

cisions. While socialism is off the table, at least for the time being, the organs of capitalists are often expected to act almost like socialists.⁷

In summary, most authors dealt with in chapter VII were looking into the direction also pursued by this book, but neither of them achieved a satisfactory grip on the problem. The capitalist wealth economy has a broader and deeper negative impact on investment in the productive economy than disturbances, cycles and bubbles. The problem is not just the role of finance in decisions on productive investment, the nature of the prevailing finance or the existence of a survival constraint, but *the problem is the capitalist wealth economy as such*. It persistently sucks away value-in-exchange before this value can enter the productive economy and flow into employment-generating uses. That is the main reason for deficient circuit closure in the productive economy. We shall now take up the distinction between the productive and sterile economy again and develop it further.

Section 2. The drain of wealth out of the productive economy

Productive/sterile and investive/consumptive further elaborated

Ultimately, from authors reviewed in chapter VII, Quesnay believed that the *classe des propriétaires* would clear the markets by its luxury consumption and Ricardo was confident that this result would at least somehow be achieved. The other authors looked at productive firms investments, but remained unconvinced. Nobody arrived at a usable conclusion as to why employment-generating spending was deficient and why circuit closure in the productive economy failed – if it failed. Consumption appeared to be good, they were aware, but perhaps some felt that consumption of wealth owners might include spending, which was not really generating employment. They hoped that investment would fill the gap, but some were also aware that investments in the stock, bond, or real estate market were mostly not useful either. They got stuck here and remained unable to elevate the intuitive difference between a “good” sector and a “bad” sector in consumption *and* in investment to a usable notional macroeconomic distinction.

We shall now try to make progress right here. For this purpose, we take up the distinctions between the wealth economy and the productive economy or sterile

7 These policies cannot nearly work, obviously. They are only attempts to find non-existent subtleties between having one foot on the accelerator and one foot on the brake. The prescriptions come from mass-democratic politicians who mostly do not remotely understand what they are doing, but know very well that, even if they understood, they could not even act on better knowledge. Their main effect will, thus, be an additional layer of hypocrisy. We are about to lose one of the true beauties of capitalism – its openly admitted rationality of profit-making.

spending and productive spending, which looks at the macroeconomic *effects and consequences* of the spending for the closure of capitalist circuits, again. This distinction was already introduced in the Foreword and laid crosswise over the more common, second distinction, second between investment and consumption, which looks at the *motives* for the spending or the *use* of the purchased goods. Their crosswise combination led to Matrix I on page 23.⁸ Following the examination of employment-generating spending in Chapter VIII, we shall now bring together the terminology of sterile and employment-generating spending with the terminology of $M-C-M'$, as broken down into $M(c, v)$ and $M'-M(s)$ in to a new Matrix IV identifying the causes for deficient employment-generating spending in capitalism.

8 Good theoretical thinking – and all thinking is theoretical – consists in properly distinguishing distinctions. This is even so if one is not aware of what one is doing, but the awareness of it, of course, helps. *George Spencer Brown*, *Laws of Form*, first published in 1969, has made a very important contribution in this regard, particularly into systems theory, which proliferated via *Heinz von Foerster*, *Niklas Luhmann*, and others. See also: *Luhmann*, *Zeichen als Form*, in: *Baecker* (ed.), *Problem der Form*, 1993, page 45 et seq.; *Kaufmann*, *Das Prinzip der Unterscheidung*, in: *Baecker* (ed.), *Schlüsselwerke der Systemtheorie*, 2005, page 173 et seq.; *Schönwälder-Kuntze*, *Wille*, *Hölscher*, *George Spencer Brown*, 2. ed., 2009.

Figure 13: Matrix IV – Consumptive vs investive and productive vs sterile spending (developed)

	consumptive	investive
sterile	I. · Recipients: Sterile wealth owners · Emitter: Wealth owners and workers · Purpose: consumptive debt service, consumptive rent, consumptive asset purchases (e.g., dwelling)	II. · Recipients: Sterile wealth owners · Emitter: Productive and sterile wealth owners · Purpose: Productive and sterile wealth owners pay interest, rent, or asset purchase prices as “tributes” if they make productive or sterile investments
Productive or employment generating	III. · Recipients: Productive wealth owners · Emitter: Wealth owners and workers · Purpose: purchase of consumption goods and. services	IV. · Recipient: Productive wealth owners · Emitter: firms · Purpose: purchase of equipment and inventories (incl. services) for productive investment
All spending is after carve-outs of components of opposite type		

