricht Treaty and the Stability Pact represent the alibi behind which proceeded in Europe industrial restructuring, the creation of a financial space, the formation of new regional

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[6] With the privatization of pension schemes and with the continuation of compulsory contributions, but now to private or corporatized funds, wage earners become captive investors although the decisions about actual financial placements are made by the exceptionally high paid managers of the now private pensions funds. This is not a minor point. No government favoring the privatization of pension schemes has ever suggested to make contributions optional. Hence all the rules and laws regarding compulsory contributions are in place while the flow of funds is redirected towards the privatized institutional investors.

[7] A recent study by the Asian Development Bank has highlighted that the persistence of low wages and an expanding, job-wise unstable informal sector may actually bring down the growth rates of both China and India to the relatively low level of 3% per annum, which in per capita term would be less than 2%. (*Labor Markets in Asia: Issues and Perspectives,* London: Palgrave Macmillan, 2006)

[8] On all this cfr: by Joseph Halevi and Peter Kriesler, "Stagnation and Economic Conflict in Europe"; by Riccardo Bellofiore, "Contemporary Capitalism, European Policies, and Working-Class Conditions", both contributions to the special issue *The European Economic and Monetary Union in the Global Economy: Is There a Deflationary Bias?* of the *International Journal of Political Economy,* Summer 2004.

articulations and the dismantling of the welfare state based on acquired rights. These processes, however, stem from much more substantial factors which are bound to persist, and they will, even in the case of the relaxation – which has been already happening in the last few years – of the Treaties' constraints on public finances. These processes not only admit but require divergent dynamics for the different areas of the European Union. The divergent dynamics are rendered more dichotomous by the new entrants from Eastern Europe with their disguised unemployment and low wages also for their skilled labor force.

Our scenario identifies 4 different and divergent areas with the European Union and the countries gravitating towards it. A quality based manufacturing pole centered on the traditional Franco-German heart of Europe, which therefore includes Belgium but also Austria and, de facto, the regions of heavy industry of Switzerland. This pole has, through Germany's activity of restructuring, a small industrialized periphery in Eastern Europe mostly in the Czech Republic and to some extent in Slovakia. The Western European side of this pole still has a substantial system of welfare provision which is being gradually thinned out. We then have a pole based on niche productions of advanced technologies located in the Scandinavian countries, including Finland, where the essential features of the social democratic model seem to be still holding pretty well, but the generalization of such a model to the rest of Europe is out of the question. Then we have the United Kingdom, fundamentally a pole onto itself, but with strong ties to the Netherlands and Luxembourg qua financial and service centers, linked mostly to Anglo-Saxon capitalism. The last pole is centered on Italy and is characterized by being an area of relocation of low level industries, as evidenced by the outsourcing of the small Italian firms in the traditional sectors to countries still outside the EU, like Romania, and Albania. The new economic geography of Europe both updates and confirms the old one: some countries, like Italy, slide down the ladder abandoning their previous positions and roles, while at the same time there are tendencies to establish also an imperialist pole centered on Mitteleuropa

Within this context one cannot bury his/her head in the sand and not see that in the first few years of the new millennium redefining, not just on paper but in practice, the Stability Pact has become the lever with which power relations are exercised and altered. The ways in which countries pretend to apply it or decide to bypass it, highlight in full the predominantly national dimension of European policy making. The European nation states (countries) constitute the pivot of the political and institutional dimensions of the Continent's and of the European Union's class articulations.

The small countries support the Stability Pact precisely because they went through heavy sacrifices to comply with it. For this purpose they had, as in the Dutch case, to impose sacrifices which redefined the relations with Trade Unions and social relations within the society. In Holland, for instance, the path to compliance has entailed the mutation of around 40% of the total employment into part-time jobs. Neither capitalists nor any standard government would, in all good faith, call this outcome into question and say "sorry we were wrong, let us pay no attention to the Stability Pact for which we put 40% of you into precarious occupations". Thus to fence off the possible repercussions coming from the (large) countries which are not abiding by the criteria, is, for Holland, a manner to defend the new class articulation achieved through the imposition of those sacrifices.

For France and Germany the situation appears to be altogether different. Already with the launching of new single currency these two countries were, without fudging the data, outside the parameters. The situation has certainly not been corrected since. These two were also the countries that most adamantly opposed, by throwing their weight around, the creation of a truly European budget. They were exercising their pressures while they were successfully demanding to be allowed not to respect the rules that they imposed upon the smaller members of the EU as well as to Italy. It is equally significant that France and Germany are crucial contributors, at the EU level, to the reformulation of the discretional rules in a way which would favor a greater severity regarding the criteria of public debt. The new discretional rules that France and Germany are supporting, are constructed on the basis of an ideal culprit, Italy, so that Paris and Berlin can continue to ignore the Stability Pact, while Italy will have to converge towards its parameters.

