

# International Journal of Political Economy

Vol. 38, No. 1

Spring 2009

## **Too Big to Bail: The “Paulson Put,” Presidential Politics, and the Global Financial Meltdown**

PART I: FROM SHADOW FINANCIAL SYSTEM TO SHADOW BAILOUT

Thomas Ferguson and Robert Johnson

## **The Role of the State and Harrod’s *Economic Dynamics***

TOWARD A NEW POLICY AGENDA?

Jamee K. Moudud

## **Expectation, Financing, and Payment of Nonmarket Production**

TOWARD A NEW POLITICAL ECONOMY

Jean-Marie Harribey

## **The Nature of Government Finance in Brazil**

Felipe Carvalho de Rezende

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**Expectation, Financing and Payment of Nonmarket Production :  
Towards a New Political Economy**

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*International Journal of Political Economy*  
**Vol. 38, N° 1, Spring 2009, p. 58-80**

**Abstract**

We try to show that non-marketable services have a non-market monetary value which is not extracted from the private sector and redirected to the public sector but produced by the latter. Work done in non-marketable services is not exchanged for capital, nor is it exchanged for levied income. Instead, it is exchanged for income that is produced following a collective decision on the expectation of collective needs. Monetary financing is necessary to start up both capitalist activity and public activity. We can therefore distinguish expectation of production, financing of production and payment of production. They are three moments of the dynamic process of production. Thus, it is possible to formulate a political economy of the decommodification of the society.

**Key-words**

Expectation, Financing, Keynes, Marx, Monetary Value, Non-Market Production, Value.

## Introduction

The legitimacy of non-marketable services encounters difficulties both within neoclassical economic theory — of whichever variant — and within traditional Marxist theory.

Within neoclassical theory, the idea that non-commercial public sector activity is parasitic on private sector marketable activity holds sway. According to this theory, agents find themselves limited by this public sector activity, through a crowding-out effect via a rise in interest rates. The normative consequence of this approach is to constrain monetary policy, in particular by prohibiting the monetisation of public deficits, thus obliging governments to borrow on the financial markets.

The rediscovery of increasing returns and positive externalities has allowed the neoclassical edifice to become more realistic, with the arrival of the theory of endogenous growth. State intervention is now considered necessary for the provision of education (a public benefit intended to be non-exclusive and exempt from competition). But this renewal has not gone as far as challenging the dogma that it is the private sector which finances the public sector.

Within Marxist theory, a firm conviction concerning the non-productive nature of workers in non-marketable services, or sometimes in all service sectors, is solidly established. These workers are thought to be financed by part of the capitalists' surplus value. In this theoretical context, it is impossible to conceptualize the de-commodification of these services, since the non-commodity is dependent on the existence of the commodity.

True, in Keynesian theory we have an initial refutation of these beliefs. In a situation of underemployment, State expenditures set off a multiplying effect because of the existence of a marginal propensity to consume, measured between zero and one — a propensity which is stronger for lower income earners. Moreover, according to Haavelmo's (1945) theory, such intervention is beneficial even if the additional public spending comes from a balanced budget.

However this refutation seems to us now to be insufficient, given the massive influence of neoclassical theory which has succeeded, over the last thirty years, in imposing the dogma that the tax burden is too high. The refutation needs to be completed by an approach which elucidates the relationship between the expectation of collective needs and the financing of non-marketable production (a financing which we consider as distinct from the payment for such production).

We wish to demonstrate that the work done in the non-marketable services sector does produce monetary use values but does not produce value for capital, and therefore that the workers who are employed in this sector do create the income which pays them. In other words, we maintain that taxes and charges are not taken away from something already existing, but from an Aggregate Product which already includes non-marketable production. Our argument is based on a generalization of the Keynesian concept of expectation, applied in this case to the public sector decision to initiate non-marketable production.

Further, some monetary creation is necessary in order to set off the economic dynamic of production, fundamentally a capitalist dynamic. But the growth of non-marketable services also requires monetary creation. This creation can in theory take two forms. It can take a direct form: the financing of public deficits in advance by the Central Bank to the Treasury. Or it can take an indirect form: loans from capitalists through the banking system so as to buy Treasury bonds. In the case where it is a matter of developing the non-commercial sector, it is logically impossible that this expansion be financed by previous saving.

The consequence of this is that any "extended reproduction", be it capitalist or non-marketable, demands initial monetary financing. Hence it is useful to distinguish the prior financing of non-marketable production from its subsequent payment. The financing is not of a different nature to that of capitalist production but, in the case of non-marketable production, the payment is socialized and not private. Taxes do not *finance* non-marketable production, they *pay for* it. "Mandatory levies" represent in reality the socialized cost of the education service, the health service, the judicial system and so on. In these areas, the demand for return on capital does not intervene, and so conventionally we say that the net value added is equal to the wages paid out by these sectors. In the first section of this article we will go over the most important elements of the arguments about the productive nature of work in the non-commercial service sector. The second section will offer a formulation of how the macroeconomic circuit achieves its full circle, due in part to a monetary funding of marketable and

non-marketable production. The third section will define the formation of *expectation*, the *financing* and *payment* as three stages in the process of production and reproduction of the economy.

## 1. Wealth Production in Non-Marketable Services

The objective here is to re-examine the concept of productive labor and the framework within which the concept can be used, and subsequently to see how this re-examination is controversial.

### 1.1 Reconsidering the concept of productive labor

The definition of productive labor only makes sense relative to dominant social relations. So Marx's distinction between the labor process in general and the capitalist labor process remains fully relevant in differentiating labor which produces use value and labor which produces value and surplus value for capital.<sup>1</sup> Within the capitalist mode of production, most use values appear in monetary form, but some are marketable and others are not. The traditional viewpoint according to which, in neoliberal terms, the State takes part of the fruit of private sector activity to then finance collective spending, or, in orthodox Marxist terms, the State takes a part of the surplus value produced by salaried workers in the capitalist sector, leads us to a logical dead-end. A "limit case" reasoning will allow us to update this analysis (see below). We intend to demonstrate that, when collective needs are anticipated, the employed labor that is concerned with filling these needs produces desired use values, and also produces their non-marketable monetary value and the associated distributed income.

Let us summarize the functioning of the capitalist economy in the following manner. Productive forces are divided between a capitalist sector producing means of production and consumer goods, and a non-commercial sector producing collective (or public) services. Let us take for granted for the moment the traditional viewpoint: the State takes away a part of the fruit of private sector activity to then finance collective spending. If one part of the surplus value is to be taken away, it follows that the whole of the surplus value must already have been realized, that is to say it must already have taken on the form of money profit.

