Augusto Graziani and the Marx-Schumpeter-Keynes "Cycle of Money Capital". A personal look at the early Italian Circuitism from an insider.*⁎*

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Abstract

In this paper I will go back to the intellectual origins of the theory of the monetary circuit in its Italian incarnation. The focus will be on the evolution of Augusto Graziani's thinking between the mid-1970s and the mid-1980s. I will consider: (i) how Graziani connected (positively or polemically) with Keynesianism and Post-Keynesianism, both in its Cambrige and US incarnations; (ii) how Graziani interpreted the contributions of Keynes to economic theory, proposing a continuity between the *Treatise on* Money, the *General Theory*, and the articles on finance published after the 1936 book; (iii) how beneath the research program of Italian circuitism (Graziani) we may recognise a peculiar Marxian inspiration, later on pursued for a while by some participants to the Seminar in Monetary Theory that Graziani coordinated in Naples (1981-1985). Since the mid-1970s Graziani – who already had a profound knowledge of Neoclassical Theory (though was never a Neoclassical); and who was deeply aware of the role of institutions (though not an institutionalist strictly speaking) – developed more and more his heretical stance into what we may label as a "structural Keynesian" approach, inserting Keynes' views about finance to production and effective demand into a Schumpeterian vision of the capitalist process, and leading to Marxian conclusions about value and distribution. The early forays into circuitism by Graziani were not only critical towards the Neoclassical Synthesis, Monetarism, or New Classical Macroeconomics. They were also grounded in an intense confrontation with other contemporary heterodox streams of thought. The outcome was the construction of an original scheme of thought which amounted to nothing less than a macro-monetary theory of capitalist production.

Key words: Augusto Graziani, John Maynard Keynes, Karl Marx, Michał Kalecki, Joseph Alois Schumpeter, Theory of the Monetary Circuit, Monetary Theory of Production

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In the following I will present a novel perspective at reading Marx which was developed by Augusto Graziani, as part of a rediscovery of a "monetary theory of production" perspective. I will argue that Italian circuitism was fuelled by the dissatisfaction aroused by the impasse in which the Italian debate between Neoricardians and Marxians was engulfed after the mid 1970s. In a sense, I am myself part of this story: having studied Marx with Napoleoni in the early 1970s, and then having reacted to his

⁎ This article is based on a chapter in a book I am preparing, provisionally titled, *Is there life on Marx?* The final version profited of the comments by two anonymous referees. A warning about the bibliography. Since this article, with few exceptions, looks at the making of Italian circuitism and Augusto Graziani's thought since the mid-1970s and until 1983, the reader often finds two, or even three dates, for the entries. As usual, the first is of course the date of publication. However, if it is a paper translated in English, at the end I put the date of the original Italian. When the manuscript is of some years before, and it is relevant, I also signal the date of it. The article is going to be published in *Review of Political Economy*.

new positions in the late 1970s and embracing key aspects of Graziani's theory of the monetary circuit (which was in the making in those years, reaching maturity in the early 1980s). Graziani's position is key to understand the terms of my "reconstruction" of Marx, that is of the way I tried to overcome the ambiguities and difficulties within Marx's thought. The comprehension of the structure of the Marxian (macro)monetary theory of (capitalist) production put forward by Graziani and (with personal changes and developments) by myself requires to pursue a path not usually taken by Marx's scholars, that is to engage in a (critical, but sympathetic) engagement with Wicksell, Schumpeter and Keynes recognised as the 20th century "political economists", like Quesnay, Smith and Ricardo were in the 18th and 19th century. It is taking this road that a few years later I encountered Hyman P. Minsky's contributions as major necessary ingredients to a rethinking of Marxian theory of capitalist dynamics and crises.

The beginnings of Italian circuitism

Augusto Graziani is, with Bernard Schmitt and Alain Parguez, one of the recognised founders of the contemporary version of the *theory of the monetary circuit*. Graziani's basic idea is that the capitalist process runs as a *monetary sequence*, that is as *a succession of concatenated and successive phases*: the *flux and the reflux of money* is the condition of real (re)production. He knew very well that this was quite an old conception in economic thought, which goes back at least to Quesnay and Malthus (but more generally the Classicals). In the long and important introductions that he wrote for the books by Roberto Convenevole and Lilia Costabile he highlighted the importance to reclaim the circuit within a "monetary theory of production" perspective.[1] Behind all this, it is easy to discern the ghost of Karl Marx, and of his "cycle of money capital". The German is indeed: *Der Kreislauf des Geldkapitals*. *Kreislauf* is circuit, the same term used by circuitists in the German monetary theory tradition. The notion of capitalism as a monetary *Kreislauf* was taken up again by the great heretics within Neoclassicisms: Wicksell (1898), Schumpeter (1911, 1939, 1942), Robertson in *Banking Policy and the Price Level* (1926), Keynes in the *Treatise on Money* (1930).

When the circuit approach resurfaced in (macro-)economic theory? If we leave aside Bernard Schmitt, whose views (going back to the 1960s) have always been peculiar and who preferred different labels for his theory ("theory of money emissions", "quantum economics"), we can locate the first proper monetary circuitist writings in the second half of the 1970s. Traditional Keynesianism was attacked, so to speak, both from the right (Monetarism and New Classical Macroeconomics) and from the left (the Neo-Ricardian 'surplus approach', and Marxism). These last two theoretical currents were particularly influential in Italy during the 1960s and the 1970s, very much conflicting with each other. However, the Italian young economists of the time were also exposed to the influence of Post-Keynesianism: both in the Cambridge (UK) variant, or in the US variant. In the same years there was a flourishing of writings about Kalecki, who had important links with the Italian Communist Party, and was sometimes mistaken for a "left" Keynesian.

Italian circuitism did *not* develop as part of this heterodox galaxy. Graziani rather chose to explore a different theoretical path: alternative - though not inimical, it was definitely very polemical - to Post-Keynesianism, Neo-Ricardianism and Marxism. In the following, I shall deal with five issues, in order. First, in the late 1970s, Graziani's rediscovery of the idea of the circuit, and his appraisal of the "Keynesian" debate after the *General Theory*. Second, his critique of Post-Keynesianism, and more generally the heterodox approaches: here I will say something about Graziani's assessment of the

[1] See Graziani (1977a) and Graziani (1980a).

1960s-1970s Italian debate. Third I shall remind the alternative criterion proposed by Graziani to separate the mainstream from a critical political economy. Fourth, I will then go on to describe Graziani's theoretical picture of the capitalist monetary circuit. Fifth, I'll go deeper into how he framed the contrast between Keynes and the Keynesians versus the circuitist approach in the early 1980s, and I will show the role of Marx (and Kalecki) in his own version of the theory of the monetary circuit.

The notion of the circuit before Keynes, and *The General Theory*

To evaluate Graziani's reading of Keynes, we need to put it in the context of the debate going on at the time. On the one hand, there was the almost universal agreement, though with very different motivations, according to which Keynes's theoretical contribution was to be considered "revolutionary" only from *The General Theory* (1936) onwards, and its notion of an involuntary unemployment equilibrium. The historical condition for this theoretical breakthrough is, of course, considered to be the Great Crash of the 1930s.

The introduction to Convenevole's book - which was mostly an applied effort dedicated to an analysis of the role of the Italian inflationary process, employing a "classist" Marxian approach to the circuit, where inflation is defined as a change in relative prices rather than just an increase in the general price level – was mainly theoretical. It sets the rediscovery of the idea of the circuit on the background of the divide between, on the one hand, a Neoclassical individualist perspective on the economic process as *simultaneous exchanges*, and on the other hand the Marxian view (anticipated by the Classicals) according to which, within a period, the *capitalist "cycle"* or *circuit* is logically split into a sequence of *successive phases*: to begin with, the initial *buying and selling of labour power* on the labour market (where *money* wages are bargained); then, the *immediate production process*; eventually, the final selling of commodities in the moment of *circulation* (where *real* wages are eventually fixed), leading to the reconstitution of the money capital which has been advanced). According to the former perspective, in economy and society cooperation is the rule governing the interaction among "free and equal" agents. In the latter viewpoint, *there is no room for homogeneous agents in a class-less society* (like in Walras), *and society has instead to be conceived as crossed by a structural class-divide among heterogeneous agents in an asymmetrical relation*: wage workers sell their labour power to capitalist entrepreneurs, who opens the circuit thanks to the financing they get from monetary capitalists. It follows the *tripartite separation of macro-agents* in in Graziani's most basic abstract picture of the monetary circuit, directly borrowed from Marx: the *financial capital* (the banking sector), *the industrial capital* (the firm sector), and the *working class*. Means of production circulate only within the firm-sector, out of reach of the wage workers, whose purchasing power could only materialise in buying the means of consumption that the capitalist class makes available to them.

The first vision was perfected by the *general economic equilibrium*, and – Graziani observes – in it *money was inessential*: simultaneous exchanges depict a *barter* economy. Any commodity is a universal equivalent: thus, *there is no transaction demand for money*. Any commodity could be a safe haven against uncertainty and a safe means to storage purchasing power: thus, *there is no precautionary demand for money*. In a world like this, why there should arise a speculative demand for money? Anticipating a later provocation, Graziani puts forward the suggestion that after the marginalist (counter-)revolution, and parallel to Marxism, *a Classical/Marxian underground stream was also active inside the same "bourgeois" thought*. May be causing some surprise in the implied readership, his 1982 contribution titled 'L'analisi marxista e la struttura del capitalismo moderno'

[*Marxist analysis and the structure of modern capitalism*] in the fourth volume of Einaudi's *History of Marxism* was entirely devoted to the "old" macro-monetary circuitism, from Wicksell to Keynes's *Treatise on Money*. It definitely differed from the other chapter on 'Marxism and economic theory today' written by Pierangelo Garegnani and Fabio Petri, along the lines of a Neo-Ricardian reading of Marx.

A good part of the introduction to Convenevole gave a critical survey of the reception of Keynes's *General Theory* in traditional Keynesianism. The key point – which was already present in the *Treatise on Money* (1930) – is the cleavage between investment, as an *autonomous* component of demand, and consumption, as a *dependent* one. The split is to be understood, Graziani insists, relative to the circumstance that investment does not depend on a previous earning of income, while consumption does. Wage-earners are cash-constrained, but capitalist entrepreneurs can spend less or more (thanks to bank credit) than profits. The *financing of production* (as well as investment) within the private sector, together with a *monetarily financed government deficit*, is one of the ways money can *flow into* the capitalist economic system. After the ghost of Marx, we distinctly recognise the ghost of Kalecki. Later on I shall show how in fact the pair Kalecki-Marx played a crucial role at the end of Graziani's second edition (1976) of his first volume of his *Economic Theory* textbook, rebaptised significantly *Prices and distribution*, whereas in the first edition published in the 1960s it was more traditionally entitled *Microeconomics*.