It follows therefore that it is impossible to see on what kind of common interests can emerge a European form of Keynesianism, leading to a coherent reform of the Pact. There is simply no scope for this kind of action.

Europe has been in effect a unified territory for quite along time, but not because of the impact of the overarching process of globalization. Rather, what unified the European territory was and is political intervention. It is a unified space in terms of markets which are regularly the target of neomercantilist forays by the very same national capitalisms forming that space. It suffices to take a look at the German current *account surplus* 110 billion dollars by the time of writing (March 2006). If we now add the Swedish, the Dutch, the Belgian and the Swiss surpluses, we obtain a sum equal to that of Germany. The bulk of these surpluses are realized, in a pure Marxian-Keleckian sense, within Europe itself, that is through intra-European transactions. This fact points to a problem that, for the Continent, has by far deeper, more structural and graver implications than the supposed constraints of the Maastricht parameters. Indeed, in Europe there is absolutely no mechanism to recycle in a Keynesian manner the current account surpluses of the countries accumulating them. The recycling used to occur quite swiftly before the creation of the European Community. This was in the 1950s thanks to the European Payments Union set up to receive the counterpart funds of the American Marshall Plan. While the balance of payments issue is unavoidable, the Maastricht parameters can be ignored, as France and Germany (and Britain) are doing right now.

We can rest assured that also in the case of the external surplus Germany will never accept the formation of a European wide clearing union in the way suggested by Keynes during the negotiations at Bretton Woods. This reason is rather elementary. For Germany the surpluses are profits obtained on the external transactions by German companies or by the German affiliates of foreign multinationals. And profits must remain profits: it is not acceptable to 'socialize' them. If one follows our non 'idealistic' reading of Keynes' analytical apparatus and, in this context, sees the anti-Keynesian implications of the surpluses in the current account, it is easy to grasp the present-day impossibility of a European wide Keynesianism. Hence our reasoning uncovers the flimsy nature of those analyses which end up advocating greater margins for budget deficits and for the public debt in matters of economic policies and stronger wage demands in matters of social policies and actions.

Our analysis leads us to reject the Stability Pact and the present mechanisms of income distribution without any delusion concerning the possibility of opening up today new spaces for Keynesian policies. We deem that both the Pact and the distributive mechanism at work nowadays are structurally tied to the capital-labor relation that has been established in the European neomercantilist context. Instead our analysis suggests that it is urgent to tackle politically from the left the neglected issue of the structural determination of the productive system – 'what' and 'how' to produce. This alternative discourse and policy project – at the European level – cannot but be grounded on the explicit integration into the conceptual and policy frameworks of class analysis: also because the current configuration of the capitalist system and of actual economic policies is framed in a way coherent to the re-making of the immediate valorization process, something which is deepened by what may be labeled as the real 'subsumption' of labor to finance. This reality cannot be opposed and reshaped without understanding the changes in the capitalist labor process. Unfortunately most of progressive economists in Europe make only a liturgical reference to class and then proceed to suggest reforms to the existing arrangements as if all that was needed is a team of non orthodox economic advisors, be they Sraffo-Keynesian or Post-Keynesian[9].

4. *The new modalities of the old system of exploitation*

We have already pointed out that, at least as far as the pressure on the labor force is concerned, the so-called European model increasingly appears to be a local adaptation of the Anglo-Saxon model. The long run growth rate is low and unstable, the composition of demand depends in a growing measure on rising inequalities in the distribution of income, and finance has acquired commanding role with direct repercussions on firms' corporate governance. What is crucial to understand in the present capitalist dynamics is that these factors allow for a 'systematic' control over labor whatever the skill levels.

On one hand, the new forms of command over 'flexible' and precarious labor force, appear as imposed upon firms by markets' profound unpredictability and fickleness: though, as we have shown, they are also the product of political decisions regarding global macroeconomic management. The disgraceful monetary and fiscal policies pursued in the Eurozone of the European Union are certainly playing a role in creating such a situation. Yet beneath those policies lie the harsh substance of the social relations of production. No progressive economic policies can be conceived without first addressing the nature of the social relations of production prevailing today - something that the anti Maastricht Keynesians never ever mention, even the most Sraffa addicted Italian left wingers among them.