We know, however, that money profit cannot emerge, from a macroeconomic point of view, simply on the basis of monetary advances from capitalists. This contradiction is only overcome by the existence of a banking system which, through monetary creation, advances the profit of the capitalist productive system, thereby allowing the realization of surplus value at the macroeconomic level and bringing about the accumulation of capital.<sup>2</sup> Here we find a common idea to that of Marx (1968a), Luxemburg (1972), Keynes (1969) and Schumpeter (1934). It can be shown that extended reproduction from one period to another does take place if the creation of money by the central bank is superior to the hoarding by households.<sup>3</sup> If there is not creation of central money supply, the only way of assuring accumulation and extended reproduction is for households to use up their hoards, which would correspond to a reintroduction of money into the circuit which had been previously withdrawn.<sup>4</sup> Alain Barrère (1990: 28) spelled out in the following manner what he called a rule of the circuit: "*The circuit is a circulatory flow process of monetary liquidities which can be changed into other monetary forms but which cannot engender new liquid wealth. (...) This means that at the end of a circuit one can never find more wealth than that which was introduced into the circuit at some point.*" (Emphasis by author) This rule has a corollary which we can formulate in the following manner: *No form of money, at fixed prices, can be introduced at any point in a circuit if it does not correspond to real or expected production, that is, to a value or a prevalidated value, or to some social labor which has already been recognized as useful, or whose recognition is anticipated.*

Hence the banking system, or potential rentiers, anticipating the production and realization of surplus value are considered also to anticipate the part of this value which the State could take. However, this solution, which allows for both profit and the extended reproduction of the capitalist system, does not resolve, for logical reasons, the contradiction of the "levies" taken by the State.

Indeed in the argument of the taking by the State of some previously existing amount, the net value added (or net product) is the same whether there is a State involved or not, since there is simply a transfer of value from the capitalist sphere, seen as the sole productive sphere, towards the non-commercial sphere, seen as non-productive. So the State intervention is seen as having no influence on

the net product. This is the market-oriented problematic which Haavelmo's theory aimed to contradict.<sup>5</sup>

Our presentation of the economic circuit (cf. *infra*) does not contradict the usual macroeconomic equation for aggregate income, because we think that taxes are not taken out of the income created by the private sector, but from national income including that additional income created by non-market activity. If there are available human and material resources (underemployment), then aggregate income is the sum of income created by the private sector and income created by the non-market sector:<sup>6</sup>

$$Y = Y_p + Y_G = C + I_p + I_G = c(Y - T) + I_p + I_G$$

$$Y = \frac{I_p + I_G - cT}{1 - c}$$

We suppose that private profit expectations are not high so that only public investment may grow:

$$\frac{dY}{dI_G} = \frac{1}{1 - c} > 1$$

More recently, theorists of endogenous growth have shown the existence of positive externalities caused by the State. Nevertheless, education and the spreading of knowledge organized by the State are seen as wealth creating because of the positive externalities they set in motion, and not by any contribution in their own right independent of their external effects.

A second logical problem thus needs to be solved. Let us proceed with a limit case type of reasoning: let us imagine an economy in which private ownership of the means of production is in the process of disappearing and, as a consequence, the proportion of public ownership is tending towards one. The place of workers producing value for capital is therefore being reduced to zero. Only workers who do not produce capital are left. Would we then have to say that the work of these public sector workers is exchanged for income taken from the capital-producing workers, who in fact have disappeared? This would clearly be absurd. We need therefore to find a coherent solution to this logical contradiction; we need to recognize that labor can produce products and new income even when it is not producing capital.

Even then we still have to distinguish, in this case, where all production is in the public sector, the share which is marketable and the share which is not. The latter could be considered, according to the usual criteria, as having been financed by the surpluses taken from the former. In this way the State accumulates capital, a part of which is used in this manner. The limit case reasoning should then be applied to the relative development of marketable and non-marketable production. If society decided progressively to socialize the financing of all production so as to make it non-marketable production, the increasingly diminished marketable production can no longer be deemed the source of non-marketable production. Furthermore, if the distinction between material and immaterial production turns the former into the source of the latter – since one tends to decline in relation to the other – we would have the same objection. Generally, it is unsustainable to assert that an increasing share of the activities involved in producing use values is funded by another activity that is diminishing constantly in relative terms.

Let us look at the opposite hypothesis, in which education is privatized and must provide return on capital. Production for capital would increase, while production in general and income produced would remain unchanged, or even, dynamically, would be reduced in the medium term if poorer income groups with a higher marginal propensity to consume are deprived of access to education.

A radical criticism of the “mandatory levies” then becomes possible. Such a criticism does not at all aim to delegitimize collective services as the neoliberal economic doctrine does, but to criticize this school in as far as the very idea of a *prior* taking off of value from the production of collective non-marketable services is a logical contradiction. This critique at the same time allows us to criticize the most common Marxist vision of this question.

## 1.2. Discussion

The most wide-ranging and the most synthetic critique of the thesis we are defending is that of Jacques Bidet (2002, 2003). He has three fundamental criticisms of our position. The first is that he

believes we have unjustifiably widened the concept of value, a concept which should only apply to commodities. The second is that he thinks we have abandoned – in as far as the non-commercial sphere is concerned – the theory which holds that labor power, and not labor as such, is what is exchanged for wages. In this way he alleges that we have surreptitiously replaced the idea of wages given in exchange for labor power (here of non-commercial sector workers) with that of wages given in exchange for a service. His third criticism is to refute the idea that labor can be considered to produce or create income, since income should be seen as a category coming out of distribution.

#### *Are We Widening the Concept of Value?*

When Marx analyzes capitalism and speaks of the production of value, just as when he speaks of productive labor in general, he is working within the framework of an abstract model of capital, in which, naturally, the only category is that of the production of value for capital. This is the whole meaning of the beginning of volume one of *Das Kapital*. But when we analyze a concrete social formation, we have to take account of the whole series of relationships which exist or survive alongside the fundamental capitalistic social relations. Thus we are not widening the concept of value, but we are taking into account the interpenetration of these different relations. At a given time, in a society dominated by capitalism, value is produced for capital by wage labor power (this value is in money form and is marketable); there is value produced by independent labor power for itself (also monetary and marketable), and there are non-marketable money services. The question is whether we can say that these last constitute a non-marketable monetary “value”. All value is monetary (all who are inspired from Marx today agree on this point). But is the converse true – that is to say, is all monetary expression necessarily a value? According to Bidet, it is not, since he does not believe that non-marketable services constitute a value. We believe that they do, following the thesis that commodities are one form of value and money is another form, a more abstract form, since it represents value *par excellence* in that, in this case, the value has already been *realized*. This debate turns on the status of money. It does not seem clear to us that money is well integrated into the Marxian model by all Marxists nowadays. This is why it is important to examine what is happening in Keynesian theory – we will come back to this later.

