

# Review of Business and Economics Studies

Вестник исследований бизнеса и экономики

DOI: 10.26794/2308-944X

The journal was reregistered  
in the Federal Service for Supervision  
of Communications,  
Informational Technologies,  
and Mass Media:  
PI No. ФС77–67072  
of 15 September 2016

Издание перерегистрировано  
в Федеральной службе по надзору  
в сфере связи, информационных  
технологий  
и массовых коммуникаций:  
ПИ № ФС77–67072  
от 15 сентября 2016 г.

**Publication frequency –  
4 issues per year**

**Периодичность издания –  
4 номера в год**

**Founder: “Financial University”**

**Учредитель: «Финансовый университет»**

The Journal is included in the core of the  
Russian Science Citation Index (RSCI)

Журнал включен в ядро Российского  
индекса научного цитирования (РИНЦ)

The Journal is distributed by subscription.  
Subscription index: 42137  
in the consolidated  
catalogue “The Press of Russia”

Журнал распространяется по подписке.  
Подписной индекс 42137  
в объединенном  
каталоге «Пресса России»

# Review of Business and Economics Studies

DOI: 10.26794/2308-944X



# Review of Business and Economics Studies

## *EDITOR-IN-CHIEF*

### **Alexander Ilyinsky**

Doctor of Engineering, Professor,  
Scientific Chairman Faculty  
of International Economic  
Relations, Financial University,  
Moscow, Russia  
ailyinsky@fa.ru

## *MANAGING EDITOR*

### **Dr Zbigniew Mierzwa**

zemezhva@fa.ru

## *EDITORIAL BOARD*

### **Mark Aleksanyan**

D. Sc. in Economics, Associate  
Professor, Adam Smith Business  
School, Business School,  
University of Glasgow, UK

### **Edoardo Croci**

D. Sc. in Economics, Professor,  
IEFE (Centre for Research  
on Energy and Environmental  
Economics and Policy) Research  
Fellow, Bocconi University, Italy

### **Fan, Chien-Te**

Doctor of Law, Professor  
Institute of Law for Science &  
Technology and Bioethics &  
Law Center, National Tsing Hua  
University, Taiwan

### **Konstantin P. Gluschenko**

D. Sc. in Economics, Professor,  
Department of Economics,  
Novosibirsk State University,  
Novosibirsk, Russia

### **Christopher A. Hartwell**

D. Sc. in Economics, Professor,  
Bournemouth University, Fern  
Barrow, Poole, Dorset, UK

### **Sergei V. Kazantsev**

D. Sc. in Economics, Professor,  
Institute of Economics and  
Industrial Engineering, Siberian  
Branch of the Russian Academy  
of Sciences, Novosibirsk, Russia

### **Kern K. Kwong**

D. Sc. in Economics, Professor,  
Asian Pacific Business Institute,  
California State University,  
Los Angeles, USA

### **Laura Marsiliani**

D. Sc. in Economics, Assistant  
Professor, Department  
of Economics and Finance,  
University of Durham, Durham, UK

### **Dimitrios Mavrakīs**

D. Sc. in Economics, Professor,  
Energy Policy and Development  
Centre, National and Kapodistrian  
University of Athens, Athens,  
Greece

### **Stephen McGuire**

D. Sc. in Economics, Professor,  
College of Business and Economics,  
Department of Management,  
California State University,  
Los Angeles, USA

### **Alexander Melnikov**

D. Sc. in Physics and Mathematics,  
Professor, Department  
of Mathematical and Statistical  
Sciences, University of Alberta,  
Edmonton, Canada

### **Rustem Nureev**

D. Sc. in Economics, Professor,  
Chairman for Research of the  
Department of Economic Theory,  
Financial University, Russia

### **Oleg V. Pavlov**

D. Sc. in Economics, Associate  
Professor, Department of Social  
Science and Policy Studies,  
Worcester Polytechnic Institute,  
Worcester, MA, USA

### **Thomas Renström**

D. Sc. in Economics, Professor,  
Durham University Business  
School, Department of Economics  
and Finance, Durham, UK

### **Boris Rubtsov**

D. Sc. in Economics, Professor,  
Deputy Chairman of Department  
of Financial Markets and Banks  
for R&D, Financial University,  
Moscow, Russia

### **Alan Sangster**

D. Sc. in Economics, Professor,  
Business School, University  
of Aberdeen, King's College,  
Aberdeen, UK

### **Dimitrios Tsomocos**

D. Sc. in Economics, Professor,  
Saïd Business School, University  
of Oxford, Oxford, UK

## *REVIEW OF BUSINESS AND ECONOMICS STUDIES*

(ROBES) is the quarterly peer-  
reviewed scholarly journal published  
by the Financial University under  
the Government of Russian  
Federation, Moscow. Journal's  
mission is to provide scientific  
perspective on wide range of topical  
economic and business subjects.

## *CONTACT INFORMATION*

Financial University  
Leningradsky prospekt, 53,  
office 5.6  
123995 Moscow  
Russian Federation  
Telephone: +7 (499) 553-10-74  
(internal 10-88)  
Website: <https://rbes.fa.ru/jour>

## *AUTHOR INQUIRIES*

Inquiries relating to the submission  
of articles can be sent by electronic  
mail to [zemezhva@fa.ru](mailto:zemezhva@fa.ru).

## *COPYRIGHT AND PHOTOCOPYING*

© 2020 All rights reserved.  
No part of this publication  
may be reproduced, stored  
or transmitted in any form or by any  
means without the prior permission  
in writing from the copyright holder.  
Single photocopies of articles may  
be made for personal use as allowed  
by national copyright laws.  
ISSN 2308-944X



# Вестник исследований бизнеса и экономики

## ГЛАВНЫЙ РЕДАКТОР

**Ильинский Александр  
Иоильевич**, профессор,  
доктор технических наук,  
научный руководитель  
Факультета международных  
экономических отношений,  
Финансовый университет

## ВЫПУСКАЮЩИЙ РЕДАКТОР

**Межва Збигнев**,  
д-р экон. наук

## РЕДАКЦИОННЫЙ СОВЕТ

**Алексанян Марк**, д-р экон.  
наук, профессор, Бизнес-школа  
им. Адама Смита,  
Университет Глазго  
(Великобритания)

**Глущенко Константин  
Павлович**, д-р экон. наук,  
профессор, Экономический  
факультет, Новосибирский  
государственный университет,  
Новосибирск, Россия

**Казанцев Сергей  
Владимирович**, д-р экон.  
наук, профессор, Институт  
экономики и организации  
промышленного  
производства Сибирского  
отделения РАН,  
Новосибирск, Россия

**Квонг Керн К.**, д-р экон.  
наук, профессор, Азиатско-  
Тихоокеанский институт  
бизнеса, Колледж бизнеса  
и экономики, Калифорнийский  
государственный университет,  
Лос-Анджелес, США

**Крочи Эдоардо**, д-р экон.  
наук, профессор, Центр  
Исследований в области  
энергетики и экологической  
экономики и политики,  
университет Боккони,  
Милан, Италия

**Мавракис Димитриос**,  
д-р экон. наук, профессор,  
Центр энергетической политики  
и развития (КЕРА) национального  
и Каподистрийского Университета  
Афин (NKUA), Греция

**Макгуайр Стефен**, д-р экон.  
наук, профессор, Факультет  
менеджмента, Колледж бизнеса  
и экономики, Калифорнийский  
государственный университет,  
Лос-Анджелес, США

**Марсилиани Лаура**,  
д-р экон. наук, доцент,  
Факультет экономики  
и финансов, Университет  
Дарема, Дарем, Великобритания

**Мельников Александр**,  
д-р экон. наук, профессор,  
Факультет математических  
и статистических наук,  
Университет Альберты, Канада

**Нуреев Рустем**, д-р экон. наук,  
профессор, научный  
руководитель Департамента  
экономической теории  
Финансового университета

**Павлов Олег**, д-р экон.  
наук, доцент, Департамент  
социальных наук и политических  
исследований, Вустерский  
политехнический институт,  
Вустер, США

**Ренстром Томас**, д-р экон.  
наук, профессор, Школа бизнеса  
Даремского университета,  
факультет экономики и финансов,  
Дарем, Великобритания

**Рубцов Борис Борисович**,  
д-р экон. наук, профессор,  
Департамент Финансовых  
рынков и банков,  
Финансовый университет,  
Москва, Россия

**Тсомокос Димитриос**,  
д-р экон. наук, профессор,  
Бизнес-школы Саид  
Оксфордского университета,  
Оксфорд, Великобритания

**Сангстер Алан**, д-р экон. наук,  
профессор, Школа бизнеса,  
Абердинский университет,  
Королевский колледж, Абердин,  
Великобритания

**Хартвелл Кристофер**, д-р экон.  
наук, профессор, Борнмутский  
университет, Ферн Барроу, Пул,  
Дорсет, Великобритания

**Фан, Чен-Те**, д-р юридических  
наук, профессор, Институт  
права в области науки  
и техники и Центр биоэтики  
и права, Национальный  
университет Цин Хуа (NTHU),  
Тайвань

Редакция научных журналов  
Финансового университета  
123995, Москва, ГСП-5,  
Ленинградский пр-т, 53,  
комн. 5.6  
Тел. +7 (499) 553-10-74  
(вн. 10-88)  
Интернет: <https://rbes.fa.ru/jour>

Журнал "Review of Business and  
Economics Studies" («Вестник  
исследований бизнеса и эконо-  
мики») зарегистрирован в Фе-  
деральной службе по надзору  
в сфере связи, информационных  
технологий и массовых ком-  
муникаций 15 сентября 2016 г.  
Свидетельство о регистрации  
ПИ № ФС77-67072.

Подписано в печать: 26.11.2021.  
Формат 60 × 84 1/8.  
Заказ № 924  
Отпечатано в Отделе полиграфии  
Финансового университета  
(Ленинградский проспект, д. 49).  
16+



# **Review of Business and Economics Studies**

*Volume 9, Number 4, 2021*

<b>Editorial</b> .....	<b>6</b>
 <b>Banks and Economic Growth: A Basic Disequilibrium Model with Five Rationing Regimes</b> <i>Richard A. Werner</i> .....	 <b>9</b>
 <b>Lessons from Applying Sanctions and Blockades</b> <i>Thomas Flichy de La Neuville</i> .....	 <b>23</b>
 <b>Banking on the Underworld. A Strictly Economic Appreciation of the Chinese Practice of Burning (Token) Money</b> <i>Guido Giacomo Preparata</i> .....	 <b>32</b>
 <b>How Pigou Solved a Fundamental Theoretical Problem</b> <i>Kepa Ormazabal</i> .....	 <b>46</b>
 <b>Infinite Capital Accumulation Through the Endless Harvesting of Limitless Dead Souls. Criminogenic Asymmetries, Structural Inequalities, Mimesis, and Parallel Oligarchies</b> <i>Eric Wilson</i> .....	 <b>60</b>
 <b>Oneiric Fascism. The Political Economy of Fernando Pessoa</b> <i>Guido Giacomo Preparata</i> .....	 <b>77</b>
 <b>Contents of the Journal for 2021</b> .....	 <b>95</b>



**Вестник  
исследований  
бизнеса  
и экономики**  
*№ 4, 2021*

<b>От редакции</b> .....	<b>6</b>
<b>Банки и экономический рост: базовая модель неравновесия с пятью режимами нормирования</b> <i>Ричард А. Вернер</i> .....	<b>9</b>
<b>К вопросу о видах финансовых блокад и санкций</b> <i>Томас Флиши де ла Невиль</i> .....	<b>23</b>
<b>Банковское дело в преисподней. Исключительно экономическая оценка китайской практики сжигания денег</b> <i>Гвидо Джакомо Препарата</i> .....	<b>32</b>
<b>Как Пигу решил фундаментальную теоретическую задачу</b> <i>Кена Ормазабал</i> .....	<b>46</b>
<b>Бесконечное накопление капитала посредством бесконечной жатвы бессчетных мертвых душ. Криминогенные асимметрии, структурные неравенства, мимезис и параллельные олигархии</b> <i>Эрик Уилсон</i> .....	<b>60</b>
<b>Онейрический фашизм, или политическая экономия Фернандо Пессоа</b> <i>Гвидо Джакомо Препарата</i> .....	<b>77</b>
<b>Содержание журнала за 2021 год</b> .....	<b>95</b>

## Editorial

Wherever the critique of capitalism re-emerges, there is an intellectual and political demand for new, critical engagements with such a lot of scientific streams in economic science. Papers in this issue of *Review of Business and Economics Studies* come from a wide range of political perspectives, subject matters, academic disciplines, and geographical areas, producing an eclectic and informative collection that appeals to a diverse and international audience. It is even more critical because of the emergence of new directions in economic science, e.g., geoeconomics, new monetary and credit theories and many others. Moreover, today we see the political economy again becoming **social** science. Presented in this issue of *Review of Business and Economics Studies* papers appeal internationally to intellectual communities that are increasingly interested in rediscovering the most influential critical analysis of capitalism.

The current issue opens with a paper prepared by prof. **Richard A. Werner**. He is the one of the world's foremost specialists in the area of finance, author of the "Quantitative easing" concept in 1995 and theory of Quantity Theory of Credit, or "Quantity Theory of Disaggregated Credit," proposed in 1992. It disaggregates credit creation used for the real economy (GDP transactions) on the one hand and financial transactions on the other hand. In 2014 R. Werner was the first economist who conducted the experiment *in vivo* in the financial field, which he described in the famous paper "Can banks individually create money out of nothing? – The theories and the empirical evidence" published in the *International Review of Financial Analysis*, 36, 2014, pp. 1–19. In the same issue of the journal, you will find the second Werner's article, "How do banks create money, and why can other firms not do the same? An explanation for the coexistence of lending and deposit-taking" (pp. 71–77).

Richard Werner is a Member of Linacre College, Oxford, and is a university professor in banking and finance. He is the organiser of the European Conference on Banking and the Economy (ECOBATE), first held on 29 September 2011. Werner is the founding director and chairman of Local First Community Interest Company, which promotes the establishment of not-for-profit local community banks.

During the course of his academic and professional career, he has authored and contributed to around half a thousand pieces of research and literature in English, Japanese and German, including books (as the author, editor, series editor or contributor), journal papers (academic, professional as well as popular journals), conference contributions and discussion papers and reports for charitable organisations and the private sector, among many others. Werner's book *Princes of the Yen: Japan's Central Bankers and the Transformation of the Economy*, published in 2003 by M.E. Sharpe (2nd edition 2018 by Quantum Publishers), about the modern economic development of Japan, was a bestseller in Japan.

### Books

Ryan-Collins, Josh; Werner, Richard; Jackson, Andrew. *Where Does Money Come From?: A Guide to the UK Monetary & Banking System*. 2nd ed. London: New Economics Foundation; 2012.

*Neue Wirtschaftspolitik*, München: Vahlen Verlag (2007); translated into English: *New Economic Policy*. Munich: Vahlen Publishing House; 2007.

*New Paradigm in Macroeconomics: Solving the Riddle of Japanese Macroeconomic Performance* (2005)

*Princes of the Yen: Japan's central bankers and the transformation of the economy*. (2001),

*Towards a new macroeconomic paradigm*. Tokyo: PHP. (2003). (In Japanese).

*The enigma of the great recession* (2003) (In Japanese).

*Three essays on Japanese macroeconomic policy in the 1980s and 1990s* (2006).

*The Bank of Japan under Toshihiko Fukui*, with M. Ishii. Tokyo: Appuru Shuppan. (2003) (In Japanese).

*Central Banking and Structural Changes in Japan and Europe*. Tokyo: Soshisha. (2003) (In Japanese).

*Dismantling the Japanese Model*, with M. Kikkawa. Tokyo: Kodansha. (2003).

Research interests of prof. Werner are Banking and the Economy, Banking and Development, History of Banking, Central Banking, Monetary Economics, Macroeconomics.

The second paper, written by prof. **Thomas Flichy de la Neuville** concerns the most actual question in international political and economic relations -applying means of violent influence as sanctions, boycotts, embargos or economic blockades as the ultimate form of economic pressure that can be imposed on an adversary.

He received his PhD in legal history at the University of Bordeaux. In 2009 he was appointed to the chair of international relations at the French Naval Academy. Also, he was in charge of an international research program on



successful strategies in times of crisis, in collaboration with the United States Naval Academy. He is a professor at l'Ecole Spéciale Militaire de Saint-Cyr (part of Académie Militaire de Saint-Cyr Coëtquidan – Saint-Cyr Military Academy), Associate research professor at Institute of the History of Law, Faculty of Law and Social Sciences, University of Poitiers, France, a Research Professor at The Institute of World Politics (Washington, DC).

Prof. Thomas Flichy de la Neuville is a well-known specialist in geopolitics, Iranian, Russian and Chinese civilisations, early modern diplomatic history, history of law. Together with Olivier Hanne, he coined the concept of geoculture for sustainable civilisations. This geocultural approach was initially interested in the creative potentials of the elites, especially in the armies.

Prof. Thomas Flichy de la Neuville is the author of many books and hundreds of magazine articles:

*L'Empire de Bonaparte – Laboratoire de la domination absolue*. Paris: Dominique Martin Morin; 2021.

*La guerre Afghane au prisme de l'histoire*; 2021

*2020 Une année géopolitique au prisme de l'histoire*; 2021

*Le Gevaudan. Une île géopolitique devenue sauvage*; 2021

*Les loups sont de retour. Du Chaos vont naître de nouvelles élites*; 2017

*Exécutions Politiques. Toutes Ne Réussissent Pas*; 2017

*Le retournement Trump*; 2017

*Et la Russie sortit du tombeau*; 2017

*Les grandes migrations ne détruisent que les cités mortes*; 2016

*What the CIA has not imagined: the world by 2030*; 2015

*L'Iran au delà de l'islamisme*; 2013

*Persian negotiation culture and Chinese strategies through the Jesuit looking glass (1582–1773)*; 2012

*Financial crises and renewal of empires*; 2012

*La fantaisie de l'officier*; 2012

Prof. **Guido Giacomo Preparata** prepared the third paper, where he tried to provide a strictly economic appreciation of the Chinese practice of burning (token) money. It is part of his studies in the field of monetary economics, including fundamental but neglected truth concerning the nature of money. It includes sources of alternative understanding of money and suggested monetary reforms, especially of anarchist reformers who have since the 1920s discussed the introduction of *time-dated money*. Pushing alone against the doctrinaire cross-currents of the monetary maelstrom, Silvio Gesell and Rudolf Steiner conceived and articulated the genial idea of overcoming the chief obstacles strewn along the distributive chain of the economy by means of a *time-sensitive money certificate*.

Ideas of free money, regional money, complementary currencies, and others have made such a notable comeback along with a resurgent interest in Gesell's figures and Steiner's economics thanks to Hans Christoph Binswanger, Margrit Kennedy, Helmut Creutz, Michael Ende, and many others. It is sufficient proof that there is something of abiding value and wisdom in the underlying idea, so suggestively described in "NEO IN WONDERLAND ~ A Tale of Money That Changed Our Future ~", written by Kenji Saito. Some of Guido Preparata's writings about monetary issues are:

"Of Money, Heresy, and Surrender, Part II: A Plea for a Regional and Perishable Currency". *Anarchist Studies*, 18.1, 2010

"Of Money, Heresy, and Surrender. Part I: The Ways of Our System, an Outline, from Bretton Woods to the financial slump of 2008". *Anarchist Studies*, 17.1, 2009

"Perishable Money in a Threefold Commonwealth: Rudolf Steiner and the Social Economics of an Anarchist Utopia". *Review of Radical Political Economics*, Vol. 38, n. 4, Fall 2006

With Elliott, J. E. "Free-economics. The vision of reformer Silvio Gesell". *International Journal of Social Economics*, Vol. 31, No. 10, 2004, 923–954

"On the art of innuendo: J.M. Keynes' plagiarism of Silvio Gesell's monetary economics". *Research in Political Economy*, Vol. 20, 2002, 217–253

With Elliott, J. E. (2000). "Bank lending, interest and monopoly: pre-Keynesian heterodoxy in macro-monetary dynamics". In Samuels, W. and Biddle, J. (Eds), *Annual Research in the History of Economic Thought and Methodology*, Vol. 14A, 2000.

Prof. **Kepa M. Ormazabal Sánchez** is the author of the fourth paper. He researches economics and socioeconomics from a historical and philosophical perspective. He is also interested in scientific methodology. His current projects are 1) Milestones in the development of Central Banking; 2) Problems in Standard National Accounting; 3) Problems in Standard Microeconomic Theory.

Some working papers and articles

“Are Labor and Freedom Compatible? Political Economy, Hegel’s Practical Philosophy and the Young Marx.” IKERLANAK 2017–103, Universidad del País Vasco – Departamento de Fundamentos del Análisis Económico I. 2017.

“Marx’ Critique of the Currency Principle.” IKERLANAK 2009–37, Universidad del País Vasco – Departamento de Fundamentos del Análisis Económico I. 2009.

“The Ohlin-Keynes Debate on the German Interwar Reparations Revisited.” IKERLANAK 2008–32, Universidad del País Vasco – Departamento de Fundamentos del Análisis Económico I. 2008.

“Lowndes and Locke on the value of money.” IKERLANAK 2007–29, Universidad del País Vasco – Departamento de Fundamentos del Análisis Económico I. 2007.

“Machlup on the Transfer Problem.” *Journal of the History of Economic Thought*, vol. 32(4), 471–493, December 2010.

In Hiroshi Uchida (ed.), *Marx for the 21st Century*. With a special Introduction by Terrell Carver. London and New York: Routledge, Taylor & Francis Group, 2006. Routledge Frontiers of Political Economy, History of Economic Ideas, Fabrizio Serra Editore, Pisa – Roma, vol. 14(2), pages 160–163; 2006.

« Una mirada crítica al debate Ohlin-Keynes sobre el problema de la transferencia. » Información Comercial Española, ICE: *Revista de economía*, N 845, 2008, (Exemplar dedicated to Marx, Keynes and Schumpeter), 73–92. (In Spanish).

“A fundamental contradiction in Keynes’ notion of income.” *Documentos de Trabajo BILTOKI*, N 9, 2003

“Quesnay and Leontief on capital and income.” *Documentos de Trabajo BILTOKI*, N 8, 2003

“Dornbusch and Fischer on Capital and Income.” *Documentos de Trabajo BILTOKI*, N 2, 2003

“Adam Smith on Capital and Income.” *Documentos de Trabajo BILTOKI*, N 1, 2003

« La distinción positivo-normativo en John Neville Keynes. » *Anales de estudios económicos y empresariales*, N 8, 1993, 367–386. (In Spanish).

The fifth paper was prepared by prof. **Eric Wilson** with a clear connotation with Gogol’s poem “Dead Souls: The Adventures of Chichikov” by Nikolay Gogol edited 11 August 2017 (also available the Russian edition – Gogol. Chichikov’s Adventures, or Dead Souls: Poem. St. Petersburg: A.F. Marx; 1900). Eric Wilson is a senior lecturer of public law at Monash University, Melbourne in Australia. He received a Doctorate in History (the history of early modern Europe) under the supervision of Robert Scribner from Clare College, Cambridge University, in 1991. In 2005 he received a Doctorate of Juridical Science from the University of Melbourne. Eric Wilson declared himself as an independent researcher working in the field of Radical Criminology. My particular interest is in the multiple overlaps between the literary genres of Crime and Horror. I consider myself a critical post-modern neo-Augustinian.

His publications include *The Savage Republic: De Indis of Hugo Grotius, Republicanism, and Dutch Hegemony in the Early Modern World System (c.1600–1619)* (Martinus Nijhoff, 2008); *The Republic of Cthulhu: Lovecraft, the Weird Tale, and Conspiracy Theory*, published in 2016. Also, he edited a series of volumes on critical criminology devoted to the relationships between a covert government agency, organised crime, and extra-judicial forms of governance; the first volume in the series, *Government of the Shadows: Parapolitics and Criminal Sovereignty*, was published by Pluto Press in 2009. The second volume, *The Dual State: Parapolitics, Carl Schmitt, and the National Security Complex*, was released by Ashgate Publishing in November 2012. Another volume on parapolitics, *The Spectacle of the False Flag: From JFK to Watergate*, was published by punctum books in 2015. His most recent monograph is *The Republic of Cthulhu: Lovecraft, the Weird Tale, and Conspiracy Theory* (punctum books, 2016). His research interests are radical criminology, critical jurisprudence, and the application of the work of Rene Girard to Law and Literature.

Also, Wilson is co-author of several collective books and working papers, including *Diseases of the Head: Essays on the Horrors of Speculative Philosophy*, edited by Matt Rosen in 2020; *Post Memes: Seizing the Memes of Production*, edited by Alfie Bown, Dan Bristow in 2019.

Finally, last but not least, is a paper written by **Guido Giacomo Preparata**. Indeed, political economy, as different from economics, is or ought to be social science *par excellence*. Therefore, as Preparata stressed, such characters as Pessoa should be of interest to students of political economy and political philosophy, considering that he had also devoted attention to socio-political issues managing, with the incisiveness that is a poet’s trademark, to commit to paper a number of noteworthy insights.

November 2021

Dr Zbigniew E. Mierzwa



ORIGINAL PAPER

doi: 10.26794/2308-944X-2021-9-4-9-22  
JEL Codes: E10, E50, O16, O20, D59

# Banks and Economic Growth: The General Theory in a Basic Disequilibrium Model with Five Rationing Regimes\*

Richard A. Werner

## ABSTRACT

In this paper, an inductive research methodology and the principle of parsimony are applied to reconsider a central issue in economics and macro-finance, namely the determinants of economic growth and the role of the financial sector. A simple framework is derived, characterised by information imperfections and the absence of market clearing. The literature on rationing has identified the need to consider differing rationing regimes but has not included a banking sector. Such a set-up is presented in this paper, which identifies the link between credit and economic growth under differing rationing regimes, with varying consequences for inflation. The familiar case of money creation resulting in inflation features as a special case within the general framework. Others are the possibility of asset price bubbles and collapses, non-inflationary growth despite full employment, and instability in banking systems. The model is consistent with empirical evidence that has been difficult to reconcile with conventional equilibrium models. It is found that within this simple rationing framework, banks, left to their own devices, do not necessarily deliver stable, non-inflationary growth, and there is no reason to expect their behaviour to optimise social welfare. Some implications for research and policy are discussed.

**Keywords:** banking; credit; development; equation of exchange; finance and growth; growth; growth accounting; quantity equation

**For citation:** Werner Richard A. Banks and Economic Growth: A Basic Disequilibrium Model with Five Rationing Regimes. *Review of Business and Economics Studies*. 2021,9(4):9-22. doi: 10.26794/2308-944X-2021-9-4-9-22

ОРИГИНАЛЬНАЯ СТАТЬЯ

# Банки и экономический рост: базовая модель неравновесия с пятью режимами нормирования

Ричард А. Вернер

## АННОТАЦИЯ

Статья посвящена анализу вариантов применения моделирования неравновесия с пятью режимами нормирования. Актуальность этой проблематики обусловлена недостаточно отработанными по сей день механизмами регулирования деятельности коммерческих банков. Кроме того, в литературе по нормированию указывается на необходимость рассмотрения различных режимов нормирования, но не рассматривалось это в отношении банковского сектора. Целью статьи является разработка модели регулирования, оптимальной с точки зрения требований, предъявляемых банкам. В процессе анализа центрального вопроса экономики и макрофинансов, а именно детерминант экономического роста и роли в нем финансового сектора, применялась индуктивная методология исследования и принцип экономии. Автором получена простая структура, характеризующаяся несовершенством информации и отсутствием клиринга рынка. Такая схема представлена в данной статье. В ней определена связь между кредитом и экономическим ростом при различных режимах нормирования с различными последствиями для инфляции. Модель согласуется с эмпирическими данными, которые трудно согласовать с традиционными моделями равно-

\* This paper closely follows Werner (2005), and aims to introduce parts of chapter 15 to a wider audience. While any mistakes are my own, I wish to acknowledge the source of all wisdom (Jer 33:3).

весия. Установлено, что в рамках этой простой системы нормирования банки, предоставленные сами себе, не обязательно обеспечивают стабильный, неинфляционный рост, и нет причин ожидать, что их поведение приведет к оптимизации общественного благосостояния. Обсуждаются также некоторые последствия проведенного анализа для дальнейших исследований и политики регулирования банковской деятельности.

**Ключевые слова:** банковское дело; кредит; развитие; уравнение обмена; финансы и рост; экономический рост; учет роста; количественное уравнение; нормирование

**Для цитирования:** Вернер Ричард А. Банки и экономический рост: базовая модель неравновесия с пятью режимами нормирования. *Review of Business and Economics Studies*. 2021;9(4):9-22. doi: 10.26794/2308-944X-2021-9-4-9-22

## 1. Introduction

Since the 2008 banking crisis, criticism of modern macroeconomics has become frequent. “The standard macroeconomic models have failed, by all the most important tests of scientific theory”, argues Stiglitz (2011: 591), criticising, among others, the lack of banks within the models and such “key assumptions, such as market clearing (no credit rationing), rationality, and rational expectations” (p. 605).<sup>1</sup> De Grauwe (2010) likewise criticised the dominant general equilibrium models and their “extraordinary” assumptions. These have been the logical result of the consistent application of the deductive (or ‘hypothetico-deductive’) research methodology. A common defence of the approach often used in macroeconomics is that unrealistic assumptions and a general equilibrium framework are necessary to establish a benchmark to compare reality with. By contrast, it is claimed that “Alternative strategies that have started squarely from a different benchmark have for the most part proved unsuccessful” (Blanchard & Fischer, 1989, p. 27).<sup>2</sup>

This paper aims to present and apply an alternative research strategy that starts ‘squarely from a different benchmark’ but is successful. It attempts to do so by not adopting the deductive methodology. Instead, it holds, as Werner (1992, 1997, 2005) have done, that there is no good reason

not to adopt the scientific research methodology also in economics. That is the inductive research methodology which this paper relies upon.

The principle of parsimony suggests that models that minimise the number of required assumptions are preferable to models that require a multitude of jointly necessary assumptions. From this follows a framework that dispenses with the canonical but wholly unrealistic assumptions of perfect information, perfect competition, complete markets, flexible and instantaneously adjusting prices, zero transactions costs, infinite lives and no time constraints for the rational selfish-autistic and utility-maximising agents that miraculously survived their infancy (despite nobody caring for them). Without these assumptions holding simultaneously, there cannot be any equilibrium. Hence the much simpler model not requiring these assumptions will be characterised by an absence of equilibrium, also known as disequilibrium or rationing.

The model presented recognises financial sector frictions and the role of banks, and is applied to a central issue in macroeconomics, the determination of economic growth. It is argued that the proposed disequilibrium framework is not unsuccessful in explaining key macroeconomic characteristics that have proven difficult to explain or predict for the familiar models derived through the deductive research methodology and assuming general equilibrium. On the contrary, it is argued that the much simpler disequilibrium model, following in the footsteps of Werner (1992, 1997), explains more. Implications for policy and research are discussed.

## 2. Economic growth

The topic of economic growth has been well researched, and a number of uncontroversial facts can be readily summarised (see Barro, 1999):

<sup>1</sup> See also Stiglitz (2018), among others.

<sup>2</sup> Blanchard and Fischer (1989) argue in their influential advanced textbook in macroeconomics: “One of our main choices has been to start from a neoclassical benchmark, with optimizing individuals and competitive markets. As our guided tour indicates, this is not because we believe that such a benchmark describes reality or can account for fluctuations. ... We believe, however, that looking at their effects as arising from deviations from a well-understood benchmark is the best research strategy. Alternative strategies that have started squarely from a different benchmark have for the most part proved unsuccessful” (p. 27).

‘Growth’ or ‘growth theory’ initially refers to the growth of potential output, which is the maximum possible output that can be achieved when (a) all resources are fully mobilised (i.e. when the quantity of endowed factor inputs employed is maximised) *and* (b) when the productivity of their use is maximised (i.e. maximum factor productivity). Thus:

$$(1) Y^* = f(QFI^*; TFP^*),$$

where  $Y^*$  stands for potential output, which is a function of the quantity of factor inputs (QFI, normally consisting of land, labour, capital, and technology) and the quality of their use (total factor productivity, TFP). Potential output is the aggregate potential supply of the economy when all factors of production are used, and productivity is maximised. So far, so uncontroversial.

It is less clear how researchers should proceed from this truth to formulate a theory of economic growth that is immediately relevant to the types of economies we observe today. In that case, a scientific approach demands that the science of the method of science — methodology — is first considered to identify a possible and justifiable way forward.

### 3. Methodology

The most widely used methodology in economics is the *deductive*, or ‘hypothetico-deductive’ one (Whewell, 1840), postulating axioms, making simplifying assumptions and adding boundary conditions and auxiliary assumptions. It goes back to Ricardo (1817) and other classical writers. Based on these assumptions, an economic model or theory is constructed. The main axioms concern individual behaviour (perfect rationality, individual utility maximisation as sole motivation). The standard assumptions include perfect information, perfect competition, complete markets, price flexibility, diminishing returns to factor inputs, and no transaction costs. The fundamental theorem of welfare economics has established that one obtains general market equilibrium under such conditions, as well as full factor utilisation, and the economy is Pareto-efficient. Hence in such a theoretical world, the deductive approach allows one to conclude that

$$(2) Y = Y^*,$$

i.e., that actual output is equal to potential output, rendering equation (1) a description of actual output. There is no role for government intervention in such a world of general equilibrium, as markets have already delivered optimum resource allocation without unemployment or underutilisation of other resources. There is also no direct need to incorporate the financial sector, let alone financial frictions.

However, a growing body of literature has discussed situations where there are information imperfections, transaction costs, incomplete markets, and other circumstances that do not conform to the canonical set of assumptions (for surveys on the work on information asymmetries see, for instance, Riley, 2001; Stiglitz, 2000; Stiglitz, 2002). In each case, it was found that general equilibrium and Pareto efficiency could not be obtained or that equilibrium was of a different kind. In the words of Stiglitz (2011): “With information asymmetries, markets behave markedly different than they do with perfect information: markets may not clear; there can be credit and equity rationing, or unemployment...”

Earlier, Lipsey and Lancaster (1956) and the work spawned by them on the theory of second-best had demonstrated that if only one optimality condition is not satisfied, a move toward greater market perfection may result in a decrease in efficiency elsewhere. Consequently, they argued that it might be optimal for the government to intervene. Thus, an important contribution of the literature on equilibrium and efficiency is that it has demonstrated how restrictive the combination of assumptions is that is required in order to obtain market-clearing, equilibrium, full utilisation of resources, Pareto efficiency and the result that government intervention cannot be welfare-enhancing. Put differently, since the assumptions derived from the deductive approach are not known to hold simultaneously anywhere in the world, one cannot expect to obtain equilibrium, nor the finding that there is no role for welfare-enhancing government intervention.

But ‘relaxing’ the restrictive assumptions of the highly stylised neoclassical ‘benchmark’ model one at a time is not an efficient research strategy. By relaxing one of these assumptions at a time, a multitude of different theoretical worlds (‘models’) may

be postulated, and it is not clear which, if any, are relevant for us. Thus, the deductive methodology has yielded many insights, but it is not clear how they can be used productively in reality. Consequently, scientific progress has been slow in economics.

While widespread in the economics literature, the deductive approach is, however, not commonly used in the natural sciences. Instead, the majority of scientific disciplines follow the *inductive* methodology. Here, the research process does not begin with axioms and assumptions. Instead, it starts with and is based on facts and data, which are initially collated and examined in order to detect patterns. Hypotheses are then formulated as to how the obtaining patterns could be linked or explained. In further work, these hypotheses are tested, refined, and built into a model or coherent theory. For scientific progress to occur, hypotheses also need to be falsifiable. Consequently, models and theories are continuously subjected to empirical tests and altered, sometimes drastically, as the reality represented by empirical data requires.

It stands to reason that the consistent application of the inductive (or scientific) research methodology should also be possible in economics. The purpose of this paper is to apply the inductive approach to a central aspect of macroeconomics, namely growth theory.<sup>3</sup>

The inductive methodology is also commonly characterised by adopting a further methodological principle used in science and already widespread in econometrics (see the general-to-specific methodology developed by Hendry and others, such as in Hendry & Mizon, 1978), the principle known as “Ockham’s Razor”. Named after the high medieval British philosopher William of Ockham, it is also known as the ‘principle of parsimony’ or ‘principle of the economy’. Proposed by Aristotle in his *Physics*, this generally accepted ontological principle says that researchers should not postulate unnecessary assumptions or propositions.<sup>4</sup> Necessity is defined by Ockham as either

being self-evident or known from experience.<sup>5</sup> Specifically, Ockham argued that “One ought not postulate many items when he can get by with fewer” (Loux, 1974, p. 74) and that “What can happen through fewer [principles] happens in vain through more.”<sup>6</sup> In our context, this means that parsimonious theories or models that rely on fewer restrictive assumptions are preferable to those that require more. As a result, in this paper, pains were taken to present the simplest and most basic model dispensing with the canonical assumptions that could, nevertheless, explain important macroeconomic scenarios.