On the other hand, the 'fragmentation' of labor and its 'destructuring' are generated from within the firms on the basis of the new microeconomic criteria of corporate governance. All this is deeply affecting the dynamics of valorization directly in the production process. Work is no longer performed according to productivity criteria defined a priori in a stable productive and technological context (production as a plan to be sequentially and rigidly implemented). Instead it is being organized around objectives and targets which will be evaluated ex-post. Production becomes a task to perform with flexibility. The market itself 'enters' into the process of production since each unit, in the by now restructured organization, is judged on whether or not it is a profit center also in the internal, virtual, *make or buy* transactions with the other units. The penetration of the market into the mechanism of production has been going on since the 1980s and it is being accelerated with the transition from traditional outsourcing to in-house outsourcing. It entails the formation of 'clients' viewed as external normal clients even when the production cycle remains exactly the same, and the workers keep functioning side by side as before. Under the new regime of profit versus cost centers, workers of the same production line end up belonging to different contractual frameworks and are unionized differently and separately. The new regime is conducive to the extension of precarious occupations, and living labor itself is treated as if it would be a 'commodity' just like any other, to be performed and paid 'just in time'. In this respect Italy, precisely because it is a periphery in Europe and relatively weak, has been and is an experimental laboratory of anti-labor policies, starting with the

[9] Further considerations, in a much longer-run historical perspective, on Europe may be found by the reader in ours "Is European Union keynesian-able? A skeptical view", included in *Macroeconomics and Macroeconomic Policies: Alternative Approaches to European Policies*, edited by E. Hein, A. Heise and A. Truger, Metropolis, Marburg 2006.

"pacchetto Treu" of the first Prodi government in the 1996-98 period and then with the so-called "Legge Biagi" of the last Berlusconi government.

It is at this point that the class adversary orchestrates the ideological exploitation of the new, and much worsened reality, of concrete exploitation. Wage labor is effectively subsumed into finance and debt thanks to changes in the pension system, the ensuing redirection of workers' savings towards the financial markets and the reform of the banking system on the Anglo-Saxon model[10]. The wage squeeze and job uncertainties should – according the ideologues – be counterbalanced by higher returns obtained by investing workers' savings in the stock exchanges. We therefore have a two pronged tendency: a sequence goes from the predominance of finance to the control over labor via the volatility of markets; the other sequence goes from the predominance of finance to the control over labor via the internal decentralization of firms. The current world-wide expansion of wage labor - which in itself shows the futility of the arguments which just a few years ago were advanced in favor of the 'end of work' or of the 'crisis of the wage-work relation' - translates itself in a fragmentation of the working class. The latter does not disappear but is being emptied of its social consciousness and strength.

In this context we feel compelled to criticize those ideologies portraying contemporary capitalism, and within it the Italian economy as well, as increasingly based on non-material, knowledge-intensive, activities. It must be stressed that in Marx the term 'working class' is not a sociological-descriptive concept covering only industrial labor. More than that: the relevance of the working class does not lie in its numerical expansion as a growingly homogenous subject. Its importance as a class resides in the fact that the income produced is nothing but the monetary expression of the living labor spent by the working class. This is true even today, when the increasing centralization of the commanding heights of capital (both in finance and production) is going on hand-in-hand with a decrease of the size of the immediate productive units: in Marxian terms, and opposite to what was true since a few decades ago, a 'centralization without concentration'. This means that capital's drive to divide and fragment the working class is much more powerful than ever in the past.

The unity of the working class is not however the outcome of some spontaneous process: it is rather always the product of a conscious political and social action against the 'deconstruction' furthered by capital. After some decades when it decreased as a share in total employment (the 'fordist' era), nowadays wage labor, the labor dependent upon capital, is significantly expanding again, not only in absolute terms but also as a proportion of total employment: in the world arena as in the 'mature' capitalist countries.

Lastly, the manufacturing sector has an important role in the occupational structure. Although the data may tell a different story, in reality many occupations appear as belonging to the service sectors simply because they have been outsourced by the industrial firms, whereas previously they were integrated into the data on industrial employment proper. 'Manufacturing matters' also in the pure technical productive sense. Without a strong advanced industry nothing can be produced not even services, since they require significant industrial inputs such as computers. If a country, like Italy nowadays, loses its industrial base, demand polices in the Keynesian sense cannot bring it back. In 2005, Galapagos, the pen name of the economic editor of the Italian leftwing paper *il manifesto*, raised precisely the question of the irrelevance of Keynesian policies in a structurally disintegrating economy. His article gave rise to an unnecessary polemic by the typically Italian left-wing Sraffo-Keynesians. Yet, despite perhaps some