For now, let me go back to the introduction to Convenevole. The autonomous nature of investments in the *General Theory* is for Graziani the proof that it is legitimate to interpret Keynes as providing the picture of a true monetary economy: where *every transaction is against money*; where *money enters the system through the financing of firms's buying of labour-power and of their investment demand*; where there is a *sequence of phases within the period*; and where, most importantly, *class division is grounded in the different access to money*. In his full-blown circuitist period, a few years later, Graziani will be more explicit. On the one hand, we have *money as capital*, the purchasing power of which is measured in the units of labour power (i.e., of workers) that firms employ in the production originating the income to be distributed. On the other hand, we have *money as income* earned as wages, to be spent on consumption goods. The second follows sequentially the former. Graziani writes: 'we are back to the conception of the economic process we find in Classical economists and Marx, with the only difference, which is however anything but irrelevant, that whereas the capitalist of the Classical economists started the economic process buying labour with corn, the capitalist of Keynes, like the capitalist of Marx, buy labour with money.' The same thing is true, in a more explicit fashion, for Schumpeter.[2]

The "normalisation" of Keynes

What follows in the introduction to Convenevole tells the story of the *normalisation* of Keynes, based on the expulsion from his system of the sequential monetary circuit, and on the impoverishment of Keynes within the simultaneous equilibrium narrative. One line (Lange, Lerner, Patinkin) read *Keynes through Walras*. Involuntary unemployment was reduced to a disequilibrium occurrence: theoretically market forces could re-establish, sooner or later, a general economic equilibrium. Was not an error of Keynes to confound his criticism of Say's Law for an (impossible) denial of Walras' Law? Another route was to put *Keynes into Walras*: something which is also destructive because, as we alluded before, with the separation of the (disequilibrium) *tatônnement* and the (equilibrium) simultaneous exchanges thanks to the presence of the "auctioneer" there is no room

[2] Graziani (1977a, p. xxxi).

anymore for transactive balances, and there is thereby also no reason why in what is a money-less economy we could detect a demand for speculative balances. 'The story of the attempts which a countless number of economists experimented to stick, by hook or by crook, money into Walras' simultaneous exhanges would deserve a place in a novel or, perhaps, in a treatise of academic psychopatology', Graziani ironically observes[3], referring to the line beginning with Hicks 1937 and Modigliani 1944, and culminating with Patinkin 1956 and Modigliani 1963. Money is reduced to a "good" like any other, with its own utility. *Uncertainty* justifies a ("Keynesian"?) positive demand for (speculative) money balances (even without a transactions demand), in equilibrium. A money *stock* comes into existence.

This is the starting point of some non-Walrasian contributions, which wanted to make room for a transaction demand for money in a general equilibrium model. The trick was easy: *withdraw the auctioneer*, and assume that the power of exchangeability is different among commodities. This move is equivalent to replicate Menger's justification of commodity-money. Since there is no reason to exclude that exchanges are realised at "false prices", the general equilibrium transmutes into *a general disequilibrium*. If there happen to be positive or negative imbalances among agents, a (bilateral) credit money creeps in into the model; alternatively, it must be imposed the universal constraint of a continuous balance among the agents's balance sheets. Graziani reminds the readers that in Clower and Leijonhufvud *the income constraints changes into a cash-constraint*, and because of this it can be shown that the tendency to equilibrium, is destroyed. All this notwithstanding, *if agents's behaviour is calibrated on the notional, and not on the actual, magnitudes, full employment may be reached*. Everybody wins: Keynes (the normality of crisis) and Walras (the happy ending of general equilibrium).[4] The fatal weakness is that *these authors still maintain the simultaneous exchanges framework*. Although they call attention to the cash constraints limiting expenditure, *they never venture to explain how money enters the economic system, through the financing of production*. Even less they bother to consider how a true monetary economy is at the same time a *class monetary* economy, that is a capitalist economy: they do not make clear *how the access to financing discriminates between capitalist-entrepreneurs and wage-workers*.

'It seems safe to conclude that the notion of the economy as simultaneous exchanges is not only an immortal but also a jinxy idea, capable to kill any alternative vision.'[5] Though Graziani does not go into much detail, one hints what will be a recurring theme in his circuitist years. According to him, in 1936, in *The General Theory*, Keynes's inquiry assumes as its object of research the moment of "crisis". Mass unemployment and poverty amidst plenty are due to rentiers's demand for liquid balances and to liquidity preference affecting the (long-term) rate of interest; and behind that, they are caused by the "fundamental" uncertainty expressed in the violent fluctuations in long-term expectations affecting firms' investment demand. *Money matters, but only in the "particular", though crucial, situation of the crisis*: not in the "normal" functioning of the market. *The link between money, capital accumulation, and distribution has vanished*. Bye bye "general" theory.

The critique of the heterodoxy

[3] Graziani (1977a, p. xxxiii).

[4] Graziani would have said that general economic equilibrium, contrary to heretic views like those of Keynes and Schumpeter, or of the theory of monetary circui, is representing *la vie en rose*.

[5] Graziani (1977a, p. xlii).

Let me say something about how Graziani dealt with the other currents in economic theory critical of the mainstream. The positions I am going to recall were already there in the late 1970s, but it is better to refer to them considering not their process of formation but a more advanced form. My main reference will be to a dense text published in French in 1985, which served as a presentation of the positions developed within the Seminar in Monetary Theory in Naples that Graziani had organised in 1981-1985[6]. The occasion was a Conference held in Nice in 1983, with the participation not only of Italian but also of French researchers (most of them part of a research group coordinated by Richard Arena). The conference saw the presence of Jan Kregel. The French book was actually co-edited by Arena, Graziani and Kregel. Graziani's text I am referring to was the second part of the introduction to the book, co-signed with Arena.

The Italian group – of which I was part of from the beginning – was presented by Graziani as proposing a criticism of Neoclassical theory which was far away from the one typical of the other critical schools. According to Graziani, both the Neo-Ricardians and the Marxists, though fighting a violent theoretical war, *shared a common vision of the evolution of economic theories*. In this view the sequence was chronological. Ricardo and Marx were both theoreticians of the class division and of the surplus. The Classical-Marxian approach was followed by the Marginalist counter-revolution, based on methodological individualism and marginalism. Sraffa, with his *Production of commodities by means of commodities*, marked the reprise of the Classical economics paradigm, purged from the labour theory of value. The Neo-Ricardian approach could profit from the demonstration of some logical errors in Marginalism, paramount among them the untenability of the aggregate notion of capital, supposed to be the source of profits/interests.

The clash between Neo-Ricardianism and Marxism revolved on the Ricardo/Marx relationship, and then on Sraffa's position between the two ancestors: continuity, according to the Neo-Ricardians; discontinuity, according to the Marxists. The fundamental point of dissent was, of course, the opinion about the labour theory of value (a point on which I shall return later). For the moment, let us be satisfied to submit that Graziani disagreed not only with what he called the (Neo-Ricardian) *fixation to go "hunting for [logical] errors"* in Neoclassical theory,[7] but also with the *obsession* (common to Neo-Ricardians and Marxists) *about the "transformation problem"*. Already in the introduction to Convenevole Graziani criticised the Marxists who dealt with the determination of prices of production and with the schemes of reproduction within a "simultaneous exchanges" perspective: a distortion that in his view was unfaithful to Marx, and *obliterated the process constituting the equilibrium position*.[8] More than 40 years later I can only confirm his considerations, and register that the two schools have not realised that their criticisms had been either circumvented or emptied by a mainstream which was able to transmogrify. So much so, I may add, that it became dual, and *the mainstream became the mainstreams*. "Economics", nowadays, is split between the *true believers in Walrasian general economic equilibrium*, ignorant of the Sraffa-based criticism; and the *imperfectionists*, who mounted their own alternative to traditional Neoclassical theory without abandoning some of its essential tenets.[9]

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[6] See Graziani (1985a).

[7] See Graziani (1980b, 1980c).

[8] Graziani (1977a, p. xlii).

[9] A long survey of these theoretical developments is available in Italian (Bellofiore 2005): it is on this background that it is possible to understand the economic policy debate. My considerations are quite in agreement with what Graziani wrote in an article published in 1991a: "it must be recognised that, subject to the challenge of a competition, the Neoclassical paradigm showed a voracity, a flexibility and a capacity to assimilation without comparison. Thanks to these abilities it was able to cannibalize a great deal of the

According to Graziani, a reason accounting for these limits is the circumstance that money was not *explicitly* present in Sraffa's outlook of an economic theory: 'monetary circulation, which is one of the pivots of Classical authors - it is enough to refer to Malthus or Sismondi - is entirely absent both from the model by Sraffa himself and from the developments of that model developed by Sraffa's followers.'[10] The monetary aspects of the Marxian system had been silenced by the same Marxists (with very few exceptions). If Graziani thought that the demarcation in economic theory should *not* be seen in *chronological* terms (as he reproached to Pierangelo Garegnani and Claudio Napoleoni, who in Italy were the chief representatives of the "Sraffians" versus "Marxists" controversy in the 1970s), the alternative he puts forward was to underline how there was a *parallel development of individualist versus class-based perspectives* (this latter not to be identified with Marxism). So, we find Say and Senior contemporary of Ricardo, on the one side, and Wicksell, Schumpeter, Robertson and Keynes' *Treatise on Money* (but also Ludwig Albert Hahn, Neisser, Hawtrey) in the years of the Marginalist counter-revolution, on the other.

These considerations – together with the assessment of the Keynes versus the "Keynesians" debate I reminded before – may explain both the interest and the dissatisfaction towards *Post-Keynesianism* that one finds in Graziani. Already in the introduction to Convenevole, Graziani expresses his approval for what has been sometimes considered problematic in Kaldor's and Robinson's growth and distribution theories: the fact that their models are based on a full employment setting: 'in this way, they underline that what is innovative in Keynes' theory is not the particular problem of the crisis; it is rather the wider consideration of the capitalist mechanism, in which both the periods of crisis and the periods of normality must be analysed.'[11] But he complains that they 'after having opened the door, never dare to cross the threshold.'[12] The *Cambridge tradition* reconnected to the *Treatise on Money*, which was probably the main analytical inspiration for Graziani.[13] Though the conclusions of *that* Keynes and of the *UK Post-Keynesians* about the composition of output and distribution were similar to Graziani's, he lamented that the Cambridge Keynesians *did not go deep enough into the monetary reconstruction of the process*.

One example he gives is Kaldor, for whom money is endogenous but is produced internally as bilateral credit.[14] Kaldor repeatedly stressed the endogeneity of money, but too often this went together with attributing the nature of money to the bilateral debt-credit instruments created inside the firm sector. There were positive exceptions, however: like some chapters in Joan Robinson's *Accumulation of capital*.[15] A similar complaint – that he stopped at a mechanical and underdeveloped monetary analysis - was elevated against Kalecki: but Graziani, since the mid-1970s, consistently endorsed the Polish economist's distribution theory (anticipated by Robertson in 1926 and by Keynes in 1930), according to which firms decide the level and composition of real output, and

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new analytical approaches, whatever it was their confessional cradle. […] In the old rut of the individualist approach everything can be found today: deviations from competition, uncertainty, the anarchy of the market, game theory, the role of institutions, technological change, money balances, temporal lags, financial speculation, instability" (Graziani 1991a, p. 23). As one referee rightly observes, the so-called New Consensus model is an attempted conciliation of the two current mainstreams (plural!). My dichotomy should be likely enlarged to include a third variant, the imperialism of the economics, as Guglielmo Forges Davanzati has commented to me privately.

