

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.

firms were to reinvest their profits ($M'-M$) fully in the productive economy. The second insight is that, in addition, wealth owners ought to reinvest the different “tributes” (as explained above) they levy on the productive economy into the productive economy. The third insight is that there are strong reasons for wealth owners neither do the first nor to do the second.

Because of this, deficient employment-generating spending comes out of the deep-structural heart-beat-level of the capitalist economy. It is real, self-made, has its origins in capitalist circulation (not “production”), and is, in fact, ultimately only an aspect, which logically arises out of the profit motive of capitalism, i.e., of $M-C-M'$, itself. Capitalism, in order to satisfy the profit motive has to absorb more value-in-exchange from circulation than it returns. Capitalism is, thus, inherently incomplete. It is like a slot machine that is programmed to pay out more than players throw into it. It needs somebody else to refill it. It is parasitic, yes, it is even vampire-like and needs fresh blood from the outside all the time.

While this character is hidden, it is still the final reason why the dynamics in the productive economy of profit economies often change from powerfully pushing towards more, better, and more efficient production and technological innovation to depression. Firms that anticipate that they will fail to close ongoing productive circuits avoid the initiation of new circuits in the first place. Not all firms give up all new circuits, but certainly *the less successful firms give up the less promising circuits*. Like in Malthus' population theory, competitive advantage *only distributes the unavoidable outfall* between different firms and decides on the primary victims of the depressing effects, but does not cause the outfall as such. The deficient-productive-spending-syndrome, conversely, does not dis-enable winner-firms – many well-known large firms amongst them – from showing tremendous success and touching tremendous profits down over centuries. The trouble allocates itself into the shadows of the less lucky or poorly managed firms that over-proportionally run out of employment-generating spending, shrink, underinvest, under-employ or even go bust. Even if all firms could perfectly target their products to esoteric consumer demand, if their products would all be of equal quality, if the buyers would intentionally place their purchases in a manner that a proper share of revenues accrues to all firms (or if a huge cartel, oligopoly, monopoly, or the state, including with perfect knowledge, would steer everything), employment-generating spending ought nevertheless to remain insufficient.

If we take the a Quesnayian world as an ideal starting point of a healthy economy, and if we view capitalist employment-generating spending as an *organic function* to supply the money needed for the purchases at the closing leg of the circuits,²⁸ then we will have to assess this organic function – in a medical term – as “hypo” and to

28 Of course, capitalism is *not* such a system with the built-in purpose of creating demand for profitable production and *no* machine with feedback-steering to secure such demand.

call capitalism itself “*hypo-spending*”. Alternatively, we might call capitalism’s ill as “*hyper-collecting*”. The structurally given hypo-generation of employment-generating spending or hyper-collecting of revenues is the elementary antinomy of capitalism. It creates the deficient-productive-spending-syndrome. Stocks of pre-existing wealth initially mitigate things, as savings or inheritances do on the level of individuals. However, after the reserves are used up, iron will hit iron, and firms will anticipate that by lowering investment; this anticipation creeps back from circulation to depress production unless employment-generating prosthetic spending are added.

In principle, the purpose of this book is to lay out its propositions but not to give an overview on the views of mainstreams economics competing with or relevant for these propositions. Like we have briefly related the book’s general theoretical approach to the approach of mainstreams economics in the Foreword, it may, yet, still be worthwhile to look at parallels and differences between the views, which we have now presented as the deficient-productive-spending-syndrome, and beliefs of mainstreams economics on the subject. We shall do this by looking at commentaries written in the *Financial Time* by one of the leading economics journalists of the world, *Martin Wolf*, in the last decade. Since the financial crisis of 2008, he has particularly reflected on deficient demand, deficient investment and deficient growth from almost all possible angles.

First, it is to be noted that the factual observations behind deficient employment-generating-spending are nearly uncontroversial. Hence, *Wolf*, too, observes in utter clarity and directness: “The principal high-income economies – the US, the eurozone, Japan, and the UK – have been suffering from ‘chronic demand deficiency syndrome’”. “More precisely”, *Wolf* goes on, “their private sectors have failed to spend enough to bring output close to its potential without the inducements of ultra-aggressive monetary policies, large fiscal deficits or both”. This factual statement is uncontentious.