[10] On a criticism of the so-called pension-fund capitalism, **cf., in Italian, "Il capitalismo dei fondi pensione", in *la rivista del manifesto***, n. 10, ottobre 2000, which is available on-line (http://www.larivistadelmanifesto.it/archivio/10/10A20001011.html).

ambiguities, he was fundamentally correct. The case of the United States proves his point. 'American' capitalism does have its industrial sector, only that it is increasingly located outside the national territory and outside the direct realm of the US dollar. Thus unless one wishes to maintain that the US balance of payments deficit does not matter, the US case confirms, by default, the national importance of having and nurturing a strong manufacturing sector.

Although 'turbo-capitalism' can coexist both with military Keynesianism and industrial hollowing out, its impact is severe for the population of the country originating it, as argued by the inventor of the term, the former Reagan advisor Edward Luttwak. Similar processes are bound to occur, and indeed are occurring, in Europe as well. Hence the organization of the oppositional struggle must have as the first item of the agenda the social reunification of labor, 'from below'. An exclusive focus on economic policies 'from above', as the left of center Post-Keynesians in Europe insistently do when they propose alternative blueprints (even if 'augmented' with some stress on distributional conflict, as the leftwing Sraffo-Keynesians in Italy propose), is only a necessary but far from sufficient condition to advance the unification of labor. The crucial issue is the centrality of class relations and of the mode of production both within the inquiry of contemporary capitalism and the configuration of alternative economic policies. These twin elements must become the defining elements of any political and economic strategy of the left.

From the point of view of labor the essence of contemporary capitalism as we depicted it can be summarized as follows. The unstable equilibrium of todays' capitalistic growth rests on *scared workers* (because of the transformations in the labor process and in the so-called labor market), *terrorized savers* (because of the modifications in retirement systems and the uncertainties related to financial investments), and *indebted consumers* (because of the increased dependency of consumption expenditure on banks' credit). This is nothing but the dialectical aspect – from the angle of wage labor – of the process centered on the formation and expansion of an industrial reserve army on the world scale, on global migration flows, and on the planetary delocalization of manufacturing industries. In each economic area this harsh global class reality is politically managed according to a different specific macroeconomic dynamics.

Let us add that if in the 1930s State intervention was the condition for restarting the process of expanded reproduction, under contemporary capitalism the management and the very reproduction of 'instability' and even 'crisis' becomes the political and economic condition for the governance of the phases of accumulation. It is therefore futile to separate 'growth' from instability and crisis in assessing the dynamics of the system. The Achilles heel of both the Post-Keynesians and Sraffo-Keynesians approaches lies precisely in the unwarranted separation between, on one side, the dynamics of accumulation and, on the other side, the reproduction of instability and crisis, the latter being a condition of the former in these decades.

5. *The Italian case*

We can only briefly treat the Italian case explicitly. We will do so with the aim of putting to rest a number of misguided conventional views, in order to bring back a class based understanding of economic processes.

A regular obsession expressed by right wing forces and also by the moderates on the Left is the state of public debt, the cost of labor, the alleged inflexibility of the labor market. We cannot accept the first response from the left that imputes the level of the public debt exclusively to the spending policies of the 1980s by the Christian

Democrats and the Socialist Party. The responsibilities of the Bank of Italy, from the time of Governor Ciampi onward, cannot be omitted from the picture. During the 1980s the Bank of Italy kept interest rates higher than what would have been warranted by the international situation and by the borrowing needs the public administration. The Bank of Italy's policy of dear money, imposed upon firms an adaptive strategy of industrial restructuring, which tamed labor conflicts in the workplace. As a result, unions entered a phase of systemic long-run weakness clearing the ground for mutual agreements, instead of compromises arrived at by means of struggles, in matters of labor relations and industrial policies in general.

We also reject another regular refrain of the official Italian Left, namely that the country's negative predicament is due to the absence of a real entrepreneurial class; hence the decay of the large industrial companies and the ensuing exceptionally small size of the average Italian which precludes substantial R&D activities. We submit that in this case we have to look for something else, for a different interpretation. Italian 'industrial decline' has its origin almost 40 years ago, when Italian capitalism responded in a regressive way to the conflict in the valorization process revealing the inner limits of the 'dualistic' unbalanced 'economic miracle'. No serious attempt to some kind of planning helping to upgrade the position of Italy in the international arena was promoted. The strategic choices made – or rather, missed - by the Italian capitalists in the 1960s led over the decades, but indeed pretty soon in the 1970s, to the disappearance of entire sectors such as nuclear engineering, electronics, pharmaceutical industry, chemical industry, civilian aeronautical industry, automotive, steel, telephony. There has been no industrial or banking policy imposing a positive change in the international specialization of the Italian economy, or favoring the emergence of new sectors and the formation of a new set of large firms. Nothing at all: just a 'passive' adaptation to foreign competition[11].