[10] Graziani (1985), 18.

[11] Graziani (1977a), p. xliii.

[12] Graziani (1977a), p. xliv.

[13] See Graziani (1981a).

[14] Graziani (1988a), p. 101.

[15] See Graziani (1989a).

wage workers can only buy the real consumer goods made available to them by capitalist producers.

A *monetary version of Post-Keynesianism* is what we find on the other side of the Atlantic, in the United States. Graziani recognises its break with traditional Keynesianism as well as the great attention given to the problems concerning the money supply and the finance made available to firms. He sees monetary US Post-Keynesianism as an advance relative to the other heterodoxies still trapped in what we may call (with Schumpeter) a "real analysis". Graziani however complains that the stress on the role of money *as a store of value* is not always coupled with an adequate emphasis on the more fundamental aspect of money as the key initial means to *finance capitalist production and accumulation*. Minsky's contribution could not be completely identified with US Post-Keynesianism, and indeed this author very much preferred the label *Financial Keynesian*. In a sense, *Minsky* was probably the more interesting, since he *connected investments, finance and business cycles in a Schumpeter-like cyclical framework*, with some echoes of the *Treatise on Money* on the background. Graziani introduced the Italian translation of *Can IT happen again?*.[16] For the Italian economist it was however difficult to agree with Minsky that in prosperity there is a necessary increase in leverage for the private firm-sector, leading almost mechanically to financial instability.

The rediscovery of the monetary theory of production and innovation: from Malthus to monetary heresy

In the next few years Graziani was constructing the skeleton of his version of the theory of the monetary circuit. As he stated in a review article about the first issue of *Monnaie et production* edited by Alain Parguez, 'the capitalist economy defined as the economy of a class-divided society, commodity production as finalised to the creation of monetary values, money as form of capital, are three aspects of a unitary conception.'[17] In Nice he insisted that 'the starting point of the [Italian] research group was to reconstruct the representation of the economic process in a class-divided society, with the specific aim to analyse the function exercised by money as means of power for the class who had the ownership of capital.'[18]

As a consequence, the group engaged in a rigorous *analytical reconstruction of the sequential process of creation, circulation, and destruction of money*. This meant to get rid off of the idea – still present in the same *General Theory* – that the stock of money, being "given", could be interpreted as *exogenous*. A circuit of this kind was very different from the one described in the opening pages of almost any (macro-)economic textbook, the only exception probably being the one by Erich Schneider, *Money, Income and Employment*, for Routledge. In the usual textbook you meet only households (that Graziani often calls *workers*) and firms (that Graziani often calls *capitalist entrepreneurs*), and no *separate* banking sector (that Graziani sometimes calls money capitalists, sometimes financial capitalists). In the capitalist monetary circuit, *firms produce commodities* (thanks to the hiring of labour-power, and then to the advance payment of a money wage bill), but they *do not produce (bank credit-)money*; *banks create money* (in the forms of loans financing all production processes), but they *do not produce commodities*. It follows 'that the analysis of money leads indirectly to the inquiry of the monetary circuit which includes banks, firms and wage-workers. As in Marx, *macroeconomic theory presents itself as a theory of the monetary circuit*.'[19]

[16] See Graziani (1984a).
[17] See Graziani (1985b), p. 36.
[18] Graziani (1985a, p. 16).
[19] Graziani (1985a, p. 17). Italics are mine.

In this perspective, money cannot just be reduced to a "receipt voucher" for a production which has *already* being accomplished, but it is also (or even primarily) a "claim ticket" to *enter* into the market. It is the necessary monetary means that allows the accumulation of capital to begin and go on. That is why in Nice Graziani gives a second task to the research programme of his Seminar: to pursue 'the analysis of the accumulation of capital, and in particular the role of banks and firms relative to investment decisions. It could be said, in fact, that *macroeconomic analysis lead to a re-examination of the categories of the industrial and financial capital*, *and of the emerging conflicts between these two fractions of capital, which add up to the conflict opposing labour and capital*.'[20] Once again, the reference is to a monetary re-reading of the Classical circuit (especially in Malthus' version, as shown in the introduction to Costabile)[21] and to Marx's cycle of interest-bearing capital. The basic abstraction, as in Marx, does *not* include, as a fourth macro-agent, the State: this latter, however, should be included in a second moment 'to make the analysis complete'.[22]

Money is *essential and non-neutral* even in a capitalism *without* crises.[23] The *prior* access to purchasing power, so that production could be started, helps to determine not only the level but also the *composition* of output, and *as a consequence* the (income and wealth) distribution. As anticipated, the distinction between the firm sector *as a whole* and the banking sector *as a whole* mirrors the *separation(-in-unity) between "industrial" capital and "financial" capital*. The novelty here is that, seemingly against the original presentation of Marx, money is *not* a commodity. Rather, as in the aforementioned Wicksell, Schumpeter, Robertson, or Keynes' *Treatise on Money*, money is a *sign*, and it is essentially *credit* in a three-lateral relationship. To understand its nature we have to refer to a *third* intermediary (nowadays, a bank) marking as *final* the payment by the buyer to the seller. Think about the *buying and selling of labour-power*: the banking sector (the "intermediary") provide the *financing* to the firms (the buyers) which are hiring the wage workers (the sellers), so that they can *start* production. Though the payment is final, *firms remain in debt to the banks, and workers become creditors to the banks*, so that *there is no seigniorage*. When wage earners buy consumption goods on the goods market, or financial instruments from the firm sector on the stock market, the situation is reversed, and the money flows injected as initial finance are (totally or partially) cancelled. *Money creation turns into money destruction*.

In his chapter in *Storia del marxismo* Graziani gives a survey of the "hidden Marxian stream."[24] The contribution given by *Wicksell* was the indispensable idea that the banking system may create money *ex nihilo* through the *financing of production*, without any need (better, without even the possibility) of the existence of money saving as prior money holdings, if the analysis begins *ab ovo*. Loans come logically *before* deposits. *Schumpeter* stressed the *financing of innovation*, and clarified that inflation should not be looked as a *uniform* increase of all prices, leading to an upward trend in the *general* price level, but rather as a *change in relative prices* which favours some subjects at the expense of others. Most crucially, *inflation supports one fraction of industrial capital against another*. After the mid-1920s *Robertson and Keynes* took up the theoretical line going from Wicksell to Schumpeter. They argued that the *capitalist firms' real decisions about investment demand*, as well as *the division of output between investment goods and consumption*

[20] Graziani (1985a, p. 17). Italics are mine.
[21] See Graziani (1980a).
[22] Graziani (1985°, p.17).
[23] A paper with the title 'Moneta senza crisi' [Money without crisis], was published in preliminary versions already in 1982 and 1983, and eventually appeared in a definitive version as Graziani, 1984b.
[24] Graziani (1982a). The same theme is present, in other form, at the beginning of the third edition of his *Macroeconomics* textbook (Graziani 1981b).

goods, are to be considered *primary*. These decisions are *independent relative to the wage workers' (or households') monetary decisions relative to the allotment of their income between consumption and saving*.

Similar conclusions could have been reached starting from Marx and Luxemburg rather than Marshall, as *Kalecki* did a few years later. The *"autonomous" capitalists' expenses* for investment and their own consumption *fix the amount of their profits*; their *market power* - expressed in the "degree of monopoly": in fact, another name for the rate of exploitation - *defines the profit share on income*; from here it is straightforward to know *the level of output, income and employment*. Then there is Piero Sraffa. I have already reminded how Graziani was critical of Sraffa's followers, and lamented the limited role of money in *Production of commodities by means of commodities*. But in 1982-1983 he ventured into some speculations on the *implicit consonance* between Keynes' *Treatise on Money* and Sraffa's *Production of Commodities by means of Commodities*. In both books *production and distribution are subtracted to market bargaining and should be explained by power relation*.[25] In a 1983 conference Graziani suggested a new line of interpretation

> of the well known fact that, in [*Production of Commodities by means of Commodities*], the quantities produced of each commodity *are considered as given magnitudes*. […] [Sraffa] might have omitted the analysis of the determination of the quantities produced just because, in the capitalist system, quantities are not generated by way of market bargaining, they are not the product of demand and supply negotiations, they do not correspond to an equilibrium in which rational consumers maximise their own preferences, but are *the result of autonomous decisions taken by producers*.[26]

The inspiration clearly came from the ideas that Keynes had developed in the *Treatise* and that Sraffa had in mind when attacking Hayek: 'if only producers succeed in producing a given set of commodities, they also impose on the economy an order with no return, namely not a disequilibrium but some sort of new equilibrium.'[27] The basic idea of Sraffa in 1960, Graziani insists, is the same as Keynes in 1930: 'in a capitalist economy, since producers have the command of monetary flows and can dispose of productive resources, they can also determine the quantities produced of each commodity, *beyond any alleged sovereignty of the consumer*.'[28]

Many years after Graziani will come back on Sraffa while discussing another topic, the concept of efficiency in a capitalist (i.e. monetary) economy. An allocation of resources is considered to be technically efficient 'if, for a given set of inputs, the level of any single commodity cannot be increased without reducing the output of at least another commodity.'[29] An allocation of resources is economically efficient 'if the set of outputs being produced corresponds to the preferred set among those which are technically feasible, according to the preferences of the community.'[30] Quoting, once again, the *Treatise on Money*, Graziani reminds that, in capitalism as a monetary production economy, activity levels corresponds to the long term strategies of entrepreneurs, without any automatic readjustment mechanism in case the consumers' preferences about the level or the composition of output are violated. This means that

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[25] See Graziani (1982b, 1996).
[26] Graziani (1996, p. 297). The Italics are by Graziani.
[27] Graziani (1996, p. 296).
[28] Graziani (1996, p. 297). Bellofiore (1996) supports Graziani's reading of Sraffa.
[29] Graziani (1997, p. 957).
[30] Graziani (1997, p. 957).

market performance is not anymore an indicator of social efficiency. Sraffa shows that any set of outputs (chosen by banks and entrepreneurs, not by households as the ultimate users of resources) might give rise to a set of prices generating equal profits throughout the system. There is then no market signal of a disequilibrium, no market constraint imposing Neoclassical efficiency or the respect of consumers' preferences. Market forces tend to produce technical efficiency at the 'micro' level, i.e. high productivity, but they do not place any constraint pushing for economic efficiency at the 'macro' level.[31]

In stressing the similarity of the old (and new) theory of the monetary circuit, as a macro-monetary theory of capitalist production and distribution, with *this* Sraffa and with the Marx *of the cycle of money capital*, Graziani was careful not to cancel the difference. With specific reference to Keynes, however, he wrote that 'without ever being Marxist or Socialist, [he] had clearly in mind the idea of power. In the capitalist system, the power enjoyed by entrepreneurs is that of deciding and activate production activity, and fix which commodities are produced, with which technology, and in which amount; how many workers are employed, and how many remain unemployed; how much workers will get as real wage, which amount of goods they could consume.'[32] Keynes's idea that class struggle was a misconception to be overcome went side by side with a theory embodying Schumpeter's distrust of consumer sovereignty, Albert Hahn's myth of the sovereign banker, and Knapp's *State theory of money*. It is clear that, for Graziani, the *General Theory* can be interpreted as *heretical* to Marginalism as long as it is read through the prism of the *Treatise on Money*. It is what I will show after a quick reminder of the basics of Graziani's monetary circuit, which is the background of his discussion of Keynes.