Second, while most mainstreams economists would likely want to dispute our three above-mentioned insights, there is, in fact, no clear theoretical controversy either. Even *Wolf*, although he is bitterly aware of the relevance of the subject, makes no serious effort to offer anything, which could claim to coherently explain the reasons for his impeccable observation. Mainstreams economics is rather earmarked by a certain non-theory, a *theoretical hole*, at the place, where the subject ought to be dealt with. At best we find *traces of an eclectic multifactorial theory*, yet even without stating what the relevant factors are exactly supposed to be and how they are supposed to work together. Furthermore, like already Keynes had somewhere broken away from a theoretical analysis of deficient investment in favor of policy recipes, *Wolf*, too,

mostly lets his theoretical explanations of the fact for deficient demand only appear implied in policy recommendations. For example, *Wolf* suggests: (i) “to distribute incomes from savers to spenders” – the theoretical implication is that it would be good for employment-generating spending if spenders, i.e., poorer classes and the state, had more money available. Or he suggests (ii) “unproductive savings should be discouraged” – the theoretical implication is that it would be good for relevant demand to redistribute spending from the sterile into the productive economy.²⁹ In a connected commentary *Wolf* gives three further explanations “of such weak demand”, (iii) the “post-crisis overhang of private debt” after the financial crisis of 2008, (iv) that the pre-crisis demand was “unsustainable, because it relied on huge accumulations of private and public debt” and (v) “a slowdown in potential growth due to some combination of demographic changes, slowing rises in productivity and weak investment”.³⁰ *Wolf*’s explanation (iii) refers to a specific historic episode only and does not even attempt to explain this episode; it also, remarkably, only uses *consequences of prosthetics applied in this episode* to explain the present lack of demand. Explanation (iv), too, does not attempt to explain deficient demand out of “original” capitalism, but explains it with a medicine being taken away (as we shall observe the exhaustion of prosthetics in Book IV of this book). Insofar as *Wolf*’s explanation (v) refers to “weak investment”, it is, thus, no explanation at all but only a restatement of the fact of deficient investment demand. What is left over is an unclear combination of unclear observations (demographic changes, slowing rises in productivity) without any specifications; there is, thus, no serious explanation given.

In other articles, while repeating the aging of societies, *Wolf* also mentions (vi) globalization and the (vii) relocation of investment from the high-income to other countries, and (viii) investment being in IT and other intangibles (generating less employment).³¹ The last point appears to be the most plausible at first sight, yet at the price that it restates the argument of the Luddites of the 19th century, which, most certainly, *Wolf* would generally not want to buy. Or does he believe that increases in productivity per se trigger unemployment? Probably not. In fact, should not the worker relieved from their prior jobs by IT and other intangibles-investments find new employment in, e.g., rendering services to those who draw higher salaries (v) or profits (M'-M) thanks to these IT and intangibles-investments? As that may ever be, most certainly *Wolf* does not give a theory of why, while what the Luddites argued

29 *Wolf*, Radical cures for unusual ills, in: *Financial Times* of 26 November 2014. Of course, *Wolf* does not possess and not use the distinction between a productive and a sterile economy.

30 *Wolf*, The curse of weak global demand, in: *Financial Times* of 19 November 2014.

31 *Wolf*, The corporate contribution to the savings glut, in: *Financial Times* of 18 November 2015 and *Wolf*, Challenges of a disembodied economy, in: *Financial Times* of 29 November 2017.

in regard of physical machinery in the 19th century was wrong, it is now right with regard to IT and intangibles (or where the borderline runs).³²

Wolf also deals with the question of investment demand and states (ix) a “glut of savings relative to investment opportunities”.³³ The same statement comes from his FT-colleague *Gemma Tetlow* who pronounces the “FT verdict” that “...a lack of worthwhile investments... must be playing a greater role in deterring companies from more capital spending”. But why are there not enough worthwhile “investment opportunities”,³⁴ meaning sufficiently profitable investment opportunities? This is so, in part again, because there is not enough investment demand, but also because there is not enough consumption demand (in our understanding only productive, employment-generating consumption demand would matter). But why is there not enough (productive) consumption demand? Wolf often argues with “inequality” or “rising inequality”.³⁵ “There is no powerful reason”, Wolf writes, “to expect income inequality, the fundamental driver of today’s excess savings, to reverse...”.³⁶ This mirrors Keynes argument of a falling propensity to consume with rising income,³⁷ which points into the right direction: Workers would consume more if they had higher incomes. Wolf, being in favor of less inequality, e.g., to generate more helpful demand, cannot possibly accept (x) “labour market reforms”, also called “structural reforms”, e.g., as implemented by the “Hartz-reforms” in Germany in the early 2000s, as inductive to more aggregate demand (meaning employment-generating, productive spending). While such reforms, which Germany and the EU also recommended to Greece and Spain etc. will lower the costs of labor, “the one thing those reforms did not do”, Wolf rightly notes, “is create dynamic aggregate demand”.³⁸ Labor market reforms only put certain countries, where they are applied, e.g., “the world’s structural mercantilists: China, Germany and Japan”,³⁹ in an (even) stronger competitive position, but are no general solution.