It should not come as a surprise that in this relatively backward context the policy pursued to join the EMS, and later the single currency, could find its 'room to move' only in the downward compression of the exchange value of labor (the wage) and in raising its use value (mainly through the higher intensity of the work performed). The entrance into the EMS (1979-1992) and into the Eurozone (1998) deprived the economy from the safety valve represented by competitive devaluations. The adoption of the Euro has led to the abandonment of any independent monetary and fiscal policy. The crisis of the old industrial sectors and the absence of new ones left the country bereft of a solid structural basis. No surprise that labor has therefore become the only adjustment variable. Indeed, the attack on labor has been the hallmark of all the governments of the past legislatures, by those of the "Left" as by those of the "Right", and by the entire entrepreneurial class regardless of its internal divisions. This strategy means that Italy's development, when it exists at all, it is towed by outside forces. This is not to deny the existence of small high quality niche sectors or firms, which however, because of their limited range, do not generate any self-propelling impulse for the country as a whole. .

The phenomenology of the Italian most recent crisis is easy to depict. Its most visible moments occurred in the last years marked by the Fiat crisis[12], and by the financial

[11] The best analysis is by Luciano Gallino, the doyen of industrial sociology in Italy, in his book on the waning of industrial Italy *La scomparsa dell'Italia industriale*, Torino: Einaudi, 2003. Earlier similar points were made by an internationally known and respected monetary economist, who is also a regular contributor to the daily *la Repubblica*, Marcello De *Cecco L'economia di Lucignolo : opportunità e vincoli dello sviluppo italiano***,** Roma : Donzelli, 2000. But all this is to no avail. They can write in large circulation dailies, but no political notice is taken of them by the political forces of the center-left.

[12] On the Fiat crisis as exemplary of the difficulties of Italian capitalism to locate itself in the new phase of capitalism cf., by Riccardo Bellofiore, in Italian, "Il caso Fiat: una sfida anche per la sinistra", in *la rivista del manifesto*, nr. 34, dicembre 2002.

failures of the food conglomerates Cirio and Parmalat, along with the troubles besieging the small firms and the associated eclipse of the industrial districts. The decline of Italy is of course parallel with the European stagnation of the first years of the new century, but with worsened features. Indeed, the growing US-Asia axis marginalizes Europe but, within it, Italy is particularly affected because this country does not posses a world financial system like the UK, or world industrial sectors like Germany. It is clear that Italy's decline did not begin with Berlusconi, nor was it the consequence of the pricking of the Wall Street speculative bubble (though it is true that its end has impacted negatively on fashionable Italian exports). As it is clear that the difficulties linked to the strong revaluation of the Euro highlight the nature of the decline rather than accounting for it.

The sound finance policies enforced by the center left governments in the 1990s have a much greater responsibility in furthering the decline. Especially since they were in line with the strategy of disengagement from the leading industrial sectors followed - as a matter of choice - by Italian capitalism. The massive privatizations implemented by the center left meant the abandonment of public strongholds in industry and in the banking system which would have been of crucial importance in any truly alternative economic policy. Privatizations have instead launched and sustained a *rentier* capitalism: something which is made evident by the fact that the only large private firms with a positive balance sheet are nothing but the former state monopolies.

6. *Neo-liberals and social-liberals*

One of the limits of the movement for a 'different globalization' consists in that the present capitalist configuration is interpreted as a neo-liberal one, without further specification. Accordingly, the positions of the center-left forces or of the moderate left are portrayed as a soft variant of 'neo-liberalism'. When and if these positions are related to some economic theory, the reference is to Neo-classicals. We think this outlook is definitely wrong, both as an understanding of what is going on and of what is the nature of the political-economic cycle.

Within the theoretical debate in economics an important component of the mainstream is that of the 'imperfectionists'. For these authors the theory of perfect market equilibrium is still the basic starting point, as a rigorous exercise in economic logic, even though its practical relevance for the analysis of actual market economies is immediately negated. Only by considering the 'imperfections' and the 'asymmetries' of markets will it be possible to take into account of the role of money, uncertainty, time, institutions, dynamics, and so on. Some even argue for micro-behavioral foundations of class conflict. The majority of these economists would not think of themselves as Neo-classical and it would be wrong to equate them to the old orthodoxy. In Italy, to take just an example we know all too well, the position of the imperfectionists is found in the Di Vittorio Foundation close to the Italian General Confederation of Labor (CGIL), in the recent past dominated by the Communist Party .