## 4. An Inductive Model of Growth

### 4.1. Key Features

The determinants of economic growth are examined following the inductive methodology. No restrictive assumptions are made concerning information, market structure, price flexibility, transactions costs, or individuals’ motivation. However, for market clearing to be obtained, a number of assumptions must jointly hold, including perfect information (see Cukierman, 1984). Since neither perfect information nor any other conditions for equilibrium are assumed to hold in our model, we do not expect any market to clear. Rationing is thus pervasive.

Rationed markets are determined by the *short-side principle*: whichever quantity of demand or supply is smaller determines the outcome (as it is the smallest common denominator for transactions to take place; see Muellbauer & Portes, 1978).<sup>7</sup> Disequilibrium and rationed markets create circumstances that immediately bring economics and politics together: the short side of any rationed market has allocation powers.<sup>8</sup> In other

<sup>3</sup> This paper does not consider the third justification that Ockham recognized. According to him “nothing ought to be posited without a reason given, unless it is self-evident or known by experience or proved by the authority of Sacred Scripture” (William of Ockham. *Scriptum in librum primum Sententiarum* (Ordinatio), Distinctiones XIX–XLVIII. In Etzkorn & Kelly, 1979, p. 290).

<sup>6</sup> Ockham. *Scriptum in librum primum Sententiarum*. In *Opera Theologica*, vol. IV, p. 157, op cit.

<sup>7</sup> On rationing or disequilibrium in a political context, see von Furstenberg and Spangenberg (1996); Ordeshook (1980) and Riker (1980). On growth of government in a disequilibrium model, see Henrekson and Lybeck (1988).

<sup>8</sup> This may indeed explain economists’ general hesitation to contemplate rationed markets: the issue of ‘power’ is usually avoided.

<sup>3</sup> This does not exclude deductive processes. The inductive method also employs deductive logic (such as mathematics), when necessary, but it places priority on empirical data and has sequenced research tasks such that empirical work is allowed to lay the foundation for the development of theories, which are then tested, suitably modified, and applied to reality. Likewise, the deductive method often refers to important empirical facts. Thus, the difference consists mainly in the differing starting point (is it axioms and assumptions, or empirical facts) and the overall dominance of the method.

<sup>4</sup> Pluralitas non est ponenda sine necessitatibus.



words, the short side has the *power* to pick and choose with whom it is doing business and how resources are allocated, irrespective of the transaction price. In equilibrium, it is apparently neutral market forces that produce politically palliative outcomes. In disequilibrium, the reality of discrete and arbitrary decisions by allocators becomes visible — allocators who can, if they wish, exploit their selection power to extract non-market benefits or ‘rents’ (a recent ready example is the labour market for Hollywood actors and the kind of conditionality extracted for being selected).

Applying the inductive methodology and thus expecting disequilibrium in all markets also means that the markets for money and credit are rationed. For a number of reasons, we can expect the supply of money and credit to constitute the short side: Money or credit are necessary in order to engage in market transactions and for final settlement of liabilities, thus ensuring ready demand, as long as there is demand for anything else requiring money or credit to defray. Further, limited liability of directors generates skewed incentive structures in favour of borrowing money (Stiglitz & Weiss, 1981). Due to information imperfections, especially small firms and individuals in the informal sector will experience higher risk premia and credit rationing (Jaffee & Russell, 1976). In other words, since money is unusually useful, its aggregate demand is likely to exceed supply (Schumpeter, 1912; Keynes, 1930). This was empirically demonstrated by Jimenez et al. (2012) in a landmark and large-scale empirical study on Spain.

We empirically observe that modern economies all feature money and banks. Money or credit are necessary to engage in monetary transactions. Thus the inductive approach yields as a second major departure from the neoclassical benchmark that models must include money and banks. Indeed, empirical observation establishes that money and banks are linked in a unique way to each other and to the economy: In most countries, only up to 5 per cent of the money supply is created and distributed by the central bank. Commercial banks create the vast majority of the money supply through credit creation (Macleod, 1855/56; Wicksell, 1898; Schumpeter, 1912; Hahn, 1920; Bank of England, 2014; empirically first demonstrated by Werner, 2014, 2016). In our model, we thus feature a money supply that is created by the banking system through bank credit creation.

That this feature has been missing in the conventional models has also recently been criticised.<sup>9</sup>

What is the relationship between money (bank credit) and economic growth? We follow the common convention of measuring economic growth by the growth of GDP. Since money is a nominal variable, we first seek to identify the link between money (bank credit) growth and nominal GDP growth. Nominal economic growth is the increase in nominal GDP compared to the previous period (such as the last year). For the transactions that make up nominal GDP to increase, an increased amount of money must have changed hands to pay for these transactions (Fisher, 1911, and others). It raises the question of what sort of money is mainly used for transactions.

The relationship between the value of transactions (PQ) and the amount of money used to pay for them is commonly expressed in the so-called quantity equation or ‘equation of exchange’:

$$(3) M \times V = P \times Q.$$

It has conventionally been proxied by the ‘quantity equation’ that uses nominal GDP (PY) to substitute for the value of transactions during the observation period:

$$(4) M \times V = P \times Y.$$

In practice, economists have employed money supply figures as the measure of money changing hands for transactions. This has several disadvantages: (1) the monetary aggregate approach suffers from the empirical problem that with unstable velocity, there is no reliable relationship between any chosen monetary aggregate consisting almost entirely of bank deposits or similar (M1, M2, M3, etc.) and nominal GDP (for an overview, see, for instance, Goodhart, 1989); (2) as Friedman (1956) conceded, the focus on deposits means that it is not clear where to draw the line between different types of private sector assets held in the financial system; (3) as Friedman also conceded (*ibid.*), their use cannot

<sup>9</sup> Benes and Kumhof (2012), in their influential IMF working paper write: “bank liabilities are money that can be created and destroyed at a moment’s notice. The critical importance of this fact appears to have been lost in much of the modern macroeconomics literature on banking, with the exception of Werner (2005)”. See also Werner (1997, 2016).



disaggregate deposits — they are actually savings; and, most importantly, (4) money is inappropriate in the equation of exchange, equation (1) above, which is about the amount of money actually used for transactions, because money supply measures consist of deposits and hence measure money that at the moment of measurement is *not* in circulation.

These problems can be overcome by employing the credit counterparts approach (see, Werner, 1992, 1997; Bank of England, 1996). Werner (2005) and Ryan-Collins et al. (2012) show that the majority (over 95 per cent in industrialised economies) is credit money produced by banks through the process of credit creation.

Thus, let credit creation be represented by  $\Delta c$ , the differenced natural logarithm of the stock of credit (or the percentage growth rate). It can then be divided into credit creation used for non-GDP transactions,  $\Delta c_F$  (financial transactions; Werner, 1997), and credit used for GDP or national income-based transactions (the ‘real economy’) ( $\Delta c_R$ ). It was shown that the observed ‘velocity decline’ prior to this disaggregation was due to an increase in credit creation for asset purchases, which affects asset prices, but not nominal GDP (Werner, 1997). Following this disaggregation into those transactions that are part of GDP and those that are not, a stable link between a suitable monetary aggregate and nominal GDP is re-established. As a result, the equation of exchange for the ‘real economy’ can then be expressed in growth terms as follows:

$$(5) \Delta p_R + \Delta y = \Delta c_R,$$

where  $\Delta p_R$  stands for the differenced logarithm of the GDP deflator,  $\Delta y$  for the differenced logarithm of real output, and  $\Delta c_R$  for the differenced logarithm of nominal credit creation used for GDP transactions. Shortly, equation (5) says that for nominal GDP (i.e., the value of transactions that make up nominal GDP) to grow, there must be an increase in credit creation used to fund this growth.

Since the framework does not assume any of the long lists of joint conditions for equilibrium to hold, there can also be no expectation for equation (2) to hold. Hence the actual output is unlikely to be equal to potential output. Likewise, actual growth cannot be expected to be equal to poten-

tial growth. Equation (5) is a disequilibrium or rationing equation.

In disequilibrium economics, the main purpose of a growth model is not the establishment of the conditions for equilibrium, the identification of some ‘steady state’, nor the calibration of an equilibrium model. Instead, the disequilibrium literature analyses different rationing regimes that may describe the economy under different circumstances (Muellbauer & Portes, 1978; and others). Likewise, we can now identify several different rationing regimes, which deliver different outcomes concerning the relationship between credit, output, and prices. The nature of the credit supply and the state of the economy indicate which rationing regime is relevant at any moment. The simple framework presented here is examined to see whether in principle it can account for some of the key ‘anomalies’ that conventional macroeconomic models have not been able to explain (the greater role of monetary quantities than interest rates, the special role of banks, the velocity decline, asset price bubbles and the recurring banking crises, to name a few; for a comprehensive list with literature, see Werner, 2012). Future research can put the model to focused empirical tests, and link observed data and time periods to particular rationing regimes.<sup>10</sup>

## 4.2 Disequilibrium Regimes

### 4.2.1 Regime 1: Full employment, classical case

If the real economy expressed in equation (5) operates at full employment of all factor inputs, then for given productivity, positive  $\Delta c_R$  must raise prices. It is this case that classical and neo-classical models are concerned with, and which is here revealed as a special case. It can be represented as follows:

$$\begin{aligned} &\text{If } Y = Y^* = \text{constant} \\ &\quad \text{and } \Delta c_R > 0 \\ &\quad \text{then with } \Delta y = 0 \\ &\quad \text{we obtain } \Delta c_R = \Delta p_R. \end{aligned}$$

<sup>10</sup> For an overview of relevant past empirical tests consistent with this empirical model, see Werner (2012), as well as specific studies, such as Werner (1997), Jorda et al. (2013), Ryan-Collins et al. (2016), Bezemer et al. (2016).

As the entire increase in  $C_R$  is reflected in an increase in the GDP deflator, real GDP  $Y$  will remain unchanged. The increase in nominal GDP will entirely be reflected in price rises. For instance, a 5 per cent increase in credit creation used for GDP transactions will result in a 5 per cent increase in prices.

#### 4.2.2 Regime 2: Less than full employment

If the actual output is below potential output, then in principle, there is no reason for increases in credit creation used for GDP transactions ( $\Delta c_R$ ) to produce inflation. In the pure case of no price rises, the disequilibrium model yields:

$$\begin{aligned} &\text{If } Y < Y^* \\ &\text{and } \Delta c_R > 0 \\ &\text{then with } \Delta p_R = 0 \\ &\text{we obtain } \Delta c_R = \Delta y. \end{aligned}$$

In words, when not all resources are fully mobilised, or when there are productivity gains, new credit creation used for GDP transactions ( $\Delta c_R$ ) may result in new real output and income without causing inflation. The increase in nominal GDP (PY) will be entirely due to rises in real GDP (Y). Japan in the two decades since ca. 1997 may be such a case of output below potential, underutilisation of factor inputs (and thus unemployment, idle factories etc.).

#### 4.2.3 Regime 3: Full employment, consumptive credit

Nominal national income PY is disaggregated into its components:

$$(6) PY = C + I + G,$$

where C, I and G stand for nominal consumption, nominal private-sector investment and nominal government spending. Likewise, we can now disaggregate credit used for GDP transactions  $C_R$  further into credit used for consumption, credit used for investment, credit used for government expenditure (the model can be extended for an open economy by adding net exports NX, with exports being exogenous and imports a function of income; however, for expositional purposes, a closed economy is considered). Hence:

$$(7) C_R = C_C + C_I + C_G.$$

If banks create new purchasing power and lend it for consumption purposes ( $C_C$ ), then the amount of output will stay unchanged since consumption does not produce new output of goods or services. Thus, when output is at or close to the full employment level and more purchasing power is created through 'consumptive credit creation', more transactions will occur, laying claim to a given amount of output. This consumptive credit creation  $C_C$  must translate into higher consumer goods prices. It is a restatement of the slightly less specific first regime above. Thus:

$$\begin{aligned} &\text{If } Y^* = Y = \text{constant} \\ &\text{and } \Delta c_C > 0 \\ &\text{such that } \Delta c_R > 0 \\ &\text{we obtain } \Delta c_R = \Delta p_R. \end{aligned}$$

Shortly, a 5 per cent increase in consumptive credit creation will push up consumer prices by 5 per cent. The rise in total real circulation credit creation  $C_R$  will push up the GDP deflator proportionately. Consumptive credit creation is inflationary. This regime is identified as the special case that the orthodox classical and neoclassical literature usually treats as a generally applicable result (referred to as the 'quantity theory of money', see Friedman, 1956).

#### 4.2.4 Regime 4: Asset credit

If banks create new purchasing power and lend it for financial asset transactions, including stock and real estate transactions ( $C_F$ ), then the amount of output will stay unchanged. However, this will not lead to consumer price inflation since the extra purchasing power is not used to lay claim on output that is part of GDP. Since it is used for financial transactions, it is their nominal value that must rise. At least in the case of short-term assets and fixed assets, such as real estate, it must result in asset price rises. Thus:

$$\begin{aligned} &\text{If } Y^* = Y = \text{constant} \\ &\text{and } \Delta c_F > 0 \\ &\text{such that } \Delta c_R = 0 \\ &\text{we obtain } \Delta c_R = \Delta p_R = \Delta y = 0 \\ &\text{However,} \\ &\Delta p_F + \Delta q_F = \Delta c_F. \end{aligned}$$

Therefore, such asset or ‘speculative’ credit creation may result in asset price inflation, while output and prices may not be affected. This regime explains asset price ‘bubbles’ but also their collapse. Rises in  $C_p/C$  or  $C/Y$  can be considered as an indicator that an asset ‘bubble’ is being formed. All expansions in financial credit creation are unsustainable, since they are not based on productive activity yielding income streams that can be used to service and repay the original asset-based loans  $C_p$ , but instead are aimed at capital gains. However, the capital gains are a function of a continued increase in credit for financial transactions. The model shows that income streams cannot in aggregate be sufficient to service the previously extended speculative credit when aggregate speculative credit creation slows. In this case, bankruptcies and non-performing loans in the banking system must follow as soon as credit creation for asset purchases ceases. Since another institutional fact is that banks are highly leveraged, with large banks recording capital significantly below 10 per cent of assets, a mere drop in bank asset values of 10 per cent results in *banka rotta*. Since banks often act in a herd-like fashion, a banking crisis is then likely. Therefore, a policy implication to avoid asset cycles and instability in the banking system is to monitor  $C_p/C$  (or  $C/Y$ ) closely and take policies to prevent a significant rise.

#### 4.2.5 Regime 5: Productive credit

If the banks (or their regulatory authority) can ensure that new credit creation is used specifically for that type of activity that will enhance the potential economic growth rate, such as credit creation for productive investment, then even with output at the full employment level, additional credit creation will remain non-inflationary and results in higher output — beyond the former full employment level.

The allocation of credit organises and mobilises the factors of input, which may boost the potential growth rate itself. In other words, potential growth is not a given, but instead a function of credit creation for productive investment. As Schumpeter (1912) described, credit allows the implementation of research and development, resulting in the invention of innovations and new technologies. New technologies — in effect, recipes to combine given inputs in a new way

that produces products valued highly by buyers (Romer, 1990)—enhance total factor productivity. Credit can also enable entrepreneurs or firms to implement new technologies. In this case, both the mobilisation of factor inputs and total factor productivity can be enhanced through the direction of credit to productive uses. Since the credit market is always rationed and supply-determined, banks are already engaged as allocators who engage in more or less arbitrary discrimination of loan applicants (due to imperfect information). This otherwise arbitrary allocation power can be harnessed to benefit economic growth. Thus, it is possible (though not necessarily always the case) that the following functions will hold true:

$$(8) \text{QFI} = g(C_i; \dots),$$

$$(9) \text{TFP} = h(C_i; \dots).$$

In other words, the creation of new credit for productive investment  $C_i$  (‘productive credit creation’) may help mobilise factors of production that the borrowing firm would otherwise not have been able to mobilise (enhancing QFI), while at the same time it may allow the invention of new recipes and their implementation (raising TFP). These new technologies will therefore increase the potential growth rate. It follows that even when the economy is in a situation where actual output is at the full employment level, it is possible for new credit creation to be non-inflationary and instead boost growth further by raising the full employment level of output through the implementation of new technologies (such disembodied recipes are not limited by the physical constraints that limit other factors of production).

A dynamic disequilibrium model is necessary to represent this process. To keep it parsimonious and as tractable as the above relationships, a number of simplifying assumptions are now made, for instance, that the boost to potential output (in money terms) is as large or larger than the cost in terms of productive credit creation ( $\Delta Y^*P_R \geq \Delta C_R$ ). It is a plausible assumption since new technology is often characterised by increasing returns to scale and has other unusual features and positive externalities which economics models usually have difficulties expressing (some of these features of the technology are that it is a non-rival, non-exclusive, reproducible good to which the

second law of thermodynamics does not apply; because it is pure knowledge, words that can be stored, accumulated, re-used without diminishing and without limiting the simultaneous use by others; see Romer, 1990). Moreover, we assume that the full employment level of output allows for frictional or natural unemployment, which provides leeway for the temporary mobilisation of resources without immediate inflationary pressure. We further assume that credit creation takes one time period to affect nominal GDP (either prices or output), just as the implementation of new technologies takes one time period:

$$(10) \Delta p_{Rt+1} + \Delta y_{t+1} = \Delta c_{Rt},$$

$$(11) Y_{t+1}^* = f(QFI_t^*; TFP_t^*).$$

Thanks to the productive credit creation  $C_t$  in time period 1, the rise in nominal output PY (due to greater  $C_t$  and  $C_R$ ) is matched by higher real output in period 2, made possible due to the productivity gains implemented due to credit creation  $C_t$ . During this time period 2, prices would rise in reaction to the increased purchasing power created in time period 1 if output had not increased. However, this incipient rise is neutralised, and price pressure disappears as potential output rises in the second time period. Thus:

**Time period t:**

$$Y_t^* = Y_t$$

$$\text{and } \Delta c_{Rt} = 0.$$

**Time period t+1:**

$$\text{If } \Delta c_{It+1} > 0$$

$$\text{so that } \Delta c_{Rt+1} > 0,$$

but since in the previous period there was no increase in credit, we obtain

$$\Delta p_{Rt+1} = 0$$

$$\text{and } \Delta y_{t+1} = 0$$

$$\text{hence } \Delta \ln(P_R Y)_{t+1} = 0.$$

**Time period t+2:**

$$\Delta tfp_{t+2} > 0 \text{ (due to } \Delta c_{It+1} > 0)$$

$$\text{so that } \Delta y_{t+2}^* > 0 \text{ (according to eq. (6); with}$$

$$\Delta Y_{Rt+2}^* \geq \Delta C_{Rt+1})$$

$$\text{and } \Delta y_{t+2} > 0$$

$$\text{with } Y_{t+2}^* \geq Y_{t+2}$$

$$\text{then } \Delta y_{t+2} = \Delta c_{Rt+1}$$

$$\text{and } \Delta p_{Rt+2} = 0,$$

Although the economy initially already operated at the full employment level, an increase in productive credit creation increases productivity and thus boosts output without stirring inflation. We therefore find that it is possible to boost output even in an economy that is already at full employment without inflation if the new credit creation is used for activities that enhance the maximum potential and actual output. This proposition may be what German economists, including Schumpeter (1912), referred to frequently in the late 19<sup>th</sup> century and the first half of the 20<sup>th</sup> century when they suggested that ‘productive credit creation is non-inflationary’.<sup>11</sup>

This regime may initially surprise, as it suggests the possibility of non-inflationary growth despite resources already being fully employed. However, it may describe the situation of high-growth economies that nevertheless managed to keep inflation in check, such as Japan during the 1960s, Korea and Taiwan subsequently and China since the 1980s. It is noted that in these countries, the ‘guidance’ of bank credit indeed played a significant role (IBRD, 1993; Werner, 2002, 2003, 2005). It is this role of banks as providers of such development finance that Schumpeter (1912) had in mind.

*“Banks do not, of course, ‘create’ legal-tender money and still less do they ‘create’ machines. They do, however, something — it is perhaps easier to see this in the case of the issue of banknotes — which, in its economic effects, comes pretty near to creating legal-tender money and which may lead to the creation of ‘real capital’ that could not have been created without this practice”.* Schumpeter (1954, p. 1114) (emphasis as in original).

## 5. Some Results and Limitations

In this paper, a parsimonious rationing framework is presented, which identifies credit creation as a key determinant of actual growth but potentially also a factor in raising potential growth via the implementation of new technologies. By examining five rationing regimes, the model is found to be consistent with empirical evidence that has been difficult to reconcile with conventional equilibrium models.

<sup>11</sup> Schumpeter was of course Austrian by nationality, although his writings were more in the spirit of his German colleagues at the German universities where he worked between 1925 and 1932, than that of the ‘Austrian School’.



The model seems consistent with the empirical evidence on credit, disaggregated credit and its link to the economy (see footnote 11). It is seen that money or credit creation resulting in inflation is but one special case. An important factor in determining the balance between growth and inflation is the use to which newly created credit (money) is put. Banks make the decision concerning its allocation. However, in most countries there is no indication that banks' allocation decisions are made with any reference to the macroeconomic (or 'systemic') objective to enhance growth and minimise inflation. Regulators certainly have not encouraged the type of allocation of bank credit that we find would be preferable for social welfare: productive credit creation. Instead, it is a well-documented trend since the 1980s that bank credit has increasingly been created for asset purchases (regime 4, asset credit), and this has been tolerated by regulators.<sup>12</sup>

Given the limitations of the stylised rationing regimes mentioned in this paper, further work is necessary both on theoretical foundations and empirically testing the model. Below I would like to speculate on the directions that needed further research may take.

### 5.1 Further Disaggregation of Investment Credit

For maximisation of economic growth, a further disaggregation of nominal investment  $I$  into different types of investment may be called for, and hence a further disaggregation of  $C_I$ . For instance, it will make a difference to economic growth, whether new claims on finite resources are created by banks and handed over to those who use them for investment in research and development, investment in the application of research results, or investment in the replacement of machinery, etc. Thus, a further disaggregation could attempt to classify investments into those in low-value added industries and those in high-value added industries, etc. Our model raises the need for much further research into methods to identify *ex ante* different productivity levels of investment projects. Moreover, the

definition of productivity could include environmental impact etc.

### 5.2 Credit Guidance

In the present model of non-Walrasian rationing market regimes, there is no indication that the market, left on its own devices, will allocate credit in a way that is optimal for overall social welfare. Since the credit market is supply-determined and the decision about whether and how much to lend to and who to lend to is made by the banks, a public goods function that affects the entire economy is performed by them. They create the majority of purchasing power in the economy; they also decide who will use it for what purposes. A rationed market means that some loan applicants are accepted while others are rejected. There is no guarantee that the choice made by individual banks is consistent with the allocation that would maximise social welfare. Given the pervasiveness of imperfect information, it would be a mere coincidence if the banks' decisions were welfare optimal.

Indeed, the incentive structure of loan officers may produce behaviour that is oriented towards other goals than what would be in the interest of the overall population (for instance, they may favour large-scale firms in established industries, as this may minimise risk to their own job security; they may favour 'unproductive' credit extension to consumers or speculators, which will result in consumer price inflation and asset price inflation, without counter-veiling positive results for social welfare).

Without 'guidance' from the perspective of social welfare, the collective action of banks is likely to increase inequality and result in sub-optimal growth. Thus there is a case for government intervention at various levels: Firstly, the government can intervene to implement an institutional design for the banking system, which will give loan officers incentives that will align their individual behaviour more with the social welfare goal. For instance, a banking sector dominated by small-scale local and not-for-profit banks, as was the case for many decades in Germany, may result in less credit creation for asset purchases and more credit creation for SMEs using the funds for productive business investment. Secondly, the government or other delegated authority (such as the central bank) may enhance welfare by inter-

<sup>12</sup> This is also a view taken by influential policymakers, such as the UK's former chairman of the Financial Services Authority, Lord Adair Turner, in Turner (2012).



vening in the decision-making process concerning the decision of how much to lend in aggregate (i.e., how much total credit should be created) and who to lend to (which industrial sector, etc.). It can take the form of either formal or informal direction or ‘guidance’ by the central bank of private sector bank lending, whereby the central bank calculates by how much total credit creation should increase in the economy (quantitative credit controls) and whereby it decides how the increase (or decrease) in credit creation will be allocated across different industries and sectors of the economy (qualitative credit controls). In contrast, purely unproductive credit (for consumptive or speculative purposes) is suppressed.<sup>13</sup>

The relevance of the above disequilibrium model which has presented the ‘general theory of credit’ (as opposed to the special case known as the traditional ‘quantity theory’) may be examined by testing the hypothesis that many central banks could be expected to engage in or have engaged in direct guidance of bank credit to the differing broad types of activity identified. Such credit controls have indeed been implemented by most central banks all over the world (see Goodhart, 1989). Credit controls have at one stage been used by, among others, the Bank of England, the Bank of France, the Bank of Japan, the Bank of Korea, the Bank of Thailand, the US Federal Reserve, the German Reichsbank, the Austrian National Bank, the Reserve Bank of India, the central banks of Malaysia, Indonesia, Taiwan, China and many central banks of developing countries. Developing countries have often been open to the use of directed credit. The World Bank’s study of the East Asian ‘Economic Miracle’ (IBRD, 1993) concluded that intervention in the direction of credit had played a substantial role in achieving superior economic performance.<sup>14</sup>

Even the IMF has, throughout its existence, engaged in ‘direct guidance’ of bank credit to specific sectors of the economy. Polak (1997) describes a typical IMF exercise in ‘financial programming’ of the kind that the IMF has regularly implemented in numerous countries over the

past decades. According to Polak, information about credit creation in a client country is disaggregated by IMF staff. The specific allocation of credit creation to different parts of the economy is made subject to IMF conditionality. Credit creation for “non-productive expenditures” receives the IMF’s “frowning” and is dealt with through the enforcement of “financial restraint” (p. 9), i.e. credit rationing. Much more evidence can be gleaned from the (often confidential) structural adjustment programmes implemented by the IMF worldwide in over a hundred cases over the past sixty years. Applying the principle of ‘revealed preference’ (Samuelson, 1938) to central banks and the IMF, one can say that they have favoured disequilibrium economics and its policy corollary, intervention in the allocation of credit.

### 5. 3. Shaping the Structure of the Banking Sector

An entirely different, and possibly preferable, alternative exists, which would not require any regular intervention in the credit markets via some form of ‘guidance’. This alternative requires an intervention in the design of the banking structure. If, for instance, the banking structure was dominated by banks that are neither able nor prone to allocate credit for harmful purposes — particularly financial transactions — then the probability of the banking sector allocating resources in a Pareto-efficient way rises substantially. Here, the German banking sector structure comes to mind, which is dominated by thousands of small, locally headquartered banks that tend not to lend for financial transactions but to households and SMEs (Schmidt et al., 2016). As a result, they weathered the financial crisis well, and also overall credit growth did not suffer the kind of collapses that have depressed growth in the UK, Ireland, Portugal, Spain or Greece. Thus further research is necessary into the growth implications of particular features and characteristics of different banking structures.

### 5.4 Monetary Reform

Another alternative is to change core aspects of the current institutional design. Instead of allowing banks to create the money supply, re-assign this prerogative to the sovereign, or else render it open to market competition

<sup>13</sup> This is in line with the work on financial repression, especially in East Asia, by Hellmann, Murdoch, and Stiglitz (1998). On credit guidance in East Asia, see IBRD (1993) and Werner (2002).

<sup>14</sup> The subsequent dismal performance in many countries should not detract from this success.

and allow decentralised and competing local currencies. A number of recent such reform initiatives have been suggested, including by Benes and Kumhof (2012), and the results of this paper throw new light on this possibility. However, more research is needed into how the likely differing behaviour of alternative money creators would affect the quantity and allocation of money creation in order to ensure that money creation is steered towards the desirable forms of transactions (creating

value and income streams, i.e. ‘productive credit creation’) and indeed is used for productive purposes. The historical record seems to suggest that highly centralised systems of money creation, for instance via only the central bank (such as in the Soviet Union) are inefficient and decentralised systems of money creation with many small banks are more able to support SMEs, create jobs, deliver growth and more resilient (Werner, 2013a, b; Mkhai-ber & Werner, 2021).

## REFERENCES

1. Arrow Kenneth J. Towards a theory of price adjustment. In M. Abramowitz et al. (Eds.), *The Allocation of Economic Resources*. Stanford: Stanford University Press; 1959.
2. Bank of England. *Inflation Report*, Summer quarter. London: Bank of England; 1996.
3. Bank of England. Money in the modern economy, *Quarterly Bulletin*, Q1; 2014.
4. Barro Robert J. Notes on growth accounting. *Journal of Economic Growth*. 1999;4(2):119–137.
5. Benes Jaromir, Kumhof Michael. The Chicago Plan Revisited. IMF Working Paper No. 202. Washington, D.C.: IMF; 2012.
6. Bezemer Dirk, Grydaki Maria, Zhang Lu. More mortgages, lower growth? *Economic Inquiry*. 2016;54(1):652–674.
7. Blanchard Olivier, Fischer Stanley. *Lectures in Macroeconomics*. Cambridge, MA: MIT Press; 1989.
8. Cukierman Alex. *Inflation, Stagflation, Relative Prices and Imperfect Information*. New York: Cambridge University Press; 1984.
9. De Grauwe Paul. The scientific foundation of dynamic stochastic general equilibrium (DSGE) models. *Public Choice*. 2010;144(3–4):413–443.
10. Etzkorn Girard, Kelly Francis, (Eds.). *Opera Theologica*. Vol. IV, ed. St. Bonaventure University; 1979.
11. Fisher Irving. *The Purchasing Power of Money, Its Determination and Relation to Credit, Interest and Crises*. New York: Macmillan; 1911.
12. Friedman Milton. The Quantity Theory of Money: A restatement. In Friedman M. (Ed.), *Studies in the Quantity Theory of Money*. Chicago: University of Chicago Press. 1956.
13. Goodhart Charles A.E. *Money, Information and Uncertainty*, 2<sup>nd</sup> edition. London: Macmillan; 1989.
14. Hahn Albert L. *Volkswirtschaftliche Theorie des Bankkredits*. Tuebingen: J. C.B. Mohr; 1920.
15. Hellmann Thomas F., Murdock Kevin C., Stiglitz Joseph E. Financial Restraint: Towards a New Paradigm. In Masahiko Aoki, Hyung-Ki Kim, Masahiro Okuno-Fujiwara, (Eds.), *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*. New York: Oxford University Press; 1998.
16. Hendry David F., Mizon Grayham E. Serial correlation as a convenient simplification, not nuisance: A comment. *Economic Journal*. 1978;88:549–563.
17. Henrekson Magnus, Lybeck Johan A. Explaining the growth of government in Sweden: A disequilibrium approach. *Public Choice*. 1988;57(3):213–232.
18. IBRD. *The East Asian Miracle, Economic Growth and Public Policy*. Oxford: Oxford University Press; 1993
19. Jaffee Dwight M., Russell T. Imperfect information, uncertainty and credit rationing, *Quarterly Journal of Economics*. 1976;90(4):651–66.
20. Jiménez Gabriel, Ongena Steven, Peydró José-Luis, Saurina, Jesús. Credit Supply and Monetary Policy: Identifying the Bank Balance-Sheet Channel with Loan Applications. *American Economic Review*. 2012;102(5):2301–26.
21. Keynes John Maynard. *A Treatise on Money: The Applied Theory of Money*. London: Macmillan; 1930
22. Lipsey R.G., Lancaster Kelvin. The general theory of second best. *The Review of Economic Studies*. 1956–1957;24(1):11–32.

23. Loux Michael J. *Ockham's Theory of Terms: Part I of the Summa Logica*. Notre Dame, Ind.: University of Notre Dame Press; 1974.
24. Macleod Henry Dunning. *The theory and practice of banking: with the elementary principles of currency, prices, credit and exchanges*, London: Longmans, Brown, Green, and Longmans; 1855.
25. Mkhiaiber Achraf, Werner Richard A. The relationship between bank size and the propensity to lend to small firms: New empirical evidence from a large sample. *Journal of International Money and Finance*. 2021;110 (February). <https://doi.org/10.1016/j.jimonfin.2020.102281>
26. Muellbauer John, Portes Richard. Macroeconomic models with quantity rationing, *Economic Journal*. 1978;88:788–821.
27. Newcomb S. *Principles of Political Economy*. New York: Harper; 1885.
28. Ordeshook P.C. Political Disequilibrium and Scientific Inquiry: A Comment on William Riker's "Implications from the Disequilibrium of Majority Rule for the Study of Institutions". *American Political Science Review*. 1980;74(2):447–450. <https://doi.org/10.2307/1960639>.
29. Jorda Oscar, Schularick Moritz, Taylor Alan M. When credit bites back. *Journal of Money, Credit and Banking*. 2013;45(2):3–28.
30. Polak Jacques J. *The IMF monetary model at forty*. IMF Working Paper, WP/97/49, April. Washington, D.C.: IMF; 1997.
31. Ricardo David. *On the Principles of Political Economy and Taxation*. London: John Murray; 1817.
32. Riley J. G. Silver signals: Twenty-five years of screening and signaling. *Journal of Economic Literature*. 2001;39(2):432–478.
33. Riker W.H. Implications from the disequilibrium of majority rule for the study of institutions. *American Political Science Review*. 1980;74(2):432–446. <https://doi.org/10.2307/1960638>.
34. Romer Paul. Endogenous Technological Change. *Journal of Political Economy*, 1990;98:71–102.
35. Ryan-Collins Josh, Greenham Tony, Werner Richard A., Jackson Andrew. *Where Does Money Come From?* London: New Economics Foundation, 2nd edition; 2012.
36. Ryan-Collins Josh, Werner Richard A., Castle Jennifer. A half-century diversion of monetary policy? An empirical horse-race to identify the UK variable most likely to deliver the desired nominal GDP growth rate. *Journal of International Financial Markets, Institutions & Money*. 2016;43(July):158–176.
37. Samuelson Paul. A Note on the Pure Theory of Consumer Behavior. *Economica*, 1938;5(17):61–71.
38. Schmidt Reinhard H., Seibel Hans Dieter, Thomes Paul. *From Microfinance to Inclusive Banking — Why Local Banking Works*. Weinheim: Wiley; 2016.
39. Schumpeter Joseph A. *Theorie der wirtschaftlichen Entwicklung*. Leipzig: Duncker und Humblot; 1912.
40. Schumpeter Joseph A. *History of Economic Analysis*. New York: Oxford University Press; 1954.
41. Stiglitz Joseph E., Weiss Andrew. Credit rationing in markets with imperfect information. *American Economic Review*. 1981;71(3):393–410.
42. Stiglitz Joseph E. The Contributions of the Economics of Information to Twentieth-Century Economics, *Quarterly Journal of Economics*. 2000;115(4):1441–1478.
43. Stiglitz Joseph E. Information and the Change in the Paradigm in Economics. The abbreviated version of Nobel lecture. *American Economic Review*. 2002;92(3):460–501.
44. Stiglitz Joseph E. Rethinking macroeconomics: What failed and how to repair it. *Journal of the European Economic Association*, 2011;9(4):591–645.
45. Stiglitz J.E. Where modern macroeconomics went wrong. *Oxford Review of Economic Policy*. 2018;34:70–106.
46. Turner Adair. Credit creation and social optimality. *International Review of Financial Analysis*. 2012;25:142–153.
47. von Furstenberg George M., Spangenberg Nicholas O. The political temptations of rationing by insiders. *Public Choice*. 1996;88(1–2):69–81.
48. Werner Richard A. Towards a quantity theory of disaggregated credit and international capital flows, with empirical evidence from Japan. Paper presented at the Royal Economic Society Annual Conference in York in April 1993 and the Fifth Annual PACAP Conference on Asia-Pacific Capital Markets in Kuala Lumpur in June 1993; 1992.
49. Werner Richard A. Towards a new monetary paradigm: a quantity theorem of disaggregated credit, with evidence from Japan. *Kredit und Kapital*. 1997;30(2):276–309.