The abstraction of a "pure" capitalist economy with only private agents

In the first approximation, Graziani's basic circuit considers *only private agents*: the *banking sector* (it is possible to include in it the Central Bank, as the bank of the banks), the *firm sector* (production is split in *consumption goods* and *new capital goods*), the *wage workers* (employed in the two sectors: *part of their working time is "necessary labour"*, i.e. the labour time required to produce the commodities bought by workers; *and the remainder is "surplus labour"*, the labour time which produces the surplus). In a text written as teaching material for the FLM (*Federazione Lavoratori Metalmeccanici*), the trade unions of the metalworkers,[33] Graziani' accounting is done in "labour contained" terms, and following the Marxian labour theory of value as a theory of "valorisation". The *creation and destruction of (bank-)money is strictly endogenous*: there is no creation of money from banks if there is no demand for finance from firms. The supply of money may be controlled, but only if demand is exceeding the potential supply, and there is then a queue of unsatisfied borrowers (credit rationing). This perspective is opposite to the

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[31] It may be interesting to quote these lines from the conclusions: 'The above analysis shows however that the bulk of inefficiencies is due not so much to market imperfections[disconnecting social welfare from market profitability], but to the fact, prevailing in most organized communities, that ultimate users of resources are deprived of any power of deciding about their use. *This might be true both of a market monetary economy [i.e., capitalism], as of a centrally planned society. In addition to that, the absence of market mechanism in planned economies might create situations of technical inefficiencies as well.'* (Graziani 1997, p. 967; the Italics are mine). It looks as if Graziani was not an unqualified admirer about what was at the time of writing that article the 'actually existing socialism', nor an enthusiast supporter of planning if decoupled from some market competition mechanism and social control from below. He infers that a socially efficient allocation of resources requires the device of a mixture of market and non-market mechanisms, where final consumers should be granted a power of choice that capitalism denies them.

[32] Graziani (1982b, p. 30).

[33] Graziani (1978a, p. 8).

idea in traditional macroeconomics that the stock of money is a multiple of an exogenous base money, refurbished by the financing of government deficits on the open market. [34]

The reason why Graziani does not consider the State in the most abstract basic scheme is very simple: this abstraction makes *transparent* that money inflows into the capitalist process conceived as a *closed economy* cannot but have their *origin in capitalist entrepreneurs' decisions on the financing of production*; moreover, it highlights their *functional-contradictory relationship with financial capitalists*. Money as capital is thereby shown to be, as purchasing power, a "command" over labour. Graziani's position marks a sharp break from the traditional textbook macro story about the money supply. In the most abstract scheme payments are regulated as in a *pure credit system*, without cash but through banks' *virements:* a point that the same Ludwig von Mises insisted was the right abstraction for the study of a monetary economy[35]. The *banking sector as a whole* is treated *like a single bank*, and thus enjoys an *unlimited capacity to create money*: there are *no technical, only institutional, constraints to potential money supply*. The *same result follows when we consider multiple banks which expand "in concert"*, and thus continue to maintain their share in the market for deposits.

Graziani's circuit theory of money should be developed, as I have done in my writings, to encompass a novel reading of Austrian theory on money and cycle. *Knut Wicksell* insisted that, in this setting, waves of cumulative inflation would *not* face any automatic readjustment mechanism. *Ludwig von Mises* first, and afterwards the same *Friedrich von Hayek*, thought this conclusion to be perfectly valid for the *monetary* side of the theoretical scheme. The argument should be modified in a mixed system, with both cash and credit, because inflation, may determine a compression of reserves, and hence of the money supply, through internal and/or external convertibility. For the Austrians a readjustment mechanism actually does exist, but it operates from the *real* side: changes in relative prices because of consumer sovereignty would force an abrupt stop at the excessive investment pushed up by a "too low" rate of money interest. As a policy measure, the Austrians consider appropriate to constrain banking money creation to previous saving deposits, but this is impossible for Graziani, since "loans make deposits", and hence *logically* deposits follow loans. Going back to a *gold standard* with full convertibility (a local approximation is the euro system, as it is idealised in the present structure), which is what Mises and Hayek suggest in some of their writings, is mystifying, because the gold standard was a *managed* and not an automatic system. Introducing *free banking* was challenged by early Italian circuitism, who sided with *Hans Neisser* against Mises: in a pure credit system and with *free banking* the push for inflation

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[34] One referee argues that the coherence of Graziani's circuit requires to presuppose a given stock of real and monetary wealth owned by "capitalists", and that because of this the model should be reframed in dynamic terms. He also affirms that the same assumption is needed to ground the basic postulate that banks and firms are separate agents, which cannot be integrated into a single sector. Moreover, he argues that, xcluding the case of inherited wealth, in the event firms are not in the position to reimburse their monetary debt to banks, they sell investment goods to banks, and thus banks would inevitably tend to become proprietors of firm. An account like this echoes Chapman and Keen (2006). I don't think the criticism can be accepted. Though historically it is quite right to assume a prior private ownership of the means of production by part of society, and though realism may also induce to argue for the need of inserting a collateral in the basic circuitist scheme, the logic of the circuit adopted by Graziani is, in my view, a Schumpeterian, forward-looking one: what is needed to be financed is to be an expected credit-worthy entrepreneur. I agree with this logic; and I even would go so far to say that the money divide, as presented by Graziani, is preliminary to a class division prior to monetary analysis: of course, this amounts to a significant departure from traditional Marxism. It should be also considered that, after some initial hesitation, Graziani argued that banks in a true monetary economy cannot become proprietor of firms: they in fact can only buy a third kind of output, different from wage-goods or investment goods (i.e., some kind of luxury good). On all this see Graziani (2003).

[35] Cf. Bellofiore (1998).

could become irresistible, since banks have the incentive to expand credit together, acting like a single bank, without any risk to lose their clientele. This is exactly one of the reasons why a Central Bank has a rationale, introducing an *institutional* constraint like a compulsory reserve ratio.

Graziani saw in *inflation* not mainly the outcome of a distributional conflict or of a cost-push pressure, like it is for Neo-Ricardians or Post-Keynesians.[36] It is rather something instrumental to propel capital accumulation: through something akin to *forced saving at the expense of workers* and in favour of firms (like in Robertson's *Banking Policy and the Price Level*, or in Keynes's *Treatise on Money*); and/or through *a compression of the purchasing power of traditional producers* in favour of innovative entrepreneurs (like in Schumpeter's *Theory of Economic Development* or *Business* Cycles).[37] I have already recalled that the remarks by Hayek and the Austrians about consumer sovereignty were seen as ideological phantasies, by Graziani.[38]

Even outside a pure credit system, *money can be reduced to a form of debt arising from a triangular relation*. In a mixed money system, with circulating banknotes of the Central Bank, this latter is the "bank of the banks". One of the ways money is created and enters the system is when commercial banks go into debt with the Central Bank. Until now we have considered that all money is *inside money* (i.e., internal to the private sector). Things do not change if we introduce the State and consider *outside money*. The outside money financing public debt is nothing but a debt of the Government towards the Central Bank. That is actually how Central Banks had their historical origin: as bankers of the sovereigns.

If money is endogenous the rate of interest becomes *exogenous*. This is certainly a point of contact with Post-Keynesian *horizontalism*. Truth to be told, some of the early Italian circuitists had sympathies for some version of "structuralism", where the money supply rises with the rate of interest. We also find something like that in the early Minsky. But this is true only if we are talking about *a point in time*. If we instead adopt a Schumpeterian view, more appropriate to Graziani's vision of the capitalist process, we may argue that both the supply and the demand for bank credit money shift pro-cyclically. The end result is very similar to horizontalism.[39]

The unfolding of Graziani's circuit: the founding role of the **Treatise on Money**

Let us go back to the simpler circuitist theoretical scheme. Money flows into the capitalist economic system to activate the production of commodities. This *"initial" finance to production* is needed to produce *whatever* kind of commodity, consumption goods as well as investment goods. It is *this "power" through money as a "form of capital"* which *allows to the joint action of bankers and entrepreneurs to determine what happens in the real production process*, and as a consequence to *fix the distribution of income*: "what", "how much" and "for whom" to produce. For the individual firms this result is non conscious and unplanned: but, systemically, it depends on the class structure of the system. The *Kalecki* profit equation points to the same picture of the capitalist

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[36] Cf. Graziani (1981c), a text in which Graziani is quite violent against the distributional and cost perspectives on inflation.
[37] Also in his unpublished *Das Wesen des Geldes* to which Graziani dedicated an article: Graziani, 1978b.
[38] See Graziani, 1996. Graziani was fond of quoting Sraffa's reproach against Hayek. The argument was that with forced saving what happens is that 'one class has, for a time, robbed another class of a part of their incomes; and have saved the plunder. When the robbery comes to an end, it is clear that the victims cannot possibly consume the capital which is now well out of their reach.' (Sraffa 1932a, p. 48)
[39] This point is argued in Bellofiore (1985), in relation to Schumpeter, and in Bellofiore and Ferri (2001), in relation to Minsky.

process, with less emphasis on the monetary circulation surrounding production and distribution.

As it is well known, Graziani's circuit theory of money is structured in *three phases*. It replicates closely Keynes' *Treatise on Money*. At the *opening* of the monetary sequence, the banking system creates money *ex nihilo*, allowing firms to cover their aggregate production costs: as Keynes wrote in his 1930 book,[40] the first link in the causal succession is the behaviour of the banking system. *Money* is not reduced to a lubricant of exchanges or to stock of wealth: it *is the prime mover* of the capitalist economic circuit. *From a truly macroeconomic perspective, and in a closed economy without the State, finance to production can be reduced to the money wage bill*. Because of the rigorously macroeconomic nature of his scheme, Graziani prefers to cancel the money inflows financing internal exchanges within firms as a macro-agent: but if we wish to consider the internal intra-firms payments, we may add the money sums financing those exchanges. In this way, Graziani's position comes nearer to the views held by *Wynne Godley*: 'If we refer to the bank debt of the firms in a single instant of time, it is correct to set it equal to the money value of commodities produced and not yet sold, namely semi-finished products plus inventories. If we refer to the initial credit requirement of the firms, and therefore to their demand for bank credit, it seems more correct to make credit requirements equal to the wage bill corresponding to the planned level of production.'[41] The preference expressed in the quote for the second way of depicting the capitalist circuit is that it connects the credit market with the labour market: money capital and the buying and selling of labour power.