If we look at this Matrix IV, The *upper part* shows sterile spending, which always flows to sterile wealth owners. Quadrant I shows sterile consumptive spending, e.g., interest for consumptive debt and rental payments to landlords for dwelling. Quadrant II shows sterile investive spending. On the one hand, it includes “tributes” from productive to sterile wealth owners, e.g., interest, rent or profit spending for productive investment or asset purchases if assets are used for productive investments (e.g., the purchase of land). On the other hand, it includes interest and rent spending and asset purchases, which are (or which serve) sterile investments between sterile wealth owners. The *lower part* of the matrix consists of employment-generating or productive spending, which always flows to firms i.e., productive wealth owners. Quadrant III shows employment-generating or productive consumptive spending, e.g., purchases of goods (including services) by sterile wealth owners and workers (firms do not make consumptive spending) from firms. Payments, which are directly made by wealth owners to their private employees for consumption purposes, such as for menial services, cooks, housemaids, gardeners green-keepers, drivers etc. are also shown in quadrant III (imaging there being a fictive firm between the wealth owners and the workers).

All flows are after carve-outs; hence, the employment-generating, i.e., productive, investive spending in quadrant III or IV are already after deduction of components, which belong in quadrant I or II and already encompasses components which were carved out from sterile spending in quadrants I or II.⁹ Quadrant I, alike, includes already sterile parts from the actual amounts paid by workers or by wealth owners for food, other necessities or luxury and Quadrant II includes a sterile part from firms' *c*-outlays directly paid to sterile wealth owners and from firms' sterile profit spending to wealth owners. Quadrants III and IV in the lower part are the places in which reflows of spending from the wealth economy into the productive economy, hence where consumptive or investive spending by wealth owners are booked. In the following section, we shall take a more detailed look at the different flows.

Flows from the productive economy into the wealth economy

A sterile part of firms' *c*-outlays

Reading volume I of Marx' *Capital*, or the reproduction schemes in volume II, one would, at first, think that his *c*-part of *M* goes wholly into equipment and inventories and remains in the productive economy. *But that is not so*. While the spending for equipment and inventories, *c*, may be innocently regarded as employment-generating, we must make a major exception for the spending of interest for interest *i*, rent *r*, or asset purchase prices (*stpp*) for old, pre-existing assets (with the minor counter-exception of our carve-outs for employment-generating spending-components in sterile spending). These "tributes" of firms to sterile wealth owners, without which no productive investment is possible, are significant.

Therefore, one should not read out of Marx that *all c*-outlays, which are going to supplier capitalists, are employment-generating spending that validate prior productive investments. Only *c*-outlays *minus* sterile "tributes" *plus* employment-generating spending-components in these payments are employment-generating spending. Accordingly, supplier firms are *not even able to mutually purchase the M-part of their produce from each other* because they receive *less* than the whole of other firms' *M*-outlays. This goes on from circuit to circuit.¹⁰ This drain is *different* from whether or not firms are willing to mobilize their full, planned profits *M'*-*M* from a circuit to mutually purchase the *M'*-*M*-part of their produce (which has occupied center stage for Sismondi, Malthus, Luxemburg, and others). Before firms even come to consider

9 See page on 123 et seq

10 What national accounting calls consumption of fixed capital, or what bookkeeping calls depreciation, are *construed flows* only. It may take several years and sometimes decades before significant re-investment spending, beyond small maintenance payments, are actually made.

whether to fully reinvest their expected profits in their productive business, they have already done damage to each other through unavoidable misspending in the form of tributes to sterile wealth owners.