50. Werner Richard A. Monetary policy implementation in Japan: What they say versus what they do. *Asian Economic Journal*. 2002;16(2):111–151.
51. Werner Richard A. Princes of the Yen, Japan's Central Bankers and the Transformation of the Economy, New York: M.E. Sharpe, 2003; new English edition 2018, QuantumPublishers.com; 2003.
52. Werner Richard A. *New Paradigm in Macroeconomics*. Basingstoke: Palgrave Macmillan; 2005.
53. Werner Richard A. Towards a New Research Programme on 'Banking and the Economy' — Implications of the Quantity Theory of Credit for the Prevention and Resolution of Banking and Debt Crises. *International Review of Financial Analysis*, 2012;25:94–105.
54. Werner Richard A. Commentary: Crises, the spatial distribution of economic activity and the geography of banking. *Environment and Planning A*. 2013a;45(December):2789–2796.
55. Werner Richard A. Towards a More Stable and Sustainable Financial Architecture — A Discussion and Application of the Quantity Theory of Credit. *Kredit und Kapital*. 2013b;46(3):353–389.
56. Werner, Richard A. Can Banks Individually Create Money Out of Nothing? — The Theories and the Empirical Evidence. *International Review of Financial Analysis*. 2014;36:1–19.
57. Werner Richard A. A lost century in economics: Three theories of banking and the conclusive evidence. *International Review of Financial Analysis*. 2016;46(July):361–379.
58. Whewell William. *Philosophy of the Inductive Sciences*. London; 1840.
59. Wicksell Knut. *Geldzins und Güterpreise*. Jena: Fischer; 1898.

### ABOUT THE AUTHOR

**Richard Andreas Werner** —D.Phil. (Oxon) in Economics, Professor of Banking and Finance, Faculty of Business and Law, Leicester Castle Business School

Address: De Montfort University, The Gateway, Leicester, LE 1 9BH, United Kingdom

richard.werner@dmu.ac.uk

Fanhai International School of Finance (FISF), Fudan University, Shanghai, People's Republic of China

Address: 14F, Harbour Ring Plaza, No.18 Middle Xizang Road, Huangpu District, Shanghai, China 200001

### ОБ АВТОРЕ

**Ричард Андреас Вернер** — доктор экономических наук, профессор банковского дела и финансов факультета бизнеса и права бизнес-школы Leicester Castle

Фанхайская международная школа финансов (FISF), Университет Фудань, Шанхай, Китайская Народная Республика

richard.werner@dmu.ac.uk



ORIGINAL PAPER

doi: 10.26794/2308-944X-2021-9-4-23-31  
JEL codes: F69, N40

# Lessons from Applying Sanctions and Blockades

Thomas Flichy de La Neuville

## ABSTRACT

From the geo-economic standpoint, a power may avail itself of a spectrum of constraining measures against a hostile or dangerous nation – measures ranging from sanctions, boycotts to embargos and blockades, which last represent the ultimate form of economic pressure to which an adversary may be subjected. Because they are an extreme type of economic banishment, their imposition reveals the physiognomy of the power struggle; and, because they obstruct the free flow of goods, they also appear to be an ephemeral anomaly within the Liberal world order. Yet, their incumbency in the game is a reflection of geo-economic complexity. Whether enacted to great fanfare or not, blockades freeze some transactions while generating business opportunities elsewhere. And while an activity momentarily stilled in one zone may be reshaped to the advantage of another, blockades still allow their instigators to zero in on key sectors of the enemy's economy without endangering the country's survival. Thus, we can see blockades as an economic and military measure serving imperial ends. This essay succinctly reviews the history of famous blockades and garners the core economic lessons one may learn from them.

**Keywords:** Embargo; geoeconomics; geopolitics; Napoleon; imperial policy; trade; sanctions; France; Britain; war

**For citation:** Flichy de La Neuville Thomas. Lessons from Applying Sanctions and Blockades. *Review of Business and Economics Studies*. 2021;9(4):23-31. doi: 10.26794/2308-944X-2021-9-4-23-31

ОРИГИНАЛЬНАЯ СТАТЬЯ

# К вопросу о видах финансовых блокад и санкций

Томас Флиши де ла Невиль

## АННОТАЦИЯ

Статья посвящена анализу истории применения санкций и блокад, которые с геоэкономической точки зрения государство может считать сдерживающими мерами, направленными против враждебной или опасной нации. Целью статьи является исторический анализ различных мер экономического принуждения – от санкций и бойкотов до эмбарго и блокад. Автор показал, что такие меры представляют собой крайний тип экономического давления или наказания, их введение или навязывание раскрывает, так сказать, «физиономию» борьбы за власть. В анализе применялась методология исторической компаративистики и методы экономической политологии. Указан двойственный характер применяемых мер, которые, поскольку они препятствуют свободному потоку товаров, услуг и капиталов, являются также эфемерной аномалией внутри либерального мирового порядка. В то же время, замораживая некоторые транзакции в одном месте, тем самым создают возможности для бизнеса в других местах. И хотя деятельность, на мгновение приостановившаяся в одной зоне, может быть преобразована в пользу другой, блокады по-прежнему позволяют их зачинщикам сосредоточиться на ключевых секторах экономики противника, не ставя под угрозу выживание всей страны. Блокады – это экономическая и военная мера, эффективность которой бывает разной. Проанализировав историю знаменитых блокад, автор сформулировал основные экономические уроки, которые следует из них извлечь.

**Ключевые слова:** блокада; эмбарго; геоэкономика; геополитика; Наполеон; имперская политика; торговля; санкции; Франция; Британия; война

**Для цитирования:** Флиши де ла Невиль Томас. К вопросу о видах финансовых блокад и санкций. *Review of Business and Economics Studies*. 2021;9(4):23-31. doi: 10.26794/2308-944X-2021-9-4-23-31



## What Are Aims of Financial Blockades?

In geopolitics, blockades serve imperialistic aims.<sup>1</sup> Indeed, they are an act of war. Their objective resides more in seizing control of the sea routes than direct acquiring land. As time goes, they have taken on increasingly subtle, unnoticeable, and imperceptible forms. As clever chameleons, they can change and adapt to the existing environment. Once easy to bypass, blockades have gradually assumed the form of more hermetic and coercive measures. They have had, since this transformation, a far more significant impact than formerly on the economic fortunes of competitors of the blockaded nations.

## Total Blockades — Indubitable Sign of War

Financial sanctions are the first concrete signal that warfare is underway; they surface in the public arena with a nation's declared resolution to enforce a blockade. Some legal experts consider blockades to be a substitute for war (Ferrand, 2004). In all circumstances, the total blockade's economic aims are part and parcel of the appetent aggressiveness of a conquering schemer. For example, in the 5th century BC, the Vandals blockaded Hippo Regius (Freu, 2016): "all it took was a few ships to prevent Roman reinforcements from entering the port" (Morazzani, 1966). Occasionally enforced against key cities during the Middle Ages (Gazenbeek & Wiethold, 2015), in the early 17th century, blockades became more and more common when economies started to focus their attention on the sea routes. For example, when the United Provinces of the Netherlands blockaded the 350-kilometre-long river Scheldt, they aimed to redirect Antwerp's trade towards Amsterdam. The United East India Company, aka the Dutch East India Company (or *Verenigde Oost-Indische Compagnie*) conducted in the East Indies in the 1660s a naval blockade on the Chao Phraya — the river that irrigated the entirety of the central plains of former Siam on its way to

the capital of Ayutthaya (Landry-Deron, 2001). In the 18th century, piracy became commonplace. It was the (raiding) practice of confiscating enemy ships and property (Cassin, 1939). Increasingly widespread conflicts often pitted maritime empires against coastal empires, as was the case between England and Napoleonic France or between the Allies and Turkey, whose indefensible coastline the former ceaselessly attacked during the First World War. Therefore, we can view blockades as a transition from the long-term, slow-paced undertow of economic warfare to the sudden flare-up of overt, violent confrontation (Avenel, 2004a). They were a sort of a final warning shot, which served several objectives at once: the overthrow of the enemy country's ruling regime, the intimidation of neutral nations, the opportunity to impress the allies with a display of military prowess, and, of course, the rallying of public support in the country whose elite had instigated the blockade (Ibidem). The chief defects of this elaborate choking manoeuvre are the overt, non-secretive guise of the operation and the radicalness required for its implementation. To be properly enforced, blockades also require that the instigators' aims be pursued with unfaltering constancy. It explains why Iraq was extremely reluctant to blockade Iran when the two countries clashed in the 1980s (Djalili, 1984). Blockades are therefore perfectly synonymous with all-out war, especially when their aim is the unchallenged mastery of the seas.

## A Geopolitical Predilection for Maritime over Terrestrial Objectives

A blockade is effective when mobilising as few as possible of the instigator's forces while also sheltering the blockading power from potential counterattacks. In a strategic sense, since they require only a small fleet deployed with great technical flair, maritime blockades steal a march over land-based sieges and the heavy equipment they require. Consequently, operations of this sort have been most successful at sea. Four famous instances of naval blockades in the Mediterranean illustrate this point. The first naval blockades occurred during the First Punic War when the Romans, unable to disrupt Hannibal's logistical supply lines by land, decided to block them from the sea. The Punic fleet managed to bypass the obstruction until 205 BC, at which

<sup>1</sup> When Napoleon declared a blockade on the British Isles on 21 November 1806, he rather ironically justified this measure by insinuating that it was concomitant with the maritime trading culture he claimed to wish to destroy, commenting that "considering that it is our natural right to oppose our enemy using the same arms as he, we have resolved to impose upon England the same measures that she has enshrined in her maritime legislation and, as a result, we declare the following: Article 1, the British Isles are henceforth blockaded."

time the barrier was made literally unpassable (Klingbeil, 2000).

A second example was the Turks' final assault on Constantinople in 1453. The famous take-over was facilitated by the prior conquest of nearby Byzantine territories.<sup>2</sup> Constantinople was then surviving as a geopolitical exception wedged between Rumelia and Anatolia, and her colonial satellites — a few Aegean islands and an enclave in the Peloponnese — were far from the city's immediate radius of action. Indeed, the economic and military blockade of Constantinople by the Turks would not have been fully effective if the Ottomans had not managed to sever the city from Venetian maritime support,<sup>3</sup> which they succeeded thanks to the help of the Genoese, Venice's chief competitors. Attacking from land, Mehmed II built the Castle of Rumeli Hisari on the Bosphorus, spiking it with canons with a view to blocking off the river's west bank and making thereby the naval blockade unbreachable. In 1453, the city fell, the siege had lasted since 1420 (Hanne, 2016). The blockade of Tripoli (3 May 1802–20 May 1804) by the nascent United States of America is a poignant instance of a long-distance economic and military offensive designed to protect maritime free trade. Having lost the backing of Britain's Royal Navy after the independence, the United States tried to negotiate on their own account with the Barbary eyalets. It successfully forced pasha Karamanli to accede to their demands only after a two-year blockade (Arnaud-Ameller, 2004). The blockade of Tripoli was enforced in coordination with the Swedish navy, which had four frigates in the area (Ibidem.). It only became airtight with the fall of the city of Derna, the seat of government, after his brother Yusuf deposed its reigning incumbent Hamet Karamanli from the throne of Tripoli.

The opposite was observed in the case of ordered by King Charles X (16 June 1827–14 June 1830) blockade of Algiers. It was proved ineffective in that it was purely military in nature. No com-

mercial chokehold could be exerted on Algeria, for Alegria possessed no trade worthy of the name (Ibidem.). Already France drew a lesson from this. It was when France launched for a period from 20 October 1884 to 9 June 1885 "rice blockade" on Formosa in an effort to take Tonkin from the Chinese (Ibidem). Note that when operated from the sea by imperial powers, blockades require both considerable determination and deeply-grounded local intelligence. So long as blockades can be circumvented (Cavaignac, 1962),<sup>4</sup> they will not work. Their effectiveness became even more difficult to assess over time as imperial blockades became increasingly discreet.

### **Imperial Blockades — Ever More Increasingly Imperceptible**

Over the course of two centuries, the blockades developed in two directions. Firstly, between 1820 and 1945, they became a considerably more widespread proxy for war. Secondly, they subsequently appeared to have lost favour to a more discreet but no less effective barrage of financial sanctions. Arnaud-Ameller (2004) noted that after the French and British empires mutually smothered each other's economies, blockades returned in 1820 to exert their inherent power. However, it was executed within the framework of a set of rules disciplining relationships between belligerents and neutral countries. Peaceful blockades after that proliferated to support, in turn, the financial interests of one power or another (Ibidem). Gunboat diplomacy enabled the economic interests of the British crown to thrive, for example, after the King of Dahomey ordered that the property of a local merchant be confiscated. The blockade of Whydah took place from 1876 to 1877 (Coquery-Vidrovitch, 1962). Blockades were efficaciously imposed from 1820 to 1945. Even though they were discredited by the failure of the Berlin Blockade (Arnaud-Ameller, 2004), they continued to be employed at a rate of one a year following World War Two.

<sup>2</sup> The Ottomans owed their success to their pragmatic strategy. Military expeditions circumvented the most difficult areas (Constantinople in particular), gradually invading the surrounding countryside and choking them off in readiness for the final assault.

<sup>3</sup> Faced with the impossible task of breaking through Constantinople's city walls, Bayezid I (1389–1402) decided to launch a permanent blockade. This was rendered ineffectual when the city was resupplied by a fleet of Venetian ships.

<sup>4</sup> . When Athens found itself at war with the Peloponnese states and central Greece from 462, it naturally sent its fleet out to attempt to blockade their sea routes, hence Polmides' and then Pericles' journeys around the Peloponnese. Athens' governors realised that the blockade was singularly inoperable while western Greece's communications with central Greece — and the supply lines which came with them — were operating freely."

In two-thirds of all cases,<sup>5</sup> the United States took the initiative. It coordinated the effort (Avenel, 2004), as was the case, for instance, against Fidel Castro's Cuban regime in the early 1960s.

Conversely, new, more discreet measures arose at around the same time, from multiple embargos of the type imposed on Yugoslavia on 25 September 1991 (Martin-Bidou, 1993) to the sanctions which would become the standard way of managing international conflict, beginning in the 1990s. The end of the Cold War lightened the workload of the United Nations, as did the economic woes afflicting Russia, which seldom availed itself of her prerogative, as a permanent member of the UN Security Council, to exercise the right of veto during this era (Assadi & Ditter, 2016). As monetary sanctions offered a more discreet solution than military blockades, they were gradually substituted for the more clamorous deployments.

Because they aim to ensure the triumph of a power's imperial interests, the blockade serves as an excellent barometer for gauging geopolitical tension. Initially conceived to ensure the geo-economic safety of maritime spaces, it gradually shaded into the incorporeal, less perceptible realm of financial sanctions; and be it manifest or veiled, it remains a stratagem of complex actuation.

### **Different Typologies of Financial Blockades**

Designed to lock enemies in a stranglehold while affording the significant instigator margin for maneuverer, blockades are usually initiated with the targeted congelment of a critical sector rich in value-added. They can be a prelude to a limited war or, more rarely, to a devastating worldwide clash.

#### **Partial Blockades — the Most Common and the Most Effective Pressure Tool**

These blockades, which are circumscribed in space, are generally aimed at major ports, the beating heart of a territory's economic system. The advantage of a limited blockade is that it does not disable the entirety of a given zone's economic structure. The various blockades that took place in Rome provide a striking illustration of this effective practice. The famous seces-

sion and departure of the Plebeians, the *secessio plebis*, to the *Mons Sacer* (the sacred mountain) have no goal other than to replace Rome, a commercial and agricultural centre cultivated by the plebeians, with the Aventine. To achieve their goal, the plebeians blockaded the city until they were able to secure tribunitian protection against the city usurers (Belot, 1866, p. 17). Rome was later blockaded by Sextus Pompey, who took control of Sicily in order to disrupt the supply line of wheat imports to the capital. Octavius was thus forced to negotiate with the enemy in order to pacify the urban plebs, which was turning menacing. At a summit in Miseno in 39 BC, Octavius, therefore, had to recognise Sextus Pompey's dominion over Sicily, Corsica, and Sardinia, in return for which Sextus agreed to lift the blockade (Bustany-Leca, 2009, pp. 9–19). Under Augustus, Rome's wheat supplies largely depended on Egyptian harvests. Whoever held Alexandria held Rome. In the year 68, Vespasian took Egypt and based himself in Alexandria, from which he targeted Rome with a blockade. A few months later, in 69, he became emperor. During the Barbarian Invasions, Rome came to be subjected to a quasi-blockade, which severely impaired its defences (Bourdon, 1948). In sum, all these blockades could affect any kind of political transition by consistently manipulating hunger in Rome's populous plebs. Partial blockades can, however, quite easily take a turn for the worse.

#### **Petrels of Limited War**

Blockades sometimes serve as transitional manoeuvres by which the enemy may be severely debilitated before the onset of full-on war. One example of this was the siege of Antioch in May 1268, which was initiated three days after a preliminary blockade (Baraton, 2016). Similarly, on behalf of their bank lending consortia, England, Spain, and France blockaded over-indebted Mexico in 1826 with a view to a swift regime change (Avenel, 2004b). This type of blockade is generally the preamble to a prolonged military campaign. To cite a more recent example, Iraqi oil imports were embargoed on 4 August 1990, four days after the country had invaded Kuwait. The justification for this offensive was the fear that Iraq was in the process of building up a nuclear arsenal ("Partis, groups", 1990), and it

<sup>5</sup> The UN has only been behind two cases: Rhodesia (1966) and South Africa (1977).



came shortly before a Saudi-backed military intervention. Likewise, an embargo on arms sales to Libya was declared on 17 February during the Libyan campaign of 2011: on 20 March, Tomahawk missiles were rained down on sensitive Libyan targets. In all such instances, financial blockades, plainly stated, pave the way for war. With an eye to single to its protection and safety, every power seeks to make the eventuality of being blockaded impossible.

### Transition Towards Total Blockade

The Napoleonic wars provide the first instance of global economic warfare contradistinguished by a double blockade: a maritime barrier, erected by England against France in May 1806, and, vice versa, a terrestrial one conducted by France to prevent British exports from reaching Europe in November 1806 (Harbulot, 2013). The global dimension of this economic confrontation ended up dragging Spain and Russia into the conflict (Ferrand, 2004) and profoundly conditioning the strategic outlook of continental empires from the early 19<sup>th</sup> century onwards. In light of this development, it became paramount in these powers' view to avoid a global and impenetrable blockade at all costs. In 1898, Wilhelm II formed a closer alliance with Turkey: the Berlin-Baghdad-Basra railway (or Baghdad-bahn) aimed to connect Germany to East Africa and Asia if the Suez Canal were to be blockaded. The railway also allowed Germany to refurbish its oil supplies, given that eighty per cent of its foreign trade travelled via the North Sea and thus was at the mercy of the Royal Navy. "When the Baghdad railway reaches Kuwait, the German fleet will double in size, prophesied the *National Review* in 1901. Being just ten days away from the Persian Gulf, Germany, the world's biggest military power (and at the time in possession of the second biggest navy), would be able to set up a military base in the region whose distance from Bombay could be covered in a mere four-day journey by steamer: losing the Indies to a blockade would represent a severe economic blow to the English" (Motte, 2004). Germany's fears were not unfounded: throughout the Great War, she would be adamantly blockaded by the Allies, whose convoys the German U-boats, in riposte, would counter-blockade in an effort to break the choke-

hold. "The Entente Powers sought to smother the Turks by cutting them off from the outside world and thereby deprive Germany of one of her supply lines, while, for its part, the Turkish-German alliance tried to asphyxiate Russia, on the one hand, by hemming it in behind the Black Sea, and England, on the other, by taking over the Suez Canal" (Ibidem). In the wake of this conflict, Iran, wary of suffering alike besiegement, entreated the Soviet Union to outfit a new port on the Caspian in order to "shelter Iran from a blockade orchestrated by imperialist forces on the Persian Gulf" (Nahavandi, 1984). Currently, Pakistan is considered a global ally insofar as "Beijing believes that the energy lines coursing through Pakistan constitute de facto insurance against an American or Indian naval blockade of the waterways originating in the Persian Gulf" (Lieven, 2013).

The economic strangulation effected by the blockade ultimately seeks a regime change in the targeted country rather than the destruction of one of the cities or the wholesale annihilation of the enemy nation herself. This surgical and temporary interruption of commercial activity, which may be calibrated mechanically as it were, is a strategic precursor to new opportunities. Corporate giants are the primary beneficiaries of such redistributions, while small and mid-size businesses can capitalise on their flexibility to profit from the new trading hierarchy.

### When Blockades Become Originator of Economic Lucky Chance

Blockades always lead to a severe slow-down in trade.<sup>6</sup> Unlike commercial initiatives which seek to circumvent or profit from blockades, military forays aiming to break them imply the use of force. As economies have increasingly dematerialised, it has become harder to evade blockades because the latter, in their newer form, have

<sup>6</sup> Bertie Mandelblatt (2011, pp. 63–78) wrote: "The European wars of the late 17th century were cataclysmic for French brandy exports because, when the English and Dutch markets were closed off, cane sugar-based brandy became a threat. England and France found themselves on opposing sides during the Nine Years' War and, due to England's general blockade after war was declared in 1699, France lost its main wine and spirits market." The same phenomenon occurred during the continental blockade which tested Germany and France's ports. It is not purely coincidental that Marseille and Bordeaux were the cities most hostile to Napoleon in 1814, and ones which most enthusiastically backed surrender.

been systematically enforced through unbreakable, invisible sanctioning mechanisms.

### The Recklessness of the Brave

History teaches blockade's breaking is a violent act but reckless and rare. To break a blockade takes audacity and technical skill. It is most likely why such military actions are often the fruit of individual initiative, as when, e.g., the English blockaded Mont-Saint-Michel from September 1424 to June 1425. The operation was ultimately quashed by a fleet from Saint-Malo, which resupplied and reinforced the garrison, dashing thereby English hopes of seizing this strategic base (Fiasson, 2014). Private initiatives are often encouraged by the governing authority when blockades are harming their commercial interests. Having invested in cotton plantations in the southern United States, Great Britain was dealt a severe blow when northerners blockaded southern ports. As a result, the British cotton industry was deprived of its vital supply line (Lindemann, 2004). The 1861 Trent Affair was connected to the cotton famine and nearly led to war, inspiring Jules Verne to write *The Blockade Runners* (*Les forceurs de blocus*, 1865). In later years, daisy-chain and underwater mines made it easier to break blockades (Arnaud-Ameller, 2004). Though rare, contemporary initiatives to breach blockading walls still occur. On 31 May 2009, an elite commando unit of the Israel Defense Forces was helicoptered out to take over a ship crewed by a pro-Palestinian Turkish Islamist organisation intent on breaking Israel's blockade of Gaza (Encel, 2013).

### Ways of Overcoming a Blockade

The enforcement of a financial blockade automatically triggers countermeasures to bypass the barrier. In the pre-modern era, countries have tried the natural circumvention of a blockade. When the 12 Years' Truce expired, "Amsterdam's Sephardic trade system was seriously damaged by the embargo on Dutch ships in Iberian ports, so the Dutch resorted to several expedients to circumvent the blockage: they outfitted neutral ships, redirected their vessels to depart from Hamburg and, most significantly, they opened contraband routes for their merchandise by way of south-western France [...] The 1620s witnessed a sharp growth of such

"compensatory" traffic in response to the Iberian embargo: Holland's high-quality textiles, oriental spices, etc., thus found their way to Bayonne or Saint-Jean-de-Luz and were then transported over the Pyrenees by mules to the 'dry ports' of Navarre, whence they would reach Logrono, Cervera, and Agreda in Castile. These towns' rights were assured by Juan Nuñez de Vega and his brother-in-law Manuel Nuñez de Olivera, both newly Christianised Portuguese, in close partnership with Marrano traders from south-western France. Spanish and American products such as wool, silver, tobacco, and dyes also travelled opposite (Wachtel, 2006).

Evasive action of this kind arose again on land when "in 1806 the French government decreed a series of embargo measures, which, compounded by a strict and pervasive blockade the following year, brought commercial traffic to a near-complete standstill in 1808. Blockade notwithstanding, some traders based in Bordeaux — many of them have graduated to fully independent shipowners, with little capital at risk — attempted to defy the official blockade all the same. Having bid cheaply on confiscated neutral ships, these traders after that claimed they were conveying the vessels to a northern European port, when, in fact, the convoys were sailing to England under cover of import licences liberally doled out by the Privy Council in 1808" (Butel, 1972). In northern Europe, despite the presence of 300 French customs officers in the Hanseatic towns, smugglers managed to introduce an enormous amount of English merchandise. Bourrienne's *Mémoires* are filled with amusing anecdotes on the subterfuges to which smugglers resorted (de Bourrienne, 1829).<sup>7</sup>

On the other hand, blockades are also known to cause a considerable redistribution of trade flows. For instance, whenever a blockade of the Brit-

<sup>7</sup> "To the left of the road leading from Hamburg to Altona, there was a sand quarry. We got the idea of repairing the road, filling the cavity left by the extracted sand with sugar and loading the sugar into the little vehicles that regularly took the sand to Hamburg. We only covered the sugar with a layer as deep as a thumb of real sand. Another, even more ingenious technique was to bury the citizens of Hamburgerberg, a town between the city and Altona, in Hamburg's cemeteries. The customs officers finally noticed that they were seeing more and more burials every day, replete with ceremony, funeral chants, and the usual sombre rights. Amazed at this sudden increase in the death rate, the officials plucked up the courage to take a look at one of the deceased, but instead they found sugar, coffee, vanilla, indigo and more."



ish Navy compromised France's trade, American traders were quick to take France's place (Seck, 2012). Blockades also benefitted insurers, who quintupled their premiums for ships bold enough to trade with Turkey during the First World War (Motte, 2004). In short, "though blockading national borders can undoubtedly be effective in the short term, one can likewise expect market mechanisms to prod businesses in the blockading powers to bypass prohibitions and create a "grey supply zone" in response to an equally grey "demand base" issuing from the intermediaries of the embargoed countries" (Bonin, 2009).<sup>8</sup>

### Contemporary Era — Change of Form but not Essence

Although physical blockades have now become rare, similar measures are still being discreetly implemented in the form of financial sanctions.<sup>9</sup> John Maynard Keynes first recommended these in 1929 as an alternative to war against fascist Italy and Imperial Japan. Since the economy started to globalise at an increasing pace since the 1990s, internal<sup>10</sup> and international<sup>11</sup> sanctions have been used more and more often. Financial blockades become more imperceptible and unbroken. As of the turn of the millennium, the latter have, however, been criticised by NGOs who recommend more targeted measures.

<sup>8</sup> Further Bonin (2009) wrote: "François Crouzet and Silvia Marzagalli emphasised (over the course of a chapter in the former's case) the near-subversive role played by merchants from the famous neutral countries during the blockades of the 1790s to 1810s, most particularly by ships from the United States. These American vessels played the same role in 1914 to 1917 and again in 1939 to 1941 to keep the British Isles' transatlantic supply chain open before the US officially joined the war. Certainly, controls increased, with ships getting checked, seized and sometimes even destroyed (during the World Wars' two submarine battles), yet the "selling machine" created an impetus for blockade runners."

<sup>9</sup> In 2012, the UN was operating twelve sanction regimes, on North Korea, Ivory Coast, Iraq, Iran, Lebanon, Libya, Liberia, the Democratic Republic of Congo, Eritrean Somalia, Sudan, the Taliban, and Al-Qaida.

<sup>10</sup> It should be noted that financial sanctions do not only apply to third-party countries. They are a standard controlling measure applied within the European Union. On 29 September 2010, the European Commission published a proposal for legislation that would reinforce economic governance using at least three major innovations. The first of these activates, as part of the reformed Stability and Growth Pact, not just a public deficit criterion (3%) but a debt criterion too (60%). For the Eurozone's member states, this represents "a new set of progressive financial sanctions".

<sup>11</sup> A notable example of this is a freeze on credit notes designed to paralyse the targeted banking system.

Sector-specific sanctions have tended to be prioritised since the start of the 21<sup>st</sup> century, except for those instances in which direct geopolitical competitors to the United States are concerned. Because it cannot launch an all-out attack on China,<sup>12</sup> owing to the country's financial clout, the US has targeted the other two members of the continental triad, namely Iran<sup>13</sup> and Russia.<sup>14</sup> In both cases, the action was directed at the energy, military, and banking sectors so that the countries' entire economies would be paralysed. No sector in the Iranian economy was spared by these sanctions (Coville, 2015). Note that the Office of Foreign Assets Control (OFAC)<sup>15</sup> can enforce sanctions outside the US territory. Therefore, compliance has been breached less frequently, in part owing to the complex legal mechanisms in place.<sup>16</sup> While banks and financial institutions were once the OFAC's primary targets, the organisation has now extended its reach to other establishments, therefore not subjected to a strict compliance policy.<sup>17</sup> In the United States, the number of fines resulting from sanction violations has leapt by nearly 300 per cent since 2000. These new blockades are hard to circumvent, and they mainly generate business opportunities for the immediate competitors of the targeted country.

<sup>12</sup> OFAC is currently satisfied with simply cutting geoeconomic ties between Iran and China. In March 2017, the Chinese telecoms company Zhongxing Telecommunications Equipment Corporation (ZTE) settled a suit with OFAC relating to more than 251 instances in which restrictions on Iran were violated. ZTE had to pay a fine of \$ 900 million, with the threat of a further \$ 300 million in sanctions should the business not respect the terms.

<sup>13</sup> The Comprehensive Iran Sanctions, Accountability, and Divestment Act (CISADA) sanctions all trade relations between Iranian, American, and international financial institutions.

<sup>14</sup> The crash of MH17 in July 2014 was interpreted Russian support for Ukraine's pro-Russian insurgents and led to financial sanctions that would render Russia's state banks incapable of financing operations on the EU and US' capital markets. As a result, the rouble fell in value and reserve currencies were pressurised.

<sup>15</sup> The American Treasury Department's Office of Foreign Assets Control relentlessly pursues anyone who fails to respect sanctions, whether they be American companies, overseas companies listed in the United States or a natural or legal person with ties to the United States.

<sup>16</sup> The list of UN sanctions only includes 13 restrictive measures, but this 158-page document covers a great number of sanctioned people, entities, and states. The UN's sanctions are adopted by international bodies such as the European Union and by different countries. Some of them even apply stricter measures.

<sup>17</sup> For instance, nine of the 17 fines the OFAC levied in 2015 concerned companies not working in the banking and financial sectors.

## Conclusion

The imperial ends of blockades, be they targeted or all-encompassing, have not changed over time: it is the modality of their application that has been revolutionised. Blockades have become imperceptible and unbreakable as they have left the maritime and military arenas and moved

into the intangible realm of finance. Aside from occasioning business opportunities among competing neighbours or niches for humanitarian relief, blockades essentially induce two phenomena: first, a silent straining of geopolitical power ratios and, second, the whetting among blockade runners of a predilection for stealth.

## REFERENCES

1. Arnaud-Ameller Paule. Réflexions sur les blocus: quelques exemples de succès et d'échec aux XIX<sup>e</sup> et XX<sup>e</sup> siècles. *Guerres mondiales et conflits contemporains*. 2004;(214):7–27.
2. Assadi Djamchid, Ditter Jean-Guillaume. Les sanctions économiques sont-elles utiles? Le cas iranien. *Cahiers du CEREN*. 2016;(49):84–95.
3. Avenel Jean-David. Blocus et guerres économiques. *Guerres mondiales et conflits contemporains*, 2004a;(214):3–6.
4. Avenel Jean-David. Un exemple de blocus militaire: l'intervention tripartite au Mexique (décembre 1861-avril 1862). *Guerres mondiales et conflits contemporains*. 2004b;(214):29–37.
5. Baraton Édouard. La principauté assiégée. Les sièges de Laodicée et d'Antioche, révélateurs des relations locales gréco-latines aux XII<sup>e</sup> et XIII<sup>e</sup> siècles. *La guerre de siège de l'antiquité à l'époque moderne*. GRUis study day; 23 March 2016. Retrieved from Siege warfare from Antiquity to the Modern period, Study days, Calenda, Published on Friday, March 18, 2016, <https://calenda.org/360252>
6. Belot Émile. *Histoire des chevaliers romains*. Paris: Durand Éditeur; 1866.
7. Bonin Hubert. Les vertus de l'économie ouverte? In Bonin, Hubert & Bertrand Blancheton. *La croissance en économie ouverte XVIII<sup>e</sup> – XXI<sup>e</sup> siècles*. Brussels: Peter Lang; 2009
8. Bourdon Jean. Le monde antique s'est-il dépeuplé? *Journal de la société statistique de Paris*. 1948;89:102–118.
9. Bustany-Leca Catherine. Rome et la Sicile, la Corse et la Sardaigne (197 av. J.-C. – 192 ap. J.-C.), *Rome et l'Occident, 197 av. J.-C. à 192 ap. J.-C.* Paris: Ellipses; 2009.
10. Butel Paul. Guerre et commerce: l'activité du port de Bordeaux sous le régime des licences, 1808–1815. *Revue d'histoire moderne et contemporaine*. 1972;19(1, Jan.-March):128–149.
11. Cassin René. L'évolution des conditions juridiques de la guerre économique. *Politique étrangère*, 1939(5):488–512.
12. Cavaignac Eugène. Athènes et le Sea Power au V<sup>e</sup> siècle. *Bulletin de l'Association Guillaume Budé*. 1962;(2, June):194–197.
13. Coville Thierry. Les sanctions contre l'Iran, le choix d'une punition collective contre la société iranienne? *Revue internationale et stratégique*. 2015;(97):149–158.
14. Coquery-Vidrovitch Catherine. Le blocus de Whydah (1876–1877) et la rivalité franco-anglaise au Dahomey. *Cahiers d'études africaines*. 1962;2(7):373–419.
15. de Bourrienne, Louis. *Mémoires de M. de Bourrienne*. Paris: Ladvocat; 1829.
16. Djalili Mohammed-Reza. Iran-Irak: an V de la guerre. *Politique étrangère*. 1984;(4):857–872.
17. Encel Frédéric. Causes, déroulement et conséquences de la rupture israélo-turque. *Hérodote*. 2013;(148):68–82.
18. Ferrand Bernard. Quels fondements juridiques aux embargos et blocus aux confins des XIX<sup>e</sup> et XX<sup>e</sup> siècles? *Guerres mondiales et conflits contemporains*. 2004;(214):55–79.
19. Fiasson David. Un chien couché au pied du roi d'Angleterre? Robert Jolivet, abbé du Mont Saint-Michel (1411–1444). *Annales de Normandie*. 2014;(2):47–72.
20. Freu Christel. Les évêques dans tous leurs états: réponses épiscopales aux crises de l'Antiquité tardive. *Laval théologique et philosophique*. 2016;72:173–178.
21. Gazenbeek Michiel, Wiethold Julian. Les occupations du Haut Moyen-Âge à Dieue-sur-Meuse, la Corvée – une présentation. *Archäologentage Otzenhausen 2, Archäologie in der Großregion, Beiträge des internationalen Symposiums zur Archäologie in der Großregion in der Europäischen Akademie Otzenhausen*. 2015:237–256.
22. Hanne Olivier. Si je t'oublie Constantinople. *Le Figaro Histoire*. 2016:44–51.
23. Harbulot Christian. L'étude de la guerre économique et des problématiques associées. *Instituto espanol de estudios estrategicos*. 2013(June):1–35. Retrieved from [https://www.ege.fr/sites/ege.fr/files/downloads/CE\\_162\\_IIIEE\\_Christian\\_Harbulot\\_FR.pdf](https://www.ege.fr/sites/ege.fr/files/downloads/CE_162_IIIEE_Christian_Harbulot_FR.pdf)

24. Klingbeil Pierre-Emmanuel. La marche d'Hannibal: ravitaillement et stratégie. *Antiquités africaines*. 2000;(36):15–38.
25. Landry-Deron Isabelle. Les mathématiciens envoyés en Chine par Louis XIV en 1685. *Arch. Hist. Exact Sci.* 2001;(55):423–463.
26. Lieven Anatol. L'États-Unis — Pakistan: la relation à haut risque. *Politique étrangère*. 2013;(3):601–615.
27. Lindemann Thomas. Identités démocratiques et choix stratégiques. *Revue française de science politique*. 2004;54:829–848.
28. Martin-Bidou Pascale. Les mesures d'embargo prises à l'encontre de la Yougoslavie. *Annuaire français de droit international*. 1993;39:262–285.
29. Mandelblatt Bertie. L'alambic dans l'atlantique: production, commercialisation et concurrence de l'eau-de-vie de vin et de l'eau de vie de rhum dans l'atlantique français au XVII<sup>e</sup> et au début du XVIII<sup>e</sup> siècle. *Histoire, économie et société*. 2011;(2):63–78
30. Morazzani André. Essai sur la puissance maritime des Vandales. *Bulletin de l'Association Guillaume Budé: Lettres d'humanité*. 1966 (25, December):539–561.
31. Motte Martin. La seconde Iliade, blocus et contre-blocus au Moyen-Orient, 1914–1918. *Guerres mondiales et conflits contemporains*. 2004;(214):39–53.
32. Nahavandi Houchang. L'Union soviétique et la révolution iranienne, *Revue des Deux Mondes*. (1984, Avril):32–43. Retrieved from <https://www.revuedesdeuxmondes.fr/wp-content/uploads/2016/11/de4c7ae5d6e643e52fec96b2a279a1c6.pdf>
33. Partis, groupes et médias face au conflit du Golfe. *Courrier hebdomadaire du CRISP*. 1990;(1303–1304):1–77. Retrieved from <https://www.cairn.info/revue-courrier-hebdomadaire-du-crisp-1990-38-page-1.htm>
34. Seck Ibrahima. Les Français et la traite des esclaves en Sénégal. *Dix-Huitième siècle*. 2012;(44):49–60.
35. Wachtel Nathan. Diasporas Marranes et empires maritimes (XVI<sup>e</sup> — XVIII<sup>e</sup> siècle). *Annales. Histoire, sciences sociales*. 2006;(2):419–427.