#### *Are We Abandoning the Concept of Labor Power?*

The criticism which claims that we are abandoning the concept of labor power is an important one. If it were the case, we would have to look again at our judgment, or otherwise no longer aim at integrating our thesis into the Marxian model. Let us be clear that it is not a matter of the exchanging of labor power for wages within the capitalist sphere. It is a question of whether the use of the concept of labor power is compatible with the idea that workers in the non-commercial sphere produce the value that will remunerate them. According to these critics, our thesis is false because workers of the non-commercial sphere receive the total value of what they produce (since, by definition, net non-marketable production is measured by its cost in wages, as the State does not make a profit). Put another way, since there is no exploitation, in the Marxist sense of the term (no surplus value is taken off), there is not considered to be any value produced. This “proof” is easily countered, since counter-examples exist. Let us take for example the case of the self-employed worker, who produces marketable value, and who receives the whole of the value of the product, despite the fact that this value is normally more than that required for the purchase of consumer goods by the producer. The value produced often allows him at least to replace his work equipment. In this case, there is value, but there is no question of labor power or of exploitation. The case of the non-commercial sector presents one point in common and one notable difference: there is, in this case, no exploitation, but there is a wage labor relationship. This brings us back to the previous discussion concerning the category of value. We believe that the specificity of the hybrid wage relationship in the case of the worker in the non-commercial sector lies in the fact that there can be value, without there being surplus value, except of course in the case of the value produced for capital. But there is no need for debate since there is agreement on this case. On the point in debate, in logical terms, the necessary condition to have surplus value is to have value (surplus value  $\Rightarrow$  value), but the reverse is not true (we can not affirm that surplus value  $\Leftrightarrow$  value).



More generally, we can express the labor process in general by the first three of the following logical propositions (the expression on the right of the arrow sign  $\Rightarrow$  being the necessary but not sufficient condition for the expression to the left of the sign).

- 1) Productive labor  $\Rightarrow$  use value (since there do exist use values not produced by humans)
- 2) Exchange value  $\Rightarrow$  use value (since there are use values which have no exchange value).
- 3) Exchange value  $\Rightarrow$  productive labor (since one can have productive labor which does not produce exchange value).
- 4) These three propositions may be combined: Exchange value  $\Rightarrow$  productive labor  $\Rightarrow$  use value.

On the other hand, the capitalist labor process modifies previous relations.

- 5) Labor productive of capital  $\Rightarrow$  use value (since one can have use values which do not come from work which is productive of capital).
- 6) Labor productive of capital  $\Leftrightarrow$  surplus value  $\Rightarrow$  exchange value (since, on the one hand, there is work productive of capital if and only if there is production of surplus value, and, on the other hand, surplus value implies a marketable framework, though the reverse is not the case<sup>7</sup>;
- 7) Propositions 5 and 6 may also be put together: Labor productive (of capital)  $\Leftrightarrow$  surplus value  $\Rightarrow$  exchange value  $\Rightarrow$  use value.<sup>8</sup>

Do civil servants work longer than the time necessary to produce the wages which they need? If they do, we must conclude that they do in fact do surplus work. But where is the surplus value taken from them by the State corresponding to this surplus work? We feel that there is here a contradiction. If they are exploited workers in the strict Marxian sense of the term, then they produce value which has been traditionally denied. Is this not another contradiction? If we put to one side the fact that the idea of wages as a basket of commodities is a classical notion but only partly a Marxian one (because the factor of the balance of forces would have to be brought in), we have to admit, in order to get out of this contradiction, that State employees are not wage earners identical to those who are employed by the capitalists. They exchange their labor power for a wage which, for social and institutional reasons linked to a collective choice and/or a balance of forces in society, corresponds by *social convention* to a monetary evaluation of the net service carried out for the community. Does this mean that we risk abandoning the idea of labor power? Not at all; it is simply an attempt to take account of the specific nature of the non-commercial relationship which has two unusual aspects to it: the payment of the service is separate from its consumption by the individual, and the labor power involved does not produce surplus value which can be appropriated. In other words, such a conception of the wages of civil servants does not call into question the analysis of capitalist exploitation. Rather our conception takes account of the fact that the exploitation of civil servants (in the sense of the extraction of surplus value) cannot be located. Non-marketable production is therefore not “wage production” in the strict sense since it does not correspond to capitalist wage production.

### *The Production of Income?*

All of which leaves us with the third problem. Does the category of income have its place in the analysis of production? The “creation of income” here needs to be understood in the sense that it has been used, following Keynes, to speak of the creation of a national income equivalent to the national product. The term “income” in the sense we use it does not refer to the usage of Smith when he speaks of the domestic servant exchanging labor for income.<sup>9</sup>

If we accept that the action of the State does affect the net product, we have to deduce from this that the employees of the State produce net value, and that therefore the idea of value taken off to finance employment of public servants has to be abandoned. Is it possible to merge two entities



coming from two distinct fields, the commercial and the non-commercial? If money did not exist, we might legitimately consider this as a difficulty, but the idea of the heterogeneity of the two fields does not imply that the one is financed by the other.

Why are we so keen to include a part of the Keynesian heritage within a Marxian analytical framework? It is because the main contribution of Keynes was to deepen (despite himself), some of Marx's fruitful intuitions. The most important of these in this case, concerns money, and more precisely the creation of money. Without monetary creation there is no macroeconomic capitalist accumulation, since there is globally no possibility for profit. But above all, in this case, the taking into account of monetary creation means that we have to ask the following question: what happens to the idea of "value taken off" when public spending is financed by the creation of money? The concept collapses. That is to say, that thesis can only stand up, at best, in the case where there is the presumed existence of a prior saving (whether it is desired or forced). Marxists who are determined to keep to the idea of "value taken off" have to support the thesis which claims that it is saving which gives rise to investment. And if they do this, they are pre-Keynesian, and closer to the ideas of Say or of Hayek than to those of Marx (who consistently opposed Say's conceptions). Let us not forget that this theory of saving leads logically to the idea that public activity takes over the territory of private sector activity.