A sterile part of workers' salary spending

Workers make consumptive employment-generating and consumptive sterile spending from their salaries.¹¹ Many economists, even prior to Marx, saw salaries as a share given to workers of the revenues from the produce, which was roughly sufficient, but not much more, for them to physically and socially reproduce (including proliferating and raising children). The absolute amount of the salary, or its relative share, was often not specified further. Capitalists did not have lasting relationships with their workers – unlike feudal lords with their peasants or even masters had with their slaves in the past. Accordingly, from a pure economic perspective, there was no built-in interest in individual capitalist employers to maintain a minimum salary. However, there were religious, cultural, or other humanitarian ideas about men's dignity. While they could be bent significantly, as the re-introduction of slavery in the South of the US and examples of child labor, excessive working hours, lack of work-safety, and forced labor in camps has shown, humanitarian standards still worked towards raising salaries. The self-interest of employers, indeed, sometimes also played a role if there was tough competition amongst employers for workers. Finally, politics, trade unions, other workers' organizations, philanthropy, and social-democrat, socialist and communist parties contributed to salary increases. All this was basically known at the times at which Ricardo and Malthus were writing (even if social-democrat parties etc. did not exist yet). When Marx wrote, he added two novelties. First, he connected this state of insight to a concept which arose from the theory of economic evolution: the difference between a necessary work-product and a surplus work-product, with the necessary work-product being what individuals or social units (families, tribes etc.) need to produce to survive and with the surplus-product being what can be used for growth, i.e., extended reproduction, or excess consumption.¹² He taught that workers' salaries essentially stand for what the necessary work product is in the theory of economic evolution. Second, by introducing the term of "variable capital" v in non-concrete, highly abstract sense, he made it possible to let the variable capital travel through a series of economic events in a Hegelian way – as a part of the money in the pockets of capitalists willing to make productive investments, as salaries, which are paid to

11 If they make investive sterile spending, they do not so as workers, but are wealth owners from there on out; if they make investive productive spending, they are firms from there on out.

12 If low productivity or bad luck keep tribes from generating the necessary work product, they will die out.

workers, then in production, as additional value-in-exchange-component, which the workers transfer to the produce, hence, as a value-component of the produce, and, finally, as part of the sales prices collected.

As Marx saw paid salaries, even if they could occasionally be somewhat above or below the necessary work product, essentially necessary for the workers and their families to survive, he had to expect that workers would spend the “variable capital” v , i.e., their salaries, in full again. His theory of salaries, thus, became a theory of their use and a theory of a component of employment-generating spending by the same token.

Marx further confirmed this view throughout his reproduction schemes, which see the variable capital v flow *completely back* to the capitalist class (dept. II.b.-producers of consumption goods for workers), thereby affirming that all money paid out as salaries will contribute to buying the production. Kalecki, on the same track, later coined the almost-proverb that “workers spend what they earn”,¹³ which, while essentially true, did not go beyond Marx. After all, workers partly appeared as macroeconomically reliable chaps who would do their best to keep the productive economy’s wheels turning by returning their salaries to productive firms so that they could recoup the v -part of their M -outlays in order to close their $M-C-M'$ -circuits.¹⁴

Unfortunately, something had been overseen, which the distinction between employment-generating and sterile spending debunks: There is the a similar drain on the spending power of workers (conveyed to them by salary payments) as there is on firms c -outlays: Wages cannot fully flow back through workers’ consumption to productive firms (even dept. II.b.-producers of consumption goods for workers)

13 While workers consume what they earn, capitalists earn what they spend. “Capitalists as a class gain exactly as much as they invest or consume, and if – in a closed system – they ceased to construct and consume they could not make any money at all” (Kalecki, Outline of a theory of the business cycle, 1933, in: Selected Essays on the Dynamics of the Capitalist Economy, 1971, page 12. Kalecki disregards the distinction between the productive and sterile economy here.

14 Salary taxation does not seem to fit in this picture. If salaries are taxed, is income not withdrawn where it is absolutely needed in that case? In fact, as Minsky writes: “(t)he personal income tax assures that the after-tax income of technologically determined labor is not sufficient to buy back the output it produces even at the prices even at the prices mandated solely by technologically determined labor costs” (Minsky (1986) page 184). The explanation ought to be that the state redistributes workers’ income to the detriment of better earning workers and the benefit of lower earning or unemployed workers through salary taxation. It, thereby, infringes upon the self-praise of capitalism that better educated or more well-trained workers, who also work harder, have a chance to materially increase their incomes in an act of forced solidarity or socialism between the low-income-recipients. In exceptional circumstances, the not-redistributed excess taxation may even flow into other uses, such as warfare.

because workers, too, *have to make sterile spending to sterile wealth owners out of their salaries*. They pay the same categories of “tributes” to sterile wealth owners as firms pay, i.e., interest i , rent r and occasional purchases of old, pre-existing assets, as out of their collected salaries v , they have to inevitably make sterile consumptive spending of rent r , for interest payments i or if they purchase old dwellings (instead of paying rent). As sterile parts of the c -outlays of firms do not return into the productive economy, a part of the v -outlays of workers will not return there either.