## ABOUT THE AUTHOR

**Thomas Flichy de La Neuville** — Doctor of History, Doctor of Law, Professor of History of Law, Chairholder of Geopolitics Chair at the Rennes School of Business, Faculty of Strategy and Innovation  
2 Rue Robert d'Arbrissel 35000 RENNES, France  
Research Professor at The Institute of World Politics (IWP), Washington, DC  
[thomas.flichy-de-la-neuville@rennes-sb.com](mailto:thomas.flichy-de-la-neuville@rennes-sb.com)

## ОБ АВТОРЕ

**Томас Флиши де ла Невиль** — доктор исторических наук, доктор юридических наук, профессор истории права, заведующий кафедрой геополитики Реннской школы бизнеса, Факультет стратегии и инноваций  
[thomas.flichy-de-la-neuville@rennes-sb.com](mailto:thomas.flichy-de-la-neuville@rennes-sb.com)

## ORIGINAL PAPER

doi: 10.26794/2308-944X-2021-9-4-32-45

JEL codes: A12, B19, B30, O53, Z10, Z12

# Banking on the Underworld. A Strictly Economic Appreciation of the Chinese Practice of Burning (Token) Money

Guido Giacomo Preparata

## ABSTRACT

The custom of burning mock-money as a symbolic offering of nutrients and sustenance to one's ancestors in the Afterlife is here analysed in terms of its economic meaning and significance. The theme is treated from two different angles. One is that of the political economy of the gift, which concerns itself with the final uses to which society conveys its economic surplus. The other is that of monetary institutionalism, which seeks to understand what the practice itself actually represents in light of the monetary arrangements that rule the economic exchange within the community itself. The thesis is that, at a first remove, the custom appears to fall into the category of "wasteful expenditure," in that it is not manifestly conducive to any augmentation of the system's efficiency. But on a subtler level, it is not precisely so for two orders of reasons. First, because the custom is habitually accompanied by subsidiary donations; second, because, in this donative moment, the custom importantly reveals, through its conversion of real cash into "sacrificial" token-money, a constitutive yet hidden, property of money, namely its perishability.

**Keywords:** Ghost-money; money; token-money; symbol; liturgy; ancestor cult; demurrage; gift; China; Taiwan; afterlife; superstition; religion; anthropology; sumptuary expenditure

**For citation:** Preparata Guido G. Banking on the Underworld. A Strictly Economic Appreciation of the Chinese Practice of Burning (Token) Money. *Review of Business and Economics Studies*. 2021;9(4):32-45. doi: 10.26794/2308-944X-2021-9-4-32-45

## ОРИГИНАЛЬНАЯ СТАТЬЯ

# Банковское дело в преисподней. Исключительно экономическая оценка китайской практики сжигания денег

Гвидо Джакомо Препарата

## АННОТАЦИЯ

Статья посвящена анализу распространенных на Дальнем Востоке (Индия, Китай) обычаев сжигания или закармливания искусственных (хотя не только) денег. Целью статьи является выявление экономического значения и значимости таких действий как символического подношения питательных веществ и пропитания своим предкам в загробной жизни. Проведен анализ с двух разных сторон с применением метода сравнительного анализа. Одна сторона — политическая экономия обилия, где общество передает свой экономический излишек на реализацию конечных целей. Другая — это монетарный институционализм, который ставит вопрос: что на самом деле представляет собой сама практика сжигания в свете денежных механизмов, которые управляют экономическим обменом? Тезис этой статьи состоит в том, что на первый взгляд кажется, что обычай попадает в категорию «расточительных расходов». Однако анализ показал, что это не совсем так. Автор сделал выводы, что, во-первых, такой обычай, как правило, сопровождается дополнительными жертвованиями; и во-вторых, обычай, превращая реальные деньги в «жертвенные» символические (токен) деньги, существенно раскрывает конститутивное, но скрытое свойство денег, а именно их тленность.

**Ключевые слова:** призрачные деньги; деньги; разменные деньги; символ; литургия; культ предков; демередж; подарок; Китай; Тайвань; загробная жизнь; суеверие; религия; антропология; роскошные расходы

**Для цитирования:** Препарата Г.Д. Банковское дело в преисподней. Исключительно экономическая оценка китайской практики сжигания денег. *Review of Business and Economics Studies*. 2021;9(4):32-45. doi: 10.26794/2308-944X-2021-9-4-32-45

© Guido Giacomo Preparata, 2021



One of my Quanzhou interviewees pulled out several leaves of the Taiwan top-of-the-line Triad Gold from a chest of drawers as if she was storing some great heirloom; the way she handled it, I could scarcely imagine her burning it, *although burning it is the proper way of storing its value*.

C. Fred Blake, *Burning Money*<sup>1</sup>

## Introduction

The Chinese custom of burning paper token-money has occasioned a most interesting production of anthropological research. This corpus has shed penetrating light on a central aspect of ritual practice, which is the relationship that various cultural groups — in this instance, the Chinese — entertain with the Afterworld, and of their ways of giving expression to this peculiar form of “transaction,” of “traffic” with the supernatural “space,” and the (supersensible) realm of the dead, in particular.

The custom has been amply dissected along the lines of cultural, religious, ethnographic, archaeological, and, of course, Sinological inquiry. For the purposes of this article, I will tap this patrimony of scholarly information in order to lay out the basic phenomenology of the custom, which I intend to discuss and analyse from a strictly economic vantage point, i.e., from the exclusive viewpoint of monetary economics and political economy.

There might be substantial merit in doing so since, to date, there appears to have been no systematic economic gloss of Chinese “burning money”—the latter is, ostensibly, a *monetary* practice, after all — and the little done in this department thus far, by anthropologists themselves, is rather in the nature of an afterthought, which relies, for lack of more “up-to-date and specialised tools,” on Marx’s basic *aperçus* on money. *Aperçus* which are, despite their “classic” status, truly, not just merely *passé*, but conspicuously unequal to the complexity and vastness of the monetary phenomenon and its associated debate on how to manage and/or reform it.

The ramifications of such a debate — also, and most conspicuously in China herself these days — have presently reached significant levels of technical and institutional sophistication, especially in light of the various diatribes on the nature of money that have been simmering for the past

twenty years and, more importantly, in light of the ongoing re-reorganisation of the International Financial System itself after the crash of September 2008, lately within the cybernetic arena where “digital cash” and “cryptocurrencies” are allegedly fighting it out.

Although reference to these late developments will be merely hinted at in the final segment of this piece (they are tangential to the subject at hand), their mention is nonetheless relevant in that it contextualises and frames the whole discussion of this exquisitely anthropological topic in terms of the specific conceptual categories that will be used in this essay. These are 1) “the political economy of the gift” (an approach based on the foundational analysis of Thorstein Veblen, and a subsidiary advertence to Georges Bataille), (see, Preparata, 2008) which is known to anthropologists; and, thoroughly unbeknownst to mainstream social scientists, 2) the notion of the “perishability” of money (viz. Silvio Gesell’s Theory of Interest, and its “theosophical” variant: Rudolf Steiner’s “Ages of Money”), which, most intriguingly, is now holding centre stage in the propagandistic stage of monetary forecasts animated by the spokespersons of central banking (Rogoff, 2016, pp. 5–6, 158–167).

In sum, the article’s thesis starts by acknowledging that the Chinese practice of burning paper money is, indeed, as anthropologists have noted, a very mildly dissipative, “sumptuary” form of (liturgical) activity. Economically speaking, the practice remains “sterile” so long as it is an end unto itself; in other words, so long as it occasions no other beneficial economic effect past the burning of the paper-tokens (along with incense, food offertories and other oblations). Thus, as sumptuary dissipation, the custom may be critically characterised as a “superstition” that merely feeds a private industry of no “life-furthering substance,” so to speak. The practice, however, comes into more virtuous focus if, on the other hand, it occasions *charitable gifting*, as it customarily does in all those instances — which appear to be the majority — in which the token-money is burned in concomitance with real cash offering to the temples where the “sacrifice” takes place.

Above and beyond this aspect of the custom, the “conversion” of cash into token-money destined to be burned — a conversion which is effected through a *purchase* — hides a fundamental trait of the nature of money. And that is the fact that

<sup>1</sup> Blake, 2011, p. 44, emphasis added.

even though we do not see it —or rather, even though we have not been “institutionally allowed” to see it — *there is an age behind/“inside” every bill*. Herein, indeed, lies the gist of the crucial notion of “monetary perishability.” The “age” is not the life-cycle of the paper scrip itself, but, in economic principle, that of the goods the bill is supposed to shepherd when it circulates and is being exchanged. *The point here is that all money offered in a donative fashion is de facto money approaching death*. And what the custom of burning token-paper does with this fundamental economic reality, which is no “illusion” at all, is to make it *manifest* — not just *symbolically*, but, much more interestingly, *ritually* so.

The essay is divided into three parts. A brief exposition of the anthropological narratives of the custom of burning token-money — with a special emphasis on C. Fred Blake’s recent book *Burning Money* — is followed by a summary of the prevailing cultural and Marxian interpretations of the phenomenon. The discussion proper consists of three sections: the first, titled “Devout Observances,” assesses the burning of token-money in the key of Veblen’s discriminative analysis of what constitutes life-enhancing versus “conspicuously wasteful” production. The second subsumes the custom as a special and revealing illustration of the ways in which the monetary circuit is irrepressibly bound to give vent, despite the abuses and distortions of human arrangements, to the inherent tendencies of its foundational make-up. What it “vents out” is the fact that because economic items have a life-cycle, so does money, and, consequently, that the death of money is, without fail, consummated with a “gifting” rite of passage, so to speak. The rite of paper-torthing is one such (cultural and ostensibly liturgical) instance. Brief reflections on the economic virtuousness of the custom gauged in terms of its charitable effects and a tangential forecast on the custom’s survival prospects in the new century concludes the piece.

### **The Anthropological Facts of “Burning (Token-) Money,” in Extreme Synthesis**

Elites celebrate their power also by paying ritual homage to their line of ancestors, i.e., to their *sovereign* bloodline, which is construed as a manifest expression of their Heaven-mandated superiority vis-à-vis the rest of the population. China’s imperial leaders and wealthy absentees

have been burning token-money for at least a thousand years (allegedly, since the era of the Han dynasty, 206 BCE- 220 CE), as a way of propitiating the spirits of the Afterworld and of providing their ancestors with “wealth,” with “spiritual sustenance” on the Other Side.” In line with the emulative dynamics of feudal hierarchies, the lesser strata of society have keenly taken to imitating the custom, thus acquiring the confidence that they, too, just as importantly, had a “line” of dear (dead) ones to nurture (liturgically), as well as demonic forces to pacify. As the old credence held that all living souls, upon passing, returned to their aboriginal status of “ghosts” (*gui*), the mock-money incinerated for their sake was accordingly named “ghost-money.” So, the lower castes, too, have been busily and ceremoniously engaged in burning ghost-bills ever since. By burning objects of all kinds — or paper-notes bearing effigies of those objects—, it is believed that one may “send,” “transmit” them to the Underworld. Initially, real cash was buried with the dead. Out of a concern that doing so would have *deflationary* effects (i.e., a withdrawal of purchasing power from the economy)—a concern which, interestingly, as we shall see, would reappear in connection with the burning of mock-paper — it was after that thought more fitting to inter the dead with “spirit money,” instead, i.e., with clay replicas of gold coins. The provision of spirit money was also dictated by the additional “exigency,” for the departing soul’s ultimate comfort, to bribe the administrators in the world of the dead (Seidel, 1982). As to the practice to incinerate objects, it is traced back to credence, which is found both in Zoroastrianism and Hinduism, that fiery combustion is an effective means of shipment to the Other Side.

Anthropological accounts generally refer to such burning-paper as “paper-money,” for that is what it is made of, in order to distinguish it from real-money, i.e., currency, which, it, too, may be paper, i.e., “cash.” Because cash/currency is indeed for the most part *paper-money*, in order to avoid confusion, I prefer to designate these flammable bills as “token-money,” which is to say that they are not so many replicas as they are surrogates, *symbolic effigies* of cash; and by cash I mean, conventionally, the actual purchase money that circulates in the economy.

As dictated by the custom, token-monies burnt for the sake of divine propitiation (“offerings to the gods”) take the form of *symbolic* “gold money.” In contrast, token-monies burnt for ancestors, ghosts, and manes are “silver-money”: i.e., paper bills covered with thin films of gold and silver tinfoil, respectively. The division between the ones and the others is not absolute, though, considering that certain supernatural entities may be eventually offered “paper-gold” as they happen to shed or lose their sinister valence in the course of their tortuous hagiological vicissitudes — as when they are felicitously promoted from “demons” to “saints.” Other sources specify a more rigid, standard tri-partition of the recipients of “spirit money” (*gun-cua*): gold-paper for the gods, silver-paper for the ancestors, but only handouts (*kieng-i*) for the ghosts. Typically, “ghosts” are somebody else’s “ancestors.”

A mercantile eschatology appears to be underpinning this particular practice. In other words, the credence here is that in order to be born, one must become indebted to a Treasury of the Underworld; one must, therefore, take out a loan with a Bank of the Netherworld (*Mingguo yinhang*), or with what may be thought as a branch of the “Hell Bank.” The balances thus acquired through this “mystical debt” enable the borrowing soul to purchase a body, certain longevity, a social status, clothes, and food, the detailed invoicing of which are meticulously recorded by the accounting department of the infernal bank. When the balances have been entirely spent, there comes death. It is then up to the deceased person’s sons and daughters to settle the debt with a special funerary ritual during a ceremony entitled “Reimbursement of the Debt”; they have 49 days after the “departure” to do so. There were, in addition to this idea, creedal practices of a horoscopic nature, whereby one’s longevity and emoluments (pecuniary bounties) throughout one’s life-time could be respectively and variously increased, depending on one’s birth-date, by offerings of rice and silk.

Furthermore, the life-allotment purchased before being born is menaced throughout one’s existence either by illness or by a surfeit of fortunateness. Maladies may be the result of an error, a sin, a misdeed, which curtails one’s life-reserve; “surfeits of fortunateness,” instead, are bountiful, yet *excessive* events, such as an extraordinary bumper harvest or an extravagantly fastuous wedding. They, too, by their blinding effulgence,

which disrupts the harmonious pace of the Mid-Path, end up parching the reserve of life-fuel one originally acquires before coming to earthly life. Both instances demand redress; there is for this purpose — that of “Restoring Destiny” — special money to be burnt which, depending on the type of event (excess or malady), may be respectively addressed to the Celestial Jurisdiction or the Infernal Administration (Hou, 1971).

One immediate inference that emerges from the foregoing is that the Chinese supernatural through the eyes of the peasants is “a detailed image of Chinese officialdom.”

Judged in terms of its administrative arrangements, the Chinese imperial government looks impotent. Assessed in terms of its long-range impact on the people, it appears to have been one of the most potent governments ever known, for it created a religion in its own image. Its firm grip on the popular imagination may be one reason the imperial government survived so long despite its many failings. Perhaps it is also the reason China’s revolutionaries have so often organised their movements in terms of the concepts and symbols of such foreign faiths as Buddhism and Christianity. The native gods were so much a part of the establishment that they could be turned against it (Wolf, 1974, pp. 145, 179–181).

Though the Buddhist imagination inspired his conception of the underworld, the Chinese peasant construed Hell as a “multi-layered Yamen [administrative district] staffed with supernatural bureaucrats.” In this sense, most of the “spirit money” that is channelled, via incineration, to the Bank of Hell at the end of a funeral is only partly earmarked for post-mortem “sustenance”: a substantial portion thereof, as said, is actually laid in as *baksheesh* for surviving the day-to-day routine in the strictures of Inferno’s Structure; i.e. for bribing “officials, who might otherwise subject the deceased to his merited punishment and perhaps some unmerited punishment as well.”

The different categories of “spirit money” are said, “to reflect the divisions of the supernatural world into spirits modelled on senior kinsmen [silver effigies], strangers [handouts], and imperial bureaucrats [gold effigies].” Uses and interpretations of such token offerings are also said to vary considerably. According to one particular “expert” testimony reported in one study, token-money torched on behalf of the gods “is not money at all,”



for the gods, in this person's view, have clearly no need of money whatsoever, but is rather like something in the nature of a *petition* which (hapless) people customarily make when, suppliantly, they seek redress, compensation, justice, goodwill, benevolence — *from on high*, in this world as in the next.

And just as the devout money-burner cannot brook the thought that an infernal bureaucrat might bully his genitor in the Afterlife, and, therefore, that this apparatchik from hell must be “greased,” the devout money-burner is likewise wary of being cursed by a beggar whose entreaties he ignored. The curse may afflict him in the form of a malady or of damage to his property. Like bandits (low-tenacity, yet death-prone barbarous types) and ghosts, beggars are feared, and as beggars, bandits, and ghosts (the latter being the spirits of strangers/outside, of other people's ancestors, and as such, unpredictably dangerous) are “socially despised.”

The social identities of the three are so similar that bandits and beggars are sometimes treated like ghosts.

Once in Northern Taiwan, there had been an established ritual to deflect the evil — or rather, the “unpredictably dangerous — eye of the ghosts during the seventh lunar month. According to an account of the late nineteenth century, tradition imposed that a lush banquet be ostensibly arranged within the sacred confines of the celebratory venue and “offered up to all the wandering spirits who had answered the summons of the gongs. [After] the ghosts had time to satisfy themselves,” the “remains” of the feast were turned over to “a very unspiritual mob of thousands and thousands of hungry beggars, blacklegs, desperados of all sorts,” (Ibidem, pp. 171–174) who had gathered from the country towns and city slums at the offertory's venue, lying in wait for what must have unfolded like a feral consummation of liturgical victuals.

### **The Custom Today: Beliefs & Prospects**

The custom today continues. It is alive and well. The amount of wealth that goes up in ashes as a result of this Chinese “potlatch for the spirits” remains formidable. Yet, it is nonetheless the case that the ritual consummation tends to be concentrated on specific holidays since the younger, more resource-conscientious generations have overall scaled-down the torching out of strictly

environmental worries. Indeed, to the question posed a year or so ago by devotees whether it was acceptable to pray for one's dead without having to burn token-money, the Daoist priesthood of Xiangtian Temple in Taipei responded positively by way of oracular communication.

On the occasion of culminating festivities, such as Tomb-Sweeping Day, hundreds of tons of paper are burnt, along with incense. This token-money complex—“I burn [objects in effigy], therefore I am”—continues to animate what has been seen as a “show of extravagance.” Unsurprisingly, in hyper-modern times such as ours, many, within China herself, stigmatise the practice as splurging “nonsense,” “foolishness,” and superstition. A portion of the newer, more sceptical generations intensifies the scorn by berating the custom as “perversity and deceit.” By which is intended the delusion entertained by the devout that he may more or less cunningly manage his relations with the dead as (e.g., by conjuring excuses and pretexts in order to burn only when, and how, it suits him), as much as the airs of holier-than-thou self-righteousness that he devout puts out vis-à-vis his social milieu) (Blake, 2011b).

In his authoritative *Burning Money*, C. Fred Blake affirms that, to his knowledge, no culture substitutes paper (token-money) for (real/fiat) money in ritual offerings to the extent that Chinese culture does. To this day, Taiwan is said to possess “the most impressive array” of token-monies. Interestingly, such burning-money continues to function as “tollway money” not just to propitiate the transition of the departing soul from our realm to the other, but also “to protect the souls passing *into* this world as children.” And that is because, as they seek embodiment, the souls coming to this world are more vulnerable. With suggestive imagery, it is said that “from inside the womb until adolescence, the souls of youngsters may be considered as residing in a kind of uterine limbo or flower garden.”

While parents nurture the physical bodies of their children, the flower spirits watches over and helps the corresponding soul to pass obstacles on its way to adulthood (Blake, 2011a, pp. 2, 9, 12, 15, 36, 33, 34).

Like yesterday, the devout crowd honours the supernatural realm by burning its token-money according to different levels of expensiveness, which reflect the ranks of the ghostly recipients (again, in descending order: “gold-paper,” “silver-



paper,” and lesser paper-bills). *Hand-made*, i.e., “artisanal” token-paper is especially favoured on account of its being “more genuine, more effective”; that is to say, on account of its *less or anti-industrial* character — something which is, indeed, “required” for crafting objects meant to afford a “sacred connection.” This proviso appears to be intimating that the “titanic forces” of industrial throughput ought to be “insulated,” i.e., removed from the manufacture of such symbolic conductors. It is the search for that “human touch,” for the mark of labour-intensive supererogation, the mark of “conspicuous wastefulness” (in producing the token-money) that appears to guarantee, to preserve the (traditionalist) purity of the exchange via the incineration.

In any event, the cash the devout spend, or rather *convert* into token-money is not, monetarily speaking, the pecuniary affair of a *temple*, i.e., of a religious body, though some temples may have a commercial stake in stores selling token-money. The stake is generally an informal one — a donative understanding of sorts — considering that religious organisations would otherwise be taxed. All of which is to re-affirm that the practice of burning token-money feeds a substantial industry made-up of “countless workshops,” ranging from individual family operations to large-scale industrial businesses that, in some instances, occupy entire villages.

Given modern scepticism and the ongoing, swift, and often disfiguring transformation of Chinese society, anthropologists wonder how a custom such as token-burning, which is qualified as the expression of “small agrarian producers living in a feudal society,” might survive, adapt, or change in the face of globalism. In other words, they ask themselves how that ancient “hierarchy of spirits based on sumptuary privilege,” for whose sake the token-money is burned, is going to weather the spiritual change of the guard as a consequence of China’s life-changing induction into the World Trade Organization in 2001 (through American and British sponsorship).

This is a question that also pertains to the very perception the devout token-burners entertain of the custom itself. It appears that on a cultural level, they are all perfectly conscious of the, let us say, “jocose” nature of the practice: a founding myth thereof recounts that the ritual act of burning money (*shaozi*) for resuscitating, or aiding the dead,

was originally born as a “ruse,” i.e., as the con of some trickster (in the story, a small businessman seeking to unload in some fashion coarse paper nobody wanted)—much as the banker’s “ruse” of the fractional reserve — which, nevertheless, seems to have touched a raw nerve in society’s collective imagination. The founding tale struck its root in society’s congenital need to keep a (ritual) connection with the overawing realm of death, of loss, of lost love.

In this bearing, although Confucian administrators understandably criticised the custom as a sterile dissipation of wealth and labour-power for the (symbolic) sake of foreign deities (Buddhism’s) that was of no direct benefit to State revenues, they could not, on the other hand, fail to acknowledge its cohesive virtue in that it aligned the interests of the lower strata with those of the “genteel and credentialed” classes. We began our exposition precisely with this observation.

[Token-]money burning was a vulgarisation of the sumptuary privilege that gave the ruling ranks their appearance of privilege and power (Ibidem, pp. 37, 46, 51, 58–62, 68, 69, 73, 74).

Some elite philosophers clearly saw merit in this “alignment” and decreed thereby that the practice was indeed not vulgar, as they themselves were seen burning mulberry-bark paper-money —i.e., the very paper-notes which monetary historians eulogise as the fruit of the first sophisticated regime of fiat money — Genghis Khan’s — and which Ezra Pound himself, in his invective *furibonda* against (the bankers’) *Usura* (Pound, 1996), sang as one of the celestial archetypes of wholesome money (Pound, 1978, pp. 100–101).

Blake construes this “vulgarisation” as the factual celebration of a *sacrifice* of sorts (a “holocaust”), which is to say, that via the burning of token-money, China’s lower classes have been “mystifying [their] exploitation by dramatising it in plain view”: i.e. they have been sublimating their exploited status by staging the cultural drama of the bonfire of (preferably *hand-made*) money-*replicas* (lengthily and tediously folded by *hand*), along with that of, e.g., foot-binding —these two being coupled in the analysis as germane forms of *mutilation*, monetary the one, corporeal the other (Blake, 2011a, pp. 108, 133, 138, 141).

As said, and as is to be expected in the sweep of devout shuffle, the burning of mock-money has also been historically accompanied by the

invocation of Buddhist divinities (to the chagrin of Buddhism's orthodox sages) (Yen, 2007, pp. 74–75), much like devout Catholics court their myriad saints and remember their dead by lighting *ceri* and commissioning *messe cantate* (tallow candles — fire, again — and sung masses). “Burn paper and praise Buddha.” Nowadays, instead — to come to the issue of the bonfires' otherworldly recipients — the saintly hierarchies have somewhat changed complexion, or, in the best of circumstances, it has been the case that yesteryear's grandees of Hell have made room for their Communist epigones: in a single blaze, one may burn notes bearing the effigy of Mao along with that of the Jade Emperor. Moreover, since the 1950s, the market for token-money has been overrun with a plethora of so-called “ghost bills,” of “Hell Bank Notes.” These bills, which are explicit, Globalisation-driven simulations of national currencies, especially western ones (of the dollar above all, for obvious reasons), appear to be “destined for the less exalted spirits, deceased members of the family, old friends, [and] more or less anonymous ghostly figures.” By “contagious magic,” as it were, a ghost bill acquires “value” by being pressed against the real-note it was made to mimic: by rubbing against it, it putatively acquires its “numinosity.” This new profusion of bills comes with new sets of token representations: one may presently convey to the Otherworld appliances, automobiles, jet planes, steamships, touristic airfare to America, and even concubines, Viagra pills, and condoms for despondent, forlorn ancestors who might periodically suffer from bouts of maudlin boredom.

Speaking, then, of pecuniary numinosity, the question most frequently asked is: Why not burn real money? Why not just torch the cash equivalent of the intended donation? Why go through this entire, elaborate, wasteful (considering that a real, low-denomination bill buys wads galore of token-money), and polluting procedure? In certain cases, though they tend to be infrequent — as exceptions to the rule —, this has been done and is being done, oftentimes profusely. Indeed, the devotional sub-system of money-burning does not appear to have deprived itself of a certain amount of ambivalence in this respect. Inadvertently tapping into deeper currents of humour and speaking of sex, one store-owner suggested that one had

better burn the condom itself since it cost less than the paper it could be printed on (Blake, 2011a, pp. 145, 158, 167, 178, 182).

For Blake, “the popularisation of [token-]money facsimiles of real currencies is a direct reflection of the commoditisation process”; the custom is said to be “more than a ritual practice” in that it not only affords insights into the creedal space of the devotees, and into the ways in which this space is shaped by its underlying economic template, but in that it also reveals something of the dynamics of credence itself in “modern times,” which are perceived by many as “unauthentic” and “synthetic,” as “unreal.” The popularisation of [token-]money *simulacra* (Blake, 2011b, pp. 459, 460, 461, 466) supposedly reveals the symptoms of modernity's syndrome; a syndrome which has arisen as a consequence of the “destruction of reality” and tradition wrought by the pervasive mechanisation of modernity. Such a syndrome, when it rages, causes people to lose, to wrap themselves in imitations, which they mistake for “the real,” which, in turn, is said to exist no more.<sup>2</sup>

The anthropological analysis seems to suggest that we are presently undergoing a transition, in which the more ancient practices and being slowly shaped and altered by modern, consumeristic stylemes, on the one hand, and by the pressure of dollar-fueled hegemony of Anglo-American Globalism, on the other. Therefore, one has yet to observe how this practice will evolve considering above all that China's cultural identity and the eventual capability of affirming what is truly *hers* (whatever that is or may be, in the future)—that is, past and beyond this initial stage of mere labour-/capital-intensive mimicry of western models — is at this juncture still a work-in-progress, i.e., something *in fieri* of no foreseeable shape.

### Devout Observances

From a strictly economic vantage point, a custom such as that of burning ghost-bills with a view to dispatching equipment to the departed and wherewithal wherewith to bribe infernal officialdom is easily identifiable as a *devout observance* such as it typically arises in anthropomorphic cults. In what ought to be a social scientist's first compass, *The Theory of the Leisure Class* (1899),

<sup>2</sup> For a discussion of the influence of Bataille's sociological insight on Baudrillard's work see Preparata (2011, pp. 198–206).

Thorstein Veblen posits the analytical framework of such phenomena in these terms:

The anthropomorphic cults have come down from that stage of industrial development and have been shaped by the same scheme of economic differentiation — a differentiation into consumer and producer — and they are pervaded by the same dominant principle of mastery and subservience [...]. The anthropomorphic divinity is conceived to be punctilious in all questions of precedence and is prone to an assertion of mastery and an arbitrary exercise of power — an habitual resort to force as the final arbiter (Veblen, 1899, pp. 301–302).

In such a creedal space, modelled, as we have seen, after the bureaucratic structures of the empire, a bribe in the real world translates into “propitiation” in the Hereafter. “The act of propitiation or of worship,” continues Veblen, “is designed to appeal to a sense of status imputed to the inscrutable power that is thus approached. The propitiatory formulas most in vogue are still such as carry or imply an invidious comparison. A loyal attachment to the person of an anthropomorphic divinity endowed with such an archaic human nature implies the like archaic propensities in the devotee” (Ibidem, p. 302). This, then, might be said to account for the shared liturgical space between the wealthy and the indigent: the latter express their emulative fealty to the former not only by imitating the propitiatory practices of their higher-ups (in the “invidious” pursuit of higher status), but also by personalising the ceremonial, as it were, with the provision of an extra stash of hush-money, as if to bring thereby in further relief the tacit reality of their immutably subservient status.

Economically, the devout frame of mind calls for the devout consumption of goods and services. “The consumption of ceremonial paraphernalia required by any cult, in the way of shrines, temples, churches, vestments, sacrifices, sacraments, holiday attire, etc.,” argues Veblen, “serves no immediate material end.” It leads him to infer that “all these material apparatus may, therefore, without implying deprecation, be broadly characterised as items of *conspicuous waste*” (Ibidem, pp. 306–307, emphasis added). The theoretical inclusion of burning netherworld bills in the category of “conspicuous waste” appears to be all the more justified by the additional clue that, in the “devotional business” of communicating with the other side, (stannous) paper “tediously” and lengthily” folded “by hand,”

and/or all “hand-made” token-money is more highly prized than similarly-looking yet industrially con-fected items. This fact re-joins Veblen’s observation that between two objects of outwardly identical appearance and serviceability, the “requirement of conspicuous wastefulness”—which is typically denoted by the supererogation of several more hours of manual labour for the making of the one than for the other — leads the devout mindset to find superior gratification in the article bearing higher “honorific” (i.e., wasteful) value (Ibidem, pp. 127–128).

Fixated as Veblen was on emphasising how the “Machine Process most assuredly warranted the material efficiency of the community” (Veblen, 1904), which he himself “devoutly” hypostatised as the foundation of his Utopia of the Engineers’ Councils (Veblen, 1921), he could not but chastise “devout observances”—despite his repeated protestations that the moral and aesthetic qualities of devotional activity were not part of his strictly economic analysis — as obstructions “to the most effective organisation of industry under modern circumstances.” In this regard, he saw “the sentiment of personal fealty, and the general habit of mind of which that sentiment is an expression, [as] survivals which cumber the ground and hinder an adequate adjustment of human institutions to the existing situation” (Veblen, 1899, pp. 304, 307). And such appears to be, to a certain extent, the prejudicial grounds from which China’s newer waves of doubting publicists launch their “lampooning” invectives against the custom of burning token-money. It is also the case, on the other hand, that Veblen’s economic censure, overlaps, in a way, with the early *dirigiste* qualms expressed by the Confucian administrators as to the strictly material effects of the custom on the overall cycle of the System’s political economy.

Likewise, in the case of ghost-worship, or rather, of “ghost-bribing”: the fact that ghosts, though cared for by others, are considered “potentially dangerous because they are *strangers or outsiders*” (Wolf, 1974, p. 172, emphasis added), could also be chalked up to the same atavistic mindset, to the same “spiritual attitude or habit of mind” which results from the [consuetudinary] contemplation of the anthropomorphism, *clannishness*, and leisurely self-complacency of the gentleman of an early day” (Veblen, 1899, pp. 391–392, emphasis added). Being ad-perceived, through a *tribal* lens,



not as “one of ours,” and thus, as potentially hostile, ghosts perforce need to be pacified.

But, in canvassing the custom of paper-burning, Veblen’s theory can only be stretched thus far; and that is because the devout, though intrinsically harmless practice of incinerating token-money (aside from its polluting “externalities”), beyond evoking bland forms of clannishness along with reminiscences of a meek subjection to the aldermanic intrusion and malversation of imperial officials, bears, *ipso facto*, none of those truculent marks of barbarous domination, prepotence, and dissipative effusion that are more idiosyncratically characteristic of the West’s “demented” attraction to power (Tarde, 2015, p. 20). This is understood, and the limits of this interpretative approach are even more manifest when the custom is stacked against the bloody and savagely violent outlets (viz. holocausts, sanguinary emulative rituals, war & rearmament, sacrifice, squander, etc.) to which the *economic surplus* is, as Georges Bataille incisively contended —*le trop-plein*—, methodically, systematically, and ritually conveyed —as an “*accursed share*” (Bataille, 1967). Bonfires of token-money do not really possess that disquieting awesomeness that characterises all sacrificial forms, even symbolic ones.

In this sense, from a strictly economic viewpoint, one may question whether it is apposite to liken money-torching to a “holocaust” and thereupon to assimilate the latter with foot-binding. Foot-binding, like Veblen, again, observed in the famous chapter on the “Canons of Pecuniary Taste” of his magnum opus, appears, in fact, to be a contradistinguishing expression of the “barbarous status of a woman.” Which is to say that, in order to signal her costly, trophy-like thralldom —as sexual capital— to the estate of the lord, the mistress of the palace is conventionally subjected to a vestimentary etiquette that is so designed as to suggest her thorough incapability of “useful effort,” and thereby, her helplessness in the face of the practical obstacles of procuring one’s livelihood. She is thus garb-wise and corporally “fashioned” according to varying aesthetic solutions betokening, more or less perversely, her “need” to be “supported in idleness by her owner.”

[Woman] is useless and expensive, and she is consequently valuable as evidence of pecuniary strength. It results that at this cultural stage women take thought to alter their persons, so as

to conform more nearly to the requirements of the instructed taste of the time; and under the guidance of the canon of pecuniary decency, the men find the resulting artificially induced pathological features attractive. So, for instance, the constricted waist which has had so wide and persistent a vogue in the communities of the Western culture, and so also the deformed foot of the Chinese. Both of these are mutilations of unquestioned repulsiveness to the untrained sense. It requires habituation to become reconciled to them. Yet there is no room to question their attractiveness to men into whose scheme of life they fit as honorific items sanctioned by the requirements of pecuniary reputability. They are items of pecuniary and cultural beauty which have come to do duty as elements of the ideal of womanliness (Veblen, 1899, pp. 148–149).

Therefore, foot-binding may be seen as one of the more deleterious societal traits of China’s *ancient régime*, so to speak. But unlike spirit-money, it has vanished. And with money, on the other hand, it is somewhat a different story.

### **The “Death of Money”: On Debt, Perishability, and the Beckoning of the “Spirit”**

In their economic interpretation of the custom, anthropologists have prevalently cited the work of Marx —two aspects thereof, in particular: his distinction “between the circulation of money as capital and its circulation as mere money,” and the idea that money is a *fetish* hiding the fact that “money making more money” is an illusion.

Under the first contention, which distinguishes “money as money” from “money as capital,” it has been argued that “money as money” is the business of humans, whereas “money as capital” is the (extortionary) affair of the gods. In other words, simple cash circulating in the hands of simple folk is simply purchase money with which humans buy “essential commodities”—including “a human body and a life-fate,” to reconnect the argument with the earlier advertence to the commercial eschatology underlying the custom. Purchase money — consisting traditionally of paper bills — is the masses’ money, which they use for their “petty needs” in this world, and, symbolically, in the next. Gods, by contrast, appear to be the superstitious projection of bankers-usurers. Gods, like moneyed capitalists, “lay out money as interest-bearing capital, with an expectation of receiving more than



they originally lent: a series of offerings over the life-time of the individual in the course of normal religious activity.”

During life, one should strive to reduce the debt through the performance of virtuous acts, through prayers, and, very important, through donations of money to the gods, both as burned spirit money and as real cash gifts to the temples (Gates, 1987, pp. 267, 269, 272–273).