Finally, and this appears to us to be the decisive point, no one has provided a satisfactory answer to the question "What is the value taken off from?" Bidet (2002: 1) writes: "The labor power of public servants who produce non-marketable services such as education and so on is exchanged against value *taken off*, that is to say, against wages which come from taxation." Let us be clear about this: we do not deny the role of taxation, we simply ask what this taxation is taken off from. The implied answer from orthodox Marxists is that it is taken off the surplus value (or, by extension, from the value) produced in the capitalist sector. This answer says absolutely nothing about the logical question we have posed above: *how to imagine a levy extracted from something that does not– or not yet – exist, or from the outcome of the levy itself?*

Let us make sure that there is no a misunderstanding on this point. Labor and material resources used for one activity are no longer available for another activity. However, there is *a priori* no reason to suppose that the labor used in activity *A* is what sustains activity *B* without examining the possibility that it is the other way round, or indeed that the two activities are interdependent. Human needs are satisfied by material or non-material use values produced under the direction of capital or under the direction of society as a whole (the categorization material/non-material does not correspond to the categorization public sector/private sector or indeed to that of marketable/non-marketable). The fact that some use values are only obtained through the mediation of capital – capital which makes profit in the process – does not mean that it is the market sector which gives birth to the non-marketable. Even further, it does not imply that the monetary value of non-marketable activities is quantitatively included in market sector activities, as the traditional vision of these activities says it must.

### *Money, the Bridge between Labor and Social Relationships*

In a recent article, Bernard Friot (2005) referred to our thesis in order to develop the idea that economically active citizens do not sustain inactive citizens, but rather that the income received by the economically inactive (retirement pensions, unemployment benefits, etc.) corresponds to the value that society gives to the free labor which the latter carry out. More particularly "Welfare contributions are, in the same way, not a part of the value attributed to the producers of a commodity *C*, but are money attributing value to the work of producers and that of the beneficiaries of welfare benefits: the dominated labor, in a non-capitalist form, such as nurses, doctors or social workers (if the social services and the health service are financed by welfare contributions), the free work of members of households receiving family allowances and the free work of unemployed or retired people who receive benefits or pensions" Friot (2005: 7). This point of view, we feel, can be criticized for at least two reasons.

In the first place, it is impossible for welfare contributions to remunerate both the producers of health care and the recipients of that care. The nurses and doctors produce the care, the sick consume it. It is important not to confuse the creation, by the health professionals, of the value of the health care

given to sick people, and the social transfer of value which occurs in as far as it is the citizens who are well who pay for those who are sick.

Secondly, the place given to money by Friot breaks with the Marxian-Keynesian interpretation of money, and seems to resort to an essentialist interpretation such as that well developed by Michel Aglietta and André Orléan (1982, 1998, 2002) – an interpretation which is to dispense with all theory of value.<sup>10</sup> “Work does not produce value, it produces wealth or harm; value is an attribute of work, and not a product of work”, Friot writes (2005: 8). Here, we feel, the distinction between concrete labor and abstract labor is forgotten, since, according to Friot, it is no longer abstract labor which is seen as creating value. Then too, since money is the instrument through which the social validation of *collective* work is effected, Friot concludes that all monetary income validates productive labor. But this is an incorrect reversal of a logical implication which is true in one direction only: Social validation of work within capitalism  $\Rightarrow$  money, but the reverse is not the case. Friot adds “If our Gross Domestic Product doubles every forty or fifty years in constant prices, this is not because the products of labor (wealth and harm together) have doubled in quantity or quality: it is because the value attributed to work has doubled.” (Friot 2005: 8) The sentence is contradictory. If Gross Domestic Product has doubled in constant prices, it has in fact doubled in volume; otherwise “the value attributed to work” could not have doubled in terms of purchasing power (assuming a stable share between profits and wages).

We believe that Friot is confusing the instrument through which the validation of social labor is expressed – be it through the market or by public policy decision – and the determinant of the value of commodities in general, and of labor power in particular (a concept which, moreover, Friot assumes, has disappeared, since he intends to speak only of “work” and “the value of work”).

Since he breaks with the dialectic between use value and exchange value, Friot is no longer able to consider that use value is a necessary condition of value, a “value carrier”. In other words, individuals no longer need to participate in the production of use values in order to be producing value. Could the smile which a disabled person might give to the health care staff to thank them for their work be then considered as work? If this is the thesis, it is untenable, and joins in many ways the ideas defended by Michael Hardt and Antonio Negri (2000) who seem to see productive labor everywhere, even in the queue of unemployed people at the Job center.<sup>11</sup>

### *What Kind of Convergence?*

The heart of this question is in the analysis of the kind of social relations which govern production of value and its validation. The articulation between production and validation seems to us to reside in the existence of money. Money considered as a *social institution* in the absence of which sale of commodities in the market could not happen, that is to say value would not be validated at the same time as capitalist expectation; and in the absence of which the expectation and consequent validation of collective needs could not be set into motion. Money is an operator of social homogenization.

The question of validation is key, both in the case of commodities and in the case of non-marketable services. In the former case, the validation gained by the *realization* of value, according to Marx’s theory, is a hypothetical consequence of expectation as theorized by Keynes; it simply follows the law of the market. The commodity, as it finds a buyer for its use value, is validated as value. Marx said that the use value was a “value carrier”. For non-marketable services, the link between expectation and validation obviously involves the question of the social and democratic values involved in their choices, but that is not the subject of the theory we are discussing here. The question we are interested in is that of work which is immediately social, that is to say that it is validated *ex ante*. The fact that neoclassical economists do not theorize about money should make us wary, and encourage us to begin again a program for the critique of political economy on the question of non-marketable services.

If it is to be coherent, the thesis we are developing here has to answer two other questions. Firstly, why is the reasoning used concerning productive labor in non-marketable services not extended to the case of productive labor employed by commercial and financial capital? We continue to consider the latter as work which does not produce capital, work which is involved in the phase of capital circulation and not in the phase of commodity production, work aimed purely at satisfying capital’s need for reproduction. Secondly, does our thesis mean that we can include in the same category all

non-marketable services, from education to the police and the army? In other words, do all these services generate use values and income in the sense we have defined?

Firstly, we note that to be created and realized, value always has to be carried by use values. Use value is a necessary condition of value. Marx puts it in this way: “Commodities come into the world in the shape of use values, articles, or goods, such as iron, linen, corn, etc. This is their plain, homely, bodily form. They are, however, commodities, only because they are something twofold, both objects of utility, and, at the same time, depositories of value. They manifest themselves therefore as commodities, or have the form of commodities, only in so far as they have *two forms*, a physical or natural form, and a value form.” (Marx 1965: 575-576).<sup>12</sup>

But capital which is engaged in the process of capital circulation, and more particular in the financial sphere, though it employs wage labor power, produces no use values.<sup>13</sup> If there is no use value, there is no value carrier and therefore no value at all. The services rendered in the phase of the circulation of capital are useful, it is true, to the capitalist class as a whole, since they allow the system to reproduce itself better by facilitating the movement of capital. Nevertheless, at no point are they commodities in the dual form described by Marx: both useful objects and carriers of value. They do not intervene in the process of commodity production, but they intervene in the process of the reproduction of capital, and their function is to assist in the transformation of commodities into money capital.<sup>14</sup>