The issue deserves a few amendments. In the past, rural workers in the countryside (being successors of their small peasant predecessors) mostly still owned little pieces of inherited land, forests, fields, or gardens, which often encompassed a dwelling where they lived. They, accordingly, had no rent to pay. As workers were drawn away from their home villages to industrialized regions that all changed; they became tenants and paid rent. However, this did not bring self-owned working-class dwellings to total extinction. If the economy did well (as it often did in the capitalist centers), workers sometimes managed to acquire self-owned dwellings anew, using loans, wage-income, mutual help, and the black economy. Furthermore, capitalists occasionally supported workers in acquiring dwellings – to attract workers to their factories and/or out of philanthropic motives. Many such settlements still exist today, e.g., in formerly coal mining centers of the German Ruhr or Saar, and still carry the names of the benefactors. Moreover, developed countries may have state programs to support the bank-financing of working-class homes; e.g., in the US Fannie Mae and Freddie Mac enabled working-class families to share “the American dream”.¹⁵

Trying to acquire ownership of a self-used dwelling, whether newly built or pre-existing, is probably mostly a good microeconomic bet for individual workers who can afford it. However, from a macroeconomic perspective it involves turning away a part of workers’ salary spending from bakers, butchers, farmers, clothes manufacturers, shopkeepers, alehouse owners, car-manufacturer, education, vacation, household and consumer electronics, etc. to payments for the new dwelling, whether as a purchase price or as interest. If the dwelling is newly built, then this only applies to the land component of the purchase price plus the interest paid on this component; if an old, pre-existing dwelling is purchased, it applies to the whole purchase price plus the whole interest paid (in each case, as always, after carve-outs). On the other side, workers save sterile rent payments as soon as they move into their new home. The aggregate macroeconomic effect will depend on

15 Such programs often lead to unsound financial practices and speculation, e.g., in the US-Savings and Loan crisis of the eighties and the US-subprime loan crises of 2007, when banks, real estate developers, construction firms, etc., and workers colluded in generating new credit. It cannot be denied, though, that the – ultimately prosthetic – activity had significant employment effect in the construction industry.

the relative price level of the different markets, but the sterile component of salary spending does neither dissolve nor is there a first-hand guaranty that it the percentage of sterile spending of workers' salaries will fall underneath the percentage in the situation in which workers paid rent. State support to finance workers' dwellings may, thus, sometimes even mean that overall sterile spending by workers is macroeconomically increased (with a share wandering from landlords' pockets to bankers' pockets). In any event, there is a hefty entrance fee for workers to join the club of homeowners,¹⁶ which reduces their overall employment-generating spending over the medium term. In the long term, after debt service has come to an end, it will, of course, enable workers to raise the share of their employment-generating spending once again.

Workers also make sterile spending following *non-real-estate-consumer loans*. In the early times of capitalism, workers were ineligible for loans from banks in general (occasionally they obtained non-real-estate-debt from loan sharks, but that was small scale), and had no interest whatsoever to pay to banks. However, since the 20th century, in particular after World War II, banks have offered to debt-finance cars, motorcycles, durable consumer goods, electronics, and even computers and mobile phones for workers, their spouses, or their kids. Interest rates are higher than for real-estate-loans as no collateral nearly as good as dwellings can be offered. Nowadays, renting-out or leasing-out has become a highly important distribution channel for such goods, particularly in the automobile industry (where insured cars work rather well as collateral); accordingly, in addition to the largely employment-generating spending of purchase-prices to the manufacturing capitalist, workers also pay significant sterile components to sterile wealth owners for the benefit of using the good earlier.

Educational loans have become extremely important in countries in which higher education and universities are privatized and in which (often outrageous) fees are demanded; here education is mostly subjected to M–C–M'-operations. Attempting to debt-finance these fees for their kids is a moment in the survival battles of former middle classes and in the social advancement dreams of gifted and ambitious members of the working class.¹⁷ The fees of schools and universities are largely em-

16 If a worker buys a small house in the countryside or a modest apartment in a suburb of a city for around EUR 100,000 and takes out an annuity loan in this amount with the interest fixed at 4 % over 30 years and an initial annual repayment of 1 %, then he will have to pay interest in an amount of over EUR 70,000 until he owns his dwelling debt free.