According to this view, the custom, as we have noted above, comes across as a theatrical sublimation by poor people — peasants — of their being exploited at the hands of a “baronial” class of imperial commissars via the use of money, which, at heart, is construed as nothing but as an institutional subterfuge for robbing them of their “surplus labour” (Blake, 2011a, p. 108), and which they (the peasants) therefore burn in the course of a ceremonial thus possessed of a dual (semi-conscious) valence: as bribe-money to Hell, the mock-money burned is a dramatised offering representing the peasants’ economic subjection, and as a “wire transfer” to their dead, it stands as an emulative practice patterned after the usages of that self-same leisure, the credentialed class whose predaciousness they putatively lament in the fumes of the torching.

### Interest, Gold, Scarcity

The only certainty that emerges from the practice of burning netherworld banknotes is that, traditionally, “the great mass of the Chinese people [have been] in a chronic state of debt.” And as debtors — like the vast majority of all men and women, in fact (the Chinese are no different from other peoples in this respect)—, the Chinese “[have been] daily concerned with the most practical question: how they shall pay interest to the minority who have lent the money” (Freedman, 1959).

Such is the primary institutional (and monetary) reality: the anchoring of the entire economic cycle to the foundational act of exploitation, which is *the extension of money as a loan (i.e., debt), at interest*. Historically, this is the institutional outcome of a near-universal cornering by a single industry — banking — of the precious metals, which are *infelicitously* recognised as society’s conventional means of payment. This intuition belongs to Silvio Gesell (1864–1930), a *Belle Époque* businessman turned reformer, whose visionary blueprint for

economic rebirth briefly attempted to come to practical life in the second, anarchist makeover of Bavaria’s “Council Republic,” during the of the pandemonium of WWI’s aftermath (see, Preparata, 2005, pp. 48–56).

Considering the question in these terms, the worker, then, is not deceitfully defrauded of his “Plus-value” through legerdemain, i.e., through the monetary “illusion” of “money begetting more money.” To contend this is to imply that one knows what the “intrinsic value” of labour’s product is. But the economy does not reckon in terms of “value,” but of *price* alone, for that is the only indicator that is actually-known to all parties involved. Incidentally, Eugène Ionesco’s spins the matter semi-facetiously in his 1951 radiophonic *sketch*, *Le salon de l’automobile* (“At the Car Dealership”):

LE MONSIEUR: Oh! quelle belle voiture! [...] Elle vaut combien?

LE VENDEUR: Ça dépend du prix.<sup>3</sup> (Ionesco, 1991, p. 1151)

The worker is robbed of his due because the employer deducts from it all the *overhead*, which, in turn, is derived from, or rather, imposed by the fundamental iniquity residing in the exaction of interest itself — exaction which “contaminates,” so to speak, the entire chain of production and exchange.

The employer does not buy work, or working hours, or power of work, for he does not sell the power of work. What he buys and sells is the product of labour, and the price he pays is determined, not by the cost of breeding, training, and feeding a worker and his offspring (the physical appearance of the workers is only too good a proof that the employer cares little for all this), but simply by the *price* the consumer pays for the product. From this price the employer deducts the interest on his factory, the cost of raw material, including interest, and wages for his own work. The interest always corresponds to basic interest: the employer’s wage, like all wages, follows the laws of competition: and the employer treats the raw material he intends his workmen to manufacture as every shop-keeper treats his merchandise. The employer lends the workmen machinery and raw material and deducts from the workers’ produce the interest with which the raw material and machinery are burdened. The

<sup>3</sup> The Gentleman: Oh! What a beautiful car! [...] How much is it worth? The Car Sales man: It depends on the price.

remainder, so-called wages, is in reality the price of the product delivered by the workmen. Factories are simply, therefore, pawnshops (Gesell, 1920, pp. 258–259, emphasis added).

In this portrayal, the factory itself is capable of generating interest (“profit”) insofar as the total number of factories is scarce (and wage-labour is abundant). Machinery is scarce, and so are raw materials. And, again, the determining factor along this chain of subsequent constraints is the original exaction of basic interest (Preparata & Elliott, 2004). The “faculty” of charging interest originates in the *material property* of money itself and, relatedly, in the power issuing from the commercial *network* of banking transactions, which have sprouted from the exaction of interest itself.

The power, the “numinosity” of money, which allows its proprietor to demand a price for its use — so-called “interest”—emanates from its *imperishability* when it traditionally assumes the form of *gold*. Thereafter, institutionally speaking, it has always been banking’s chief preoccupation to transfer the “numinosity” of gold to its “paper” (the “acceptances” of yore, checks, and conventional “reserve notes”), which the population comes to accept in lieu of gold (for the latter is cumbersome). In this sense, the distinction, *in terms of class*, between “money as money” (for the people) and “money as capital” (for the upper crust, worldly and otherworldly) is, at first blush, not so much spurious as it is misleading. Money *never* circulates freely; it is always lent at interest, and that is how it is put into circulation: via a loan demanding a ceaseless chain of rental payments.

So, there is no illusion or “fetish” at play here: the charging of interest is a solid, unjust, and harsh reality, which, indisputably, colours the entire devotional texture of the money-burning custom. Indeed, one may say that the larcenous corruptness of the banking-bureaucratic elite is doubly “condemned” or “resented” in the practice of money-burning by way of the provision of bribe-tokens on the one hand and of the whole repayment plan following the acquisition of a body and a fate in the supernatural realm, on the other. Money as we know it — i.e., as an imperishable commodified symbol — is “capital” by definition: again, it is never extended gratis.

And this explains why devotees, as a rule, are reluctant to burn real money: because it is (artificially) scarce and, therefore, expensive, they

cannot afford to burn cash out of circulation. It is only insofar as real cash may be *hoarded* and consequently used to feed the so-called “informal” economy (“under the table,” so to speak) that one may say that “purchase money” is the affair of simple people. Monetarily speaking, it is otherwise cogent to keep the cash circulating in the economy, even if that entails conveying it to a private and wasteful industry such as that of the token-makers, rather than senselessly annihilating what is *de facto* an essential commodity, which, because the banking cartel owns it, costs the *productive* economy resources for its injection. Hence the *symbolic and ceremonial conversion* of real cash into tokens in preparation for the burning liturgy.

### The ages of money

But there is more. There is, indeed, something of a deeper nature behind the intuitive distinction between “purchase money” and “capital.” For it is indeed the case that we see money circulating *initially* as “purchasing symbols” on their way to acquiring goods for immediate consumption (in the stores, the market). And it is no less true that, whatever is laid aside, in excess of what is needed for immediate consumption, we construe as savings, “saved money,” or “capital.” Technically, the latter is still money chasing (perishable) goods, but it is goods that are consumed in order to produce another sort of goods — items whose consumption will happen in the future, i.e.: “instrumental good,” “investment goods,” we call them.

All of which is to intimate that money, being at first remove the immediate reflection of economic activity, *has a life span of its own*. At the origin, when it is linked to the earth (agriculture), money is *purchase money*; goods (nutrients) are produced and consumed instantaneously, and the cycle repeats itself identically. When the goods of the earth are subsequently conveyed toward an artisanal (i.e., industrial) venture, they abandon the sphere of a subsistence economy and become “engaged”; the money representing them has been “saved.” Saving is still a form of consumption: *a deferred consumption of durables*.

And, then, there is a third, no less important and significant, stage.

Finally, when all this *aging* money, staggered by the various enterprises in which it was engaged, flows in ever-swelling rivulets to the communi-

ty's saving accounts, much of it, as we said, is the specular expression of excess; therefore, it *may be willingly given away*. *Moribund money is gift-money*. Who shall receive it? In a purely economic sense, its legitimate recipients are those segments of the community not directly involved in productive work: state officialdom (bureaucrats and soldiers) and the spiritual sector (teachers, healers, and priests). In sum, the youth of money is the beginning of agriculture, its maturity is industrial expansion, and its death is spiritual emancipation (growth of the arts and sciences) (Preparata, 2006, p. 19).

As stated in the Introduction, we do not see it, but money conceals an *age*, the very age of the goods it is designed to accompany, in fact. And like these goods, which are born and eventually die, it must be that money itself must die. And it does — though, again, we do not see it; or, are not allowed to see it, because, by law and (an iniquitous) institutional convention, money has been “decreed,” and thereby is socially construed, as (an) imperishable (medium of exchange). This crucial observation lies at the heart of the nature of money and the reformist, sociological, and political debate that gravitates around it, the narrative and details that need not detain us here. Suffice it to say, then — and this is the beating heart of the reformist agenda issuing from such approach to the monetary question—, that for innovators like Gesell and Austrian theosophist Rudolf Steiner (1861–1925), who coined the metaphor of the “Ages of Money,” there was only one way out of this societal impasse. The only expedient for melting away the deception by which the public is “sold” in the form of proprietary and imperishable “commodified means of payment” what ought to be, instead, a *public*, and thus *free* and incorporeal symbol is to make money die, by giving it an age. This translated into (periodically) “taxing money” (by affixing stamps on it: so-called “stamp scrip”) or issuing time-dated certificates. For what it is and what it is supposed to effect, money was never meant to “keep”: it ought to wither, die. And be reborn (i.e., rei-issued), along with everything else that composes the cycle.

Such a monetary schema perfectly accounts for the Chinese custom of money-burning: “spirit money,” ghost-bills and the like are, properly speaking, *gift-money*: i.e., cash offerings, whose “conversion” into tokens punctually signals their nearing death. And, indeed, they are *given away* —

to the dead. The practice itself — past the dramatisation, which, *de facto*, occults very little — actually makes this passage most manifest and explicit: the money is *destroyed* by being burned in effigy. There is no losing oneself in fakes and simulacra in this instance; there is no simulation afoot here. If anything, what money-burning effects is rather a *counter-simulation*: it is a liturgical *démenti* of the official monetary “discourse”; it is a semi-overt vindication of the underlying reality of money's age, ageing, and dying — a truth which the conventional and exploitative system has willingly effaced.

The practice is revelatory in that it unfolds to *unmask the* aboriginal simulation, i.e., the foundational deceit that conventionally congeals money in the collective perception as an imperishable means of payment. It is as if, demanding to be converted into “sacrificial” banknotes of the Underworld (so there is in this a touch of Bataille's truculence, after all...), the cash in people's wallets conveys that it has had an age all along and that it is now approaching death. And, as Steiner understood, the gifting most often marks rites by which the living commune with the spiritual realm. The priestly caste, which is deputised to manage the traffic with the Hereafter, is by definition a “kept class”; it is fed by the gift. Not by accident did the drachma bear the effigy of Athena; not by accident were coins in ancient Greece minted in the temple, and, to shift gears, not by accident does pop culture speak of bankers as “high priests.” And so on.

Not by accident are the Chinese interacting with their dead when they burn ghost money (which, verily, they bought with “dying cash”). And it is now clear what the woman mentioned in the opening citation of this essay meant when she averred (in Sibylline fashion) that “burning [ghost money] is the proper way of storing its value”: she meant that money, by its nature, can never keep; and that to manage it in the right fashion, one eventually ought to destroy it, and that is most appropriately done in conjunction with a deeply felt religious sentiment. It is a profound truth. The custom is thus perfectly congruent with the monetary and spiritual logic of the economic cycle, whatever opinion one may entertain as to the nature of the credence itself.

### Religion vs. Devoutness?

There finally remains to assess whether this peculiar gifting is, per se, *economically* virtuous; in



other words, whether the monetary repercussions of the interaction with the Underworld by way of one's ancestors are of any material benefit to the collectivity at large, especially in the way of charitable redistribution/succour (via the temples).

A sidenote on food offerings, first: one may remark that the food that is publicly laid out on tables, along with incense and spirit money, does not call for ritual altruism. It is eventually consumed by the donors themselves. And the suggestive banquet for the outcasts described earlier appears to have been some kind of vestigial ritual, which has now entirely disappeared.

Money. With Veblen, we have acknowledged that, so long as the cash flows to a private, petty-sumptuary industry of scrip-manufacturers, the custom is not likely to transcend the enclave of "conspicuous waste." As said, some temples possess affiliated stores selling underworld money, but the bulk of the expense in this sector goes to private stores (and note-makers). So, considering that it is 1) polluting and, per se, 2) not conducive to any substantial charitableness, one could preliminarily conclude that, congruent as it may be with the imbricated structures of pecuniary flow, folklore, and devout belief, money-burning is of exiguous economic value to the welfare of the community.

Not without humour, the charge of *animism* could even be levelled on the doctrinal grounds by representing to money-burners how in the *religious* terms of the Gospel's metaphor (Matthew 6:20)—according to which a treasure spontaneously accrues in Heaven through good deeds — their practice amounts to a morally disengaged way of hyper-inflating such a pre-accumulated trove into nothingness (Blake, 2011b, p. 462). (Of course, the sarcasm fails to address the fact that remittances of ghost-money are chiefly addressed to "Hell," rather than Heaven). Orthodox Buddhism likewise berates the custom as a "low-class superstition" and deplores it especially in the guise of "rebirth money." It is a type of netherworld note that was created by Buddhists who emigrated from China to Taiwan; it takes the form of small yellow paper sheets bearing, printed in red Sanskrit letter, the mantra of rebirth recited for ghosts. Sutras, admonish Buddhist sages, should not be burnt (Yen, 2007, p. 75).

To view the torching of ghost money, economically speaking, as unqualifiedly animistic would be

warranted if the custom were systematically unaccompanied by gratuitous acts of charitable donation, which, however, is manifestly not the case. For one, the incineration itself, the expense for which verily absorbs but a diminutive amount of cash (the standard package of ghost money + incense retails for 100 NT\$, ca. 3 US\$), is customarily coupled with offertories to the temples of substantially higher amounts. (I have been told that within the precincts of the private temple, things are handled "like in a clinic": Shamans suggest to the devotees the proper amounts to burn in accordance with the particular "problems" these wish to address. The spirit-money is bought on the temples' premises). And second, as we set down earlier, the doctrine associated with the (commercial) eschatology of the custom *prescribes* the commission of "virtuous acts indeed, through prayers, and, very important, through donations of money to the gods, both as burned spirit money and as real cash gifts to the temples" (Veblen, 1899, pp. 148–149).

To conclude with a marginal annotation, it appears that, in its essentials, the custom possesses more than enough popular traction and sufficient economic "virtue" to perpetuate itself in the twenty-first century and beyond. Neither the issuance of a new digital currency by the central bank of the People's Republic of China (China, 2017) nor the development of cryptocurrencies alternative networks (Casey & Vigna, 2015), which is nowadays cutting-edge business in China, represents an ostensible obstacle for the ritual practice of money-burning. So long as any of these new artificially scarce, man-made, commodified currencies ("Bitcoin," the standard-bearer of crypto-money is also known as "digital gold") may be spent at the local convenience stores, or even at temples (Churches in Sweden, e.g., have already enabled their faithful to make oblations by swiping their cards over digitised charity-boxes), their owners can keep the custom alive and thus be at liberty to send up in flames as much spirit money as they see fit. It could be so, unless, of course, the current build-up for environmental regulation should become such as prohibiting the custom altogether. It is thereafter a matter of pure speculation whether, in order to salvage tradition, one could devise, in line with the aforementioned digital developments and the new hyper-modern varieties of netherworld bills, an online system for the digitised incineration of crypto-ghost-notes.



## REFERENCES

1. Bataille Georges. *La part maudite, précédée de la notion de dépense*. Paris: Les Éditions de minuit; 1967 [1949].
2. Blake C. Fred. *Burning Money. The Material Spirit of Chinese Lifeworld*. Honolulu: University of Hawaii Press; 2011a.
3. Blake C. Fred. Lampooning the Paper-Money Custom in Contemporary China. *Journal of Asian Studies*. 2011b;70(2, May):449–459.
4. Casey Michael J., Vigna Paul. *The Age of Cryptocurrency: How Bitcoin and Digital Money Are Challenging the Global Economic Order*. New York: Random House; 2015.
5. China is Developing its Own Digital Currency. *Bloomberg*. April 2017 <https://www.bloomberg.com/news/articles/2017-02-23/pboc-is-going-digital-as-mobile-payments-boom-transforms-economy>
6. Freedman Maurice. The Handling of Money: A Note on the Background to the Economic Sophistication of Overseas Chinese. *Man*. 1959, April; (88, 89):64–65.
7. Gates Hill. Money for the Gods. *Modern China*. 1987;13(3, July):259–277.
8. Gesell Silvio. *The Natural Economic Order*. San Antonio, Texas: Free Economy Publishing. 1920 [1916].
9. Hou Ching-Lang. Les papiers monnaies d'offrande dans la religion chinoise. *Annales de l'École pratique des hautes études*. 1971;80–81:116–121.
10. Ionesco Eugène. *Théâtre complet*. (Paris: Gallimard, La Bibliothèque de la Pléiade; 1991.
11. Pound Ezra. *The Cantos of Ezra Pound*. New York: New Directions; 1996 [1915–1962].
12. Pound Ezra. *Selected Prose, 1909–1965*. New York: Faber and Faber; 1978.
13. Preparata Guido G. *The Ideology of Tyranny. The Use of Neo-Gnostic Myth in American Politics*. New York: Macmillan; 2011.
14. Preparata Guido G. Un(for)giving: Bataille, Derrida, and the Postmodern Denial of the Gift. *Catholic Social Science Review*. 2008;(13):169–200.
15. Preparata Guido G. Perishable Money in a Threefold Commonwealth: Rudolf Steiner and the Social Economics of an Anarchist Utopia. *Review of Radical Political Economics*. 2006(Winter);38(4):619–648.
16. Preparata Guido. G. *Conjuring Hitler. How Britain and America Made the Third Reich*. London: Pluto Press; 2005.
17. Preparata Guido G., Elliott John E. Free-Economics: The Vision of Reformer Silvio Gesell. *International Journal of Social Economics*. 2004;31(10):923–954.
18. Rogoff Kenneth S. *The Curse of Cash*. Princeton and Oxford: Princeton University Press; 2016.
19. Seidel Anna. Token of Immortality in Han Graves. *Numen*. 1982(July); XXIX(1):110–111.
20. Tarde Gabriel. *Fragment d'histoire future*. Paris: Éditions Glyphe. 2015 [1896].
21. Veblen Thorstein. *The Engineers and the Price System*. New York: Huebsch; 1921.
22. Veblen Thorstein. *The Theory of Business Enterprise*. New York: Macmillan; 1904.
23. Veblen Thorstein. *The Theory of the Leisure Class. And Economic Study of Institutions*. New York: Macmillan; 1899.
24. Wolf Arthur P. Gods, Ghosts, and Ancestors. In Arthur P. Wolf (Ed.), *Religion and Ritual in Chinese Society* (Chapter 7). Stanford: Stanford University Press; 1974.
25. Yen Sheng. *Orthodox Chinese Buddhism. A Contemporary Chan Master's Answers to Common Questions*. Berkeley, California: North Atlantic Books; 2007.

## ABOUT THE AUTHOR

**Guido Giacomo Preparata** — D.Sc. in Political Economy, MPhil in Criminology, Senior Lecturer in Political Economy and Social Sciences at the Pontifical Gregorian University in Rome, Italy  
ggprep@yahoo.com

## ОБ АВТОРЕ

**Гвидо Джакомо Препарата** — доктор политических наук, магистр криминологии, старший преподаватель политической экономики и социальных наук Папского Григорианского университета в Риме, Италия.  
ggprep@yahoo.com

ORIGINAL PAPER

doi: 10.26794/2308-944X-2021-9-4-46-59  
JEL codes: B22, E25

# How Pigou Solved a Fundamental Theoretical Problem

Kepa Ormazabal

## ABSTRACT

In this paper, the author critically analysed a unique passage of Pigou's 1933 *"The Theory of Unemployment"*. Here he is faced with a fundamental theoretical problem in the definition of the national dividend or national income, which has far-reaching consequences on the comprehension of the circulation of money. Pigou is one of the few economists who have noticed this problem and discussed it in the history of economics. The problem can be stated as follows: the part of the value of output that makes up for depreciation; is or is not up for division? Does or does not it become income (that is, wages and profits) in the aggregate? The passage analysed in this paper is exceptional in the history of economics. It is so, first, because it faces the problem. Secondly, but no less important, because Pigou, despite his hesitations, holds the nowadays minoritarian position that the value of the part of the output that makes up for depreciation does not become income for any economic factor. This view implies that this part of the output is not up for division and, therefore, is not a part of aggregate income.

**Keywords:** national income; GDP; capital depreciation; Pigou; national dividend; unemployment

**For citation:** Ormazabal Kepa. How Pigou Solved a Fundamental Theoretical Problem. *Review of Business and Economics Studies*. 2021;9(4):46-59. doi: 10.26794/2308-944X-2021-9-4-46-59

ОРИГИНАЛЬНАЯ СТАТЬЯ

# Как Пигу решил фундаментальную теоретическую задачу

Кепа Ормазабал

## АННОТАЦИЯ

Статья посвящена критическому анализу уникального отрывка из «Теории безработицы» Артура Пигу, изданного в 1933 г. Здесь Пигу сталкивается с фундаментальной теоретической проблемой определения национального дивиденда, или национального дохода, которая имеет далеко идущие последствия для понимания денежного обращения. Пигу – один из немногих экономистов, которые заметили эту проблему и обсудили ее в истории экономики. Методом текстуального сравнительного анализа автор проанализировал следующие проблемы: чем является часть стоимости выпуска, которая компенсирует амортизацию? подлежит она распределению? становится ли это доходом (т. е. заработной платой и прибылью) в агрегированном виде? Автор указал, что анализируемый отрывок является исключительным в истории экономики. Во-первых, потому что Пигу обнаружил эти проблемы, а во-вторых, потому что Пигу, несмотря на свои колебания, занимает в итоге сегодняшнюю миноритарную позицию. Автор сделал вывод, что согласно Пигу стоимость той части выпуска, которая компенсирует амортизацию, не становится доходом ни для одного фактора экономики. Следовательно, эта часть выпуска не подлежит распределению и не является частью совокупного дохода.

**Ключевые слова:** национальный доход; ВВП; амортизация капитала; Пигу; национальный дивиденд; безработица

**Для цитирования:** Ормазабал Кепа. Как Пигу решил фундаментальную теоретическую задачу. *Review of Business and Economics Studies*. 2021;9(4):46-59. doi: 10.26794/2308-944X-2021-9-4-46-59

## Introduction

This paper intends to critically analyse a unique passage of Pigou's 1933 *"The Theory of Unemployment"* where Pigou runs into a fundamental theoretical problem in defining the "national dividend" or national income. Pigou is one of the few economists who have discussed this problem in depth in the History of Economics after the Physiocrats inaugurated modern National Accounting. The problem can be stated as follows: the part of the value of output that makes up for depreciation is or is not up for division? Does it become income (that is, wages and profits) in the aggregate or not? Is it part of the "national dividend" or not? This question is of fundamental importance because the first question that any inquiry into the distribution of wealth should answer is: what is up for distribution? What exactly is the national dividend? What exactly constitutes the income of the nation, which is what is to be distributed?

This paper does not want to survey Pigou's definitions of the national dividend or the different terms that he used to refer to it. Pigou was no outsider of the Economics profession, and there is nothing very much in his treatment of national income or of capital that might surprise a modern economist. All this notwithstanding, I have found out a passage in his 1933 *"The Theory of Unemployment"* which is exceptional and, therefore, represents a chapter in the History of Economics that deserves to be on record; a passage where Pigou raises the problem about the relationship between depreciation and income, a problem that not many economists have discussed in detail in the History of Economic Thought ever since the Physiocrats introduced the gross product-net product distinction.

Neither does this paper intend to catalogue or question the conceptions of capital that can be found in the writings of Pigou nor to discuss the meaning of the controversial expression "maintaining capital intact". To pose and discuss the issue in this paper, it is enough to know that production involves depreciation and that this depreciation must be made good out of production itself. As I said, the question is: the value of the part of the output that makes up for capital consumption is or is not up for division? Pigou poses and discusses this question in a chapter of his *"The Theory of Unemployment"* without refusing to come to grips with the problem and arriving, not without hesitations and ambiguities, at a view that is at variance with current macroeconomics.

Pigou was not the first economist to ask the basic question about what part of the output of a nation or any other economic unit is up for distribution. It is well-known fact, the first one who did it in a systematic way back in the 18<sup>th</sup> century was Dr Quesnay; indeed, the distinction gross-net was introduced by "the Economists" to tell the part of the national produce that is up for distribution as income from that which is not. Quesnay provided a clear-cut answer to the question and held that the value of the part of the output that makes up for capital consumption (which, in his theory, included wages and profits in addition to the replacement of used up intermediate goods) is not up for division. Accordingly, it does not become income for anybody in the economy. To put it in his terminology, the part of the "*produit brut*" that makes up for depreciation does not represent "*produit net*". The only part of national production that is up for division and can be consumed or saved without impairing the productive capacity of the economy is the "*produit net*": in the system of Quesnay, the rent of land (for a more detailed discussion of Quesnay's ideas, check Ormazabal, 2007). In a word: national income is not equal to GDP.

In the 19<sup>th</sup> century, Say contested "the Economists", rejected the distinction "*brut-net*" at an aggregate level and claimed that nations only have "*produit brut*", or, in other words, that there is no difference between gross domestic product (GDP) and net domestic product (NDP). The Physiocratic notion of "*produit net*" is a non-existent entity, an error of the Physiocrats that is to be purged from Economic Theory and National Accounting:

"The term net produce applies only to the individual revenue of each separate producer or adventurer in industry; but the aggregate of individual revenues, the total revenue of the community, is equal to the gross produce of its land, capital, and industry. Which entirely subverts the system of the economists of the last century, who considered nothing but the net produce of the land as forming revenue, and therefore concluded that this net produce was all that the community had to consume; instead of admitting the obvious inference, that the whole of what has been created, may also be consumed by mankind." (Say, 1821 [2001], 171)

Note that Say's complaint against "the Economists" is not that the rent of land is not revenue or that there are other revenues in addition to the rent of land, but that the whole produce of a nation resolves itself into wages, profits and rents. The whole

of gross produce becomes income in the aggregate, which implies that the Physiocratic gross-net distinction does not exist at the aggregate level: a nation's "produit brut" is equal to its "produit net". In current terminology, there is no distinction between gross domestic income (GDP) and net domestic income (NDP) because the whole of GDP becomes NDP. Say, thus, agrees with the view that prevails in standard Macroeconomics, which is also the view that prevails in Smith's *Wealth of Nations*, though it must be noted that Smith, in contrast to Say, hesitates and at times leans towards the Physiocratic view (albeit in a rather confused way; I have also discussed this in another paper, Ormazabal, 2003c).

"In every society, the price of every commodity finally resolves itself into some one or other, or all of those three parts." (Smith, 1776 [2003], 71)

So the price of commodities has three parts and no more: namely, wages, profit and rent, and all of them are incomes. But Smith goes on and writes:

"In the price of corn, for example, one part pays the rent of the landlord, another pays the wages or maintenance of the labourers and labouring cattle employed in producing it, and the third pays the profit of the farmer. These three parts seem either immediately or ultimately to make up the whole price of corn. A fourth part, it may perhaps be thought, is necessary for replacing the stock of the farmer, or for compensating the wear and tear of his labouring cattle, and other instruments of husbandry. But it must be considered that the price of any instrument of husbandry, such as a labouring horse, is itself made up of the same three parts; the rent of the land upon which he is reared, the labour of tending and rearing him, and the profits of the farmer who advances both the rent of this land, and the wages of this labour. Though the price of the corn, therefore, may pay the price as well as the maintenance of the horse, the whole price still resolves itself either immediately or ultimately into the same three parts of rent, labour, and profit." (Smith, 1776 [2003], 71–2)

Here Smith admits that the price of corn has a fourth part which does not represent any income for any factor engaged in farming. However, he ends up admitting that the whole produce of an economy ultimately resolves itself into income. He thus distances himself from Quesnay, but he sometimes senses that Quesnay is right and tries to get back in line with him. Smith senses that his initial view that the value of commodities resolves itself into incomes has a serious problem because the price of

the horse, just like that of corn, must have a fourth part to replace the used up capital. This value cannot represent any income for anybody. It, of course, implies, first, that the price of commodities, in particular as well as in the aggregate, has a fourth part which does not represent income and, secondly, that the part of the value of aggregate output that makes up for capital depreciation does not become income for anybody in the aggregate. Thus, Smith ends up tilting towards Say in the main (and with today's standard Macroeconomics), but at times, he tilts towards "The Economists"; for instance:

"It has been shown in the first book, that the price of the greater part of commodities resolves itself into three parts, of which one pays the wages of the labour, another the profits of the stock, and a third the rent of the land which had been employed in producing and bringing them to market. Since this is the case, it has been observed, with regard to every particular commodity, taken separately, it must be so with regard to all the commodities which compose the whole annual produce of the land and labour of every country, taken complexly. The whole price or exchangeable value of that annual produce must resolve itself into the same three parts, and be parcelled out among the different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land." (Smith, 1776 [2003], 363).

It is entirely in line with Say. However, shortly after, Smith writes:

"But though the whole value of the annual produce of the land and labour of every country is thus divided among and constitutes a revenue to its different inhabitants, yet as in the rent of a private estate we distinguish between the gross rent and the net rent, so may we likewise in the revenue of all the inhabitants of a great country. The gross rent of a private estate comprehends whatever is paid by the farmer; the net rent, what remains free to the landlord, after deducting the expense of management, of repairs, and all other necessary charges; or what, without hurting his estate, he can afford to place in his stock reserved for immediate consumption, or to spend upon his table, equipage, the ornaments of his house and furniture, his private enjoyments and amusements. His real wealth is in proportion, not to his gross but to his net rent." (Smith, 1776 [2003], 363–4).

Here Smith is trying to recover the gross-net distinction of Quesnay. He takes two reference points in



this text to define net income: production cost and consumption. In terms of production cost, net income is the part of the output that can be released from production maintenance (or expansion). In terms of consumption, net income is the fraction of the annual output that can be consumed without “encroaching upon capital”. As we know from Quesnay, the two definitions ultimately refer to the same thing, namely, to income or “*produit net*”. Note, by the way, that the definition of net income in terms of *consumption* is, actually a definition of income in terms of *surplus-value*, in line with Quesnay, as Smith takes it for granted that the *consumable* part of the yearly output is that which remains free after making up for aggregate production cost because it represents a surplus over production cost. According to this, net revenue/net income is the *surplus-value* of the yearly output over the value of the yearly production cost or capital depreciation. Now Smith distances himself from Say and embraces “The Economists”. However, in what follows, I will take Quesnay and Say as the reference points of my discussion, as their position is neatly defined and opposed.

Marx’ schemes of reproduction in “*Capital*” vol. 2 are of great help to discuss the issue tackled in this paper, as the schemes take into account in an explicit way the maintenance (simple reproduction) and increase (extended reproduction) of “constant capital”. Although the distinction *bruit-net* is not the explicit theme of Marx’s reproduction schemes, his treatment of capital in them implicitly provides the basis for an answer to the question discussed in this paper.

According to standard macroeconomics, aggregate income is GDP minus depreciation (and indirect taxes, but this latter element can be safely left aside for the purposes of this paper). Thus, in a first moment, depreciation is kicked out of the house of net income through the door; however, in a second moment, and this is what troubles Pigou, it comes back through the window, when it is stated that the part of the value of output that makes up for depreciation becomes income because the factors that make up for depreciation must receive their corresponding wages and profits, mustn’t they? As the part of the value of output that makes up for depreciation becomes income in the aggregate, we have to conclude that the full value of output becomes income in the aggregate and, therefore, that aggregate income, the “national dividend” in Pigou’s terms, is equal to GDP which, in the end, is equal to NDP. Thus, in standard

macroeconomics, the distinction between GDP and NDP ultimately vanishes and Say prevails over “The Economists”.

I was surprised that such a classical master as Pigou held the Physiocratic view Smith struggled to adopt. That is at odds with standard Macroeconomics and another classic such as Say. On the belief that somebody would have criticised such an outstanding economist as Pigou on such a fundamental question, I searched the literature on national accounting, but I found nothing. Since the Physiocratic view seemed to me to rest on a very solid basis, unlike the opposite one, I decided to examine in detail the exposition of Pigou to fill in the gap. The result is this paper.

Pigou defends his controversial view in one of his better-known and most important works, “*The Theory of Unemployment*” of 1933. In another book entitled “*Income*” of 1945, he holds the same view, destined to a non-professional audience. Pigou had already taken up the question in his classic book “*The Economics of Welfare*” (1932), but his treatment was not as systematic as in 1933. On these grounds, I have chosen to focus my analysis of Pigou’s conception of the National Dividend on the presentation contained in his classic of 1933.

Pigou’s discussion is similar to Smith’s in that its logical structure is unclear. However, unlike Smith, he finally ends up holding a position that can fairly be labelled as Physiocratic, even though, at times, his words suggest that he is tilting towards Say. Perhaps this is why Pigou’s controversial definition of the “national dividend” in his 1933 “*Theory of Unemployment*” has gone unnoticed, as far as I know: though his conclusion was at odds with the standard theory, sometimes he makes statements that seem to place him on Say’s side.

However it may be, the analysis of Pigou’s discussions on the concept of “national dividend” is very instructive. It provides an excellent clue to identify a problem that is basic in Macroeconomic analysis. The examination of Pigou’s texts is extremely helpful to identify the premise that is causing trouble, which is the view that every flow of money represents a flow of income. Here I want to argue that the Physiocratic gross-net distinction is better than Say’s rejection of it and that Pigou’s places himself, in the end, in line with Quesnay, because the definition of the “national dividend” that prevails in the texts that I am going to analyse implies that a part of the circulation of money does not represent any flow of income, but the cyclical flow of capital as invest-

ment and amortisation. Besides, if we started from the tacit assumption that there is no such thing as a flow or circulation of *capital*, how good would be our Macroeconomic analysis?

I would like to make some cautionary remarks to avoid misunderstanding before proceeding any further.

First, the problem as to whether the value of the part of the output that makes up for depreciation does or does not become income in the aggregate is logically independent of the obvious changes in stocks that have to take place when current sales are not equal to current output. The discussion about whether the money flows associated with the amortisation of depreciation do or do not represent income in the aggregate has nothing to do with these obvious adjustments.

Secondly, the problem as to whether the value of the part of GDP that makes up for depreciation does or does not become income in the aggregate is totally unrelated to the trivial requirement of avoiding double counting. The problem in Pigou's conception of the "national dividend" does not consist in any double counting.

Thirdly, the Fisherian conceptions of capital as stock and income as flow (see Fisher, 1906 [2007]) are fine as far as they go. Still, they provide a very limited framework for Economic analysis that is strongly prone to error. Of course, I do not purport to deny that there are stocks of capital or income flows. In contrast to Fisher, I would like to emphasise that capital, in addition, to being *stocked*, does *flow*, and that income is generated in so far as capital flows, nor in so far as capital is stocked. This flow of capital has two moments, namely, investment (advance) and amortisation (return). In this paper, I intend to determine the place of the flow of capital in micro and macroeconomic analysis. Therefore, I show that a part of the aggregate flow of *money* represents a flow of *capital*, not of *income*.

Fourthly, the problem discussed in this paper is logically independent of the Sraffian problem as to whether capital can be reduced to dated labour or to labour only at all; accordingly, it is independent of the question as to the origin of capital, be it whether or not capital can be traced back to some "original factors", Austrian style, or whether or not there was some "original accumulation", Marxian style. Indeed, and in more general terms, for the subject of this paper, the question about the nature of value is not relevant, and the problem discussed in this paper

arises no matter whether one holds a labor theory of value, a marginal utility theory of value, a "matter" theory of value Physiocratic style or any other view on this subject.

The structure of the paper is very simple. First, I analyse Pigou's relevant texts to determine the exact premises of his argument, his conclusion and the inference. The second section is devoted to conclusions.

## 1. A Critical Analysis of Pigou's Key Texts on the "National Dividend"

Pigou examines the notion of "national dividend" in the chapter of his 1933 book entitled "*The Relation Between Real Output, Real Income and Money Income*". He begins by defining what he calls "real output":

"The net fruit of economic services, as rendered by all the factors of production appertaining to a community, that emerge in a unit of time, I call the *real output* of that unit of time. By net fruit is meant what is left over after the depreciation of existing capital associated with the work performed on it has been made good. The real output thus defined comprises (1) the inflow of consumption goods and (2) the net new creation (which may be negative) of fixed, working and liquid capital. These two parts of real output I call respectively A and B and the total O. Thus  $O = (A+B)$ ." (Pigou, 1933 [1999], 190)

Real output is, thus, the "net fruit" of the productive activities of the economy in a period of time, or in today's terminology, net output or net income. Thus, Pigou, with today's standard macroeconomics, is saying that net output is equal to gross output minus depreciation, so that, in principle, he is in agreement with Quesnay in drawing a real distinction between gross and net output, such that the part of the aggregate output that makes up for capital depreciation is neither consumed nor added to the capital stock of the economy because it is required to make up for capital consumption. Therefore, this part of the output is not up for division and is not part of the "national dividend". Just in case, let me make it clear that I am not going to question the proposition that net output is gross output minus depreciation. The question that I think that Pigou's definition of "national dividend" raises is totally different, namely, whether or not the value of the part of the output that makes up for depreciation becomes income in the aggregate and is, therefore, up for division. Having clarified this, let us carry on.