This point brings us back to the status of money in a capitalist economy. Money represents social relations in two ways: it is the instrument through which one class exploits and dominates the other, and it can only exist through a process of public legitimation. This legitimation is the only way money can be given the capacity to represent immediate or future buying power and guarantee its role as reserve through time. The buying and selling of money, then, has only the appearance of being a trade in commodities. This trade, in which money today is exchanged against a little more money tomorrow, is based only on the potential which it gives subsequently to purchase use values (whether product or labor power) or to keep liquidity in reserve for future use. The fact that the same status is often given to money as to other commodities is one of the features of money fetishism. Money is not a value carrier as ordinary commodities are; it is value itself, understood as value which has already been realized or anticipated. There are two possibilities. Either credit is provided on the basis of previous saving, which the owner cannot dispose of for the period of the loan; in this case the circulation of previously realized value does not involve the creation of new value. Or the loan is made possible by the creation of money; here, the money made available represents an expectation of the value which will be produced by the labor power mobilized because of the loan. In this second case then also, the loan does not involve the creation of value, to such an extent that, were the expectation to turn out to be baseless, due to a fault of the investor, no value would come out of this aborted process. The making available to capitalists of monetary value (whether it be already realized or only anticipated) by the banking system must absolutely not be confused or compared with the provision of non-marketable services to the population. In the one case, there is neither use value, nor value, nor additional monetary income produced. In the other, we see a collective decision to produce both use values and income, of which no part will become “value” for private accumulation.

Secondly, among non-marketable services, we can distinguish those which constitute use values mainly by serving the reproduction of the labor power, such as education and health, and those whose primary – though not exclusive – aim is to ensure the protection of the reproduction of capital, such as the police and the army. It is true that school is an institution which plays an important role in the reproduction of class society – that is to say, in the reproduction of the capitalist mode of production. Nevertheless, education is part of the constitution of the labor power and subsequently becomes inseparable from this labor power. This is not so much the case with services whose primary aim is to defend property and repress attacks upon it (and these services are the only non-marketable services that the neoliberals wish to conserve – those which are part of the regalian function of the State). Nonetheless, the administration of the police, the judiciary and the army are not entirely attached to the sole defense of the ruling class, because if the State is to serve one class, it must be in part above social classes.<sup>15</sup>

If then we can distinguish in part the different types of non-marketable services by their final objective, nothing allows us to consider that some generate use values and new income, whereas others do not and correspond to income extracted *ex ante*. Hence the continuity of the logic of our

reasoning demands that we consider that all workers producing non-marketable services do not produce value for capital, and do not produce capital, but do produce income.<sup>16</sup>

## 2. Macroeconomic Loops

Surplus value cannot be “realized”, that is to say, transformed into money profit on the basis only of the monetary resources coming from advances made by capitalists. Such money advanced has a backwash effect on companies either through the using up of capital, or through final consumption, or the purchase of shares. But for an amount of money to buy net investment goods and public investment goods, this money has to be injected in a voluntarist manner. Can the injection of private funds be sufficient? It could be sufficient if the banking system was made up of just one bank. But since compensation between ordinary banks requires currency, the injection of the necessary flow requires the injection of money flow from a central bank, an injection which can only take place if it has as counterpart an advance from the State, an advance from abroad or a refinancing requirement from ordinary banks. Can money creation be carried out *a posteriori*, once the impossibility of completing the circuit without it has become clear, and with the impossibility of realizing capital accumulation? No, indeed; from a logical point of view the money creation has to be done *ex ante*, since, without the creation, the process of capitalist production as a whole would not be set into motion. In practice, capitalist companies anticipate a certain volume of production which they think they will be able to sell. In that way, they anticipate their profit, and they request from the banking system the amount of credit absolutely needed to set up production so as to generate the expected profit. But ordinary banks would not be able to anticipate the result of the production process, that is to say, they would not be able to pre-validate<sup>17</sup> the social labor carried out in this process if they were not absolutely sure that the central bank validates their pre-validation. The net accumulation of capital which is just the realization of money profit which has not been distributed absolutely requires the presence of a central bank which can create liquidity in addition to that which is, in the words of Lipietz, “endogenous to the economic system”<sup>18</sup>. Thus, before even Keynes had thought that the intervention of the State was necessary in order to remedy a situation of under-employment, Marx had shown that the existence of a State was indispensable in order that capitalist social relations might spread out on an ever grander scale, which is the definition itself of capital accumulation.

Let us use Marx’s reproduction schemes and integrate the State as a producer of non-marketable services. We thus have:

1. Producers’ goods sector;
2. Marketable consumer goods sector;
3. Non-marketable services sector.

We call  $C$  constant capital,  $V$  variable capital,  $M$  surplus value,  $\alpha$  that part of the surplus value accumulated by capitalists,  $\beta$  that part of the surplus value consumed by capitalists,  $\gamma$  that part of the surplus value taken by the State,  $\chi$  that part of the surplus value saved up by the capitalists, then :  $\alpha + \beta + \gamma + \chi = 1$ .

$\lambda$  is that part of levies extracted by the State to buy equipment, and  $\eta$  that part of the levies extracted by the State to pay wages, then :  $\gamma = \lambda + \eta$ .

$C_3$  and  $I_3$  represent the renewal of public equipment and net public investment.

$\delta$  is that part of wages which is consumed,  $\sigma$  is that part of wages which is saved, and  $\mu$  is that part of wages levied in taxes, so that:  $\delta + \sigma + \mu = 1$ .

Finally,  $O$  is the supply originating in a given sector, and  $D$  is the demand pertaining to a given sector.

At the beginning of a period, companies receive orders corresponding to advances on constant capital renewal and to advances on wages, but cannot retrieve more than the amount paid out.

	Capital advances	Orders addressed to	Flow required to close the circuit
Sector 1	$C_1 + V_1$	$C_1 + C_2 + C_3 + I_3$	$\alpha(M_1 + M_2)$
Sector 2	$C_2 + V_2$	$\delta(V_1 + V_2 + V_3)$	$\beta(M_1 + M_2)$

	Public advances	Socialized payment	
State	$C_3 + V_3 + I_3$	$\mu(V_1 + V_2 + V_3)$	$\gamma(M_1 + M_2)$

If the cycle ended as a result purely of the capital advances, neither of the two capitalist sectors would be able to buy the goods which allowed the other to “realize” the surplus value that the employment of labor power has allowed them to create. Thus there will be no possibility of investing and setting accumulation in motion.