In the initial first act of the monetary circuit, which is going on in the *labour market*, firms and wage workers fix the *money wage* and *employment*. Simultaneously, on the so-called *money market*, banks and firms fix the *short-term rate of interest* and the *amount of financing*. The *next phase* in the circuit shows how capitalist firms implement their choices about real production, which have been monetarily ante-validated by banks. These decisions entail the level of output and the allocation of employment, affecting the division of real output. Once production is concluded, households' choices, relative to the division of their money income between consumption and saving, comes into effect. In a very *simplified* model, Graziani assumes that the price of consumption goods "clears" the market for consumption goods, where there is a confrontation between the real supply, given in the very short-term, and the monetary demand from consumers. The *supply side* is shaped by the capitalist *entrepreneurs' decisions over the composition of production*, which are made in *real* terms: as we find in Keynes' *Treatise on Money*. The *demand side* is driven by wage workers's decisions over the use of their *money* income: again, as in Keynes' *Treatise on Money*. This is the key quote from the *Treatise* in Graziani: 'workers are paid just as much when they are producing for investment as when they are producing for consumption; but having earned their wages, it is they who please themselves whether they spend or refrain from spending them on consumption. Meanwhile, the entrepreneurs have been deciding quite independently in what proportions they shall produce the two categories of output.'[42] Since the money wage has been fixed at the opening of the circuit, the *real* wage corresponding to that money wage is dependent from the prices of consumption goods, hence it indirectly *depends from producers' sovereignty*.

On the contrary, the determination of the *price of capital goods* is - against Hayek, and also here following the *Treatise on Money* - completely *independent*.[43] It relies on the (future: hence *truly uncertain*, and subject to variable firms' *long-term expectations*)

[40] Quoted in Graziani (1981a, p. 222).
[41] Graziani (2003, p. 28).
[42] Keynes (1930, p. 123), as quoted by Graziani (1981a, p. 216).
[43] Keynes (1930, p. 123), quoted by Graziani (1981a, p. 217).

flows of the net profits *expected* from the acquisition of new capital goods, and from the rate of interest. While workers, *as a class*, *cannot* decide how much they can get of the real output, this is *exactly* what the capitalist-entrepreneurs in fact *can* do, *as a class*, and are actually doing through their spending decisions: 'The two levels of prices are determined according to totally different mechanism […] Since capital goods circulate within the class of entrepreneurs, they represent a sort of self-production that entrepreneurs set-up for themselves'.[44] As a consequence, the price of new capital goods is a merely *notional* price, not subject to market bargaining: it can be fixed only arbitrarily, through a subjective evaluation of the cost and utility. It represents the convenience to hold capital goods as wealth, rather than more liquid forms of wealth.

It is symptomatic that in his teaching material for the FLM, as well as in his later 1989, Thames Paper *The Theory of the Monetary* Circuit,[45] there is no precise analytical reference to how this price of capital goods is set. Nevertheless, it is crystal clear that Graziani's theoretical outlook is always a *two-price* system in disguise. Graziani, however, will present his basic scheme *explicitly* as a two-price system in a chapter discussing Joan Robinson's 1956 *Accumulation of capital*;[46] and in his chapter on the *Treatise*, he actually wrote that 'the same analysis of the functioning of the monetary economy' is found in Keynes 1930 book and Robinson 1956'.[47]

Saving from workers' money income can be channelled on the *financial market* to buy financial securities issued by firms: if they are bonds, they yield a long-term interest rate. Saving may be also held as *liquid balances* (in this simple model, bank deposits). It is possible (though not certain) that the *final finance* they get from the consumer market and the financial market, taken together, matches the initial finance to production.[48] In the *third phase* of the monetary sequence, the circuit comes to a *closure*: commodities are sold in *circulation*, and firms *repay* to banks the money they borrowed. In some writings Graziani define the second phase putting together the production and selling of the commodity output, so that the third phase is composed only by firms' repayment of bank debt and the destruction of money. It is however possible that part of the initial finance remains 'trapped' as liquid balances (bank deposits), and at the end of the circuit the flow of money initially created is *not* completely destroyed. The firm sector remains indebted towards the banking sector: a residual *stock* of money remains in existence, and it corresponds to the credit of households towards banks.

It is straightforward that in this outlook the financial market cannot be interpreted as having the role to finance the *demand* for investment goods. The financial market rather overcomes the nuisance for capitalist-entrepreneurs originated by the leakage constituted by saving, and to allow firms to get back as much as possible of the initial finance, so that they can give it back to banks. With Graziani, let us follow Schumpeter's attitude to reconstruct the capitalist process *ab ovo*, let us abandon the Wicksellian assumption that today's investment (in the Classical meaning, which reduces the latter to the real wage bill) corresponds to yesterday's saving, and let us accept Keynes's rejection of the idea that wages are anticipated in real terms, and not in money. It is clear that capitalist

[44] Graziani (1981a, p. 217).
[45] Cf. Graziani (1989b).
[46] See Graziani (1989a).
[47] Graziani (1981a, p. 222).
[48] As one referee rightly pointed out, what Graziani labels "the final finance" can be also named "the funding" (as opposed to "the financing"). Cf. Sawyer (2016). The point is in agreement with Chick when she writes that saving is funding investment, with the proviso that the (real) saving we are talking about is *both* voluntary *and* forced. Cf. Graziani (2003, p. 72), where Graziani affirms the identity of Chick's "funding" and his "final finance" in the terms described. Contrary to a comment of the other referee, I do not think that Graziani's conclusion that investments are financed by real savings has any point of contact with any Neoclassical view. On this it is also useful to read Graziani (1994).

production just could *not* start without the initial debt of firms towards banks. The accumulation of capital would be simply impossible[49].

Banks cannot 'intermediate' *money* savings which have not been deposited yet by them: deposits logically follow loans. The finance of investment (demand), for Graziani, is *ultimately* provided *by real saving*. This latter cannot be reduced to voluntary thrift and must include 'forced' saving (i.e., firms non-distributed profits). In an effort to make the theoretical scheme more 'realist', it is of course possible to add a *monetary* financing of investment, and introduce a second flow of money from banks to firms: since it remains safely within the firm sector, this money is passing from one firm to another. This second round of finance is *instantaneously* reimbursed by the firm sector to the banking sector, and *immediately* cancelled.

Prices and distribution: Marx through the eyes of Kalecki

A key methodological point of the theory of the monetary circuit is that the macroeconomic system cannot be reduced to the adding up of microeconomic behaviours, since *the whole is more than the sum of the parts*. Another is that the *macroeconomic logic turns upside down the microeconomic logic*. We have here two fundamental points thanks to which Graziani's circuitism helps in reconstructing Marx's (abstract) labour theory of value. From this standpoint, of course, only a *macro-foundation* of microeconomics is a sensible ground for economic theory, not the other way round. All this goes hand in hand with Graziani's definition of macroeconomic theory as the *definition of the conditions of the reproduction and the perpetuation over time of a capitalist class society*. These conditions may be met or broken. Once again, as in Marx, the conditions of equilibrium are nothing but the true *rules of survival* of the system.

A point on which a supplement of attention is deserved is Graziani's quite radical conclusion that *financial wealth does not correspond to true wealth for the working class*, though this, of course, may well be true for the individual: once again a very Marxian statement. In an unpublished note to the participants to the *Seminario di Economia Monetaria*, dated 24th of November 1982, Graziani begins stating the two premises from which the workings of the Seminar moved. The first premise was that *the formation of profits was a typical feature of the capitalist process*. The second premise was that 'in the capitalist process, the saver when [s/he] becomes the owner of wealth (e.g., securities) without having the availability of means of production, has only a *formal and figurative* ownership. The accumulation of wealth does not correspond to the formation of saving, but it presupposes instead the actual control of the means of production.'[50]

In his 1976 textbook, *Teoria economica. Prezzi e distribuzione*, before the theory of the monetary circuit was fully spelt out by Graziani, the Italian economist already proposes a Keynes-Kalecki synthesis where the two premises of the Seminar were actually put together. The following is a long but noteworthy quote about the meaning of Kalecki's view:

> 'The meaning of this price theory is the following. The distribution of national income between wages and profits depends from the respective levels of money wages **w** and prices **p**; the money wages are fixed by the bargaining with the trade unions, the prices are unilaterally fixed by the firm sector according to a desired profit margin **q**; once the money wages and the margin **q** are fixed, the distribution of income between wages and profits is settled. This theory has here a point which is not yet determined: the

[49] Graziani (1994).

[50] Graziani (1982a, p. 1). The Italics are mine.

profit margin, **q**. We need to define the criteria with which firms set this margin, that is an essential element to arrive at the fixation of price.'

If this is the question, this is the strictly Marxian/Kaleckian answer immediately provided by Graziani:

> 'We can argue in this way. In a capitalist economy, the totality of the means of production is owned by capitalist-entrepreneurs. Thus, the entrepreneurs must be able to buy all the new means of production which have been produced, and therefore the totality of the investments carried out in each period. The profit margin must be set at a level such that the mass of profits is equal to realised investments. If, according to their own strategies of expansion, entrepreneurs decide to invest a given share of national income, they have to fix the **q** margin so that the share of profits in income is at the same level.'[51]

What the working class *actually* get are *only* the consumption goods capitalists leave on the market for them. In Graziani's circuit, *even if all wage earners "liquidate" their total money savings at the same time, they cannot get hold of more real goods than capitalist firms have decided to supply*. Financial wealth allows *single* workers or households to modify the *time shape* of their consumption stream over time, but it is *irrelevant for the aggregate*. An increase of real consumption after a reduction of saving propensity depends entirely on the circumstance if the firm sector increases the supply of wage goods.[52] This is true not only for the money wage bill, but also for the money interest bill, as long as they are spent on consumption: the real counterpart of both taken together depends on firms's choices. The interests accruing to households from their bonds can be spent on the consumption goods market, or on the financial market, or can be held as a liquid balance in bank accounts, exactly as for money wages. Long-term interests – Graziani concludes - are not, therefore, a true burden for capitalist firms. For the wage earners even shares represent a *fictitious* ownership, as long as decisions over real production escape the control of workers.

This does *not* mean that Graziani thought that distribution is immutable. However, the influence of workers on firms' (or on government's) decisions about the real composition of output pass through non-market actions: either conflict in production or struggles in society or political interventions.

In *Nota per il Seminario di Economia Monetaria* we find another point which helps clarify the relationship between Graziani and Kalecki. It is useful to remind it, since the point (though repeatedly present in his published writings) have been misunderstood by some authors. Graziani explicitly clarifies that the adopted "classist" theory of the distribution of income brings with it two results: (i) that every investment decision must be automatically financed by a corresponding formation of real saving; (ii) that every investment decision is likewise financed by a corresponding formation of profits. The former is the *financing of investment* for the economy as a whole; the latter is the *self-financing* of firms, corresponding to what Graziani sometimes called forced saving in excess of voluntary saving – namely, the non-distributed profits by the firm-sector. Firms's self-financing is *physiological* in the circuitist model.[53] *Graziani's distinction*

[51] Graziani (1976, pp. 621-622).

[52] Formally, this is depicted as an autonomous decision, but it may be influenced by class struggle.

[53] Graziani (1982c, p. 5). As argued above, the finance we are talking about here is final finance, or "funding". I translate using the generic term finance, which corresponds to the Italian original.

between finance to production and finance to investment cannot but lead to Kalecki's self-financing as retained profits.