According to Pigou, net output has two parts: first, the output of consumption goods and, secondly, the net output of intermediate goods (in today's terminology, net investment). This means that if the output of intermediate goods were just sufficient to make up for depreciation, the "net new creation of fixed, working and liquid capital",  $B$ , would be zero and, therefore, real or net output,  $O$ , would be equal to  $A$ , that is, to the output of final goods. Pigou, accordingly, is posing the problem of what is up for division or distribution in an economy in the context of a non-stationary economy whose capital stock may change.

We have two sets of factors in the economy: first, the factors that produce final goods, and, secondly, the factors that produce the intermediate goods required to produce final and intermediate goods. The overall consumption of intermediate goods is depreciation or capital consumption.

As Pigou's text stands, the value of the part of the output that makes up for depreciation is excluded from the real or net output. It means that it is not part of the "national dividend" if the economy's capital stock is, at least, to be maintained: in a word, this part of the output is not up for division. However, and here comes the problem, the producers of the intermediate goods that make up for depreciation must receive wages and profit on exactly the same basis as those who produce final goods or new intermediate goods, which seems to imply that the output of intermediate goods that makes up for depreciation is up for division among the factors of the economy. After all, the factors that produce the goods that make depreciation good must get their corresponding wages and profits and, thereby, their corresponding share in real or net output, particularly in  $A$ , which is the output of consumable goods. Let me provide an alternative formulation of the problem.

Pigou defines net output as  $A+B$ , where  $B$  stands for the total output of intermediate goods minus the part of that output that makes up for depreciation. The point I want to stress is not that the Pigovian notion of net output excludes depreciation from it, but that it excludes the fresh output of intermediate goods from net income that makes up for depreciation. According to this, and in line with Quesnay, there is a real distinction between gross and net output: some part of gross output cannot be distributed as wages and profit without "encroaching upon the capital of the economy" to use Smith's expression. However, the factors that produce that part of output

that is excluded from net output receive that value in the shape of wages and profit. But then, one may conclude with Say that Quesnay was wrong and that there is no distinction between gross and net income, and that the whole of aggregate output is up for division as wages and profits.

As Pigou defined it,  $B$  is what today would be called "net investment"; " $B$ +replacement of depreciation" would be a gross investment. Correspondingly, gross saving would be the part of output not consumed, and net saving is the part of output not consumed and not used to make up for depreciation. The question is: do the payments to the factors that produce the goods that make up for depreciation become income in the aggregate?

"A portion of the services of factors of production is devoted, neither to making consumption goods nor to adding to capital stock, but to replacing wear and tear of capital stock, in such wise as to maintain it intact. The factors, whose services are devoted to this purpose, plainly receive payment just as the other factors do. They do not, however, produce real output." (Pigou, 1933 [1999], 190)

Because they produce neither final goods nor intermediate goods in excess of depreciation requirements, however, they share in real output ("receive payment just as the other factors do") despite being said not to produce real output. To say that the factors engaged in making up for depreciation receive payment on the same footing as the rest of the factors of the economy means that the capital and labour employed in the making up for depreciation receive wages and profits on the same basis as the capital and labour employed in producing any other goods. Note, however, that the factors that make up for depreciation and the factors that produce the goods added to the economy's capital stock are the same: the factors that produce intermediate goods. Therefore, Pigou is saying that the part of the output of this sector that just makes up for depreciation is not part of real output, whereas the part of the output of this sector that exceeds depreciation is part of real output. Despite this difference, every factor receives payment.

"Hence it seems *prima facie* that those factors which do produce real output are somehow mulcted, in the interest of the others [KO: the only remaining "others" are those who make up for depreciation], of a part of what they produce. It is difficult to see how this can happen: and a paradox results. The explanation is, however, simple. The factors that are engaged



in producing real output in that act destroy part of the existing capital equipment. Their net product, therefore, is not the total flow of consumption-goods and creation of new capital, but this flow *minus* the associated destruction of existing capital. They hand over to the other factors such a part of their product as is required to pay for these factors' work in making good this destruction. What is left to them is the whole of their net product when this negative element is, as, of course, it should be, taken into account. They are thus not mulcted of any part of it." (Pigou, 1933 [1999], 190–1)

In contrast to Pigou, I do not think that his explanation of why the factors that produce real income are not cheated by the factors that make depreciation good is so "simple". How do the factors that do not produce real output share what they do not produce? I fully agree with Pigou that the factors that produce real output are not cheated: they receive the equivalent of what they give out in the shape of freshly produced production means. In other words: the factors that produce real output exchange final and intermediate goods with the factors that make up for depreciation in order to maintain or increase their capital. The problem is about the factors that do not produce real output, those that make up for depreciation. Do they hand over a part of their output to pay to themselves for that output?

Let us simply call C the industries that produce consumption goods or the factors engaged in producing consumption goods. Let us call K the industries that produce capital goods or the factors engaged in producing production goods.

Pigou says that the factors engaged in producing real output "hand over to the other factors such a part of their product as is required to pay for these factors' work in making good (depreciation)". This statement, taken at face value, means that C hands over some part of its output to K to make up for depreciation and that some part of K's output is handed over to K to make depreciation good in K itself. This collides with Pigou's definition of B. The reason is not that K industries do not exchange among them capital goods for capital goods –they certainly do. The reason is that B was defined as the part of the output of K in excess of depreciation, that is, of *total* depreciation all over the economy, which includes both C and K. If B is the surplus produce of K over total depreciation, Pigou cannot say that some part of B is required to make up for depreciation in K, because a capital good belongs to B as far as it is *not*

required to make up for depreciation. In other words: Pigou is starting the house by the roof: real output is what remains after deducting depreciation from the aggregate output, and not the other way round, as in Pigou's text: depreciation is not deducted from the real output, that is, from A+B.

The exchange of part of A for its equivalent in capital goods to make up for capital depreciation is an exchange of consumption goods for production goods and shows that not the whole value of the output of final goods, A, is up for division. C must hand over part of its output to K in order to be able to maintain or increase its capital. However, the value of the goods exchanged between C and K is not equal to the whole value of depreciation, but a part of it: there remains the depreciation of the capital goods engaged in producing capital goods, that is, the value of the goods exchanged between K and K that makes up for depreciation. This means that some part of the output of the K industries must make up for depreciation in these industries, but bear in mind that those capital goods cannot be consumed outside production.

As we saw, Pigou defined B as the net output of capital goods, and after having done so, he proceeds to deduct from B and A the value of the part of the output of K that is required to make up for depreciation. In contrast to B, A is not defined in net, but in gross terms: there is a part of A that C exchanges with K for capital goods so as to make depreciation good and, eventually, increase its capital. The problem is that the definition of B as the net output of the K industries together with the view that all factors of the economy, engaged in producing no matter what, receive wages and profits, implies that the whole output of the economy is up for division. However, this implies that depreciation expenses also become income in the aggregate, so that gross output and net output are, in the end, equal. Suppose the whole of the produce of the economy is distributed as wages and profits and, therefore, can be consumed or saved. In that case, either depreciation is zero, or it is made good by spontaneous generation.

The factors that produce real output would be cheated if they handed over some part of their output to the factors making up for depreciation in exchange for nothing. Pigou says that this is not the case, and clearly, he is right because the factors producing real output do receive something in exchange, namely, the production goods that they destroyed in producing real output. Therefore, there is no cheating in this exchange.



Pigou says that the net product of the factors engaged in producing real output is the flow of consumption goods and additions to capital *minus* the destruction of capital. This means that the destruction of capital is being deducted from the flow of consumption goods *plus* additions to capital. According to him, the output of the factors that produce real output is their output plus negative production or destruction of goods (concretely, production goods). It means that some part of either A, the output of consumption goods, or either B, the addition to the capital stock of the whole economy, must be devoted to making depreciation good. It collides with the definition of net output as gross output minus depreciation; as I said, Pigou is starting the house by the roof, but this should not prevent us from telling the dilemma he is faced with when maintaining, on the one hand, that depreciation is not up for division and, on the other hand, that the factors that make up for depreciation get wages and profits (income) on the same basis as the rests of the factors of the economy, so that depreciation is up for division. His confused definition of net output diverts his attention from this dilemma: was Quesnay right or was Say right?

It is clear that no part of the output of consumption goods can make up for depreciation because depreciation can be made good only by means of production goods: consumption goods, by definition, do not serve as means of production and cannot make depreciation good. It is true that part of the *value* of the aggregate output of consumption goods must be devoted to making up for depreciation, but this is not what Pigou has said. The point is that the productive means destroyed by the industries that produce consumption goods cannot be replaced by them simply because these industries produce goods that cannot be used as production means.

“Real income is customarily defined as everything that is produced *minus* capital depreciation. If, therefore, capital depreciation were equal to the destruction of capital by work done upon it, (...), real income would be the same thing as real output.” (Pigou, 1933 [1999], 191)

And., according to what we saw above, to net output. Therefore, in principle, real income is the same as real output. If the real output is the same as net output, then it follows that real income is the same as net income. Pigou has thus told us that net income is “everything that is produced” *minus* depreciation; that is to say: gross output minus depreciation. By “destruction of capital by work done upon it”, Pigou

means physical consumption of intermediate goods: “capital consumption” in current terminology. He makes this precision because, as we shall presently see, he points out that there is a second element of depreciation, which is obsolescence, as distinct from capital consumption. Let us leave aside obsolescence for the time being and let us assume that depreciation is equal to capital consumption.

Pigou has introduced a new concept, namely, that of “real income”; actually, he also introduces the concept of gross output when speaking of “everything that is produced”, which is but the total output of consumption goods and capital goods of the economy. The question explicitly taken up by Pigou is the relation of the new concept of real income with the previous concept of real or net output.

If the “customary definition” of real income is accepted, then capital depreciation is not a part of real income. Therefore, GDP *minus* depreciation is equal to real or net income (we may call it NDP), in accordance with standard Macroeconomics. Thus, some part of GDP is not real or net income because depreciation is excluded from it, which means that the part of the aggregate output that makes up for depreciation is not up division and, therefore, is not part of the “national dividend”. It, in turn, implies that the value of the part of the aggregate output that makes up for depreciation does become income (wages or profits) for anybody in the economy. This would imply that some part of GDP is not income at all. This is at loggerheads with standard Macroeconomics; see, for instance, the well-known textbook by Dornbusch and Fischer:

“In this section we show that *income is equal to the value of output* because the receipts from the sale of output must accrue to someone as income. The purchaser of bread is indirectly paying the farmer, the miller, the baker, and the supermarket operator for the labor and capital used in production and is also contributing to their profits.” (Dornbusch and Fischer, 1981, 31)

Pigou said that income is equal to real or net output only, not to output without qualifications (aggregate output), because, as we have just seen, according to him, the part of the output that makes up for depreciation is not up for distribution as wages and profits. However, he also said that the factors that make depreciation good receive payment and thus share in real output on the same basis as the rest of the factors of the economy, a proposition that implies, in accordance with the passage by Dorn-

busch and Fischer just quoted, that the whole, of aggregate output, becomes wages and profits and is, therefore, up for division, for distribution as wages and profits. Though Dornbusch and Fischer (and standard Macroeconomics) seem to take sides with Quesnay in drawing a distinction between gross and net income, we see that, ultimately, they end up taking sides with Say and rejecting the gross-net distinction of “The Economists”: if “income is equal to the value of output”, the distinction between gross and net output vanishes. The value of the part of the output that makes up for depreciation, expelled in a first moment from income through the door, comes back into income through the window. The question is: does this happen again in Pigou’s conception of the “national dividend”?

It is clear that Pigou counts the output of capital goods that makes up for depreciation as part of gross output. The question is not whether this output is part of the gross output but whether its value becomes income, wages and profits, in the aggregate. For the time being, we have been told that it does not accrue to any factor as net income.

“The money income of the community in any unit of time I define as the sum of money received by factors of production (including, of course, entrepreneurs) in payment for services. (...) We thus have, for any unit of time, a real output –or income-  $O$ , representing the net fruit of the services rendered by factors of production that emerge in that unit of time [KO: note how here Pigou equates “income” and “net income”], and a money income  $I$  [KO: not  $Y$ , as in contemporary notation], representing the money paid over to those factors of production in that unit of time for services rendered. If it were the custom to pay for the services of factors of production on the instant that their fruit emerges, this would imply that in any unit of time  $I$  is the money income received by the factors of production in payment for the services (whenever performed) that are embodied in the real output of that unit of time. Thus, if we write  $O_t$  for the real output of any instant  $t$ ,  $e_t$  for the money payment for the service of producing a unit of  $O_t$ , and  $I_t$  for the corresponding money income, we should have  $I_t = e_t O_t$ .” (Pigou, 1933 [1999], 191–2)

I leave aside the necessary payment from  $C$  to  $K$  for  $K$  to produce the surplus output of capital goods which constitutes  $B$ ; as I said, this is not the subject of this paper.

The money income of the economy is the sum of all the payments to all the productive factors of the

economy, that is to say, the sum of aggregate wages and aggregate profits. Thus, money income is the sum of all the incomes of the productive factors, no matter whether they are employed in  $C$ , or  $K$ . Pigou says in this text that aggregate money income is equal to *net* output; note: not to *gross* output, but to *net* output, that is, to “ $O$ ”, which was said to be equal to “ $A+B$ ” and, thus, excluded the part of the aggregate output that makes up for depreciation. It is at variance with standard Macroeconomics, according to which aggregate money *income* is equal to *gross* output and *net* output, as the gross-net distinction is ultimately rejected, as we have seen in the text of the handbook by Dornbusch and Fischer quoted above. The question is: where does Pigou stand on this issue? Whom does he take sides with in the end, Quesnay or Say?

It is difficult to tell, but the texts clearly suggest that, on the whole, Pigou adopts the Physiocratic view that aggregate income is net income and that the part of gross income that makes up for depreciation does not become net output or aggregate income: it is not thus up for division. To the extent that he clings to his initial statement that the income of the economy is  $O$ , he is clinging to the Physiocratic gross-net distinction and is thus taking sides with “the Economists”. But then he would have to admit, with Quesnay, that part of the flow of money in the economy represents the flow of capital, not of income, and that to the extent that the capital of the economy is, at least, to be maintained, this part of the output is not up for division and is not part of the national dividend or aggregate income, in opposition to standard macroeconomics.

However, he has not qualified his thesis that all factors receive payment on the same basis by pointing out that this does not mean that whole produce can be sold to the factors of the economy. His statement that income consists in net income implies that the part of the aggregate output that makes up for depreciation cannot be paid out as wages and profits because it cannot be sold to anybody without diminishing the capital of the economy, however much the intermediation of money effects the replacement of depreciated goods and however much every factor gets paid for its services. Pigou is at variance with standard Macroeconomics in that aggregate income is not equal to gross income but to net income. The part of the gross output that makes up for depreciation does not come back through the window as income. To the extent that Pigou does not

qualify his statement that all factors receive payment on the same basis, he leaves the door open to holding that the whole produce of the economy is sold to the factors and, thereby, rejecting the gross-net distinction. This amounts to taking sides with Say as against “the Economists”, and holding that the whole produce of the economy is up for division as wages and profits.

Pigou’s statement that money income is equal to net output amounts to saying that the part of the output that makes up for depreciation is not up for division (if the capital stock of the economy is, at least, to be maintained), which in turn means that it is not distributed as wages and profits, that it is not part of the “national dividend”. Without this fundamental qualification, his previous statement that “the factors, whose services are devoted to making up for depreciation, plainly receive payment just as the other factors do” (Pigou, 1933, 190, previously quoted) is seriously misleading and, taken at face value, implies a rejection of his own definition of aggregate income as net income. If the factors that make depreciation good receive payment like the rest of the factors of the economy, why should the payments to them be excluded from aggregate income?

Pigou had the key to answering this question: the fact that part of aggregate output must be devoted to making up for depreciation implies that not the whole aggregate output is up for distribution as wages and profits. Suppose the statement that all the factors of the economy receive payment on the same basis (which, in this context, poses no problem) is not accompanied by the qualification that the whole of what the factors receive as payment is not equal to the whole value produced by them, because part of their produce must be devoted to making up for depreciation and, therefore, is available neither for consumption nor for net investment. In that case, the implication is that the whole annual produce is divided into wages and profits and can be either consumed or devoted to increasing the economy’s capital stock.

However, the texts of Pigou do not point in this direction, for, as we have seen, he defines income as net income or as gross income minus depreciation. It implies that not the whole produce of the economy is up for division and, thus, does not become wages and profits in the aggregate. If this is not explicitly pointed out, and if one adds the premise that production cost is the payments to the factors, it follows that aggregate production cost is, by definition,

equal to aggregate income: the gross-net distinction collapses, because, by definition, there cannot be any difference between gross income and aggregate production cost. The gross-net distinction implies that the income of an economy is the excess of its gross income over aggregate production cost (the element of production cost that we consider in this paper is depreciation): in Pigou’s terms, that  $O$  is a surplus over aggregate production cost (depreciation). Pigou is closer to “the Economists” than to Say.

In order to illustrate his position, we can resort to an example.

Let us consider the case of an electric power station. It consumes some of the electricity it produces itself to produce electricity. Without this electricity consumption, the production of electricity would stop or, at least, be impaired. The activity of the power station adds value, among other things, to its consumption of electricity, which has value itself. It is clear that some part of the electricity output is not up for division among the labourers and the entrepreneurs as wages and profits. If the full value of the output of electricity were up for division and became wages and profits, there would not remain any electricity for usage within the power station itself. The part of the output of electricity that is not income for any of the factors engaged in the production of electricity represents the capital invested in the production of electricity, a value that has to be amortised and re-invested as the plant undergoes wear and tear. Even if the power station purchased electricity from another power station, this flow of money would not represent a flow of income but a flow of capital.

The same can be said about a refinery, for instance. If we were to measure the value of the power station and the refinery’s output together, we have to conclude that not the whole output is up for division as wages and profits. The part of the aggregate output that is not up for division is the power station’s capital and the refinery. If the whole of the economy comprised these two industries only, their capital would represent the aggregate capital stock of the economy.

The validity of this example is not impaired if the power station purchased electricity from other stations or if the refinery proceeded in the same way. It remains true that some part of the output of electricity and oil cannot ever abandon the sphere of production without “encroaching upon capital” because it represents the capital of those industries,



a capital which must be re-produced on a continuous basis because of neither electricity nor oil fall from Heaven. This capital is the value to which the labour of the workers and the talent of the entrepreneurs add value. It is the part of the aggregate output that is net output and is up for division. If the “national dividend” were the whole output of the economy, the economy would be consuming its capital. In the next period, it would have no productive means to produce any electricity or oil. Therefore, gross income is not equal to aggregate money income because some part of gross output can never become an income for any productive factor if the capital of the economy is, at least, to be maintained.

However, in principle, a power station does not need to purchase electricity, nor does a refinery need to purchase oil because both industries produce these goods themselves. Let us, however, examine what would happen in an economy in which electricity and oil are exchanged for each other.

The price of electricity pays for the profits of capital and the wages of labour employed in producing electricity. But it must also pay for the price of the oil consumed to produce electricity. Likewise, the price of oil pays for the wages and profits in the oil industry, but it must also pay for the price of the electricity consumed to produce oil. The price of electricity must include the value of the oil consumed to produce electricity; the other part of the output of electricity can be consumed or invested by the labourers and the entrepreneurs of the economy and constitutes their income. Likewise, the oil price must pay for the electricity consumed to produce oil; the rest of the oil output represents the income of the labourers and entrepreneurs of the oil industry. Suppose we add the total value of electricity to the total value of oil. In that case, the result is that the value of electricity and oil together cannot be equal to the incomes received by the factors. Some part is the incomes of the factors, but there must be another part which is the capital of the economy. Therefore, we can conclude that in an economy in which no producer is immune to depreciation, aggregate money income cannot be equal to gross output and must be equal to net output, as Pigou stated in his initial definition of real income. It is but the basic principle of “the Economists”.

We saw that Pigou pointed out that depreciation need not be equal to capital consumption; the reason is that in addition to consumption of goods

and services, production means become obsolete and, consequently, lose value:

“Capital depreciation, though is not usually taken to include damage inflicted on capital by an act of God or the King’s enemies, is always so defined as to include loss of value consequent upon obsolescence. It follows that real income falls short of real output by whatever portion of the latter is required to offset obsolescence. (...) In modern conditions, where machinery often becomes obsolete very quickly, this difference may be substantial.” (Pigou, 1933 [1999], 191)

The problem of the amortisation of depreciation is, therefore, made worse by obsolescence. The money (or goods; in this case, there is no significant difference) required to replace obsolete equipment is deducted from real income. Thus, real income falls short of real output if the equipment that works fine but has become obsolete replaced. In other words, Pigou holds that net output is greater than net income if obsolescence is taken into account. The reason is that some of the money accruing to the factors as income must now be diverted to replacing obsolete equipment. This money no longer flows to the factors and causes thus a gap between money income and the income accruing to the factors, also called net income.

Again, there is a logical inconsistency here. That real output is larger than real output when obsolescence is taken into account means that part of what seems to be real output is not actually such because it is required to make up for that kind of depreciation called “obsolescence”. If depreciation as capital consumption is a part of gross output but not of net output, the fact that obsolescence is disconnected from the physical consumption of the productive means does not imply that obsolescence is to be deducted from the net output; it is to be deducted from the gross output to arrive at the net output, which is the “national dividend”. As a variety of depreciation, obsolescence is to be deducted from gross income for the same reasons as for physical depreciation. Pigou’s “real output” in the previous text is not actually “real output” yet, because not the whole of depreciation has been subtracted from the gross output. Once we subtract the whole of depreciation (not only capital consumption) from the gross output, we arrive at Pigou’s own real output, which, now, is equal to real income because there remain no more deductions to be made.

A productive means becomes obsolete when it is substitutable for another productive means which is



more productive. To be more productive is the same as being more profitable. Usually, the increase in productivity of the productive means is a consequence of technological improvements.

As the very word clearly suggests, depreciation implies a fall in market price; it refers to a fall in the market price of a piece of productive means not because the device does not work, but because another and new device is more profitable. Even though a piece of equipment is in perfect working order, its value will fall if another new and more profitable piece of equipment is marketed. A fall in productivity always tends to diminish the price of capital goods; however, this loss may be absolute or relative: the first is depreciation as capital consumption; the second is depreciation as obsolescence. The reason is that the price of a capital good is, by definition, the discounted present value of the flow of its future profits. If productivity falls and, thus, the amount of the stream of prospective profits diminishes, the price of that piece of equipment must fall, assuming that the discount rate remains unchanged.

When the value of a machine falls as a consequence of wear and tear, the machine is being literally consumed. There is an absolute loss of profitability because the machine does not work as properly as it did when it was new. But a machine also may lose profitability in a relative, not the absolute way. It happens when a more profitable machine comes to the market. Even though the absolute productivity of a machine may even increase in time, if a more efficient machine happened to become available in the market, the former machine would become less profitable than the latter one and, thus, less valuable, even if this deficit were partly covered by the increased absolute productivity of the old machine. Employing the old machine instead of the new one involves an opportunity cost, namely, the profit that the firm ceases to make.

Thus, it could be the case that a firm must discard a machine that is in perfect physical condition simply because its opportunity cost is higher than the price of some new machine that is more productive than the old machine. Certainly, the old machine has not been physically consumed: its productivity might have even increased in absolute terms. If it had become completely useless, then its residual value would be zero, and depreciation would be due to physical consumption, not to obsolescence. If the old machine could be put to some use or sold to somebody else, then the amount of depreciation

would be equal to the initial price of the machine over its sale price.

I want to stress this point — that obsolescence is not essentially different from physical consumption as long as the calculation of depreciation is concerned. If physical consumption makes it necessary to devote factors to make up for it, relative depreciation or obsolescence does not imply a change in the definitions of macroeconomic magnitudes. If obsolescence comes over quickly, then more resources would have to be employed in producing productive means. Still, the increased productivity of machinery capital must more than offset the increment in the number of factors devoted to building machines in relation to a situation in which there are no technological improvements. There is simply physical consumption of machinery. The output of the factors that make good obsolescence is a part of gross output, and it does not make sense to deduct it from the net output.

Pigou's texts are confusing; for instance, right after saying that in modern conditions obsolescence charges are substantial, he writes:

"For rough approximations it may, however, be safely ignored [KO: obsolescence]; and in the discussion that follows the terms real output and real income will be treated as synonyms." (Pigou, 1933 [1999], 191)

An approximation in which the substantial is ignored can be properly labelled as such? Otherwise, as we stick to the definition of "net" as what remains after having made all the corresponding deductions from the "gross", it is logically inconsistent to make a deduction from the "net".

## Conclusions

Here, I have critically analysed the coherence of Pigou's conception of the "national dividend" or aggregate income. His fundamental contention is that aggregate money income is equal to *net* aggregate output, a view that rests on the principle that *gross* and *net* aggregate output are different. The analysis of Pigou's defence of Pigou's texts shows, however, that his views on the relationship between the flow of money and the flow of income are less than clear; sometimes, the flow of money is the same as the flow of income, but, when it comes to the analysis of depreciation, part of the total flow of money is not any flow of income. Pigou, in the end, leans towards the Physiocratic view that national income is the value of *net* output. However,

his texts leave the door open to the view that aggregate income is the value of *gross* output, which is the view that prevails today in standard Macroeconomics.

Pigou is troubled by the commonly accepted view that every transaction that gives rise to a money flow gives rise to an equivalent *income*. As I have tried to argue in the preceding discussion, this view ignores the fact that capital must flow to produce income. Not all money flows are a flow of income: a part of the aggregate flow of money is capital, not income. Pigou is not aware of this, but he is on the right track on this subject, and to point out this is one of the main conclusions that one may draw from this paper. The analysis of the money flows associated with depreciation shows that replacing the capital consumed in production gives rise to flows of money that do not represent any flow of income. In addition to the exchange of consumption goods for consumption goods and to the exchange of consumption goods for production goods, it is necessary to consider the exchange of production goods for production goods. The output of producing goods that makes up for the consumption of production goods is, certainly, a part of the total value produced in the economy but does not represent any income in the aggregate.

In contrast with Say, Pigou and standard Macroeconomics show a certain awareness of this fact, though standard Macroeconomics ends up rejecting the Physiocratic basic distinction and taking sides with Say against “the Economists”. Pigou leaves the door open to this change of course but, on the whole, remains closer to “the Economists” than standard Macroeconomics, which ends up against them.

The ultimate source of confusion is that the replacement of capital depreciation is typically carried out by means of money flows. From this indisputable fact, some jump to the conclusion that, as those flows of money must accrue to somebody, they must represent flows of income. This conclusion fails to consider the economy in the aggregate; when one does it, one realises that not every flow of money represents a flow of income, as capital must also flow, as investment and amortisation. To put it otherwise, the flow of money corresponding to the replacement of depreciation cannot give rise to the equivalent income in the aggregate. This flow of money cannot ultimately accrue to labor as wages or capital as profit. This paper intends to argue, by the hand of Pigou’s analysis, that we should pay more attention to the circulation of money in Macroeconomic analysis.

## REFERENCES

1. Bowley A.L. The Definition of National Income. *The Economic Journal*. 1922;32(125, March):1–11.
2. Bowley A.L., Keynes J.M. The Measurement of Real Income. *The Economic Journal*. 1940;50(198/199, June-September):340–342.
3. Dornbusch Rudiger, Fischer Stanley. Macroeconomics. 3rd Edition. London, UK: McGraw-Hill; 1981
4. Fetter Frank A. Reformulation of the Concepts of Capital and Income in Economics and Accounting. *The Accounting Review*. 1937;12(1, March 1937):3–12.
5. Fisher Irving. The Nature of Capital and Income. Reprinted In Barber, William J. (1997), *The Works of Irving Fisher*, Vol. 2. London, UK: Pickering and Chatto; 1906 [1997].
6. Fisher Irving. Professor Fetter on Capital and Income. *The Journal of Political Economy*. 1907; XV(7, July): 421–434.
7. Fisher Irving. Are Savings Income? *American Economic Association Quarterly*. 1908;3rd Series, IX(1 April):21–47.
8. Gehrke Christian, Kurz Heinz D. Sraffa on von Bortkiewicz. *Reconstructing the Classical Theory of Value and Distribution. History of Political Economy*. 2006;38:91–149.
9. Gilbert Milton, Staehle Hans, Woytinsky W.S., Kuznets Simon. National Product, War and Prewar: Some Comments on Professor Kuznets’ Study and a Reply by Professor Kuznets. *The Review of Economic Statistics*. 1944;26(3, August):109–145.
10. von Hayek Friedrich A. The Maintenance of Capital. *Economica*. 1935;2(August):241–276.
11. von Hayek Friedrich A. Maintaining Capital Intact: A Reply. Reprinted In Wood, John C., & Woods, Ronald N., (eds.); 1941 [1991]. Originally published in *Economica*. August 1941;8:276–280.
12. Hewett William W. The Definition of Income. *The American Economic Review*. 1925;15(2, June):239–46.
13. Hicks John R. Value and Capital. Oxford, UK: Oxford U.P.; 1939.
14. Keynes John M. The General Theory of Employment, Interest, and Money. London, UK: Macmillan. 1936 [1967].
15. Keynes John M. The Concept of National Income. *The Economic Journal*. 1940;50(197, March):60–65.
16. Kuznets Simon. National Income: A New Version. *The Review of Economics and Statistics*. 1948;30(3, August):151–79.

17. Marshall Alfred. Principles of Economics. 9th edition. Guillebaud, C.W. (ed.). London, UK: Macmillan; 1961.
18. Marx Karl. Teorías sobre la Plusvalía. Parte I. Barcelona, Spain: Grijalbo. 1861 [1977].
19. Marx Karl. Capital. Vol. II. New York: Vintage Books, Random House. 1885 [1981].
20. Meade J.E., Stone R. The Construction of Tables of National Income, Expenditure, Savings and Investment. *The Economic Journal*. 1941;51(202/203, June-September):216–233.
21. Ormazabal Kepa. Dornbusch and Fischer on Capital and Income. BILTOKI 2003.02; 2003a. Available at <https://addi.ehu.es/handle/10810/5726>.
22. Ormazabal Kepa. Adam Smith on Capital and Income. BILTOKI 2003.01; 2003b. Available at <https://ideas.repec.org/p/ehu/biltok/5727.html>.
23. Ormazabal Kepa. A Fundamental Contradiction in Keynes' Notion of Income. BILTOKI 2003.09; 2003c; Available at <http://hdl.handle.net/10810/5716>.
24. Ormazabal Kepa. The Tableau économique and input-output analysis: a critique of the standard conception of national income. *Économie Appliquée*. 2007; LX (2):67–92.
25. Quesnay François. Analyse de la formule arithmétique du Tableau Economique de la distribution des dépenses annuelles d'une Nation agricole. In Daire, Eugène (ed.) [1846], Physiocrates. Quesnay, Dupont de Nemours, Mercier de la Rivière, L'abbé Baudeau, Le Trosne, avec une introduction sur la doctrine des Physiocrates, des commentaires et des notices historiques. Deux volumes. Paris, France: Librairie de Guillaumin. 1766 [1846].
26. Pigou Arthur C. The Economics of Welfare. 4th ed. Reprinted in Collected Economic Writings. Vol. 3. London, UK: Palgrave Macmillan; 1932 [1999].
27. Pigou Arthur C. The Theory of Unemployment. Reprinted in Collected Economic Writings. Vol. 8. London, UK: Palgrave Macmillan. 1933 [1999].
28. Pigou A. C. Net Income and Capital Depletion. *The Economic Journal*. 1935;(June):235–241.
29. Pigou A. C. Maintaining Capital Intact. Reprinted in Wood, John C., & Woods, Ronald N. (Eds.), Friedrich A. Hayek. Critical Assessments. Vol. 1. London and New York: Routledge; 1941 [1991].
30. Reisman George. The Value of "Final Products" Counts Only Itself. Today's Gross Product Is Net Product. *The American Journal of Economics and Sociology*. 2004;63(3):609–625.
31. Samuelson Paul A. Irving Fisher and the Theory of Capital. In Fellner, William et al. (Eds.), Ten Studies in the Tradition of Irving Fisher (17–37). New York: John Wiley and Son; 1967.
32. Say J.-B. A Treatise on Political Economy. Ontario, Canada: Batoche Books, Kitchener. 1821 [2001].
33. Sraffa Piero. Production of Commodities by Means of Commodities. Prelude to a Critique of Economic Theory. Bombay, India: Vora and Co. Publishers Pvt. Ltd. 1960 [1963].
34. Studenski Paul. The Income of Nations". New York: New York U.P.; 1958.
35. Vaggi G. The Economics of François Quesnay. London, UK: MacMillan; 1987.
36. Veblen Thorstein. Fisher's Capital and Income. *Political Science Quarterly*. 1908; XIII(March):112–128.
37. Wood John C., Woods, Ronald N. (eds.). Friedrich A. Hayek. Critical Assessments. London and New York: Routledge; 1991.

## ABOUT THE AUTHOR

**Kepa Mirena Ormazabal Sanchez** — Doctor of Philosophy, Professor (Full), Department of Economic Analysis, School of Economics and Business Administration, University of the Basque Country (Universidad del País Vasco / Euskal Herriko Unibertsitatea)

Barrio Sarriena s/n, 48940 Leioa, Bizkaia Campus, Spain

[kepa.ormazabal@ehu.eus](mailto:kepa.ormazabal@ehu.eus)

## ОБ АВТОРЕ

**Кепа Ормазабал** — доктор философских наук, профессор (полный курс) департамента экономического анализа, Школа экономики и делового администрирования, Университет Страны Басков, Лейоа, Испания

[kepa.ormazabal@ehu.eus](mailto:kepa.ormazabal@ehu.eus)

ORIGINAL PAPER

doi: 10.26794/2308-944X-2021-9-4-60-76  
JEL codes: P0, P1, P2, F5

# Infinite Capital Accumulation Through the Endless Harvesting of Limitless Dead Souls: Criminogenic Asymmetries, Structural Inequalities, Mimesis, and Parallel Oligarchies

Eric Wilson

## ABSTRACT

This article is neither an empirical nor an analytical study; rather, it is a concise statement of a research paradigm that reflects the personal (and perhaps idiosyncratic) concerns of its author, which he wishes to continue and elaborate upon in much further detail at some point in the near future (if any). The general concern is with devising a functional criminological taxonomy of the multitudinous mutabilities migrating between neo-liberal political economy and organised and semi-organised criminality, here defined as criminogenic asymmetries. My central premise is this: although frequently associated in the scholarly literature with corruption, underdevelopment, anomie, and the breakdown of the brokerage of trust, neo-liberalism itself is the sufficient explanation for criminogenic asymmetries. As should be expected, the “moral panic” over the “death of democracy”, already part of our post-1989 history but currently symbolised by the “power crime” presidency of Donald J. Trump, will be utilised as the primary empirical example of these trends, both concurrent and convergent.

**Keywords:** post-capitalism; post-Marxism; mimesis; velocity; crime; criminology; post-Soviet; Media; accumulation; oligarchy; asymmetries; political symbolism; scapegoat; spectacle; simulacrum; power; death

**For citation:** Wilson Eric. Infinite Capital Accumulation Through the Endless Harvesting of Limitless Dead Souls. Criminogenic Asymmetries, Structural Inequalities, Mimesis, and Parallel Oligarchies. *Review of Business and Economics Studies*. 2021;9(4):60-76. doi: 10.26794/2308-944X-2021-9-4-60-76

ОРИГИНАЛЬНАЯ СТАТЬЯ

# Бесконечное накопление капитала посредством бесконечной жатвы бессчетных мертвых душ. Криминогенные асимметрии, структурные неравенства, мимезис и параллельные олигархии

Эрик Уилсон

## АННОТАЦИЯ

Предметом статьи являются пограничные вопросы экономической политологии и политической экономики. С методологической точки зрения эта статья не является ни эмпирическим, ни аналитическим исследованием. Основное внимание уделяется разработке функциональной криминологической таксономии многочисленных мутаций, мигрирующих между неолиберальной политической экономией и организованной или полуорганизованной преступностью, которые здесь определяются как криминогенные асимметрии. Центральный посыл статьи таков: хотя в научной литературе неолиберализм часто ассоциируется с коррупцией, отсталостью, аномией и разрушением доверительного управления, неолиберализм уже по своей природе является достаточным объяснением кримино-



генной асимметрии. Автор сделал вывод, что, как и следовало ожидать, «моральная паника» по поводу «смерти демократии» после 1989 г., символизируемая «преступлением властью» во время президентства Д. Трампа, будет и впредь приводиться в качестве основного эмпирического примера этих тенденций.