The expectation of  $M_1$  and  $M_2$  which is the basis for company decisions to invest requires, therefore, the injection of money into the circuit. The banking system is willing to put in a flow of supplementary money, anticipating the capacity of companies to have surplus value produced. If the speed of money circulation (which measures the number of times that one monetary unit is transformed into money capital during the time taken for the rotation of capital) is known, one can estimate the flow necessary by the quotient of the hoped for profit and the speed of circulation. Once the cycle is finished, the companies have been able to buy the capital goods corresponding to net accumulation.

Then money profit is possible, as is extended reproduction, since each sector receives the following:

Sector 1	$C_1 + C_2 + C_3 + I_3 + \alpha(M_1 + M_2)$
Sector 2	$\delta(V_1 + V_2 + V_3) + \beta(M_1 + M_2)$
State	$\mu(V_1 + V_2 + V_3) + \gamma(M_1 + M_2)$

The global circuit could be set up as follows:

$$O_1 = C_1 + V_1 + M_1 \quad (1)$$

$$O_2 = C_2 + V_2 + M_2 \quad (2)$$

$$O_3 = C_3 + V_3 + I_3 \quad (3)$$

$$D_1 = C_1 + C_2 + C_3 + \alpha(M_1 + M_2) + I_3 \quad (4)$$

$$D_2 = \delta(V_1 + V_2 + V_3) + \beta(M_1 + M_2) \quad (5)$$

$$D_3 = \mu(V_1 + V_2 + V_3) + \gamma(M_1 + M_2) \quad (6)$$

$$\text{The banking system advances to sectors 1, 2 and 3: } F_1 + F_2 + F_3 \quad (7)$$

In return a flow of saving coming from wage earners and from capitalists is deposited in the banks:

$$\alpha(V_1 + V_2 + V_3) + \chi(M_1 + M_2) = (1 - \mu - \delta)(V_1 + V_2 + V_3) + (1 - \alpha - \beta - \gamma)(M_1 + M_2) \quad (8)$$

The overall equilibrium is established in accordance with Figure 1 below.

For each pole in the diagram, the equality between sources and uses of funds is respected:

*Banks:*

$$\text{Uses } (F_1 + F_2 + F_3) = \text{Sources } [(1 - \alpha - \beta - \gamma)M_1 + (1 - \alpha - \beta - \gamma)M_2 + (1 - \mu - \delta)(V_1 + V_2 + V_3)]$$

*Sector 1:*

$$\text{Uses } [C_1 + \alpha M_1 + \beta M_1 + V_1 + \gamma M_1 + (1 - \alpha - \beta - \gamma)M_1] = \text{Sources } (F_1 + C_1 + \alpha M_1 + C_2 + \alpha M_2 + C_3 + I_3)$$

*Sector 2:*

$$\text{Uses } [C_2 + \alpha M_2 + \beta M_2 + V_2 + \gamma M_2 + (1 - \alpha - \beta - \gamma)M_2] = \text{Sources } [F_2 + \beta M_1 + \beta M_2 + \delta(V_1 + V_2 + V_3)]$$

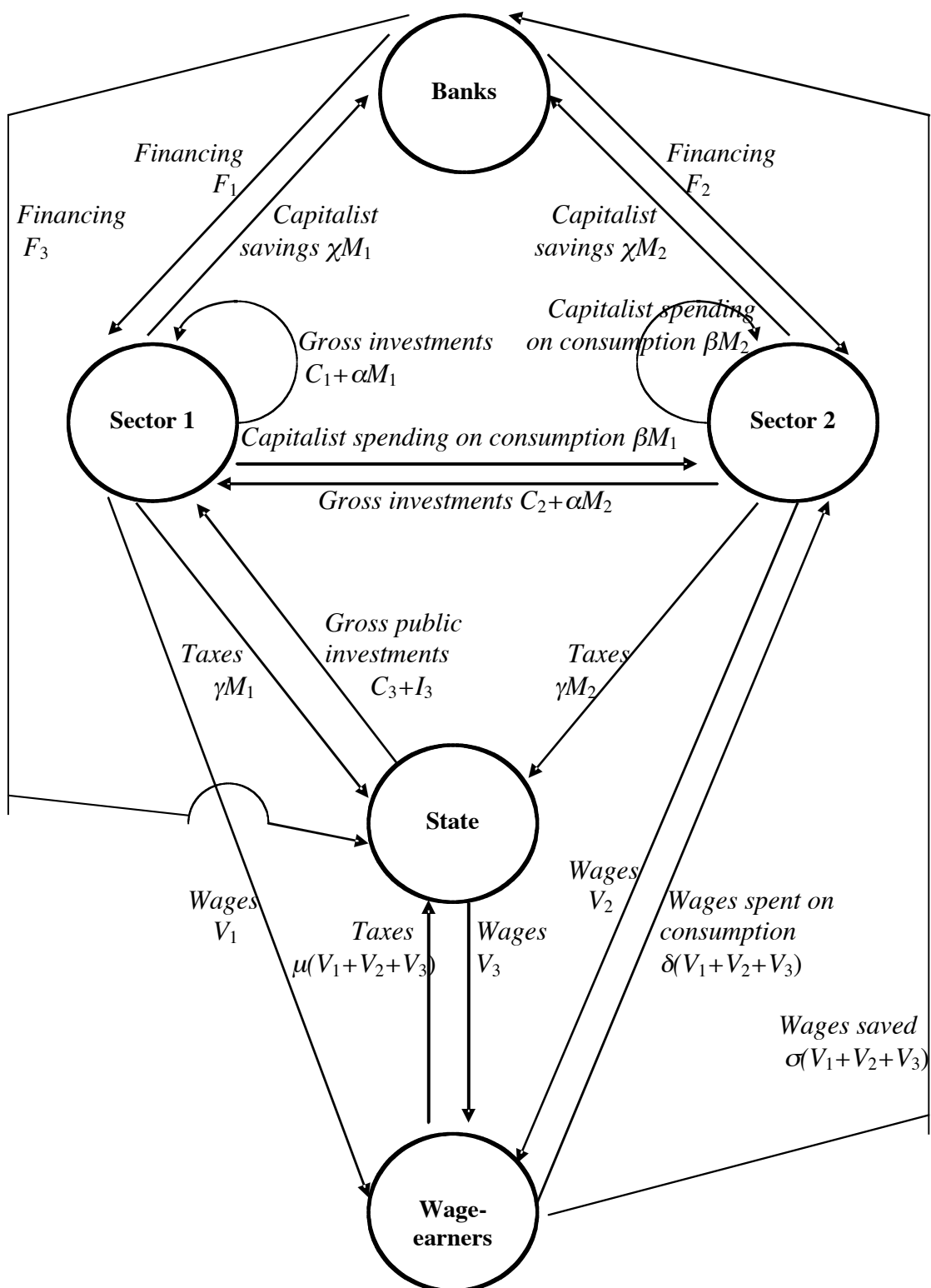
*State Sector:*

$$\text{Uses } (C_3 + V_3 + I_3) = \text{Sources } [F_3 + \gamma M_1 + \gamma M_2 + \mu(V_1 + V_2 + V_3)]$$