All in all, Wolf’s argument regarding inequality is not only too unspecific, but also only this lack of specification allows Wolf to maintain the argument at all: If

32 We shall not conceal that, as “intangibles” encompass monopoly rights, which are sterile assets, we would even agree with Wolf if he meant that spending on intangibles as *sterile assets* is sucking away spending from the productive economy. (But he does not say so).

33 Wolf, Negative rates are a symptom of our ills, in: *Financial Times* of 15 April 2016.

34 Tetlow, Theories behind productivity woes range from tech troubles to zombies, in: *Financial Times* of 23 October 2016.

35 Wolf, Monetary policy has run its course, in: *Financial Times* of 13 March 2019.

36 Wolf, Inequality is behind central bank dilemma, in: *Financial Times* of 22 September 2021.

37 See on page 293.

38 Wolf, Reform alone is no solution for the eurozone, in: *Financial Times* of 22 October 2014.

39 Wolf, Trump’s false promises to his supporters, in: *Financial Times* of 16 November 2016; see also Wolf, Germany is the eurozone’s biggest problem, in: *Financial Times* of 11 May 2015.

Wolf specified the argument, he ought to say that such an increase of workers income was needed as to allow them, in the worldwide aggregate, to “re”-purchase products from capitalists in the amount of at least v (which would imply that they are relieved of any sterile spending) and that capitalists too are relieved of such need of sterile spending and, furthermore, only make productive, employment-generating spending out of their $M'-M$, which is impossible. Or: generating the employment-generating spending needed to close the circuits would require capitalists to wholly or largely waive profits – but then they would no longer be incentivized to employ workers at all.... Thus, the mentioning of income inequality as cause for deficient consumptive demand, while pointing to the right direction (and while showing a social awareness of Wolf), is, ultimately, a naïve reference to a wasp nest: If it was taken seriously and thought through, it would end up in the abolishment of capitalism.

We close this section with a somewhat complicated quotation from *Arvind Subramanian*, which, if properly disentangled, admits that circuit closure is impossible if capitalist circuits are left to operate following the original capitalist logic. *Subramanian* summarizes the views of the adherents of the secular stagnation hypothesis as follows: “...the essence of the macro-dilemma”, he writes, “is that the equilibrium real rate of interest – the real rate of return required to keep the economy’s output equal to potential output – has turned significantly negative, while nominal policy rates cannot be reduced much below zero”. To repeat: *Subramanian* is saying, that the *equilibrium real rate of interest*, the real rate of return required to keep the economy’s output equal to potential output, has turned “significantly negative”! In other words, he says that for circuits to close, real interest rates (after inflation) must be below zero. That, though, is *to admit that output cannot reach potential output*, unless the *unfulfillable* condition is met that somebody provides money to capitalists *instead* of normal profits, which they cannot gain out of their circuits. Yet, there is nobody in “original capitalism” who would make such money-presents to people to induce them to buy the output (including by loaning money to them, for which they have, after inflation, less to return than they received). Another way to read the quotation would be that as long as the logic of property, wealth accumulation and profit ($M-C-M'$) prevails, there is no realistic possibility for capitalist circuits to close – as nobody will pay free lunches to others.⁴⁰ This, of course, is a near-mathematical reformulation of the results of the deficient-productive-spending syndrome and almost leads over to prosthetics. Before we go there, we shall, yet, acknowledge that the deficient-productive-spending-syndrome does not exclude the existence of secondary economic dynamics aside itself.

40 *Subramanian*, Secular stagnation's era may be drawing to close, in: *Financial Times* of 1 July 2021.