**Ключевые слова:** посткапитализм; постмарксизм; мимесис; скорость; преступление; криминология; постсоветский; СМИ; накопление; олигархия; асимметрии; политическая символика; козел отпущения; зрелище; симулякр; власть; смерть

**Для цитирования:** Уилсон Эрик. Бесконечное накопление капитала посредством бесконечной жатвы бесчисленных мертвых душ. Криминогенные асимметрии, структурные неравенства, мимезис и параллельные олигархии. *Review of Business and Economics Studies*. 2021;9(4):60-76. doi: 10.26794/2308-944X-2021-9-4-60-76

*“Liberalism and democracy, although compatible are not the same ... it is at least possible in principle that a democratic government may be totalitarian and that an authoritarian government may act on liberal principles [...] It would be impossible to assert that a free society will always and necessarily develop values of which we would approve, or even [...] that it will maintain values which are compatible with the preservation of freedom.”—*

Friedrich von Hayek

Paraphrasing Heidegger, the political destiny of the peoples of the West will be some variant of neo-authoritarianism, either elitist technocratic neo-liberalism or rightist neo-populism, the former already effectively realised with the latter (the minoritarian) drawing dialectical sustenance from the former (the majoritarian). At the risk of instantaneous obsolescence, I would suggest that the harbingers of the end of orthodox political representation are none other than what, with perfect hindsight, we can identify as the “the four spectres haunting Marxism,” to wit:

(i) Capitalism’s successful achieving of Infinite Accumulation (“capitalism *sans reserve*”)<sup>1</sup>

(ii) The unlimited penetration of all forms of political and social organisation by neo-liberalism rendering the universalisation of neo-liberalism

<sup>1</sup> 1. See Mehlman, (1977, p. 28). “Capital, in particular finance capital, having reached its maximal capacity for velocity, circulation, and flight, is now more than just dictating its own temporal regime. It now seeks to reproduce itself on its own, in an infinite series of structurally insolvent debts” (Mbembe, 2019, p. 111). See also Milanovic (2019, pp. 147–155) for global value chains; the embedding of entire segments and infrastructures of production segments throughout the peripheries is “probably the most important organizational innovation in this era of globalization” (Ibidem, p. 147).

as global political culture a *fait accompli* (or socialism as false consciousness)<sup>2</sup>

(iii) The realisation of the bourgeoisie as the truly international class (Milanovic, 2019, pp. 136–147, 211, 214)

(iv) The lumpen-proletariat as the true agent of “revolution,” if not in their classic then certainly in their contemporary post-modern form as hyper-consumerist digitalised “pigs”.<sup>3</sup>

<sup>2</sup> Milanovic (2019), Chapter Five, for socialism as “false consciousness”. A process further accelerated through reality augmentation that doubles both as a means of controlling perception as well as providing a “virtually” endless frontier of capital re-investment: “I have always argued that a simulated reality will change and end up substituting itself for itself to become a different reality. It will integrate its [own] simulation. We end up having causal chains of successive realities. We now live in the time of substitution and repulsion”—this as the antidote for Jean Baudrillard’s timelessness of seduction, the repudiation of each successive virtual world as a reborn world-economy to be (re-) colonized. We do not merely eternally alter the “real” into new global markets (green industries; nanotechnologies; cybernetic bodies; androgynous sex-regimes); we sacrifice the actual to the virtual for the eternal rebirth of capitalist replenishment (e.g., cyclical planetary engineering and the Anthropocene) (Virilio & Richard, 2012, p. 70). Even better — all of this can be translated into data which guarantees unlimited future markets through high-velocity future trading; “As long as surveillance capitalism and its behavioural futures markets are allowed to thrive, ownership of the new means of behavioural modification eclipses ownership of the means of production as the fountainhead of capitalist wealth and power in the twenty-first century” (Zuboff, 2019, pp. 56, 203; 87–92, 11).

<sup>3</sup> 4. For a full-throttle moral(–zing) screed on the porcine post-modern consumer as the true inheritors of the Earth, see Chatelet (2014). The great merit of Chatelet’s work is that he shows the clear mutability between the central concepts of post-modernism with those of neo-liberalism; “One might speak of a Triple Alliance, political, economic, and cybernetic, capable of ‘self-organizing’ the explosive potentials of great human masses and of conjugating the benefits of the three prototypes of post-modernity”—homo economicus, (psychologism; rational choice theory) the “average man” (statistical reification), and homo communicans (mimetic, performative) (Ibidem, pp. 71–72; 22–24, 166–171). The net result of the universaliza-

To simplify: the (now post-) Marxist nightmare is nothing other than infinite accumulation itself, for it enables capitalism to avoid its pre-determined world-historical execution at the hands of the deadly twins of the dialectic and the crisis of profit. It, in turn, leads directly to the equally hellish Trotskyite nightmare: the (hyper-financialised) neo-bourgeoisie as the objectively globalist class (“globalist” in both its identity and its interests), which yields the “inevitabilism” of unlimited de-territorialisation and an equivalently unbounded cultural and political neutrality, culminating in the evacuation of the parochial, or “post-everything”. Absolutely nothing here is accidental: only after it is far too late do we finally understand that allegedly “modern” capitalism is, and *always has been*, the re-capitulation of the “atavism” of *primitive accumulation*, the true fleshy horror at the heart of the capitalist world-economy, the latter serving as nothing more than as the staging ground for the re-capitulation of original accumulation throughout the *saeculum*.<sup>4</sup> Through the mole-like “cunning” not of discontinuity but an occluded and occluding *continuity* does it come to pass that primitive accumulation attains the pseudo-transcendental status of the world-historical — original accumulation is History’s true eternally revolutionary force, culminating in the (dead) world-spirit’s final turn of the infernal screw: the death of the human is the world-necessity of the continuation of neo-liberalism by other means.

With all of this in mind, it becomes fairly simple to understand structural inequality as a systemic property of neo-liberal globalisation (or “globalised political economy”). For simplicity I accept David Held’s definition of this nebulous term, which equates speed with velocity and identifies both as cardinal features of neo-liberal political economy, a “process (or set of processes) which embodies a transformation in the spatial organisation of social relations and transactions — as-

sessed in terms of their extensity, intensity, velocity and impact — generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power” (Held et al., 1999, p. 16) Velocity is the “growing extensity and intensity of global interconnectedness may also imply a *speeding up* of global interactions and processes as the development of worldwide systems of transport and communication increase the potential velocity of the global diffusion of ideas, goods, information, capital and people” (Held et al., 1999Ibid, p. 15), which directly correlates with globalisation theory’s notion of the critical variable of “real time communication”, defined by Held as “the manner in which globalisation *appears to shrink geographical time and distance*; in a world of instantaneous communication, distance and time no longer seem to be a major constraint on patterns of social organisation or interaction” (Held et al., p. 15, fn 2. Emphases added). In McKenzie Wark’s own account, the “vector” of high-speed finance capitalism “responded enthusiastically to immaterial [information] technology, making one suspect a close affinity between the abstract social force that is money and the principles of the new technologies. [...] Now, the vector and capital are complicit in this, but the vector and capital are not identical. Capital drives the vector further and harder, forcing its technologies to innovate, but at the same time, it tries to commodify the fruits of this development. The vector may have other properties, values that escape the restriction of its abstract potential to the commodity form [...] the vector and capital are not the same thing [...], and the vector is not always a functional tool for capital” (Wark, 1994, pp. 168, 171 and 222). Her last point is *vital*: the key notion is the *mutual dependence* between *acceleration* and *interdependence*, which brings with it a system-wide shift consistent with the foundational presence of accumulation, both primitive and infinite, towards (or backwards) *circulationism*. Confounding socialism yet again, Jean Baudrillard was the first to see this: a circulationism of both economic and social capital magnified ten-thousandfold via the absolute and claustrophobic ubiquity of social media, “gifting” us an emancipation-as-subsumption into the *jouissance* of eternal spectacle. An exchange may be finite, but circulation is *infinite*; hence global capitalism as an equally immortal primitive accumulation with human capital itself — the

tion of post-proletarian “Man”, the tree and the fruit of the unified complex of post-modernism and neo-liberalism, is the following maxim: “capital is no longer a factor of production, it is production that is a mere factor of capital.” Which doesn’t mean that it isn’t true, its neo-liberal pedigree notwithstanding (Ibidem, p. 81).

<sup>4</sup> For more on this admittedly sweeping statement, see Wilson (2008). The final word on this subject belongs to Hannah Arendt: colonialism is not the highest stage of capitalism; rather, capitalism is the preliminary stage of colonialism.

digitally incorporated neo-liberal subject *itself*, as a bleeding frontier of a potentially unlimited source of surplus-value.

Capitalism [...] needs an opposition to save it from itself. By confronting and absorbing challenges, from worker's insurance to the welfare state, capitalism secures the social conditions that allow it to persist. [...] an essential aspect of the project of neoliberalism was determining how to pre-empt the opposition by building an extra-economic framework that would secure the continued existence of capitalism. Rather than a self-regulating market and an economy that eats everything [including itself], the neo-liberals envisaged and fought for an ongoing settlement between imperium and dominium while pushing policies to deepen the power of competition to shape and direct human life [now human capital]. The normative neoliberal world is not a borderless market without states, but a doubled world kept safe from mass demands for social justice and redistributive equality by the guardians of the economic constitution (Slobodian, 2018, p. 16).

Achilles Mbembe clearly senses the banality of Truth within all of this: "Capital, in particular finance capital, having reached its maximal capacity for velocity, circulation, and flight, is now more than just dictating its own temporal regime. It now seeks to reproduce itself on its own, in an infinite series of structurally insolvent debts" (Mbembe, 2019), p. 111). Of true profundity is that the very foundations of contemporary global governance enable the neo-liberal world-economy to circumvent Paul Virilio's "wall of History" through securing the eternal presence of the retreating horizon of screaming meat,<sup>5</sup> the ever-deepening macro-colonising of the nation-states and the equally open-ended micro-colonisation of the interior of the Self (neo-liberal neo-subjectivity). The capitalist world-economy has been irrevocably transformed into the *neo-liberal* capitalist world-economy, rendering all four of the post-Marxist spectres immune to exorcism; "History equals: a series of signs and commodities that represent the personal agendas of people who fail utterly to rise to the occasion" (Walker, 2002, p. 197). The paradox of post-democratic politics is that, in Aristotelian terms, it combines the form of post-modernity (simulation, simulacra, virtual

reality, the digital) with the substance of pre-modernity (charism, gossip, rumour, conspiracy, familialism, tribalism, fashion, sectarianism, factionalism, patronage, network, de-centralisation, de-territorialisation, the nomadic, the liminal). If the lumpen-proletarians and their episodic "tactical" allies the petit-bourgeoisie are the true vanguards of authentically revolutionary politics (i.e., "extremism"), then the true *Technik-Politik* of the 20<sup>th</sup> century is Fascism and not, as is erotically yearned for, the post-Bolshevik Marxism that has by now been thoroughly subsumed by the cultural logic of neo-liberalism as a political "system". This inescapable destiny drives Wendy Brown to the verge of self-harm.

Thus, again, does political rationality born initially in opposition to fascism turn out to mirror certain aspects of it, albeit through powers that are faceless and invisible-handed and absent an authoritarian state. It is not to say that neoliberalism is fascism or that we live in fascist times. It is only to note convergences between elements of twentieth-century fascism and inadvertent effects of neoliberal rationality today. These convergences appear in the valorisation of a national economic project and sacrifice for a greater good into which all are integrated, but from which most must not expect personal benefit. They appear as well in the growing devaluation of politics, publics, intellectuals, educated citizenship, and all collective purposes apart from economy and security (Brown, 2015, p. 219).

The wholesale conversion of the capitalist world-economy to neo-liberalism (=accelerationism + circulationism) carries within it two pathologies of elemental criminological import. The first is the globalisation of *power crime*; the second is the systemic entrenchment of *neo-authoritarian* forms of government. Both are the bitter fruits of the reification of primitive accumulation as velocity. For "power crime", I use the definition provided by Nikos Passas (2007, generally): fraud and corruption by elites that have substantial governmental power or economic power (typically as CEOs). Often, of course, they have both forms of power simultaneously. Elite criminals [or "control frauds"] have a far greater ability than non-elites to act dynamically to optimise the environment for fraud while "neutralising" their crimes psychologically and obtaining substantial impunity (Passas, 2007, p. 2).

<sup>5</sup> Apologies to Alan Moore.



Passas identifies two “levels of dynamism” integral to power crime that are of particular interest to me. The first is spatial, “that elites are able to *choose* to operate wherever the legal, political, economic and cultural environment is most criminogenic and the payoffs to abuse the greatest.” The second is causal, “that elites are able to *change* the environment [and...] make it far more criminogenic” (Ibidem). If we read this definition through the critical “lenses” provided us by Paul Virilio (Wilson, 2009), we realise that the criminogenic variable that connects space with causality is speed-politics: the relationship between power and speed, therefore, is of considerable criminological importance. While Passas’ account does not explicitly refer to either velocity or neo-liberalism, his understanding of power crime is highly conducive to the narrative that I am constructing here because the essence of power crime is the control over definitions, perceptions, and appearances: “elite criminals” are best understood as those who undertake the criminogenic manipulation of the sign-systems that serve as the orthodox demarcations of “Law” and “Crime”. The account provided by Vincenzo Ruggiero and Michael Welch is highly illustrative.

Perpetrators of *power crime* are offenders who possess an exorbitantly exceeding amount of material and symbolic resources when compared to those possessed by their victims. [...] We can argue with respect to power crimes that criminal designations are controversial and highly problematic due to perpetrators’ higher degree of freedom. The capacity to control the effects of their actions allows those who have more freedom to conceal (or ‘negotiate’) the criminal nature of their actions. Suppose we translate the notion of freedom into that of resources. In that case, we can argue that those possessing a larger quantity and variety of them also have greater possibilities of attributing criminal definitions to others and repelling those that others attribute to them. They also have a greater ability to control the effects of their criminal activity and usually do not allow this to appear and be designated as such (Ruggiero & Welch, 2009, p. 298).

The author’s account of the manipulation of “symbolic resources” as a means of effecting the perceptual “disappearance” of criminal substance is highly suggestive of a simulated event, or spec-

tacle.<sup>6</sup> Although certainly not reducible to the visual, any critical understanding of power crime would benefit tremendously from careful consideration of the optical dimensions of the phenomenon. “Normal” crime, because it is a “low-velocity” phenomenon, is highly susceptible to detection and enforcement: “Normally, thieves face a fairly symmetrical environment: to steal more they have to take greater risks of detection, prosecution and sanction” (Passas, 2007, “Corruption”, p. 2). By contrast, power crime, precisely because it is a “high-velocity” phenomenon operating on the level of perception — that is, simulation — is able to effectively “disappear” into a total criminogenic environment of its own making. Accordingly, “elite criminals” are the very ones able to create an “environment in which engaging in massive fraud and corruption *increases* one’s political power and status and greatly reduces the risks of detection and prosecution. Elite criminals optimise by creating fraud networks that help them maximise this asymmetry of risk and reward” (Passas, 2007, p. 2). Speed itself facilitates the transformation of the residuum of the “real” of a wholly “virtual” form of reality that supersedes all “common sense” notions of legality and political accountability, so that criminal sovereigns “are able to steal vastly more than non-elites, yet face less risk of detection, prosecution and sanction than do common non-elite thieves” (Passas, 2007, p. 13).

Of no lesser importance is that his definition presupposes an already entrenched and highly inequitable, hierarchical division of social and technological power, particularly with regards to

<sup>6</sup> It is also highly suggestive of “conspiracy theory,” the bane of all attempts by radical criminology to theorize power crime and criminal elites, both of which invariably invoke the canards of “the cabal” or the “shadow government.” The bottom-line is that power crime does not require a corresponding theory of conspiracy but it does presume to comprehensively describe a milieu that can serve as the necessary, if not sufficient, condition for the conspiratorial. “Critics of a power elite theory often call it ‘conspiratorial’, which is the academic equivalent of ending a discussion by yelling Communist. It is difficult to lay this charge to rest once and for all because these critics really mean something much broader than the dictionary definition of conspiracy. All right, then, if ‘conspiracy’ means that those men [of the alleged power elite] are aware of their interests, know each other personally, meet together privately and off the record, and try to hammer out a consensus on how to anticipate or react to events and issues, then there is some conspiring that goes on in CFR, not to mention in the Committee for Economic Development, the Business Council, the National Security Council, and the Central Intelligence Agency” (Dornhoff, 1969, p. 34).



media. Again, Passas provides us with another useful tool for application: *criminogenic asymmetries*.

Criminogenic asymmetries are structural disjunctions, mismatches, and inequalities in the sphere of politics, culture, the economy, and the law. Asymmetries are criminogenic in that they [...] create opportunities for illicit profit; produce or strengthen the demand for illegal goods and services; generate incentives for particular actors to participate in illegal transactions; and reduce the ability of authorities to control illegal activities (Passas, 2007, "Corruption", p. 47; see also Passas, 2000, pp. 17, 19–20, 23 and 20–26).

There is nothing inherently "criminal" about authoritarian government; what is exceptional about it is its uncanny elective affinity with that structural inequality that doubles as the foundation of criminogenic asymmetries.

Citizenship in its thinnest mode is mere membership. Anything slightly more robust inevitably links with patriotism, love of *patria*, whether the object of attachment is a city, country, team, firm, or cosmos. In all cases, however, its consummate sign is the willingness to risk life [self-sacrifice], which is why soldiers in battle remain its enduring icon [...]. Today, as economic metrics have saturated the state and the national purpose, the neoliberal citizen need not stoically risk death on the battlefield, only bear up uncomplainingly in the face of unemployment, underemployment, or employment unto death [...]. This citizen releases state, law, and economy from responsibility for and responsiveness to its own condition and predicaments and is ready when called to sacrifice to the cause of economic growth, competitive positioning and fiscal constraints (Passas, 2007, p. 218 and 219).

Idealism, profane or otherwise, forms no part of any of this: the decomposition of any viable form of social cohesion is the offal of neoliberalism's eternal quest for the immanent "instantification" of a wholly friction-less isotropic world of unmediated exchange. Seminal is the potentially infinite profitability of the "extractive" mechanisms of what Shoshana Zuboff has labelled *surveillance capitalism*, in which the intergenerational technological endo-colonisation of neo-liberal subjectivities offers up the prospect of a literally endless frontier of primitive accumulation: "Data extraction and analysis [...] is what everyone is talking about when they talk about

big data. [...] The extraction architecture is combined with a new *execution architecture*, through which hidden economic objectives are imposed upon the vast and varied field of behaviour. [...] This undertaking aims not to impose behavioural norms, such as conformity or obedience, but rather to produce behaviour that reliably, definitively, and certainly leads to desired commercial results. [...] surveillance capitalists make the future for the sake of predicting it"—which adds a meta-historical dimension to the concept of futures markets trading: "As long as surveillance capitalism and its behavioural futures markets are allowed to thrive, ownership of the new means of behavioural modification eclipses ownership of the means of production as the fountainhead of capitalist wealth and power in the twenty-first century" (Zuboff, 2019, pp. 56, 203; 87–92, 11). Central to this project is the fleshy equivalent of global value chains: "behavioural surplus supply chains", the borderland of the truly infinite frontier of "*instrumentarianism*," best understood as "*the instrumentation and instrumentalisation of behaviour for the purposes of modification, prediction, monetisation, and control*" (Zuboff, 2019, p. 351 and 352).

When we think about it rationally, we realise immediately that the cancellation (or *aufgehoben*) of liberal Democracy is neither "the end of history" nor "the end of politics"; it is, rather, the re-valorisation of an "elemental" politics, one, however, that is uniquely vulnerable to authoritarian machinations. In a word, post-democracy is nothing other than the Friend/Enemy distinction of Carl Schmitt (Schmitt, 1996), the prophet of the secularised state-of-exception: no longer national unities but virtual tribes governed by the electronic semiotics of contending integrated communities. If political representation is no longer possible, what could the polity be other than an arena of perpetual ritualistic combat? The catch, of course, is that Schmitt never anticipated social media. As Mbembe reminds us, "enmity now constitutes the spirit of liberal democracies, and [...] hatred gives them the impression of experiencing a pure present, a pure politics, using means that are themselves pure" (Mbembe, 2019, p. 117)—this, in large part, due to the accelerationism of a by now truly globalised neoliberalism. "At its core, liberal democracy is not compatible with the inner logic of global finance capitalism", continues

Mbembe (Ibidem) (although this should perhaps be amended to “democracy is incompatible with the inner logic of finance capitalism”; liberalism as neo-liberal technocracy is fully compatible with the universality of high velocity “free trade”) which leads to the return of political atavism.

The clash between these two ideas and principles is likely to be the most significant event of the first half of a twenty-first-century political landscape, itself shaped less and less by the rule of reason and more and more by the general release of passions, emotions, and affect. [...] Whether human civilisation can give rise to any form of political life at all is the problem of the twenty-first century (Mbembe, 2019, p. 111 and 116).

The state of exception/moment of decision is *necessarily* a sacrificial act, the establishment of the identity of the one who is to be killed (whether physically or “merely” symbolically) in order to achieve the restoration of community harmony and social consensus so that “normal” politics can continue. Conversely, if “true” politics is an existential “intensity”<sup>7</sup> inseparable from warfare — that all “serious” political activity, always in opposition to that of the “normal” mundane, is identical with enmity — then the enemy must, out of necessity, take on, or be invested with the attributes of the scapegoat, the *sacred enemy* whose longed-for annihilation is the parousia of unifying conflictual mimesis that induces all of the parties to the conflict to settle upon a common rival, or enemy, whom they all wish to “strike down”.

Whether we care to admit it or not, through both Schmitt and Rene Girard, we can no longer refuse to acknowledge the centrality of scapegoating, affectivity, and mimesis to the sausage-making of politics. Less appreciated is an equivalent centrality of mimesis and imitative rivalry to the realm of international politics, territory pioneered by Hans J. Morgenthau himself, who defined power as a “‘psychogenic condition which rested on *inter-subjective relations* [...]’ power was for Morgenthau generally created through the interaction of people: as a result and quality of human action” (Troy, 2021, p. 6. Emphases added) The irreducible *affectivity* of the political, and of the mimetic nature of political affectivity, enables mimetic theory to point “International Relations

toward the need for a relational ontology of human desire and political order” (Troy, 2021, p. 17). The equation is simplicity itself: power = social recognition//power = love = desire//social recognition = power/desire/love. “Power and love are intimately connected, the desire for one growing out of the fulfilled or frustrated desire for the other, one state shading imperceptibly into the other; and the longing for immortality. For the perpetuation of one’s existence beyond its natural limits, intermingles with the desire for power and love.”<sup>8</sup> More concretely, power as *prestige* constitutes the supreme mimetic object of international politics, at least in its classical Realist form; the “lust for power” is inter-relational, which, for Morgenthau, means that “‘the political in the specific sense consists on the particular degree of intensity of the connection created by the state’s will to power between its objects and the state.’” Politics is “‘never an either/or state of affairs, but always a matter of degree, necessarily depending on *how* intense — and *potentially* violent — a conflict had become.’”<sup>9</sup>

The other root of conflict and concomitant evil [in addition to the egoism of the State actor] stems from the *animus dominandi*, the desire for power. This lust for power manifests itself as the desire to maintain the range of one’s own person with regard to others, to increase it, or to demonstrate it. In whatever disguises it may appear, its ultimate essence and aim are one of these particular references of one person to another. Centred as it is upon the person of the actor in relation to others, the desire for power is closely related to the selfishness of which we have spoken but is not identical with it.<sup>10</sup>

Which leads us directly to our next major problem: power and the crisis of un-differentiation, or how can any particular State retain its sense of uniqueness (or singularity) within an accelerationist global political economy of complex interdependence? To put it another way: how does a State that lacks prestige resolve the onto-political crisis inflicted upon it through its “love” of the *model* — the State that is the holder of prestige that all other States naturally gravitate towards through the desire for social recognition,

<sup>8</sup> Hans J. Morgenthau in Troy (2021, p. 25).

<sup>9</sup> Hans J. Morgenthau and William E. Scheuerman in Troy (2021, pp. 22–23).

<sup>10</sup> Hans J. Morgenthau in Troy (2021, pp. 24–25).

<sup>7</sup> “Politics is a degree of intensity”. Mike Grimshaw, “Introduction” in Taubes (2013, p. xxxvi).

the psychic (or propagandistic) fuel of mimesis? According to Pierre Bourdieu: “Social identity lies in difference, and difference is asserted against what is closest, which represents the greatest threat”<sup>11</sup>; not a game of “zero-sum” but an “erotically” driven strategy of structural positioning.

For the claim to universality which inspires the moral code of one particular group is incompatible with the identical claim of another group; the world has room for only one, and the other must yield or be destroyed. Thus, carrying their idols before them, the nationalistic masses of our time meet in the international arena, each group convinced that it executes the mandate of history, that it does for humanity what it seems to do for itself, and that it fulfils a sacred mission ordained by providence, however, defined. Little do they know that they meet under an empty sky from which the gods have departed.<sup>12</sup>

The internal political logic of this integrated world system is governed through the mechanism of *hegemony*, which may best be understood in terms of a kind of “socialisation” process among States, a variant of Norbert Elias’ *civilising process* undergone by international legal personalities. Intriguingly, civilising socialisation ordinarily takes place as a systemic response to prolonged global dysfunction.

[Socialisation] occurs after wars and political crises, periods marked by international turmoil and restructuring as well as fragmentation of ruling coalitions and legitimacy crises at the domestic level. The simultaneity of international and domestic instability creates the conditions conducive to socialisation. At the international level, the emerging hegemon articulates a set of *normative principles* in order to facilitate the construction of an order conducive to its interests. At the domestic level, crisis creates an environment in which elites seek alternatives to existing norms that have been discredited by events and in which new norms offer opportunities for political gains and coalitional realignment. (Ikenberry & Kupchan, 1990, p. 284. Emphases added).

The co-linkage between the World-System and global neoliberalism demands the creation of an international system that is both anti-world empire and committed to *free trade*; “the emergence

of a [capitalist] world market was dependent on the pluralistic structure of the European (and, subsequently, the global political system)” (Gilpin, 1981, p. 131). The crucial point is that hegemony is not identical with world-empire, which presupposes territorial conquest, military force, and forcible political and legal unification: a universal state (Rome, China, Russia). Hegemony, rather, is based upon expressly pluralistic principles, reflected through the alternating geo-political strategies of “domination” and “influence,” the latter, because of its predominantly non-military nature, the more “cost-efficient” of the two strategies. As Wilhelm Grewe points out:

In sum, an international legal order can only be assumed to exist if there is a plurality of relatively independent (although not necessarily equal-ranking) bodies politic which are linked to each other in political, economic and cultural relationships and which are not subject to a superimposed authority having comprehensive law-making jurisdiction and executive competence. *In their mutual relations, these bodies politic must observe norms which are deemed to be binding on the basis of a legal consciousness rooted in religious, cultural and other common values.* (Grewe, 2000, p. 7. Emphases added).

This complex interplay between material and ideological factors parallels a concomitant rivalry among contending conceptions of the international legal order. “This order emerges in every age as a result of the struggle of the legal and political ideas and positions of the rival powers of that age, in which the leading power succeeds in making its ideas and positions prevail and in securing recognition of their natural effectiveness.”<sup>13</sup> The problem for western States has always been the occidental historical legacy of “Great Power Politics” that reached its apotheosis in the 18<sup>th</sup> century.

The political and international legal programmes of the modern European States were

<sup>11</sup> Pierre Bourdieu in Troy (2021, p. 64).

<sup>12</sup> Hans J. Morgenthau in Troy (2021, p. 64).

<sup>13</sup> Grewe (2000, p. 275). For Grewe the normative (and normalizing) alignment or convergence of international actors, on both the state and sub-state level, acts as the sufficient cause of what we would consider to be an international society governed by the “rule of law”. “The totality of diverse legal rules deserves to be called a legal order if it deals with the totality of facts needing to be regulated legally in a manner which corresponds to the specific intellectual, cultural, social and political situation in question and which establishes directions for existing in this situation. In other words, the principal context in which individual legal rules and institutions are found is not logical, but morphological” (Ibidem, p. 32, Emphases added).



all [...] expressions of ideologies of national expansion. The stronger the leading position of the particular predominant power, the more that State marked the spiritual vision of the age, the more its ideas and concepts prevailed, the more it conferred general and absolute validity on expressions of its nationalist, expansionist ideology (Grewe, 2000, p. 23).

But, as Morgenthau intuited, it is all just a question of social recognition, one between States at least as much as between people(s). In sharp distinction to pure *Machtpolitik*, the conceptualisation of hegemony as cultural influence, or *soft power*, renders its practical operation inextricable from the wider networks of legal legitimacy.

Hegemony is [...] something more and different than dominance pure and simple: it is the *additional* power that accrues to a dominant group by virtue of its capacity to lead society in a direction that not only serves the dominant group's interests but is also perceived by subordinate groups as serving a more general interest. [...] If subordinate groups have confidence in their rulers, systems of domination can be governed without resorting to force. But if confidence wavers, they cannot [...] When such credibility is lacking, we shall speak of 'dominance without hegemony' (Arrighi & Silver, 1999, pp. 26–27).

The "true" hegemon is the single State capable of effectively policing international public order through its effective performance as an anti-imperialistic (i.e., dominating) actor.

The analytical tool devised by Immanuel Wallerstein to identify the model-State, or hegemon, within a particular world-system at any given moment in time was the concept of *geo-culture*, a term which quite beautifully encapsulates the potential of Elias' civilising process to international politics. This notion of the hegemon-as-regulator-of-geo-culture (or the bearer of "soft power") as the-universal-model-for-social-recognition renders hegemony's practical operation inextricable from wider problems of its international legal legitimacy. Here is where geo-culture is actively (re-) deployed as a hopefully non-violent means of international coercion: the hegemon as a model will not only act as the embodiment of the affective "ideal" for the particular historical moment in question (think of the France of Louis XIV in the 18<sup>th</sup> century or Victorian England in the mid-19<sup>th</sup>), it will also, through the calculated pollination of

its cultural influence, bring all of the imitating States towards the commonly agreed goals, which ordinarily means their political and economic objectives. The "true" hegemon is the single State capable of effectively policing international public order through its effective performance as an anti-imperialistic actor (meaning anti-"zero-sum") that most effectively manages the world-economy on the basis of the mutuality of the greater economic interests of all actors within the system.

Any moment when a hegemonic power is omnipotent [it is] capable of doing anything it wants. Omnipotence does not exist within the interstate system [otherwise, the hegemon would constitute a world-empire]. Therefore, hegemony is not a state of being but rather one end of a fluid continuum that describes the rivalry relations of great powers to each other (Wallerstein, 1979, p. 89).

And in the 20<sup>th</sup> century, this means the United States and global neo-liberalism.

Hegemony involves more than core states. It may be defined as a situation wherein the products of a given core state are produced so efficiently that they are by and large competitive even in the other core states, and therefore the given core state will be the primary beneficiary of a maximally free world-market (Wallerstein, 1980, p. 38).

The operational linkage (inter-relational) between hegemony and legitimacy, and the correlative inter-dependency between hegemony and global capitalism, dictates that the historically successful hegemons — the successive Protestant 'commercial republics' of the United Provinces (1648–1740), the United Kingdom (1815–1914) and the United States (1945–?)—be both the most successful practitioner and the most persuasive advocate of political Liberalism and free-market economics during its prescribed period of hegemonic influence.

Hegemonic powers during the period of their hegemony tended to be advocates of global "liberalism". They came forward as defenders of the principle of the free flow of the factors of production (goods, capital and labour) throughout the world-economy. They were hostile in general to the mercantilist restrictions on trade, including the existence of overseas colonies for the stronger countries. They extended this liberalism to a generalised endorsement of liberal parliamentary institutions (and a concurrent distaste for political



change by violent means), political restraints on the arbitrariness of bureaucratic power, and civil liberties (and a concurrent open door for political exiles) (Wallerstein, 1979, p. 41).

And it is precisely at this juncture that neo-liberalism's lethal threat to democracy manifests clearly. As the most successful (capitalistic) State, the hegemon will also serve as the model for the properly constituted international actor, leading all other States to behave as emulators (with varying degrees of success). But the capitalist world-economy is no longer (if it ever was) a classical one, but a neo-liberal one. Therefore, the mimetic nature of geo-culture, the psychic component of the quixotic quest for international recognition, will cause States to emulate (meaning "to seize") that State which has successfully realised the neo-liberal ideal — which is an anti-democratic one. Therefore, today's bearer of geo-culture, the mantle of the model, will be that State which has the most completely harmonised neo-liberal substance with post-democratic, or neo-authoritarian, form. And that means that the contest over hegemony can only be realistically assumed to be occurring between two States that are weirdly twinned, each having an extensive history of hegemonic ambition, one wholly successful, the other partial: The United States (a multi-ethnic post-colonial liberal continental frontier society post-democratic techno-elitist oligarchic republic) and the Russian Federation (a multi-ethnic post-colonial absolutist continental frontier society neo-authoritarian neo-populist oligarchy). *Plus ça change, moins ça change*.

The unambiguous emergence of the U.S. and Russia as mimetic doubles, both governed by oligarchic authoritarian capitalism (the defining features of which I will describe shortly) constitutes a localised transformation within a wider process following 1989: the transition of the U.S.S.R. and Warsaw Pact states, along with the PRC, from prospective model to willing imitator within a now unipolar world-system. Heed the words of Ryszard Legutko, a Polish member of the European Parliament, who adopts a robustly mimetic approach in dissecting the unipolar "Age of Imitation" following the dissolution of the Warsaw Pact: among the now "leaderless" eastern European States, the "deeper wisdom was to copy and imitate (Legutko, 2016, pp. 11–13). The more we copied and imitated, the more we were glad of

ourselves. Institutions, education, customs, law, media, language, almost everything became all of a sudden imperfect copies of the originals that were in the line of progress ahead" (Legutko, 2016, p. 41; see also Krastev & Holmes, 2019, pp. 6–7). The downside of all of this was an interminable case of pathological *ressentiment*.

Under the contemporary conditions of colonisation, assimilation and colonisation are contradictory. [... the colonised] soon discovers that he would not be saved even if he agrees to everything. In order to be assimilated, it is not enough to leave one's group, but one must enter another; now, he meets with the coloniser's rejection. [...] He can never succeed in becoming identified with the coloniser, not even in copying his role correctly. [...] If [the coloniser is] rude, he will say that the colonised is an ape. The shrewder the ape, the better he imitates, and the more the coloniser becomes irritated (Memmi, 1991, p. 127 and 124).

In terms of Rene Girard's singular version of mimetic theory, what we are faced with here is a *double mediation*: the success of the model (the mediator of the "ideal" to the world at large) in thwarting the mimetic desire of the subject-emulator increases, not decreases, the mimic's existential intensity, so that "by persisting in his will to acquire the object, the disciple will become in turn a model/obstacle to his mediator" (Wilmes, 2019, p. 95; Brighi & Cerella, 2015, p. 10). For Girard, each member of the mimetic dyad "becomes the imitator of his own imitator and the model of his own model. Each tries to push aside the obstacle that the author places in his path" (Wilmes, 2019, p. 95)—which succinctly explains the apparent rise of the so-called "Far Right" in post-GFC eastern Europe; while it is debatable how much such *ressentiment* objectively alters the world-system outside of the geo-cultural, it is beyond doubt that the rhetoric of humiliation is central to the rightist radicalisation of the domestic politics of the copy-cat states.

When Central Europe's Populists rail against a perceived Imitation Imperative [i.e., "there is no other way"] as the most obviously insufferable feature of liberalism's hegemony after 1989, they obviously mean something less generic and more politically provocative. The form of comprehensive institutional imitation at issue involves; first, the acknowledged moral superiority of the imitated over their imitators; second, a political

model that claims to have eliminated all viable alternatives; third, an expectation that the imitation will be unconditional rather than adapted to local traditions, and, fourth, a presumption that representatives of the imitated (and therefore implicitly superior) countries could legitimately claim a right to monitor and evaluate the progress of imitating countries on an ongoing basis (Krastev & Holmes, 2019, p. 9).