*Wage-earners:*

$$\text{Uses } [\mu(V_1 + V_2 + V_3) + \delta(V_1 + V_2 + V_3) + (1 - \mu - \delta)(V_1 + V_2 + V_3)] = \text{Sources } (V_1 + V_2 + V_3)$$

Figure 1 : Capitalist Circuit





By integrating monetary financing into the scheme of extended reproduction, we obtain conditions of equilibrium:

$$C_1 + V_1 + M_1 = C_1 + C_2 + C_3 + \alpha(M_1 + M_2) + I_3 + F_1$$

that is to say  $V_1 + (1 - \alpha)M_1 = C_2 + C_3 + \alpha M_2 + I_3 + F_1$  (9)

$$C_2 + V_2 + M_2 = \delta(V_1 + V_2 + V_3) + \beta(M_1 + M_2) + F_2$$

that is to say  $C_2 + (1 - \beta)M_2 = V_1 + V_3 - (\mu + \sigma)(V_1 + V_2 + V_3) + \beta M_1 + F_2$  (10)

$$C_3 + V_3 + I_3 = \mu(V_1 + V_2 + V_3) + \gamma(M_1 + M_2) + F_3$$

that is to say  $V_3 = \mu(V_1 + V_2 + V_3) + \gamma(M_1 + M_2) + F_3 - C_3 - I_3$  (11)

$$F_1 + F_2 + F_3 = \chi(M_1 + M_2) + \sigma(V_1 + V_2 + V_3)$$

$\sigma(V_1 + V_2 + V_3) = F_1 + F_2 + F_3 - \chi(M_1 + M_2)$  (12)

with (11) in (10):

$$C_2 + (1 - \beta)M_2 = V_1 + \mu(V_1 + V_2 + V_3) + \gamma M_1 + M_2 + F_3 - C_3 - I_3 - (\mu + \sigma)(V_1 + V_2 + V_3) + \beta M_1 + F_2$$

that is to say  $C_2 + C_3 + (1 - \beta - \gamma)M_2 = V_1 + (\beta + \gamma M_1 - \alpha(V_1 + V_2 + V_3) - I_3 + F_2 + F_3$  (13)

with (12) in (13) :

$$C_2 + C_3 + (1 - \beta - \gamma)M_2 = V_1 + (\beta + \gamma M_1 - F_1 - F_2 - F_3 + \chi(M_1 + M_2) - I_3 + F_2 + F_3$$

that is to say  $C_2 + C_3 + \alpha M_2 + I_3 + F_1 = V_1 + (1 - \alpha)M_1$  (14)

Conditions (9) and (14) are identical. The system is in equilibrium and able to reproduce itself because money creation anticipates capitalist profit and public sector non-marketable production. From a logical point of view, there is therefore no need for capitalist activity to provide prior finance for public spending. Public spending is impelled through money creation and the balancing of public accounts is carried out subsequently.

### 3. Financing and Payment

We propose the extension of the application of the Keynesian concept of expectation to all economic activities. In the capitalist system there are two categories of productive agents: private companies and the public collective. As Keynes explained, the former decide to produce when they anticipate an outlet (what Keynes dubbed effective demand) for their commodities, which responds to a cash flow need. In this case they invest money and thus put wages into circulation. Sales in the marketplace validate this expectation and, conversely, a drop in sales would invalidate it. As for public bodies, they anticipate collective needs, carry out public investment and increase their employees. In this case, the validation happens *ex ante* by a collective decision which is merged with the expectation.

In both cases the injection of money in the form of wages and private and public investments sets off the economic machine and generates production of private goods and services and of public non-marketable services. In the same way as wages paid out will *afterwards* be spent to buy marketable goods, so the payment of taxes will, *after* collective services have been produced, express the agreement of the population that the services of education, social security, police and judicial services should be supplied. The expectation of non-marketable services and their production by public bodies is therefore logically prior to the collective “payment” for these services by users. The expression “taxes pay for public services” is misleading. The ambiguity comes from the confusion between *financing* and *payment*. Capitalist production is financed by the advances going toward investment and the payment of wages, that is, advances whose growth on a macroeconomic level is made possible by money creation, and consumers’ expenditures.

What is the role of taxation concerning non-marketable production? Taxation is the socialized payment of this production. The taxpayer does not “finance” schools or hospitals any more than the buyer of a motor car “finances” the production lines at a car factory. This is because financing occurs prior to production, be it marketable or non-marketable. Payment, on the other hand, is subsequent to production. Furthermore, a supplement of productive activity engenders supplementary income and therefore supplementray saving which comes back and adjusts itself to the initial supplementary investment, private or public. The confusion between prior financing and subsequent payment is of the same order as the confusion criticized by Franck Van de Velde (2005: 99) “the notion of ‘loanable funds’ comes itself from a confusion between the initial financing by the banks of the production of capital goods, and the definitive financing of investment through saving.”

It could be objected that the taxes collected one year are used to pay the public expenditure of the following year and so on. But this argument moves the debate from the logical plane to the historical, and the search for a chronology leads to an impasse. It is necessary to give an answer in logic to a question in logic: since the capitalist economy is a monetary one, is it possible to take money in the form of taxes from a revenue base which has not yet emerged, and, worse, which is meant to be the result of such levies? Since this is logically impossible, non-marketable production and the corresponding revenues must precede the taking of such funds.

It is true that the payment of taxes allows the productive cycle to reproduce itself from one period to the next – just as do the private purchases of consumers. But there are two untheorized elements in neoliberal economic ideology. Firstly, we have to remember that it is the workers in the capitalist sector of the economy – and not the consumers – who create the monetary value a part of which will be taken by the capitalists; similarly it is the workers in the non-commercial sector – and not the taxpayers – who create the monetary (though non-marketed) value of non-marketable services. Secondly, properly expressed, financing is defined as the monetary impulsion necessary both for capitalist production and for non-marketable production and thus monetary impulsion must be distinguished from payment.

Contrary, then, to the dominant opinion, public services are not provided through taking value from some pre-existing sum. Their monetary, non-marketable, value is not taken off or subtracted, it is *produced*. It is then no more meaningful to say that public investment crowds out private investment than it is to say that investment by General Motors crowds out investment by Ford. To say that civil service wages are paid by taking revenue away from those produced only by the private sector is no more coherent than to say that private sector wages are paid by taking revenue from consumers. Because these conceptions ignore the fact that the capitalist economy is a circuit in which the two causal acts are the private decision to invest to produce goods and marketable services, and the public sector decision to invest in order to produce non-marketable services. Taxation is therefore not money taken off already existing wealth; it is the socialized price of additional wealth.