Graziani on Marx's theory of value and theory of money

In 1983 Graziani made some interventions on Marx's theory of value and money. These articles also help us understand how he positioned himself between the *General Theory* and the *Treatise on Money*, and how he struck a balance between monetary circuitism and Keynes.

In 'Riabilitiamo la teoria del valore' - published in a special supplement of *L'Unità* in 1983, and translated in English as 'Let's rehabilitate the theory of value' in a monographic issue of *International Journal of Political Economy* edited by me[54] - Graziani summarises what we have said so far. *First*, a *class macroscopic* analysis, like the one by Marx's and the monetary heretics, leads directly to a description of the *capitalist* economic process as a *monetary circuit*. Money is conceived as "initial finance" to purchase labour power (this is what put the capitalist class in a specific "social relation" with the working class) and *afterwards* as the "universal equivalent" (the "social relation" connecting individual capitalist firms on the market). *Second*, the *possibility* of the crisis arises from money being held as liquid balances because of the pessimistic prospects of capitalist entrepreneurs and money capitalists as speculators: it brings with it unsold commodities and unemployment: crisis is a *break* in the circuit.[55] *Third*: the fact of being suppliers of labour(-power) does not give automatically to workers any command over goods or wealth (they may be unemployed). "Valorisation" means an *enlargement of abstract wealth* – Graziani[56] uses the term "*wealth in general*" - for the capitalist class: in a macro perspective, no exchange *internal* to the firm sector can contribute to valorisation. Gross profits may be earned only thanks to the *unique* exchange which is *external* to that class, and which leads to the acquisition of labour power by firms: 'only to the extent that capitalists use labour and take for themselves a part of the product obtained they can realise a surplus and convert it into a profit … [that is,] the difference between the total sum of labour employed and the sum of labour that returns to the worker in the form of the real wage.'[57]

In 'La teoria marxiana della moneta' – an intervention to a 1983 conference published in 1986 in the proceedings, and then translated in English in 1997 as 'The Marxist Theory of Money' in a monographic issue of *International Journal of Political Economy* edited by me – Graziani goes deeper on some important points.[58] I will stress only a few. To

[54] Graziani (1997a).

[55] Graziani (1997a, p. 23). The reference to capitalist crisis as due to a "break" in the circuit is affirmed in the contemporary article on the Marxist theory of money to which I refer immediately after in the text (Graziani 1997b). Graziani is portraying Marx's position, not the contemporary circuitist approach. In Graziani (1997b, p. 97) he writes: 'fluctuactions in demand may be interpreted not so much as a failure to open [as in the theory of monetary circuit] or to close the circuit [as in modern macroeconomic theory rooted in J.M. Keynes], but as a *break in the circuit*. This is how Marx read the problem of fluctuctions and crises; in a certain measure, this approach embraces the first two." The Italics are in the text.

[56] As anticipated, I have studied with Claudio Napoleoni, and later I was part of the group meeting with Augusto Graziani in the early circuitist years. I can say with confidence that Graziani did not love too much (or even understand) Marx's proper dialectical derivation of abstract labour, which was instead one of the strongholds of Napoleoni's interpretation of Marx. On the other hand, Napoleoni had clearly not much sympathy for the theory of the monetary circuit. I have been influenced by both, and my position is actually that the abstract labour theory of value and the macro-monetary theory of capitalist production are two sides of the same coin.

[57] Graziani (1997a, p. 24).

[58] Graziani (1997b).

begin with, Graziani stresses that in Marx we have to distinguish "money" (*Geld*, in Marx's original German*: denaro* in Italian, *argent* in French) from "currency" (*Münze*, in Marx's original German*: moneta* in Italian, *monnaie* in French). According to what I established in the previous chapters, *Geld* is what *exhibits* abstract wealth, "wealth in general". *Münze* is the universally accepted intermediary of exchange, and is one among *many* representatives of wealth in general. The consequence is that, if one adopts this distinction (which I think has a strong textual basis), the *valorisation process* can be defined as *money-commodity-more money*, or as M-C-M', while the *monetary circuit* necessary for the valorisation process to get going can instead be defined as *currency-commodity-currency*. Hence, the conclusion by Graziani: '[i]f therefore the specific end of the capitalist is to acquire money in the sense of wealth in general, it still does *not* follow that the purpose of the capitalist is to accumulate currency.'[59]

The reader will soon realise that what Graziani is actually saying here is that the theory of the monetary circuit fully respects Marx when it represents the capitalist sequence in such a way that the currency recovered at the closure of the circuit is (at best) equal to the currency injected at the opening: it is, in other terms, perfectly compatible with the sequence money-commodity-more money. Graziani adds a quote by Marx confirming that 'when Marx discusses the nature of [gross] profit, he makes it clear that [gross] profit is acquired by the capitalists taken collectively solely in the form of commodities.'[60] Valorisation does *not* require an increase of *currency* to bring about an increase in *money*. Surplus value is realised in *real* terms in the abstract (but fundamental) picture of the class macrosocial perspective on valorisation.

The second point to remind in Graziani's reading of Marx on money and currency is that one has to distinguish currency which *represents* (act as representative of) money as a form of capital (i.e., the *initial* moment in the circuit, where labour power is purchased so that capitalist production may begin) from currency as *intermediating* the exchange of commodities in *final* circulation (that is, the simultaneous exchanges where the protagonists are the individual capitalist producers). Also here, the consequences are far reaching. On the one hand, Graziani observes that Marx is right in stressing that currency as means of exchange in final circulation *may well be a commodity* (as it is argued by Marx in the first chapters of *Capital*). On the other hand, currency as *representative* of money as a form of capital – namely, money producing more money, in different forms – *must be a form of credit*, and more specifically bank credit created *ex nihilo* (as I have argued elsewhere, this amounts to see in bank finance to production an "ante-validation" of valorisation). According to Graziani, the reason why the fact that currency is bank credit *ex nihilo* is not explicit in *Capital* is due to the fact that when Marx writes of money and currency, especially in volume 3, he does not present a "pure" theory but only an inquiry about what we nowadays call the practice of the money markets. Moreover, he assumes an open economy and the presence of the State: Graziani's Marx upholds a form of *State theory of money*.

Once again showing the hidden Marxian nature of his theory of monetary circuit, Graziani insists that the "pure" theory of the monetary circuit, if it wants to be rigorous, has to commence from the *abstraction* of a *pure capitalist system*, with a *closed* economy populated *only* by capitalists and wage workers. The *crucial factor* is not that capitalist entrepreneurs possess a commodity-currency but that that *they have purchasing power*. In the class setting defined by Graziani, currency is needed to pay nominal wages in the buying and selling of labour power, leading to the production of commodities. *Currency cannot be thought as a commodity at the opening of the monetary circuit*, say gold, *because the capitalist production of gold requires finance, as any production process*: as

[59] Graziani (1997b, p. 28); the translation has been amended, and the Italics are added.
[60] Graziani (1997b, p. 28).

a consequence, to begin the inquiry of the capitalist valorisation and accumulation process with money as a commodity would implicate *a vicious infinite regression*. It is clear that we are back to the “class” interpretation of the Wicksell-Schumpeter-Robertson-Keynes’ *Treatise on Money* tradition typical of Graziani, and that I summarised earlier.

A third element to take into account is that Graziani dismisses the criticism that the circuit theory of money would be in contrast with Marx because the advance of currency to open the phase of production (bank finance) is *value-less* in the former approach, contrary to the original statements by Marx. Even though Graziani shows that Marx is compatible with Keynes’s principle that wages are anticipated as money wages and not as real wages, at the same time he affirms that *in the initial phase opening production the only price which is formed is the price of labour power*. In this moment *the value of ‘currency’* (as the form of *‘money as capital’ commanding labour*) is its *purchasing power*. ‘The problem of the value of money [as currency] is reduced therefore to the problem of determining wages. … If we hold, however, to the rigorous terms of Marx’s theory and recall that real wages, in deference to the general principle of the theory of value, are equal to the labour contained in labour power, the situation is simplified. … In this sense, the problem of determining the value of currency does not even arise independently.’[61]

The reference is clearly to Marx’s assumption – that I have recalled in the previous chapters – according to which in a given country and at a given time the money wages corresponded by capitalist entrepreneurs are equal to the determinate ‘subsistence’ real wage. In a contribution co-written with Forges Davanzati and Realfonzo we have shown how this may be further articulated in the *dynamics of the “value” and “price” of labour power*.[62] One may begin assuming that the expectations on the labour market about the target real wages that workers can get through the bargained money wages are fully met. In this event, the price of labour power corresponds to the value of labour power. If they are not fully met, the price and value of labour power diverge. This may open a conflictual situation within the immediate process of production, so that the two magnitudes may converge. Paradoxically enough, the distributive conclusions by Wicksell or Robertson or Keynes’ *Treatise on Money* are more radical. In the words of Wicksell, bankers and capitalist entrepreneurs may reduce the real share of workers almost at will. The reason of the difference lies in Marx’s assumptions willing to focus on the role of direct production in extracting a surplus value.

Between Keynes and Marx

Two other points of the essay on money in Marx are essential to understand Graziani’s way of articulating a Keynes-Marx synthesis. They refer to two apparently sensitive points of Keynes’s argument, especially in the *General Theory*: *uncertainty* and *liquidity preference*. They are also at the heart of possible tensions with the theory of the monetary circuit.

The argument is the following. The presence of money/currency allows that the sequence of the exchanges could be ‘broken’: a selling is *not* followed by a buying.[63] The

[61] Graziani (1997b, p. 39).
[62] Cf. Bellofiore-Davanzati-Realfonzo (2001).
[63] Graziani is of course repeating Marx’s train of thought, where a sale is a commodity exchanged against money and buying is money exchanged against a commodity: “Since in a money economy commodity exchange is mediated by money and hence is split into two *successive* exchanges, commodity against money and money against commodity, it is materially possible for the sequence of exchanges to be broken if any of the operators decides to sell without buying. The definition of crisis as an *interruption* in the chain of exchanges is tantamount to saying that demand declines when one operator decides to keep some

earnings from circulation would be maintained in liquid form. What may justify a *liquidity preference*? As usual, Graziani begins his theorising from a *pure* capitalist system. He is not satisfied by the usual Post-Keynesian chain of reasoning, where the essential role of money is traced back to the role of liquidity preference and then to uncertainty, thus influencing and destabilising the determination of effective demand. Graziani specifically refers to Jan Kregel and Paul Davidson, but also Hyman P. Minsky. Money and finance seem to matter only in 'crisis'. Graziani urges that money must be conceived as essential also, *and first of all*, in a capitalist system "without crisis."[64] In this outlook, uncertainty must be strictly connected to the *historical* and *social* characteristics of capitalism, not to human behaviour in general. It is clear that Marx fits this theoretical need, in his analysis of the "normal" behaviour of capitalism, ultimately leading to crisis. Money and currency are critical to understand both the *capitalist development* dynamics and the *crisis* eruptions.