In the United States and in the rest of the Anglo-Saxon world dominates an ad hoc vision slightly different from that in vogue in Italy. The mostly US literature has gone beyond the issue of imperfections, although it starts from there, and goes into the formulation of the appropriate 'institutional design' to implement policies which are thought as market friendly but not in a blind manner. The work of Giuseppe Alesina at Harvard is a good example of what we are talking about. This orientation has its noble origins in the philosophical ideas of Hume and its practitioners. They argue, for example, that for the economic system to function properly property rights must be defined unambiguously. The related academic exercises entail results based on purely 'contingent' equilibria defining a particular institutional set-up, often arrived at by means of game theoretic constructions. Monetary policy becomes, in effect, the only policy instrument. Its objective should not stem from a theoretical vision based on some kind of new Neo-classical synthesis nor must it follow the old or the new monetarism. As Greenspan has argued and shown in practice, monetary policy is decided case by case, without an equilibrium model behind it. This is in fact the 'new consensus' in the debate on monetary policies. Underneath the veneer of sophistication combined with apparent commonsense, the real policy issue is how to convince or compel the world to transfer its own savings to the USA in order in to refinance US deficits. Something that only China would have the power to stop doing.

The imperfectionists' positions - based on the acceptance of the fundamental basis of General Equilibrium Theory of multimarkets equilibrium, only to argue that in practice there are imperfections to be corrected and which justify interventions to make competition work - are theoretically unfounded. We owe to the major contemporary theoreticians of General Equilibrium Theory the proof that the theory is not reliable not because the world is imperfect, but because the theory' results are extremely special and ad hoc highlighting the existence of multiple equilibria and the instability of equilibrium, even in the remote case of the latter being actually found[13]. But there is an even greater impediment to the acceptance of the imperfectionists' approach. Their theoretical scheme, at the first level of abstraction, is constructed on the absence of money and on the absence of the macrosocial relations among classes. Such an invalid starting point renders ipso-facto irrelevant the new individualistic approach in relation to contemporary monetary capitalist economies. Indeed - as Schumpeter, but also Marx (before him) and Keynes (after him), taught us - economic analysis, if it aims to be a theory of a truly capitalist monetary economy, must introduce money and classes at the very foundations of the theoretical edifice[14].

The brief reference to the state of the economic debate allows us to gauge the policy discussions of the last few years and to understand why things are more complicated than the too easy dichotomy between 'liberalizers' and 'State interventionists'. At one extreme we have the 'neo-liberal' position, which in economics may have some relation with the authors belonging to New Classical Macroeconomics, though a more appropriate reference would be to the exaltation of the 'free market' by the 'Austrian School' of Hayek or even Mises. On this view, the United States represent the only winning model. Neoliberals declare vehemently their love for the free market, but they do not oppose monopolistic positions, as shown in practice by both Bush and Berlusconi in person. Of course, their objective is dismantling by means of microeconomic reforms the residual rigidities still operating everywhere, and this is also true for the European Neoliberals. Labor must become more competitive, its cost must be reduced, its services have to be supplied in the most flexible way. The welfare state must be pulled apart too, since it keeps people from participating in the market process and in capitalist production. It is clear that those who espouse these ideas have no qualms against using the old Keynesians tools of budget deficits and of accumulating an ever growing public debt, if they need to sustain activity and money profits.

At the other extreme we have something which escapes the attention of most of the theorists of the 'movement of the movements': the 'Social-liberals'. They are not just

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[13]All this is quite apart from the problem of capital in neoclassical theory raised again, after Wicksell, by the well known Italian economists Pierangelo Garegnani and Luigi Pasinetti in the wake of Piero Sraffa's work, but oddly known as the 'Cambridge Controversy'.

[14] Most monetary theories do not have money in them. The most striking case is that of the famous Tobin model on money and growth were money is nowhere to be found. But also the Sraffo-Keynesians do not have money and their system is based exclusively on real exchange ratios: cfr. the same book of Sraffa, *Production of commodities by means of commodities*, where money appears only in § 44, as the (exogenous) rate of interest controlled by the Central Bank.

soft Neo-liberals, and their theoretical references are markedly different from the latter. In Italy and France, for example, they are informed by the ‘imperfectionists’: more specifically by the New Keynesian Macroeconomics, and also by a bastardized version of the French Regulation School which has moved significantly away from its original Marxist roots.