In other words, mandatory levies are *socially agreed mandatory supplements* and the payment of which allows them to be replaced from one period to another. But the permanence of the production of public services faces a contradiction which only democratic debate can resolve: the demand by society for public services is only *implicit* since there exists a gap between the *collective* consent to their existence, and the *individual* reluctance to pay taxes. This reluctance is encouraged both by the deep inequalities in society over the distribution of the burden of taxation, and by the belief – sustained by neoliberal ideology – that the payment of taxes is counter-productive and confiscatory.

By making the implicit demand for public services and social protection explicit, the State can make them into a principle of action. We think that the logic of this action was initially posed by Keynes in his *General Theory*, and it is enough to widen his concept of expectation to include public spending decisions.

At this point, we have to leave behind a purely economic analysis and integrate social relations into our understanding of how the capitalist circuit works. The rich want to pay less in taxes because they do not wish to *pay* for the poor. For instance, in the European Union, why is monetary policy tightly controlled by the European Central Bank, and why do the European treaties forbid States from borrowing from this bank? The treaties establish a ban on borrowing from the European Central Bank, not in order to *pay* for public services but in order to *finance* them, that is to say to advance money for their delivery. Free market ideology is hostile to the idea that monetary creation should *finance* non-marketable production, unless the State compensates by financing its deficits via borrowing from

holders of financial capital, who, in addition, can subsequently use banking credit facilities to lend out money. In many countries, a large part of the income tax is spent in paying interest to creditors.

## Conclusion

Non-marketable wealth is not taken away from marketable activity, it is a “supplement” coming from a public sector decision to use labor power and capital equipment which is available or which is taken from profit making sectors. This wealth is therefore doubly socialized, both by the decision on the applying of productive forces and by the decision to share socially the burden of payment. This view of things is unbearable to capital.

It is easy to understand why monetary policy is reduced in the European Union to the monitoring of the rate of inflation, and is placed outside of political control: not only is the preserving of financial rent crucial for the shareholders of finance, but there is a will to avoid at any cost the encouraging of non-marketable production of use values, which are thus not accessible to capital.

The solving of the enigma of non-marketable production is part of the redefinition of wealth which is absolutely necessary in order to break the process of the commodification of society. And on that level, only a theory of value and of productive labor, through a reexamination of traditional Marxist categories, is able to propose a political economy of decommodification. If we go back to Marx, in order to make the distinction between the pure capitalist model where value only exists for capital and the analysis of really existing capitalism, we can build a theory for the socialization of wealth. Marxist theory must not remain obsessed with the fact that capitalism tends to reduce all value to value intended for capital. What we propose to call the “value” of non-marketable services represents, in Marx’s own terms (1968b: 1550), “something which also exists in all other historical forms of society, but as a different aspect, namely the social character of labor, insofar as it exists as expenditure of ‘social’ labor power.”

The desire to privatize and make into a commercial venture wide areas of the socialized sector show that there do exist use values there which could be transformed into exchange values. It is only the balance of forces in society and political choices which can oppose this process of commercialization. We have tried to show that the State decision to take on employees and to invest sets off the creation of new monetary value. Conversely, it is an essential condition for the existence and development of a non-market sector that society accepts to pay, through taxation, the cost of this sector's activities.

## Notes

1. It is fundamentally important to reject the idea of the existence or not of a material product as a criterion of the definition of productive labor. Marx explains this: “That labor be productive has nothing to do with the determined content of the work, its specific usefulness or the particular use value within which it is materialized.” (Marx 1968c: 393). Accordingly, we need to posit a new category, that of the workers who, though they do not produce capital, do produce income.

2. On this point, see Harribey (1998b and 2000).

3. This idea is compatible with Kalecki’s thesis (1966, 1971): the investments of the firms create profits, but that supposes an equivalent quantity of created money.

4. See Zerbato (1989) and Harribey (2000). Herland (1991: 67), among many others, suggests one solution to the problem of the realization of profits.

5. See Harribey (2001a, 2001b).

6.  $Y$  = aggregate income,  $Y_p$  = income generated by the private sector,  $Y_G$  = additional income created by non-market sector,  $C$  = consumption,  $I_p$  = private investment,  $I_G$  = public investment,  $T$  = taxes,  $c$  = propensity to consume with  $0 < c < 1$ . We suppose to simplify that there is no foreign trade or that the trade account is balanced.

7. Michel Herland (1977: 126) believes that Marx is wrong to suggest that “the creation of exchange value (is) a necessary and *sufficient* condition for labor to be classified as productive”. Marx is correct if we base our argument on work which is productive of capital, but not if we speak of productive labor in general, since there exist cases where exchange value is produced without there being surplus value extracted from a wage labor power. This is the case for example with the marketable production of independent, freelance workers.

8. Note that for Say and, later, for the neoclassical economists exchange value  $\Leftrightarrow$  use value, (that is the two concepts are the same), whereas for Aristotle, Smith, Ricardo or Marx, exchange value  $\Rightarrow$  use value.

9. We have demonstrated elsewhere (Harribey 2004b) that Smith’s servants created the income that served to remunerate them.

10. See, in particular, Sapir (2005) for a critique of the thesis put forward by Aglietta and Orléan.

11. See a critique in Husson (2003) and Harribey (2004a).

12. See also Marx (1965: 580-581).

13. We should specify that we are intending to analyze the purely financial *function* of a banking system and that we put to one side other functions, operating parallel which might procure services of a public nature. The same remark applies to commercial functions which, in practice, both ensure the transformation of the commodity in money capital, and produce the specific use value of the making available to the consumer of the material use value.

14. The necessary condition for the creation of a use value is, moreover, the decisive point that makes Marx say, for instance, that transport services are productive (see Marx, 1968a: 583-584).

15. See Friedrich Engels (1971: 156).

16. We should clarify one last point. When Keynes envisaged paying workers to dig holes and then fill them up again, he was too sophisticated not to see that no wealth would rise up out of these holes, and that the purchasing power introduced was without any immediate counterpart. But he reckoned on the redistribution inherent in these measures towards individuals with a higher marginal propensity to consumption, in order to launch a real dynamic of growth: this concerns another dimension which we are not analyzing here.

17. Lipietz (1983: 147) uses the term in French “anté-validation”.

18. Lipietz (1983: 151): The economic system is equated here with the private sector. Zerbato (1990: 104) talked about the ‘duality’ of private endogenous money and public exogenous money. See also Zerbato (1989).

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