Regarding the normal dynamics, we already know why the class macroeconomic approach requires a picture of the capitalist process as a monetary sequence. Regarding uncertainty, Graziani stresses that in an economy geared to the production of "wealth in general" (*Geld, denaro*, money) 'the forces of competition, the struggle among enterprises, and technical progress force a continuous modification in the forms of production, and thereby cause a permanent uncertainty for the capitalist regarding his prospect of profit.'[65] From the point of view of the basic theoretical scheme of the monetary circuit this would rather bring about lower production and investment levels rather than higher liquidity holdings.The deep-seated reasons for the crisis, however, go back to the social structure: 'if society were not divided into classes, and if there were no separation between labour and the means of production, productive activity would not be dominated by the objective of wealth [in general], there would be no conflicts among capitalists in their chase after profit, and an atmosphere of uncertainty would not dominate every productive decision.'[66]

In a 1985 conference in Naples, Graziani contrasted the circuitist perspective and the Keynesian perspective:[67] some of the papers were later collected in a book edited by Marcello Messori.[68] Graziani rewrites the "Keynesian" model (i.e. *The General Theory*) in a circuitist language, so that a comparison is possible. The equilibrium position is the one where firms recover all the liquidity they advanced as finance to production. A rise in the liquidity preference entails a *failure to close* the circuit."[69] The motive is that part of money income is devoted to an increase in liquid balances, so that firms's final finance turns out to be less than initial finance.

It may seem – Graziani comments - that the circuitist position is exactly the opposite: that the circuit is *always closed*. Note that the closure of the circuit does not involve Say's Law or that the economy is in full employment, as the assumption of perfect competition and some marginalist assumptions would lead Keynes to affirm in his 1936 book (but not in his 1930 book). In monetary circuitism it is not uncertainty and the privileged role of money as stock of wealth that explains the fluctuations in aggregate demand, but the joint play of capitalist decisions of accumulation and class conflict. Involuntary unemployment is then possible "out of crisis". For circuitism, the crisis is explained by a decision (by banks and/or firms) *not to "open"* the circuit. Graziani suggests that this contrast – the

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earnings in liquid form rather than convert them into commodities. *The theory of dual exchange and the theory of liquidity preference are closely intertwined.*" (Graziani 1997b, p. 43; the Italics are mine)

[64] Cf. Graziani 1984b.

[65] Graziani (1997b, p. 45).

[66] Graziani (1997b, p. 45).

[67] Graziani (1985c).

[68] See Graziani (1988a,1988b).

[69] Graziani (1985c: 59-60).

Keynesians focusing on the *closure* of the circuit; the circuitists focusing on the *opening* of the circuit - is less dramatic than it looks like at first sight. Nothing impedes that a demand for money dependent on the rate of interest is introduced in a circuitist scheme (as Graziani actually did, in several occasions). Moreover, the 1937-1939 articles on finance shows that also after *The General Theory* Keynes was quite aware of the importance of the opening phase, of the key role of the advance of liquidity to start production, and of the risk for the economy to be strangled by a lack of initial financing.

The 1937-1939 Keynes' articles on finance confirmed Graziani both about the key role of the notion of 'finance to production' conquered by Keynes in the *Treatise on Money*, and of the fact that that notion had to be integrated also in the reasoning of the *General Theory*.[70] Graziani, however, was also quite convinced of the many confusions of Keynes both in 1930 and in 1937-39.[71] In the articles, in particular, Keynes began affirming that initial finance is necessary *only* for investment: but he had to pull back clarifying that finance is needed not just for investment but for the *production of any commodity* (consumption goods, investment goods). Keynes also began stating that the source of initial finance could be the *existing* liquidity on the financial market: but he later admitted that it may originate from the banking system, creating *new* liquidity. Keynes initially declared that consumption is recovering final finance for firms just like saving, without specifying that this is true only if there is no part of current saving devoted to increase liquid balances. Keynes was never completely clear about the fact that finance as a "revolving fund" does not dispense firms from their dependence from banks, if they wish to start production again (not only in a growing economy, but also in a stationary economy): the initial bank debt is only *renewed*. These confusions by Keynes himself explain the confusions on this topic in the Post-Keynesian literature.

Where Graziani detects a strident and critical difference between Keynes and monetary circuitists is rather on the ownership of capital goods. In *The General Theory* the owners are the savers, through securities. In the theory of the monetary circuit, instead, 'wage workers are considered as entitled to incomes which can be devoted only to consumption, while the owners of the accumulated wealth are the capitalist-entrepreneurs.'[72] Within a critical footnote, Graziani writes that 'it can be debated if these [circuitist] authors are fully convinced of Postkeynesian theory of distribution. This theory is based on a double propensity to save of capitalists and workers, and in the end traces back the formation of profits to differences in parameters rather than to the class structure of society.'[73] In another footnote in the same page, Graziani adds: 'The authors that see the process of accumulation of capital as a process based on profits rather than on savings are a stream of thought which may reclaim a certain continuity.'[74] The names recalled are Wicksell, Schumpeter, Ludwig Albert Hahn, Robertson and the Keynes of the *Treatise on Money* – plus, surprisingly enough, Walras in his 'Mathematical Theory of the Bank Notes'. It is obvious that a name is hidden from view, and it is Karl Marx. That Graziani perfectly knew this is quite apparent in his intervention on Marx's theory of money.

Opposing *The General Theory* and the modern theory of the monetary circuit approaches to crisis – 'failure of the circuit to *close*' versus 'failure to *open* the circuit' – Graziani refers to Marx's position as 'a *break* in the circuit', and comments that '[Marx's] approach *embraces the first two*'.[75] We already know that this is indeed Graziani's own position. He goes on claiming that the different possible readings of the crisis are not

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[70] See Graziani (1983a).
[71] Cf. Graziani (1984c). In later years Graziani intervened several times on Keynes's 'finance motive'.
[72] Graziani (1985c, p. 63); Graziani (1988a, p. 112).
[73] Graziani (1988a, p. 113).
[74] Graziani (1988a, p. 113).
[75] Graziani (1997, p. 47). The Italics are mine.

radically opposed to one another: the choice between them is more a matter of personal choice rather than something conveying a theoretical substantial difference. On distribution, I have already shown that Graziani's rendering of the circuitist view makes it identical to a Marx-Kalecki perspective. The distinction between *Geld* as abstract wealth and *Münze* as currency brilliantly overcome the presumed difficulties of his version of the theoretical scheme in monetising gross profits. More serious is the problem of understanding how capitalist firms can pay interest to banks as a monetary amount. Here he follows Marx (as well as Schumpeter) in seeing the interest paid to banks as a share of surplus value (gross profits), considering it a division "in kind" masqueraded through money circulation.

Graziani left open the door to some more concrete ways of picturing the *monetisation of surplus value*, when we relax the rigorous abstraction of a pure and closed capitalist economy. One way is to imagine that, *in an open economy*, a *new inflow of money comes from abroad*: the reference is to the *net exports of the capitalist area* towards the non-capitalist area (as *Rosa Luxemburg* somehow suggested in her economic writings). Another complementary approach on the same line is to imagine *"domestic" net exports*: the reference may be to *government budget deficits financed thanks to an inflow of new money from the banking sector*, which, as we know, includes the Central Bank (here the first name that comes to mind as an inspiration is *Kalecki*). I have already reminded how Graziani wrote about the possibility of a second round of financing from banks, directed to the inter-firms buying and selling of new capital goods. Graziani's scheme of the monetary circuit is flexible enough to go beyond the initial setting of a pure capitalist economy with only private agents.

Graziani's circuitism and his economic policy views

It is clear that Graziani during the 1970s had a radicalisation of his economic and political views. It is not easy to date the transition to a fully spelled alternative vision on economic theory and policy. My guess is that a key moment were the years after 1974, and that a key text was his opening article ('Aspetti strutturali dell'economia italiana nell'ultimo decennio') for the book he edited for Einaudi: *Crisi e ristrutturazione nell'economia italiana*.[76] His earlier interpretation of the post-war Italian economy, as export-led and dualistic, is celebrated, and rightly so. The driving force to which dualism (in technology, firm-dimension, labour market, regional areas, and so on) must be ascribed is the decision of producers (as well as policy makers) to enter the world market. This general framework remained also in his circuitist years, but it was distinctly modified and enriched in the mid-1970s. The context of Graziani's argument since the mid-1970s becomes the class conflict between workers and capitalist firms, and inside the latter emerges the separation between the two fractions of industrial capital (the one characterised by high-capital intensity, and the other characterised by high-labour intensity of production). Graziani based on this fractioning of the capitalist class an analysis of capitalist restructuring in 1977 that he published on *Quaderni Piacentini*, and titled 'The strategy of division'.

It is also interesting that in the chapter in the 1975 book Graziani advanced a few considerations on the role of the working class about the relationship between profits and investment, surveying some relevant positions in the Italian debate. One of the positions he referred to was the one upheld a year before by Claudio Napoleoni. This author was countering what he saw as the Neo-Ricardian stress (supposedly inspired by Sraffa) on

[76] Graziani (1975).

the wage as the independent variable[77] with Marx's proposition that the rate of accumulation has to be considered as the independent variable, and the wage the dependent variable. Napoleoni also argued that the capitalist crisis of the late 1960s and early 1970s was not a Keynesian one (insufficient demand), nor could it be overcome thanks to counter-cyclical economic policies. The cause of the crisis was at the time *class struggle in the immediate valorisation process*: not only the wage, then, but the constraint on the rise of the rate of surplus value coming from struggles within the labour process. Inflation plus deflation together (*stagflation*) were eroding workers's strength, at the same time reducing productive capacity. This debate was, in fact, the translation in the economic policy discussion of the controversy on the theory of value going on in Italy.

What is interesting is that Graziani discarded the easiest – and, to be fair, not totally ungrounded, if one follows the letter of Napoleoni's article[78] - criticism which could have been moved against Napoleoni. This author seemed to argue in favour of a priority of saving (in the form of profit) over investment. Graziani, however, both in the 1975 book and in the 1978 teaching material for FLM preferred to depict Napoleoni's position using almost the same words with which he characterised Kalecki's model.[79] He just appended at the end the following "political" conclusion attributed to Napoleoni: by definition, in a capitalist system there must be a formation of profit equal to investment; every attack on profit is thus nothing but an attack to capitalism; it is equivalent to putting in danger capitalism in its essential feature consisting in the private property of the means of production. It is implicitly a *revolutionary* attack against capitalism.[80]

In fact, this was not Graziani's own position, who thought that reforms were possible, but only thanks to struggles which had to be promoted outside the market arena. I refer here to Napoleoni's position, because I want to emphasise a very simple point. Since the mid-1970s, Graziani's effort – theoretically and practically – intended to show that the conflict between labour and capital had to be analysed considering the fractions fracturing the capitalist class. Hence, the stress that crisis was not to be interpreted as 'collapse' (nor as a 'stalemate' in the power balance between classes) but *restructuring* (and hence the formation of a new configuration of capitalism). In the 1975 chapter this was argued evidencing the discords within industrial capital. In the following years he investigated the division between industrial capital and financial capital, merchant capital, unproductive areas.