17 The question is not whether privatized education is generally "better" than state-run education or a deplorable thing in general. This dispute, though, is certainly not settled in favor of privatization with the argument that top private US, UK, etc. universities can hire the crème of international scientists today and have more Nobel laureates etc. E.g., Germany, in the "Kaiserreich" from 1871 to 1914 set up a state university system with a worldwide reputation, out of which many leading theoreticians of relativity theory, quantum theory,

ployment-generating spending, but the interest paid on loans to finance these fees is largely not. The amounts of money withdrawn from the productive economy are also significant. Even worse, an increasing number of worker families finance their sheer subsistence for the present month by *subsistence debt*. I.e., they spend their expected wage incomes from a few months down the line with a *credit card*, *short term* or an *over-draft loan*. One more time, the wealth economy has managed to tighten its grasp on the available spending of workers, which macroeconomically further reduces the spending of workers in the productive economy. All this results in not even all amounts of the workers' salaries being fully circuited back into the productive economy.

A sterile part of firms' profits

The third and final drain into the wealth economy consists of the sterile spending of a part of business profits ($M'-M$). We have already seen that firms, which engage in productive investment, cannot avoid paying "tributes" to the sterile economy in the form of rent or interest payments or payments of purchase prices for pre-existing old assets. We saw them do this as part of their *c*-outlays, which ignited a circuit. Now we can see them doing it again, a few steps later down the road, *out of the profits* at the end of the circuit. This drain takes three forms: hoarding by wealth owners, sterile investment by wealth owners, or sterile consumption by wealth owners. In all three cases, the productive profits $M'-M$ arrived, as part of employment-generating spending of others, through employment-generating ports of wealth owners and were intermingled with already existing sterile wealth and incoming sterile revenues. This transformation of profit from formerly employment-generating revenues ($M'-M$), does not have to involve a legal or microeconomic payment; it is, in particular, not necessary to turn business profits $M'-M$ into dividends, declare dividends, and distribute them "physically" to sterile wealth owners, even though this is what normally happens. *Rather, the business profits $M'-M$ collected become automatically macroeconomically sterile if they are not re-used for productive investment, i.e., if they are not re-dispatched again, via the investive departure port or via the consumptive departure port, to other firms' employment-generating arrival ports or to workers.* It does not matter either whether these profits remain on deposit accounts of firms, which is quite unlikely, whether they are transferred to accounts of holding companies or family offices, or whether, which is far more likely, they are re-invested in bonds, stock, including own shares, derivatives or real estate, whatever the firm's treasury deems best. If pre-existing luxurious city apartments or countryside homes are purchased for consump-

and in other sciences emerged. Even the universities of the USSR, which were also state-run, do not appear to have been so bad in general.

tive pleasure, the use of the profits is also sterile for the time being.¹⁸ Profits re-enter the productive economy only if they are, indeed, re-used for employment-generating spending, productive consumption, or productive investment.

Deficient re-flows into the productive economy

Deficient consumptive employment-generating spending by wealth owners

Quesnay and Malthus held wealth owners dear. If they were, as Quesnay wrote, “utiles à l’État que... par leur consommation”,¹⁹ then *they were at least that* – and in significant volumes! Wealth owners certainly consume more and better, even “productively”, than non-wealth owners. Historically, the old feudal classes were new-born capitalism’s beginner’s luck. Consumption-oriented and decadent as they were, they did not change their habits alongside the decaying of their position, but instead celebrated on the sinking ship and often spent their left-over wealth into exhaustion (as, e.g., Chekhov’s plays show). Wealth owner’s consumption is, quite advantageously for the economy, normally not affected by normal cyclical economic ups and downs of the productive economy to a significant degree.²⁰ Even if the economy shrinks, they mostly still draw sufficient incomes from interest, rent, dividends, and capital gains to maintain their living standard, without even diminishing their wealth stock much. Only a historically extreme decay will materially affect their consumptive employment-generating spending, e.g., the end of the Greek poleis, the fall of the Roman Empire, failures of major states, decades of civil war and anomy, such as in the Warring States period or the many other interregnums in Chinese history or the Thirty Years War in Europe. This list also

18 Obviously, there is no sharp and stable line between consumptive spending and investive spending by the purchase of pre-existing old assets. Wealth owners can always change their minds freely.

