



SUSTAINABLE ECONOMY

Re-building progressive political economy to foster a new model of development

The economic theory underlying the conservative views on economic policy has no scientific foundations, *"the Emperor has no clothes"*. Despite their trust in such models it has never been demonstrated that the economic system, independently of any external intervention, could produce an acceptable social order. Nobody has been able to show that the economy, through the intermediation of the markets, could reach a state of rest satisfying individual desires. On the other hand, it has been proven that this axe of research had to be dropped because of its internal inconsistency. Consequently, the rhetoric on the necessity to liberalise markets has therefore to be interpreted as a political ideology.

Therefore, one should not be surprised at the deep crisis of our economic systems.

Our view of the functioning of the economic system is in sharp opposition to this statement.

FEPS is conducting a research project focused on the theoretical bases of a left-wing economic policy. To this end, work will be conducted in two ways over different time schedules. In the middle or long-term the FEPS is primarily interested in the possible theoretical foundations of a social-democratic employment and growth policy. In the short term, and in support of the last point, it appears challenging to conduct a critical evaluation of the theoretical arguments, and their interactions and contradictions. Indeed, the crisis shows that 25 years of market deregulation led to the creation of unsustainable imbalances.

However, policy recommendations are still based on very neo-liberal views, because of a lack of a clear assessment of the deep roots of the crisis. Such an assessment should lead to differentiated economic policies, on sectorial, social and geographical bases. Shares of wages in GDP decreased in 23 of the 27 European member states, financial markets expanded dramatically in a completely deregulated environment and became completely disconnected from the real economy, rates of investment and growth remained quite low and relied on unsustainable private financing methods while imbalances between deficit and surplus countries developed further. If policy recommendations fail to consider the roots of these imbalances and their interactions properly – tackling only public spending as a means to decrease public deficits and debts increase in time of crisis, the recovery of the European economy is doubtful.

As the presentation of the research agenda suggests, our sources are mainly classical, Keynesian and institutional economics. These schools share, among others, strong common views on the involuntary character of unemployment in the economy and on the fact that the level of employment is not determined on the labour market by a confrontation of a supply and a demand for labour, but appears as a consequence of the interactions of the individual decisions on the goods and financial markets.

We would like to discuss the strong Keynesian idea of a possible stable state of involuntary unemployment (which means that workers would accept to work at the current market wage but that there is no job opportunities) without introducing into the scheme any price, wage, institutional or whatever rigidities. The economy can be at rest even in a state of underemployment. This implies that it does not seem worthwhile, from our point of view, to consider as a credible alternative to orthodox economics what J. Robinson called "*bastard Keynesianism*". Another fundamental Keynesian concept is the one of effective demand. This concept suggests that the level of employment in the economy depends exclusively on the evolution of entrepreneurs' expectations. A rational employment policy should therefore be analysed in correlation with the evolution "in time" of the interaction between entrepreneurs' expectations and income and debt distributions.

This last point allows to establish bridges between Keynesian economics and classical and Hayekian economics. First, we notice that there exists a strong asymmetry between entrepreneurs-capitalists and workers. We depart here from general equilibrium theories and the (im)-possible coordination and compatibility of the desires of the economic agents in a decentralised economy by means of price mechanism. Then, given the weight of the concept of effective demand, it would seem much more productive to analyse economic transformations in dynamics and not exclusively in terms of comparative statics. From this point of view Hayekian's postulate of the existence of a natural tendency towards full employment equilibrium has to be reconsidered and criticised, both in monetary and in real terms while studying carefully the concept of a perpetual tendency towards a moving equilibrium.

Finally, as classical economists focus on growth theory and disproportion crises, an analysis of very simple models of sectorial accumulation should allow us to provide more arguments in defence of a public intervention in economic affairs. Our research should therefore tend to demonstrate the conditions under which a boundless accumulation is possible. This axe of research was launched during the beginning of the 20th century, by R. Luxemburg, and is still relevant today. Indeed, one can show that competition cannot always be regarded as a tool for stabilisation (even if techniques of production respond to the variations of the relative prices). For these reasons, one cannot say, first, that the liberalisation of markets is a prerequisite for global human emancipation and second, that competition both produces a decrease in the "general price level" (if this concept has any sense) and is always a tool of stabilisation for the adaptation of the productive system (i.e. the sectoral allocation of capital or the supply structure) to the demand structure.

Let us remember first that unemployment can be and is involuntary in its vast majority and second, that the economic system can encounter crises in proportion and in dimension, a sound employment policy is therefore above all a sound monetary and industrial policy.