Social-liberals are worried not only by State failures but also by market failures, and they proclaim to be in favor both of more State together with more free market. Unlike the Neo-liberals they sincerely strive for more competition in markets for goods and services; in this way they are more for ‘free-competition’ than the Neo-liberals are. They also advocate a greater regulatory role for the State (“liberalize in order to reregulate is their manifesto). They want a redistributive State in relation to the labor market and to Welfare. For the former they do advocate labor flexibility, yet cushioned by a social protective network and by guarantees enforced through State regulations. They push for a form of universal welfare including guaranteed minimum incomes labeled with new terms such as *citizenship’s income*, *basic unconditional income*, etc. Social-liberals know that an indiscriminate attack on the Welfare State or on labor would impact negatively on the productivity of the latter. More than that: no Social-liberal would deny the supporting role of State intervention as an essential provider of demand, nor would they reject the role of the Central Bank as a lender of last resort in a crisis. They would even worry and propose something against financial instability. In short, they are bit Keynesian, according to circumstances. They claim to be in favor of strong industrial and credit policies with structural objectives, while being at the same time strongly against any direct State intervention by means of even indicative plans, lest they stand accused of *étatism*. Both in France and in Italy Social-liberals favor the formation of pension funds to channel workers’ savings toward the stock exchange, thereby helping create a *bourse* worthy of that name. The list can go on.

This is the theoretical and policy configuration of the moderate left economists operating with trade unions and centre-left political forces. To identify them with the Neo-liberals is not only implausible: it is actually damaging. By the way, many of the positions voiced by the antagonistic left, in Italy and elsewhere, associated with Toni Negri - like the basic unconditional income for all referred above, but something similar may be said of the reduction of working hours - are nothing but the radical variant of the same Social-liberal reasoning. It finally becomes clear that, at the policy level, the clash between the ‘progressives’ and the ‘moderates’ – such as was the case in Italy between Rifondazione Comunista and the DS (Democrats of the Left) – can be overcome without much difficulty, provided that the new trends of to day’s capitalism are neglected while deluding oneself into believing that the system is essentially stable for the years to come. The progressives take on board the progressive side of the moderates – social guarantees aimed at cushioning the effects of labor market flexibility, universal welfare, minimum income – while delegating to some future social conflict - exogenous to the political framework within which the progressives operate - any further shift to the left.

If however contemporary capitalism corresponds to what we have been describing, the Social-liberal position does not face up to it at all, and can even strengthen it by helping the new form of capitalism which is emerging to get over its labor pains.

7. *The new economic and political cycle*

The new Center-Left Prodi government in Italy, as its predecessors in France (Jospin) and in Germany (Schroeder), if analyzed from the dichotomy Neo-liberals/Social-liberals can be viewed as a perfect example of the new political-economic cycle.

The Social-liberal culture advocates more competition and less monopoly, thus it is the culture of the antitrust as a central regulatory institution. This culture is based on the view that more competition and more liberalization, including some privatizations, are useful to control and regulate big business. The Social-liberals are more for (standard-textbook) competition than the Neo-liberals are (at least in practice). A the same time, they want flexibility, not the casualization of work. For that reason they are willing to maintain some guarantees in the labor market for workers, and they are willing too to put in place a social safety net revising the old Welfare system. This network of social protection performs exactly the role of preventing the destructive effects of labor market flexibility.

The unfolding of the new political-economic cycle in Europe can be understood by juxtaposing the position of the Center-Left with that of the Right, whose program is to curtail as much as possible the welfare system and to render employment as precarious as possible. The project of the Right is not succeeding 100% even when they are in government (compare Villepin in France in the last few months, or Berlusconi in Italy). The Right partly fails because it immediately encounters an opposition which unites the moderate with the radical Left. At the same time the Right expands the budget deficit and the public debt without creating any true Keynesian economic expansion, but cushioning the fall in activity levels.

At some stage the point is reached where the Right gets thrown out of office and the Center-Left takes its place. The new government tries to follow its Social-liberal principles, not only by liberalizing but also by re-regulating the economy. It insists on implementing labor market flexibility but also by redistributing something. The redistributive measures however cannot but be bland and limited because, the new government claims, available resources are scarce due to the profligacy of the Right when in government. It is precisely when the Center left tries to implement the social side of its program that it demands, in exchange, that the Trade Unions accept to play a subordinate role in the reform of labor relations in the workplace. These are the very 'structural reforms' that, according to the Center Left, ought to ensure renewed economic growth.