19 Even if Quesnay added a “que” (only): “...les propriétaires sont utiles à l’État que par leur consommation” – proprietors are useful to the state only through their consumption –, see *Quesnay* (cited in *Cartelier* (2008) page 36). This statement is not only of great importance macroeconomically, but also remarkable regarding the ideological situation in France forty years before the French Revolution: You could obviously tell your prince (Louis XV), to whom Quesnay gave his tableau, that he was utterly useless (except for in terms of his consumption), but the prince would swallow this... The explanation could be that a dynastic legitimization of government, which was principally independent of making a functional contribution, was still largely intact. Look at Quesnay and the claim, which another, albeit smaller, absolutistic sovereign raised at the same time (Frederick the Great of Prussia declared himself as “first servant” of the state), and you can see the shadow of the guillotine.

20 As an ex-partner of my law firm, who used to be invited to dine with a well-known German wealthy family as a student, reported, if the stock market went down, they would immediately only serve margarine instead of butter. However, that was probably only a nice symbolic signal.

includes the aforementioned decay of the feudal nobility, which in Germany ended in the massive degradation and expropriation of its remnants (and significant parts of other traditional wealth owners) in the great inflation after World War I, which “wiped out the pre-war German Bonds”.²¹

What sets limits to the absolute contribution of wealth owners’ consumption to employment-generating spending, though, remains their *low absolute number*. They are simply too few and have too little aggregate belly space and time for greater employment-generating consumptive spending. Quesnay’s tableau was not only wrong in the assumption that wealth owners would spend their circuit income (i) completely (ii) on consumption (iii) in the productive economy, he was also wrong in his estimation of wealth owners’ consumption being 2/5 of the annual net produce; it is much less than that, at least today, and *far too low to save the day*.

Deficient investive spending by wealth owners

As soon as any value-in-exchange arrives in the wealth economy, it gets completely intermingled with the value-in-exchange, which is already there. The issue is solely about whether the *same amount* travels back. Circuit closure would require that the drains, from the productive economy into the wealth economy, are fully recovered by new employment-generating spending – but this does not normally happen. Once value-in-exchange has arrived in the wealth economy, it will only return after wealth owners have made a positive decision to re-channel it back into the productive economy by new employment-generating consumptive or by new employment-generating investive spending. In Quesnay’s tableau, cl. des propriétaires received livres 2 bn. from the cl. productive and re-channeled this full amount into the productive economy.²² They did what was macroeconomically necessary for circuit closure without Quesnay telling us why they did it. In reality, though, wealth owners have mostly not acted like that, and, in fact, *they have good reasons to refrain from reinvesting in the productive economy*.

Since profit economies exist, sterile wealth was primary. Wealth owners were sitting on massive amounts of wealth, of which they only put a small part to productive use. Wealth owners have retained this habit, even in modern capitalism. In particular, they have a bias for land. Land, as the premier non-produced good, existed prior to the beginning of human production and all successful wealth generators, either by violence or by exchange, Sparta’s and Athens’ ruling elites, Chinese emperors, the Roman patricians, equites and, if successful enough, even plebeians, merchants of the Han, T’ang and Ming dynasty, Islamic merchants since Mohammed, Christian merchant adventurers and feudal lords of the Middle Ages, the Medici, Fugger

21 Graham/Dodd, Security analysis, 5th ed., photographic reproduction of 1st ed. page 7.

22 Livres 1 bn. to cl. productive and livres 1 bn. to what Quesnay falsely called cl. stérile, which was actually quite productive.

and the Rothschilds, today's new-economy-stars, narco-traffickers, and successful lawyers, *always* desired and desire to possess real estate. Their prime interest goes to land and buildings in privileged urban or countryside locations, villas, castles, chateaux, etc. but the interest also goes to land that is usable for pasture, farming, hunting, foresting, vineyards, or the mining of copper, tin, clay, iron, gold, silver, diamonds, jade, jewels and so forth. Indeed, wealth owners are even eager to own low-income apartment houses ("slum lording"). It is true that those successful in profit economies and capitalism, especially the "nouveaux riches", also desire to purchase *new* houses, new weapons (more so in the old days), new coaches, cars, airplanes and yachts and new furniture, clothing, electronics, and a lot of services, etc., but they never exchange their profits against such new produce in full. *Those who profit most from the production of new goods will spend most of their profits not on buying others' new production, but on buying what has long been there, from nature or previous generations' work.* The winners of the productive economy take their booty and walk away with it *without* caring about whether their fellow current producers are able to sell the M'-M-part of their produce. As they become successful, they become conservative and shift large chunks of their profits into the less thrilling or boring wealth economy; you might say that they are like narcotrafficker who do not consume their drugs themselves. There was and there is a general "propensity" to withdraw wealth from productive to sterile uses.