It is on the background of this larger picture that the writings after 1975 have to be appreciated: including Graziani's most noteworthy theoretical construction, that I would more properly define as his *macroeconomic theory of capitalist monetary production*.[81]

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[77] That position was in fact held by Napoleoni in the 1960s, so Napoleoni's was in a sense a self-criticism. In the early 1970s Vianello maintained that the immediate capitalist answer to wage struggles were inflation or deflation as means to defend the rate of profit. If workers did not give up capitalists would have been forced to react through an increase in the productive power of labour. Vianello later insisted that his position was not directly inspired by Sraffa's book, where in fact the independent variable is the rate of interest, influenced by monetary and banking policy.

[78] This was the line of criticism against Napoleoni taken by Vianello in the book where it is included Graziani (1975).

[79] Compare Graziani (1975, p. 8) and Graziani (1978a, p. 79) on Napoleoni with the pages on Kalecki in Graziani's 1976 textbook on prices and distribution, on which I will return later. They mirror each other.

[80] Napoleoni was careful enough to add that this conclusion is valid only beyond a certan point, when the rate of profit is pushed below a "minimum". A similar conclusion was reached by Rosa Luxemburg when she formulated the law of the tendential fall in the "relative" wage.

[81] As the reader has for sure already realised, macro-monetary, macro-class, macro-monetary, macro-social are all adjectives used to represent Marx's position, closely following Graziani's perspective. It actually is an essential ingredient of my 'reconstruction' of Marx presented in my forthcoming book *Is there life on Marx?* Mine is a theoretical line quite different from the so-called new monetary approaches to Marx, where "macro" stays for *aggregate* (downplaying the stress on the macrosocial class "capital relation" between

A fuller reconstruction of Graziani's thought could not avoid to consider the internal essential link that connect his theoretical writings with the *economic policy* interventions. I give below only a few examples.

In the long 1970s, during the Stagflation period, Graziani clarified how price increases allowed not just a redistribution from wages to gross profits, but also how the share of banking interests was increasing at the expense of firms's net profits. Indeed, an implication of his theoretical scheme was that, as long as firms refinance themselves through banks, banks' nominal interests are *indexed* to the price-and-wage inflation: as a consequence, any rise in prices and wages *automatically* translates in a higher firms's demand for bank financing. If, on the contrary, the nominal bank rate of interests is pushed up with price and wage inflation (enforcing the so-called *Fisher effect*), what is actually going on is a *double* indexing, which amounts to a redistribution of surplus value from industrial capital to (bank) financial capital. As Graziani wrote in 2003

> When analyzing the case of producers, we made a distinction between two possible cases of inflation, the first one being the case of an inflation financed by the government's deficit, the second of an inflation financed by bank credit. The crucial difference between the two cases lies in the fact that, in the first, the rate of increase in the bank debt of firms equals the rate of increase in prices, while in the second (if the Fisher formula is applied), firms' debt increases at a rate *twice as high* as the rate of inflation.[82]

This phenomenon was disguised, and it was instrumental in launching a dramatic capitalist restructuring in production workshops and in society as a whole.[83]

In the 1980s, when State deficits exploded, Graziani utilised his theoretical scheme to advance another unconventional provocation.[84] State deficit expenditure going to buy capitalistically produced commodities helped the firm-sector to extract from the circuit money, permanently and "for free": firms did not have to give that money back, and there was no interest charge to pay. This reduced, if not cancelled, the obligation to get the initial finance from banks, inaugurating so-called "disintermediation". Firms's balance sheets get constantly better. But now the psychological terrorism about public finance substituted the one about firms' balance sheets, and accelerated the attack on labour, which materialised in the compression of the wage and in the rationalisation of the capitalist labour processes.

In the 1990s Graziani showed how both the policies of *fixed exchange rates* in regional areas (like the European Monetary System: 1980-1992, especially 1987-1992) or the continuous *devaluations* (like, in Italy, in 1973-1979, and then in 1992-1995) were set against workers's interests and were functional to capitalist restructuring.[85] Exchange rate flexibility was used to postpone the needed structural interventions, the industrial and

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industrial capital and working class: with important consequences on the notion of necessary labour and the role of "values" in the theoretical scheme); and where *monetary* refers first of all to the *universal equivalent* in a universal exchange economy, rather than *finance to production* in a capitalist monetary sequence (downplaying the role of the banking sector as financial capital. I could not have reached this position without Graziani.

[82] Graziani (2003, p. 136), and the entire chapter for a formal demonstration. The Italics are mine.

[83] On this point Graziani had a long discussion with Franco Modigliani. The first instalment was Graziani 1983b, followed by a rejoinder to the comment Modigliani and Cohn, Graziani 1983c. Graziani also presented an historical reconstruction of the controversy on the Fisher effect, and more generally the relationship between inflation and the rate of interest (Graziani 1983d).

[84] See Graziani (1991b).

[85] See Graziani (2000).

credit active policies, the urgent qualification of the content of public expenditure. *No intervention on the exchange rate, one way or the other, was resolutive*. In Graziani's vision, economic policy should aim to build better real conditions for producers (making industry competitive on quality, not on the wage costs) and to provide better welfare for citizens: in kind, not through monetary subsidies. This should go together with a higher real wage for the working class.

In the 2000s, and again coherently with his overall theoretical scheme, Graziani suggested that the *growing household indebtedness* has to be interpreted as finance to firms rather than to consumers. It is intriguing that, in his Federico Caffè Lectures published under the revealing title of *The Monetary Theory of Production,* the point is raised, once again, in strict proximity to a reference to Marx's adherence to the vision that power and money goes hand in hand: 'Marx defines a capitalist as an agent having the property of means of production and being adequately endowed with money. Access to bank credit assures precisely the necessary endowment of liquidity. Nowadays this is no longer a common assumption. More often than not, contemporary literature insists on the fact that credit granted to households equals or even exceeds credit granted to firms […] *It is however highly debatable whether credit granted to households is really given to consumers or rather is in fact indirectly granted to firms, by allowing consumers to buy finished products*.' [86] This is only one step further from the argument I advanced elsewhere that a new kind of autonomous demand (*indebted consumption*) is introduced in the system, and that a further pressure on workers is built up. I think that the reconstruction of the new forms taken by the monetary circuit has to be articulated within a wider representation of post-1980s configuration of capitalist economy and society, characterised by 'traumatisation of workers', 'centralisation without concentration', 'capital market inflation', and 'the real subsumption of labour to financial capital and debt'. This would help to build a more convincing reconstruction of Neoliberalism and its crisis[87].

Conclusion

In this article I have tried to show in which sense Graziani exemplified a 'structural Keynesian' interpretation of capitalism, but where his Keynes was read according to a Schumpeterian 'vision' and revealing a robust Marxian core, which in most of his writings is present though concealed from view. I can summarise this hypothesis recalling the way Graziani synthetized his own theoretical journey in Arestis and Sawyer, *A Biographical Dictionary of Dissenting Economists*: the entry devoted to him was indeed written by the Italian economist himself.[88]

According to this entry, the Schumpeterian and almost-Marxian vision of the capitalist process was already there in Graziani's 1965 criticism of Neoclassical theory, in his book *Equilibrio economico generale e equilibrio macroeconomico*, likely unseen by the author himself. Graziani thought that 'an overall equilibrium position is in itself inconsistent with the typical features of a capitalist economy. In a changing economy, in which by definition the rates of growth of single sectors differ, rates of profit must also differ, in order to draw resources out of declining sectors and into expanding ones. While a short-period equilibrium, in which positive and negative quasi-rents are present, affords a reasonably realist picture, a position of full equilibrium has little to do with the actual

[86] Graziani (2003, p. 21). The Italics are mine.
[87] I explore these realities in my writings, as part of my re-reading of Marx's theory of the crisis and of the contradictions of contemporary capitalist leading to the Great Recession.
[88] Cf. Graziani (1992).

working of a market economy.'[89] Those who do not recognise Schumpeter here – and his debt to Marx - should go to Graziani's introduction to the Italian translation of the abridged edition of *Business Cycles* for another confirmation: there, the heterodox side of Schumpeter is characterised with the contention that equilibrium is proper only of a stationary state.[90] Capitalism is subject to *constant qualitative change*: every situation is *broken by innovation*, and *innovation disappears with imitation*, so that *full equilibrium is foreign to this social reality*. It is an *almost* Marxian vision because, if we look at the historical Schumpeter and the historical Marx it is likely that Marx was the more radical between the two, and the one that more easily fits into Graziani's account.[91]

About Keynes, Graziani insisted that *The General Theory* is not the only and exhaustive word from the Cambridge economist. The 1936 book must be assessed on the background of his entire vision of capitalism as a monetary production economy, which is fundamental to the *Treatise on Money* and is prolonged into the 1937-1939 writings on finance. If we look at the whole of Keynes's monetary writings, we see that within the line '[viewing] the economic process as determined by the action of conflicting social classes or groups … Keynes defines money as purchasing power created by the banks and placed in the hands of firms; he also gives a full description of what he himself calls "the power of bank"'.[92] So we have two parts played by money, here: money as the *claim ticket* allowing to gain an access to the market, or money as *purchasing power*; and money as *stock of wealth*. The former determines the *allocation of the workers* employed between sectors, and the *composition of production*; the latter, through liquidity preference, may be relevant to *determine the amount of aggregate demand*. 'Graziani, far from rejecting the *General Theory*, would consider it as only *partially* representative of Keynes's thought and would emphasise the need, in order to get a full picture of Keynes' contribution, of taking equally into account the whole of his monetary writings.'[93]

Here again, when we focus on distribution, it is impossible to avoid the conclusion that Graziani, in the entry depicting his views, is rather following Marx's view: 'real income of wage-earners is equal to the amount of real goods they can buy, and total profits equal total investment.'[94] *This is a general statement, for him, valid at the macro level even when there are workers' saving*. It amounts to say that the rate of surplus value/rate of exploitation is *accurately* expressed in "labour-value" terms, as in *Capital*, Volume I: total living labour *minus* necessary labour, over necessary labour. *The Marxian conclusion on distribution actually derives from the fact that Graziani has reconstructed money as the capital's "command" over labour, and currency as itself a form of capital.*

[89] Graziani (1992, p. 216). The large agreement of this outlook with my works on the Marxian view of the dynamics of capitalist development should be obvious.
[90] See Graziani 1977b.
[91] As I showed in Bellofiore (1985), and more generally in my writings dealing with Schumpeter, Graziani's interpretation is more faithful to Marx than Schumpeter, the latter maintaining an important role to the tendency to (the 'neighbourhood' of) equilibrium, or to the 'circular flow', in his cyclical picture of the capitalist process as a whole, i.e. throughout the entire economy. Here we meet, however, one of the many Marx's ambiguities. One side of him was sympathetic to the "gravitation" within an *equilibrium perspective*, akin to a Ricardian, Neoricardian or Neoclassical. Another one was more coherently setting the discourse on equilibrium as part of an *out-of-equilibrium perspective*. How much the Ricardian inspiration is still alive in Marxist economics may be confirmed by Moseley's last book (Moseley, 2015), where 'actual' is synonymous with long-period (price of production) equilibrium.
[92] Graziani (1992), pp. 221-222.
[93] Graziani (1992), p. 220. The Italics are mine.
[94] Graziani 1992, p. 220.

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