Forms of income subsidies, or the reduction in working hours as in France, are the levers through which the power of labor to influence its material condition in the workplace is being reduced, because in exchange capital asks and obtains more flexibility to be introduced in the capitalist labour process. This cannot but create splits within the trade unions and in the Left. By sowing disenchantment at the social level, the Center Left government may well emerge as being more destructive than the Right. A radical social conflict may spring up again but, this time, led from the 'Social Right'. The Center Left government then loses the elections, and the cycle is restarted all over again, in a spiral going downward, and in each of its stages labor's bargaining power is reduced.

8. *What kind of alternative economic policies*

Any Left oriented fiscal policy claiming the necessity to expand the share of public expenditure over national income must deal with a radical redefinition of the content and composition of State spending. If our observations are correct, namely that capitalism today is, in its particular way, capable of attaining a form of precarious and part-time based 'full employment' on the basis of a flimsy growth process led by military spending, the core of an alternative policy must be that of a different planning of employment, work organization, and of the economy. The need to open up new planning horizons stems also from the fact that decades of restrictive policies have led to bottlenecks on the supply side, especially in relation to new sectors and new types of equipment.

The skeleton of this strategy is known: public intervention to determine the long run directions of investment, an active industrial policy together with a selective credit policy, a welfare system providing goods and services in kind on an expanded basis. It is in relation to these objectives that industrial restructuring and conversion ought to be planned. The question of the environment can be become the pivot in the formulation of the strategy since addressing the matter seriously raises a number of challenges. Far from being a hands-off affair the environmental question can be tackled – within the limits of entropy – by means of advanced investment and cutting-edge biotechnologies, and also by restricting the private use of the public space, air, soil, and water, by the major corporations. This strategy is completely at variance with the institutional privatization of the environment pursued by the European Union with its marketable pollution permits. The environmental issue, if addressed seriously, opens up the way to the planning of the modalities of transportation, to a redefinition of the size and role of the usage of private transport and to the planned reform of urban settings.

In the above context we are convinced of the limited effectiveness of traditional monetary policies based on the unreliable presumption that private investment immediately responds to a reduction in interest rates**.** And at any rate, the issue is not that of an unqualified aggregate expansion of investment but rather that of its qualitative dimensions. Of course, deficit spending contributes to profits in a pure Kaleckian fashion. But we do not believe that a positive effect on employment will automatically follow. Instead, we submit, that the impact of deficit spending upon employment will not follow a mechanical pattern. It will rather depend on the independent decisions of industrial and financial capital. By the same token we do not believe that policies raising money incomes (through higher wages, transfers, basic income, and the like) imply by themselves direct and positive repercussions on the distribution of income in real terms. Firms' real decisions are independent from the money choices of wage earners or households, and this asymmetry is not beaten with more nominal redistribution.

To actively modify income distribution in real terms and to determine not just the total level of employment but also its sectoral allocation, thereby producing a qualitative change in the composition of output, it would be necessary to tie an active demand policy with the structural composition of investment. It must be borne in mind however that no economic policy of this kind, including universal welfare based on expanding services in kind, will be possible without introducing, within Europe itself, a segmentation of capital markets, including controls on the nature and on the amounts of capital flows.

One of the other features of the Social-liberal orientation is the idea that a full employment policy requires the 'employability' of labor. People must be taught 'how to work'. The mere process of training the labor force is supposed to increase employment and real incomes. The schooling and the university system should, then, be reformed away from education towards vocational training in ways most functional to the (short-terms) exigencies of the economy and of the territories. Again, unemployment is no longer seen as a problem originating from the angle of demand: namely that, given the institutional set up, the level of demand is not sufficient to ensure full employment. Social-liberals look at unemployment as essentially a supply bottleneck due to mismatching and lack of the required specifications within segments of the labor force. In short, the unemployed have only themselves to blame for their condition.

Our position is that the struggle over the distribution of income goes through the creation of jobs for the people as they are. The aim should be to generate more vacancies than available workers. For this purpose a kind of 'labor plan' is needed, managed and planned by the State. In this context the best form of 'training' is that of a universally accessible education emphasizing general knowledge and critical faculties, since it is from these two factors that the subaltern classes can become protagonists and grasp the changes occurring in the world we live. But all this is quite incompatible with the present trends in capitalism so that the alternative strategy must openly confront how to politically deal with the clash between the needs of the subalterns and the exigencies of capital.