So far we have described this propensity as a fact only. Most unfortunately, though, the propensity is not only a nonsensical romantic remnant from the past, but it is based on hard microeconomic rationales. Keynes construed his "inducement to invest" as a battle of forces competing for entrepreneurs' investment. He quantified this battle of forces as a ratio between adverse "attraction-powers" on the entrepreneur's money. In the *General Theory*, in particular, the "inducement to invest" thence became a *fraction* between the marginal efficiency of capital (m.e.c.) of a considered investment in the numerator and the interest rate in the denominator. The *General Theory* not only left the issue of what kind of investment was to generate Keynes' m.e.c. unspecified (he saw it as beneficial without applying a more-than-intuitive distinction between productive and sterile) and, furthermore, impoverished the alternatives for the entrepreneur to one single form of sterile investment (lending out available money or buying a bond in this amount to draw market interest).²³ In the *Viner-Rebuttal*, Keynes extended the denominator to include the

23 This use of interest in the "inducement to invest" gained power by Keynes introducing a novel theory of interest. He abolished the "classical theory" that interest rates would necessarily fall in a depression and automatically initiate a recovery. Instead, he derived the interest rate from uncertainty and liquidity preference. However, uncertainty and liquidity preference would, as Keynes found, *rise* in a slump and *raise* interest rates (exactly the opposite of what the "classical theory" had held) and disfavor investments in the productive

purchasing of whatever pre-existing, old assets, the new production of which was considered in the numerator.

Two further amendments are necessary in order to combine Keynes' approach with our distinction between the wealth economy and the sterile economy: On the top-side of the fraction, the *numerator* has to be *narrowed down* so that *productive economy investments* are considered *exclusively*. On the bottom-side, to the contrary, the *denominator* must be extended beyond not only debt investment through new loans or bonds or the purchase of pre-existing loans and bonds, but to include *all* sterile investments (hence, apart from loans, debt, pre-existing productive assets also naked land, gold, antiques, art, crypto, etc.). Only then will the numerator truly exclusively target productive investments and the denominator will encompass all competing sterile alternative investments.²⁴ Hence, Keynes' "inducement to invest" ought to be re-formulated into an "*inducement to firms' employment-generating investive spending*" to describe the conditions under which productive wealth owners will, in fact, macroeconomically "pay back" the tributes to the sterile economy and their profits into the productive economy. It will tell us that they will only re-invest tributes and profits (or invest the same amounts from other sources), provided that these productive investments promise to be *more profitable than the alternative sterile investments*.²⁵

There is, of course, no general iron rule, which always gives an advantage to sterile economy investments. Yet, a few circumstances work to often tilt the decision in

economy even further. This aspect is secondary for the progression of this argument. See on page 292 et seq.

- 24 Keynes' imprecisely targeted terms obviously miss the purpose of his "inducement to invest". E.g., in a real estate or stock boom, sterile investment in these assets promises a significant return on investment and a high m.e.c., which, particularly if bond markets are booming simultaneously and showing ultralow interest rates; this will mathematically lead to a strong "inducement to invest", but only trigger sterile investments without employment effect. Keynes' unspecific term of "investment" even "sells" FOREX-speculation as beneficial. E.g., George Soros writes: "...keeping capital in liquid form in an appreciating currency is more rewarding than investing it in physical assets." (Soros (2003) page 82).
- 25 As an intuitive illustration from our times: Are we could observe in more than a decade after 2008, living in a world in which money interest rates are close to zero, does not mean that the productive economy goes crazy with new investment. Have great parts of Africa rushed forward into the computer age or at least industrial age in this decade? Has mankind invested in erecting settlements on the moon? Alternatively, do we not instead have to state that a significant part of infrastructure of even the most developed countries, from J.F.K-airport and US-highways, as Larry Summers does not tire to point out, and hundreds of bridges of private highway-operators in Italy etc. are close to falling apart? And have we not also lived through a decade of corporate stock repurchase programs, proving that the most successful corporations do not know how to apply their huge reserves in *new* productive investment? While low interest rates would have suggested tremendous investment activities under Keynes' "inducement to invest", that is not what happened, at least not in the productive economy.

favor of the sterile investments. The productive economy, indeed, is a *hostile habitat of fierce competition* for customers' (employment-generating) spending as well as for cheap supplies. Firms need a *competitive advantage* in order to succeed, which has mostly to come out better and cheaper products, or good luck, often both of them. In the productive economy, products compete against other products for scarce readiness to make money sacrifices, which will keep many circuits from closing. Accordingly, an excess of profit-seeking capital will push the profit rates in the productive economy down and a significant share of investors will end up with revenues which are not worth the effort. Or they may even be net losers. Ultimately demand, employment-generating spending, is limited as it depends on consumptive spending in the final instance, which is limited, as far as esoteric demand and values-in-use are concerned, by numbers of people and their needs and desires, and, worse, as far as effective demand and values-in-exchange are concerned, by available incomes. We are in the world, which Adam Smith so much praised for necessitating firms to fall to their knees in serving their customers. The power behind this discipline, as we have seen, stems from a game of "musical chairs" or a "journey to Jerusalem". Firms in the productive economy each sit on a chair, music swells, and the firms have to raise themselves and wander around and seek new customers and supplier (i.e., new chairs). However, one chair is taken away after every iteration, and when the music stops one firm will not find enough customers and a systematic under-complementarity is created. The productive economy's game, thus, requires keen monitoring, attentiveness, quickness, determination, skill, and sometimes recklessness. This is a world of mostly *negative* feedback. The more products firms carry to market, the relatively fewer chairs there are, which will push down prices and still leave produce unsold. This situation needs Schumpeterian entrepreneurs, men like the merchant heroes of the Middle Ages, inventors or the 18th and 19th century, technological and conceptual innovators, who certainly do deserve our admiration – *but this Darwinian-Smithian survival of the fittest only is bad for the numerator of the fraction...*

Now, consider the world of the *wealth economy*. Here, just the opposite is true. The theoretically limitless demand for profit drives the demand for wealth investments. The wealth economy has the pleasant capacity that *the more money enters, the more prices go up also for positions you hold already*. More competition for assets creates – via benevolent *positive* feedback – bubbles and capital gains across the market.²⁶ Consumers with limited esoteric demand or with esoteric demand but without money, on the

26 Even the risk add-ons to discount rates for productive economy investments are normally higher than in the wealth economy, which also lowers the present values of productive investments compared to wealth investments. Thus, the *capital asset pricing model* (CAPM) will often support the wealth economy via the lower Betas that it normally applies to wealth investments; they help to outcompete investments in the productive economy.

other hand, are no factor. In the productive economy, the quest for profit of competitors, bids down prices and profits; the more productive wealth owners, via their firms, engage in transactions (at a given level of demand), by selling products, the lower prices fall. In the wealth economy, the more sterile wealth owners engage in transactions (at a given level of demand), by buying and holding assets, the higher prices rise. The more investors sell in the productive economy, the more the lesson becomes for most players: “You should no longer be here!”, the more investors sell in the productive economy, the more the lesson becomes: “Be here big!”. The productive economy rewards exquisite selections and original first movers, the wealth economy rewards cowards and herd behavior.²⁷

In summary: By hosting M–C–M’ and allowing it to take control, the economic system not only invited capitalism to seek profit in an often socially benevolent, at least growth and productivity generating, way within the productive economy, but also to seek profit *everywhere* in its reach – and capitalists found out quickly that the wealth economy is an awesome place to make money without production. Ultimately, *this* is the main reason for the net outflow of wealth from the productive into the wealth economy and why the general possibility of circuit closure in capitalism does not materialize. The attractive possibility of “opting-out” of the productive economy spoils the generally existing possibility of a closure of circuits of the productive economy and triggers deficient productive spending.

If we return to the debate in a fictive original assembly, regarding inviting capitalism into existence, we might hear an opponent of capitalism making a point in this regard. “I know”, he might say, “capitalism can, much more fervently than mere natural consumptive motives, push value-in-use production... But capitalist investment always goes where the highest profits are, and if it is lured outside of value-in-use production, the investment will go there, become sterile, and betray production.” The speaker might also make his final point: “The more capitalism turns everything upside down, the more it will make non-winners, and the more of them are around, the less it can rely on their employment-generating spending and the more it will depend on the spending of the winners itself. They, however, march into the sterile economy”.

Section 3. The deficient-productive-spending-syndrome

The deficient-productive-spending-syndrome, accordingly, is a corollary of three insights. The first is that circuit closure would only be possible, if capitalist productive

27 In the wealth economy, you only need to go against the trend in the very last moment before the herd changes course too. See *George Soros* in footnote 26 on page 51.