And given the intensely mimetic nature of geo-culture, coupled with the hyper-competitiveness of neo-liberal in its own right as a form of political economy, this outcome could not be otherwise. A failure of recognition — or permanent *humiliation* — structurally embedded within international politics spawns systemic *ressentiment*: every nation that becomes a “copy-cat” is unavoidably subject to mimetic rivalry because the imitator is “inevitably focused on the source of importation — an object of imitation by definition — and reacts to it. Because the model was superior to the imitator in the latter’s own perception (its being a model implied that), and the contact more often than not served to emphasise the latter’s inferiority, the reaction commonly assumed the form of *ressentiment*”.<sup>14</sup> And it is specifically *ressentiment*, not merely vengeful rivalry or ultra-nationalist competitiveness, that is at issue because the loser’s dilemma is both existential and normative.

The imitation of moral ideals, unlike the borrowing of technologies, makes you resemble the one you admire but *simultaneously makes you look less like yourself at a time when your own uniqueness and keeping faith with your group are at the heart of your struggle for dignity and recognition*. [...] This self-contradictory request to be both an original and a copy was bound to be psychologically stressful. A *feeling of being treated disrespectfully* was also fomented by what can be reasonably identified as the central irony of post-communist democracy-promotion in the context of European integration: the Central and East European countries ostensibly being democratised were compelled, in order to meet the conditions for EU membership to enact policies formulated by unelected bureaucrats from Brussels and international lending organisations. [...] Pretending to rule themselves while being ruled by Western policy-makers was bad enough. The last straw

was being disparaged by visiting Westerners who accused them of merely going through the motions of democracy when that was exactly what political elites in the region thought that they were being asked to do (Krastev & Holmes, 2019, p. 9. Emphases added).

The even crueller paradox is that the imitator can never escape the shaming gaze of the model (or, in the case of the E.U., the “mediator” of the model, which is the United States-as-hegemon) because, by definition, their mimicry will always remain the second rate, as far as the cannibalistic heirs of two world wars were concerned, anyway.<sup>15</sup> Because copy-cat nations are legally authorised plagiarists, they must, on a regular basis, seek the blessings and approval of those who hold the copyright to the political and economical recipes being borrowed and applied second-hand. They must also unprotestingly accept the right of Westerners to evaluate<sup>16</sup> their successes or failures at living up to Western standards (Mazower, 1998, p. 73). Which was how Greece became Atlantis.

The logic of reciprocity being what it is, a retaliatory re-action from the imitator was to be expected: an escalating intensification of imitation. The subject-of-desire emulates the object more successfully than does the model-mediator; the catch here is that for the former Communist states to “out-rival” either the E.U. or the U.S., they have to prove the true nature of the object (hegemony) is not liberal-democratic but *illiberal-authoritarian* — which, thanks to neoliberalism, is the “truth” of the model they seek to copy. Naturally, this is something supremely easy to do with the

<sup>15</sup> The irony of that motley collection of States who are the co-inventors of both Communism and Fascism really cannot be improved upon short of divine inspiration. Mark Mazower expresses it pithily. “The intellectual tradition which identifies Europe with the cause of liberty and freedom goes back many centuries. But if we face the fact that liberal democracy failed between the [world] wars, and if we admit that communism and fascism also formed part of the continent’s political heritage, then it is hard to deny that what has shaped Europe in this century is not a gradual convergence of thought and feeling, but on the contrary a series of violent clashes between antagonistic New Orders. If we search for Europe not as a geographical expression, but as what Federico Chabod called ‘an historic and moral individuality,’ we find that for much of the century it did not exist.” It still doesn’t as proven by the E.U.’s impeccable credentials as the world’s “purist” neo-liberal organization (Mazower, 1998, p. 27).

<sup>16</sup> The dreaded “bench-mark” and “best practices” of neo-liberal corporate governance now applied to so-called “sovereignities”.

<sup>14</sup> Leah Greenfeld at *ibid.*, 219 fn. 22.

technocratic-managerial-elitist E.U., as Legutko explains with striking clarity.

The European Union was not deliberately created as an anti-democratic system to countervail the weaknesses of democracy, but on the contrary, as a hyper-democratic or hyper-liberal-democratic project. At least since the time of Maastricht, it has been in the hands of politicians and bureaucrats who, whatever their party affiliation, consider themselves to be model liberal democrats ready to convert the whole of Europe and even the whole world to liberal democracy. Consequently, European politicians do not see any problem in singing the praises of liberal democracy while failing to tolerate any deviation from the orthodoxy of the mainstream. Believing themselves to be the embodiment, the quintessence, and the fundamental guarantee of the liberal-democratic order, they consider it obvious that all those who think differently and challenge their authority must be enemies of the order and that fighting them is just defence. [...] To the European politicians, the fact that the actual direction of EU policy is created by people who do not have an electoral mandate is of no particular importance, because — as they probably assume — these people were selected and anointed by the elite mainstream (Legutko, 2016, pp. 87–88).

Here's the joke: precisely because the E.U. is the single largest international organisation of exclusively copy-cat states,<sup>17</sup> it comes as no surprise that it “reflects the order and spirit of liberal-democracy in its most degenerative version” (Legutko, 2016, p. 87). Just as with the Japanese — another formerly occupied people supremely adroit at imitation— the eastern Europeans as imitators perceive the truth of the model-mediator with transcendental insight. In order to resolve their crisis of social recognition within the international sphere, they must re-constitute themselves as the new model by becoming even *more* undemocratic (and corrupt) than the E.U. itself. What's more, they are ideally suited to exploit the reams of evidence provided by Europe explicating the multiple convergences of parallel oligarchies and reciprocal (and reciprocating) forms of power crime — the political manifestation of equally parallel eastern and western neo-liberal criminogenic asymmetries as proof of the

“rivalry-in-debasement” linking the model with its mimic and allowing the latter to overcome the former. And if this is the true dynamic governing the mimetic-criminogenic-neo-liberal rivalry between the E.U. and ex-Soviet bloc states — mere “regional” hegemons at best — then how much more “existentially intense” must be the rivalry between the two (or three) legitimate contenders to global hegemony?

### **The moral panic over Donald J. Trump**

According to Alain Badiou, the world unexpectedly came to an end on November 8 2016.

Everybody [...] understands that the perpetuation of inequalities engendered by capitalism, and especially by the law of the concentration of capital, can hardly be a worthy destiny for human beings. Sartre used to say that, if the human species were capable of no more than that, if the human species were capable of no more than that, it would leave no better memory of itself than that left by ants. “Perhaps,” replies the liberal, dominant today. “But it's the only real possibility: everything else is both worse and ultimately impossible. Look at Russia, look at China.” The power of the liberal capitalist way lies in declaring itself to be the only way. It doesn't even need to declare itself to be the best way, since it has succeeded in convincing practically everybody that another way, a second way, doesn't exist. Ants we may be, perhaps, but better to be an ant than nothing.<sup>18</sup>

What accounts for such infantilised wailing and gnashing of teeth wholly unbecoming for an intellectual of Badiou's (presumed) calibre? On the one hand, it is a simple expression of a political phobia of the Left that has reached pathological intensity over the past decade steered by the alleged resurgence of populism. Which is ironic, really, as populism, in its classical form, evolved in the U.S. as a fairly radical form of “direct democracy”. The deeper, and more plausible explanation for the obsession is the recent history of eastern Europe and of Russia itself that totally confounds the Left: that right-wing/nationalist populism has emerged as the most effective bulwark to globalisation, once again removing socialism from its self-proclaimed position as the vanguard of

<sup>17</sup> That is, copying These “United States”.

<sup>18</sup> See Badiou (2019, p. 7). Funnily enough, speculative realist philosophers such as Quentin Meillassoux with whom Badiou has been linked, stake everything on the complete absence of metaphysical difference between the Human and the ant.



History. Badiou's fellow traveller Ernesto Laclau is particularly lucid on this point.

By "populism" we do not understand a *type* of movement — identifiable with either a special social base or a particular ideological orientation — but a *political logic*. All the attempts at finding what is idiosyncratic in populism in elements such as a peasant or small-ownership constituency, or resistance to economic modernisation, or manipulation by marginalised elites are [...] essentially flawed: they will always be overwhelmed by an avalanche of exceptions. What do we understand, however, by a "political logic"? [...] While social logics consist in rule-following, political logics are related to the institution of the social.<sup>19</sup> Such an institution, however, is not an arbitrary fiat but proceeds out of social demands and is, in that sense, inherent to any process of social change. As we also know, this change takes place through the variable articulation of equivalence and difference, and the equivalential moment presupposes the constitution of a global political subject bringing together a plurality of social demands. This, in turn, involves [...] the construction of internal frontiers and the identification of an institutionalised "other" (Laclau, 2005, p. 117).

The real "cunning of History" at work here is that the evolutionary logic of capitalism itself provides the means for the infinite postponement of socialism: the formation of that "mass identity" which was supposed to herald the unstoppable rise of a universal proletariat has been effectively re-engineered by neo-liberalism to create impenetrable "blobs" of digital populations which are empowered to undertake authentic revolutionary transformation: the decomposition of *socius* into contending on-line consumers; "Entire peoples labour under the apprehension that the resources for continuing to assume their identities are spent. They maintain that an outside no longer exists such that to protect themselves against threats and dangers the enclosures must be multiplied" (Mbembe, 2019, p. 2). And this, in turn, feeds directly into the global revenge of the mimics, neo-populism and a hyper-protectionism as "a way of erstwhile imitators to avenge themselves on their would-be models by revealing the latter's unattractive defects and irksome hypocrisy" (Krastev & Holmes, 2019, p. 15). A race to the top of the

new neo-liberal order through the symmetrical race to the bottom of post-democracy. Because of their respective geo-political "weight" The States-That-Used-To-Be-Known-As-Communist adopted local variations, or parodies, of mirroring: for the Warsaw Pact, it was unveiling the authoritarian truth of the E.U.; for Russia it was unveiling the authoritarian truth the entirety of international public order; for the Chinese it was a re-doubling of an almost autistic form of cultural narcissism, unveiling its own authoritarian essence and then daring the world to challenge it (so far no one has). But the real news is that the U.S. itself responded in kind as the hegemon-model (given that this is a double mediation) but in an utterly bizarre way: it proved its unmediated relationship to the object-of-desire of a now *illiberal* neo-liberal hegemony by demonstrating its wholly nativist capacity for neo-authoritarianism.

It is within this competition of what we might call "counter-mirroring" that we need to understand the defining trope of Trump's presidency: "Making America Great Again" (MAGA) is superficially populist and ultra-nationalistic but, in truth, is neither; the emphasis is not on "Again" but "Great" meaning America as the true hegemon (Mark II) of a re-conceptualised world-system of neo-liberal *realpolitik*. "For Trump, normalisation means 'the restoration of the US as a selfish state among selfish states.'" <sup>20</sup> MAGA can be rightly understood as a contemporary example of the Machiavellian Moment, the recovery of the vitally necessary civic *virtù* that is indispensable for political success in an irreducibly anarchic and mimetic international system.

Trump's "charisma" [...] is largely based on mould-breaking ways. And the most exceptional thing about his exceptional presidency is his rejection of the myth of American exceptionalism. He has accomplished something which would have been previously thought impossible. He has reconciled America's jingoistic citizens to the idea that America can be "great" without being an international leader,<sup>21</sup> without being morally superior, without being especially innocent, and

<sup>20</sup> Janan Ganesh in Krastev and Holmes (2019, p. 146).

<sup>21</sup> That is, the avatar of a liberal hegemony grounded upon multilateralism, "humanitarianism" (including the supremely suspect practice of "humanitarian intervention"), and the approximately equitable distribution of outcomes for other members of the core-zone — the States who most mirror the U.S.

<sup>19</sup> First order/Second order or foundational/non-foundational.



without having any right to lecture other countries. He has detached America's congenial self-love from the idea that America is "special" in the sense of morally superior (Krastev and Holmes, 2019, p. 148).

American lefties simply cannot retain their bile. "Trump's battle cry is: 'We need somebody that can take the *brand* of the United States and make it great again'" (Krastev and Holmes, 2019, p. 146). Decisively repudiating the geo-culture of liberal internationalism by way of a radically new nativist-based demolition of the shibboleth of "American Exceptionalism," Trump's "'greatness' involves the obliteration of America's self-professed uniqueness and its assimilation to the rest of the mundane world" (Krastev and Holmes, 2019, p. 148) so that for him "disclaiming American righteousness is a first step towards escaping the self-defeating do-gooder illusions induced by the myth of American exceptionalism" (Krastev and Holmes, 2019, p. 147). Therein lies the rub: Trump was 100% correct in his assumptions. "The politics of imitation has destroyed the sense that we live in a common reality but it has increased the fear that we are becoming much more alike — that is, equally unprincipled and cynical — than we would ever before have believed (Krastev and Holmes, 2019, p. 136)." Which explains the total weaponisation of "electoral interference" as moral panic by the mass media. Again, the truth is counter-intuitive but, for that very fact alone, supremely cunning. Because everyone knows the global drift is towards neo-liberalism, everyone also knows that democracy, in its classic representational form, is defunct. Therefore, Trump is a priori guilty of every anti-democratic crime conceivable precisely because the U.S. is now imitating the freshly minted geo-culture of neo-authoritarian post-democracy in the most competitive manner that it can manage.

For those countries [...] who have never had the privilege of democracy and occupy a large part of the world, legitimacy entails primarily, if not exclusively, obeying the outcomes of elections. But suppose the West undermines election results in these countries, as happened in Algeria and Egypt. In that case, all its well-intentioned sermonizing in favour of democracy will be seen as a mockery and as confirmation of the old, widely held notion that it is wise to think twice before following what the West seeks to promote (Calasso, 2017, p. 30).

Once more, political mimesis operates with as much existential intensity within the domestic as it does in the international sphere.

Disillusioned with their own democracies, Westerners are now beginning to see their own political systems as not much more genuinely democratic than the Russian one. [...] Whether Russian interference in Western elections has had a significant influence on outcomes is debatable. But the West now shares Russia's post-Cold War fears of polarisation, ungovernability and disintegration. [...] the imitator-imitated relationship, as understood immediately after the communist collapse, seems to have been brutally reversed (Krastev & Holmes, 2019, p. 133).

And now comes the cruellest turn of the blade for the self-hypnotised "woke" among us.

It is worth noting in this context that only *the most left-wing members of the Democratic Party* deny that "the US stands above other nations." This provides a good measure of Trump's hypnotic [sic] powers. He has charmed his nationalistic base into thinking exactly like the most liberal of self-doubting Democrats without obliging them to abandon their intolerant and xenophobic fantasies.<sup>22</sup>

Expressed formulaically, the U.S. and the Russian Federation exist within a triangulated relationship, in which both are contesting possession of the new geo-cultural model of the neo-authoritarian hegemon. Trump's "transparently evil" (re. Baudrillard) genius was to pioneer a way of thinking out loud the unthinkable and thereby rendering sayable the unspeakable while being rewarded with supreme power for precisely so doing. In terms of the substantive content of his policies, much of it was fully consistent with the orthodox center-Right. His breakthrough was his innovation of a new form of political speech, a normalised brutalism that, through the "shock and awe" of content and delivery (140 characters; Twitter), achieved full-spectrum dominance of *all* forms of political communication: the-politics-of-the-very-worst-as-pure-war realised with a vengeance by a crypto-grotesque-sublime hybrid

<sup>22</sup> See Krastev and Holmes (2019, p. 148. Emphases added). That the exact reverse might be true is, of course, never considered, said omission the precondition for a new game of mirror-doubles, this time within the national arena: if the U.S. really is a neo-authoritarian post-democratic neo-liberal capitalist state, then the Constitution serves as a stumbling-block (skandalon) for both sides equally.

of Andrew Jackson, Louis Bonaparte, and William Randolph Hearst (the “real” model for the Wellesian re-engineered *Wayang*-esque protagonist of Trump’s favourite film, *Citizen Kane* (Osborne and Roberts, 2017, p. xv)).

Trump’s surprisingly banal policies largely fit the mould of orthodox conservatism, in almost complete opposition to his *civillite*-shattering political spectacle.<sup>23</sup> But for an utterly phantasmagorical version of this only apparent paradox, see Timothy Snyder, *The Road to Unfreedom: Russia, Europe, America* (London: Bodley Head, 2018), wherein the (somehow) unstoppable Vladimir Putin manages (somehow) to “create” the (somehow) unbeatable Donald Trump, a liberal paranoid conspiracy rant of vastly entertaining proportions: “Russians raised ‘a creature of their own’ to the presidency of the United States. Trump was the payload of a cyber-weapon, meant to create chaos and weakness, as in fact he has done” (Snyder, 2018, p. 219). But Snyder misses the real point, which, being true, is too painful: “The future arrived first in Russia,”<sup>24</sup> rendering everything that may have transpired between Russia (and/or the Ukraine) and Trump of secondary importance, anecdote not process. What is process are the national convergences driven by mirroring oligarchies: in perfect accordance with Thomas Piketty, in Russia, the top ten per cent owned 89 per cent of total household wealth in 2016; in the US, it was 76 per cent (Snyder, 2018, p. 258). In terms of political economy, the two oligarchies are virtually identical with regard to the structural inequalities they manage; in terms of discursive and governance apparatus, they differ slightly — ordo-liberal technocratic elitism for the U.S.,<sup>25</sup> right-wing nationalist populism for Russia, each with its respective opposite the default position of both. Criminogenic capitalism and criminal sovereignties are the *sufficient* causes of oligarchism.<sup>26</sup> As Vladimir

Gusinsky, “the ultimate Russian oligarch” of mass media put it: “‘The oligarch was a special species which could only have been born in Russia in the late 1980s [...] We came out of the Soviet system, but we overcame that system and the remarkable criminality in the country. We were the people with fangs growing from our necks.’” Ostrovsky comments: “After seventy years of Soviet socialism, feudalism seemed like a step forward,” the oligarchs taking to heart Silvio Berlusconi’s admonition to his mimic Putin, “‘What is not on TV does not exist’” (Ostrovsky, 2017, pp. 176, 174, 203–204 and 7). Under Putin, Russia “exported” nothing to the U.S.; instead, it *re-exported*. Even better the Russian people “became post-Soviet a breath before the whole world went post-everything,” revealing that “the great drama of Russia is not the ‘transition’ between communism and capitalism, between one fervently held set of beliefs and another, but that during the final decades of the USSR no one believed in communism and yet carried on living as if they did, and now they can only create a society of simulations” (Pomerantsev, 2014, p. 213 and 199). As we now do in the West. For there is “no alternative”. The only question is the one asked by Peter Pomerantsev: What if Russia “had been a pre-echo of what was to come in the thing once known as the West?” (Pomerantsev, 2019, p. 172).

### An ending in the absence of a conclusion

Here’s how it works. From 1918 to c. 1980, the U.S. as hegemon manifested and “enforced” the geoculture of liberal internationalism and Keynesianism, touted as the “right side of history” (humanitarian intervention et al.) but seen in hindsight as a temporary deviation from an underlying but repressed dynamic of unrestricted globalised primitive accumulation: the economic as criminogenic. It began to change between 1979–1980 (Thatcher-Regan) with the neo-liberal “revolution” within the core zone and the hegemon itself, which was not, in fact, revolutionary, but quintessentially reactionary, the return of that which had been “de-toured”—hence the frenzied economic rape of eastern Europe by western Europe

<sup>23</sup> See Kruse and Zelizer (2019, pp. 349–358). For a concise account of Trump as disrupter of neo-liberal technocracy, see Babones (2018).

<sup>24</sup> I would change this to “Russia and eastern Europe”.

<sup>25</sup> Which can be proven by this supremely elementary triangulation of American political economy: Big-Tech/Big-Data, Silicon Valley (or California), and the DNC.

<sup>26</sup> See Wilson (2012), and also Milanovic (2019, p. 251, fn 18): “both an index of a country’s globalization and an index of a country’s corruption are positively correlated with the number of billionaires.” Milanovic makes the slightly counter-intuitive but not unpersuasive argument that corruption within the Soviet bloc states was fairly low because of the existence of capital controls, the difficulties of currency conversion, and the

relative isolation from international banking and legal firms; all of this changed dramatically after Boris Yeltsin (Ibidem, p. 161 and 162); there is also a strong mimetic component, as the bureaucratic elites of poorer nations strive to emulate (“seize”) the ostentatious consumption patterns of their “peers” in the core-zone; (Ibidem, pp. 163–173).

(a.k.a. the E.U.) after 1989. The newly liberated emulators of “the thing once known as the West,” precisely because they were new to the game and were hyper-mimetic, were very quickly able to get ahead of the curve: neo-liberalism is inherently anti-democratic and naturally favours some form of the neo-authoritarian political system, either technocratic or populist. Here is the uncanniness of it all: because they were able to internalise neo-authoritarianism within a neo-liberal global economy most wholly and rapidly, the eastern States of Europe were the best able to claim the hegemonic mantle of geo-culture. And the United States, as the hegemon and therefore the state most subject to foreign challenges, undertook international competition to its next logical level of intensity by voluntarily undergoing its own neo-authoritarian transformation in response to its

eastern rivals: rightist neo-populism with the Republicans and technocratic elitism for the Democrats.<sup>27</sup> What holds everything together in this entangled self-perpetuating chaos is the triangulation of mimetic desire: both the U.S. and the East, both neo-populists and the neo-technocrats, strive for the same object of their concurrent and convergent mimetic desire, the neo-authoritarian post-democratic neo-liberal order. The continuation of criminogenic asymmetries by other means.

Radical criminology really ties everything together.

<sup>27</sup> A note on the E.U.: although western Europe would appear to be bucking these trends, this is an illusion as I have shown — Europe needs to do absolutely nothing because it has already attained the status of elitist technocratic paragon. It must never be forgotten that neo-liberalism was very much a German (and Austrian) invention.

## REFERENCES

1. Arrighi Giovanni, Silver Beverley J. Introduction. In *Chaos and Governance in the Modern World System* (1–36). Minneapolis: University of Minnesota Press; 1999.
2. Babones Salvatore. *The New Authoritarianism: Trump, Populism, and the Tyranny of Experts*. Cambridge UK: Polity; 2018.
3. Badiou Alain. *Trump*. Cambridge, UK: Polity Press; 2019.
4. Brighi Elisabetta, Cerella Antonio. An Alternative Vision of Politics and Violence: Introducing Mimetic Theory in International Studies. *Journal of International Political Theory*. 2015;11(1):3–25.
5. Brown Wendy. *Undoing the Demos: Neoliberalism's Stealth Revolution*. New York: Zone Books; 2015.
6. Calasso Roberto. *The Unnamable Present*. Trans. Richard Dixon. New York: Farrar, Straus and Giroux; 2017.
7. Chatelet, Gilles. *To Live and Think Like Pigs: The Incitement of Envy and Boredom in Market Democracies*. Trans. Robin Mackay. London: Urbanomic Sequence; 2014.
8. Dornhoff G. William. Who Made American Foreign Policy, 1945–1963? In David Horowitz, (ed.), *Corporations and the Cold War*. New York: MRP; 1969.
9. Gilpin, Robert. *War & Change in World Politics*. Cambridge UK: Cambridge University Press; 1981.
10. Grewe Wilhelm. *The Epochs of International Law*. New York: Walter de Gruyter; 2000.
11. Held David, McGrew Anthony, Goldblatt David, Perraton Jonathan. *Global Transformations: Politics, Economics and Culture*. Cambridge: Polity Press; 1999.
12. Ikenberry G. John, Kupchan Charles A. Socialisation and Hegemonic Power. *International Organization*. 1990;44(3):283–315.
13. Krastev Ivan, Holmes Stephen. *The Light that Failed: A Reckoning*. London: Allen Lane; 2019.
14. Kruse Kevin M., Zelizer Julian E. *Fault Lines: A History of the United States Since 1974*. New York: W.W. Norton & Company; 2019.
15. Lacau Ernesto. *On Populist Reason*. London: Verso; 2005.
16. Legutko Ryszard. *The Demon in Democracy: Totalitarian Temptations in Free Societies*. Trans. Teresa Adelson. New York: Encounter Books; 2016.
17. Mazower Mark. *Dark Continent: Europe's Twentieth Century*. New York: Vintage Books; 1998.
18. Mbembe Achille. *Necropolitics*. Trans. Steven Corcoran. Durham, NC: Duke University Press; 2019.
19. Mehlman Jeffrey. *Revolution and Repetition: Marx/Hugo/Balzac*. Berkeley: University of California Press; 1977.
20. Memmi, Albert. *The Colonizer and the Colonized*. Beacon Press: Boston; 1991.
21. Milanovic Branko. *Capitalism Alone: The Future of the System That Rules the World*. Cambridge, MA: The Belknap Press; 2019.



22. Osborne Peter, Roberts Tom. *How Trump Thinks: His Tweets and the Birth of a New Political Language*. London: Head of Zeus; 2017.
23. Ostrovsky Arkady. *The Invention of Russia: The Rise of Putin and the Age of Fake News*. New York: Penguin Books; 2017.
24. Passas Nikos. *Corruption in the Procurement Process and Outsourcing Government Functions: Issues, Cases, Case Studies, Implications*. Report Prepared for the Institute of Fraud Prevention. Report to Institute for Northeastern University. Boston; 2007.
25. Passas Nikos. Global Anomie, Dysnomie, and Economic Crime: Hidden Consequences of Neoliberalism and Globalization in Russia and Around the World. *Social Justice*. 2000;27(2):16–44.
26. Pomerantsev Peter. *This is Not Propaganda: Adventures in the War Against Reality*. New York: Public Affairs; 2019.
27. Pomerantsev Peter. *Nothing is True and Everything Is Possible: The Surreal Heart of the New Russia*. New York: Public Affairs; 2014.
28. Ruggiero Vincenzo, Welch Michael. Power Crime. *Crime, Law and Social Change*. 2009;51:297–301.
29. Slobodian Quinn. *Globalists: The End of Empire and the Birth of Neoliberalism*. Cambridge MA: Harvard University Press; 2018.
30. Schmitt Carl. *The Concept of the Political*. Trans. George Schwab. Chicago: University of Chicago Press; 1996.
31. Snyder Timothy. *The Road to Unfreedom: Russia, Europe, America*. London: Bodley Head; 2018.
32. Taubes Jacob. *To Carl Schmitt: Letters and Reflections*. Trans. Keith Tribe. New York: Columbia University Press; 2013.
33. Troy Jodok. *Desire and Imitation in International Politics*. East Lansing, MI: Michigan State University Press; 2021.
34. Virilio Paul, Richard Bertrand. *The Administration of Fear*. Trans. Ames Hodges. Los Angeles: Semiotext(e); 2012.
35. Wallerstein Immanuel. *The Modern World-System II: Mercantilism and the Consolidation of the European World-Economy, 1600–1750*. New York: Academic Press; 1980.
36. Wallerstein Immanuel. *The Capitalist World-Economy*. Cambridge UK: Cambridge University Press; 1979.
37. Walker Jonathan. James Ellroy as Historical Novelist. *History Workshop Journal*. 2002;53:181–204.
38. Wark McKenzie. *Virtual Geography: Living with Global Media Events*. Indianapolis: Indiana University Press; 1994.
39. Wilmes Andreas. Demystifying the Negative: Rene Girard's Critique of the 'Humanisation of Nothingness'. *Forum Philosophicum*. 2019;24(1):91–126.
40. Wilson Eric. Crimes Against Reality: Parapolitics, Simulation, and Power Crime. In Stephen Hall and Simon Winlow, (eds.), *New Directions in Criminological Theory* (292–316). London: Routledge; 2012.
41. Wilson Eric. Speed/Pure war/Power Crime: Paul Virilio on the Criminogenic Accident and the Virtual Disappearance of the Suicidal State. *Crime, Law and Social Change*. 2009;51(3–4):413–434.
42. Wilson Eric. *The Savage Republic: De Indis of Hugo Grotius, Republicanism and Dutch Hegemony within the Early Modern World-System (c. 1600–1619)*. Leiden: Martinus Nijhoff Publishers; 2008.
43. Zuboff Shoshana. *The Age of Surveillance Capitalism: The Fight for the Future at the New Frontier of Power*. London: Profile Books; 2019.

## ABOUT THE AUTHOR

**Eric Wilson** — Doctor of History, Doctor of Juridical Science (S.J.D.), Senior Lecturer, Monash University, Faculty of Law (Public International Law), Melbourne, Australia; an independent researcher, working in the field of Radical Criminology  
eric.wilson@monash.edu

## ОБ АВТОРЕ

**Эрик Уилсон** — доктор исторических наук, доктор юридических наук, старший преподаватель, Университет Монаша, юридический факультет (международное публичное право), Мельбурн, Австралия; независимый исследователь, работающий в области радикальной криминологии  
eric.wilson@monash.edu



ORIGINAL PAPER

doi: 10.26794/2308-944X-2021-9-4-77-94  
JEL codes: A12, A13, B29, B31, Z11, Z12

# Oneiric Fascism. The Political Economy of Fernando Pessoa

Guido Giacomo Preparata

## ABSTRACT

Poet Fernando Pessoa (1888–1935), Portugal's literary glory, is also known to have penned a not inconsiderable corpus of sociological and politological reflections. This essay collates all such original material and glosses it with a view to uncovering Pessoa's religious true colours, and by so doing, goes on to argue that it is no accident, poetics aside, that western cultural intelligentsia finds it expedient to promote the literary output of personages like Pessoa who, in one form or another, preach an ultra-conservative gospel. Though he is not typically recognised as a thinker of the Right at all, the article's thesis is that Pessoa not only cuts a "fascist" figure in the conventional (Leftist) tenor of the epithet, but that the category itself of Fascism ought to be torn off its historical (pro-Liberal) contextualisation and radically reformulated as the default entomological categorisation of modern forms of society, and turned thereby into the norm against which exceptions need be counted, not the other way around. In light of this paradigmatic shift, Pessoa's considerations on selfishness, patriotism, and social dynamics afford an ulterior revelation of the anti-compassionate agenda of a type of System, ours, so keen on promoting thinkers of his ilk.

**Keywords:** Postmodernism; Portugal; Jünger; Bataille; Veblen; gnosis; myth; libertarian economics; patriotism; fascism; anarchism; Italy

**For citation:** Preparata G.G. Oneiric Fascism. The Political Economy of Fernando Pessoa. *Review of Business and Economics Studies*. 2021;9(4):77-94. doi: 10.26794/2308-944X-2021-9-4-77-94

ОРИГИНАЛЬНАЯ СТАТЬЯ

# Онейрический фашизм, или политическая экономика Фернандо Пессоа

Гвидо Джакомо Препарата

## АННОТАЦИЯ

Предметом статьи является анализ взглядов поэта Фернандо Пессоа (1888–1935), литературной гордости Португалии, также широко известного как автора многочисленных социологических, политологических, культурологических и политэкономических размышлений и статей, проповедующих его консервативные взгляды, в которых просматриваются истоки скрытого, ползучего фашизма. Методологической основой данного исследования являются сопоставление и анализ научных трудов Пессоа. Автор, раскрывая истинную религиозную окраску социального творчества португальского поэта, приходит к выводу, что не случайно (оставляя поэзию в стороне) западная культурная интеллигенция считает целесообразным продвигать литературную продукцию таких персонажей, которые в той или иной форме проповедуют ультраконсерватизм. Поскольку Пессоа не считается мыслителем правого толка, а представляет собой «фашистскую» фигуру в общепринятом (левом) смысле, по мнению автора, сама категория фашизма должна быть лишена своей исторической контекстуализации и радикально переформулирована в соответствии со стандартной энтомологической категоризацией современных форм общества, т. е. преобразована в норму, по отношению к которой нужно рассматривать исключения, а не наоборот. С учетом этого парадигматического сдвига автор делает вывод, что соображения Пессоа об эгоизме, патриотизме и социальной динамике позволяют в конечном счете вскрыть истинные причины и механизмы существующего порядка социальной системы, заинтересованной в продвижении подобных мыслителей.

**Ключевые слова:** постмодернизм; Португалия; Юнгер; Батай; Веблен; гнозис; миф; либертарианская экономика; патриотизм; фашизм; анархизм; Италия

**Для цитирования:** Препарата Г.Д. Онейрический фашизм, или политическая экономика Фернандо Пессоа. *Review of Business and Economics Studies*. 2021;9(4):77-94. doi: 10.26794/2308-944X-2021-9-4-77-94

## Introductory: A Dreamy Variant of “Right-wing Postmodernism”

“Coca-Cola: Primeiro estranha-se, Depois entranha-se.”  
 (“Coca-Cola: First it dazzles, thereafter you guzzle.”)

Advertising slogan coined by Pessoa (≈1927–28).<sup>1</sup>

- Who is this individual?
- Someone, sort of...—the butler, hesitated.
- But dressed how? Well dressed?
- No sir, but he is not a proletarian or a vulgar type.
- All right, let him in.

Pessoa, *The Purloined Parchment*.<sup>2</sup>

“All is religion,” said Fernando Pessoa (1888–1935), Portugal’s literary hero of the early XX<sup>th</sup> century.

Pessoa, whose poetry and prose constitute already a subject of vast, established scholarly speculation, is a fascinating character in his own right; a character, furthermore, that should be of interest to students of political economy and political philosophy considering that he had also devoted attention to socio-political issues managing, with the incisiveness that is a poet’s trademark, to commit to paper a number of noteworthy insights.

Though he has even been labelled by some as one of the “villains” of the twentieth century (Pasi, 2001),<sup>3</sup> Pessoa, in European intellectual circles, figures prominently as an icon jealously appropriated by Leftist *bienpensants*, who revere him as some kind of progressive anti-modern rebel, as an existential victim of the Second Industrial Divide and the philistine squalor of the belle époque.

My contention is that he is nothing of the sort. Perhaps more of a “villain” than a progressive critic (it is precisely his “villainy” that is anatomised here), I rather see him as a high-class devotee of that peculiar church I refer to as “Neo-Gnosticism.” By the latter, I mean a modern re-elaboration of anti-Christian gnosis — i.e., of a creed that may be preliminarily construed as “a dualistic transcendent religion of salvation” (Jonas, 1963). The *political* companion to this religious outlook is one of undeviating *conservatism*. In the conservative outlook, the Law of Nature — which could be impressionistically construed as one of perennial

violence and warfare originated by Chance and intervalled by the truce of procreation and nurture — is taken to be immutable; it is regarded as something more poised and cogent than the auto-suggestive, quasi-hysterical delusion that, because we are endowed with (very circumscribed) nurturing bents, there may be space in our mental apparatus for a belief in “the good”—i.e., that very belief in virtuous steadfastness, which the Marquis de Sade had taken immense pleasure in beleaguering, flushing out, and triumphantly skewering to death in each of his vignettes.

For Neo-Gnostics and their post-modern epigones, this world of ours is a cosmic imbroglio. As they see it, before the advent of modernity’s mechanisation, humans were wont to cluster around a “core of sacredness”—i.e., around a liturgical array of laws and customs issuing from imperialist centrals manned by priests and warriors whose task it was to ride like a restless wave the masses’ insuppressible craving for blood, orgiastic frenzy and slaughter—all of which were to be dispatched in ritual fashion through endless cycles of wars, mass sacrifice, and festive subversion of taboos. The unannounced and inexplicable advent of mechanised life, accompanied by the industrial whirring of the new machines, the omnipresent pecuniary appraisal of all things, and the ghastly and self-righteous kitsch of a new spirit—that of *bourgeoisie*—, is recorded as a cosmogonic alteration of the old order, an intolerable usurpation of the ancient heroics of blood, war, and sovereignty.

In the last analysis, the issue is one of ethos. If these are the beliefs of the “religious pessimist,” if his rejection of modernity is complete, how is he, then, going to deport himself, toil, and survive in the corporate and ministerial strictures of the Techno-Structure? It is before such a question that the post-modern camp sunders into two seemingly adversarial postures: either one sides with “the machine,” carving a niche amongst the technocrats, i.e., sharing power, with opportunistic (“stoic”) detachment, though never at the highest levels so as to maintain enough distance whence to enjoy the spectacle should it all go up in flames at some juncture. So, either stoic compromise or insubordination: viz., insubordination by fomenting rage against the machine, while (condescendingly and manipulatively) taking the side of society’s rejects — paupers, crazies, perverts, and criminals — in whom the Neo-Gnostic aristocrat

<sup>1</sup> Pessoa (2000, p. 13). Starting in 1925, Pessoa also worked in advertising, promoting products, and creating slogans such as the one cited.

<sup>2</sup> Pessoa (2009).

<sup>3</sup> See Brunello Cusati’s introduction to Pessoa (1996, p. 12.).

recognises the kingless, latter-day descendants of those sovereign mobs of yore that had clamoured for the pageantry of torture, witch-burning, executions, and the holocaust, in whichever form the reigning office would grant it to them. We may label the former pose as “Right-wing” and the latter as “Left-wing” postmodernism.”<sup>4</sup> But this separation of roles is functional, rather than visceral: for as much as each faction may claim to loathe the other, the two are, together, discursive complements in a game of propagandistic suggestion designed to weaken and disable in us any drive seeking to rewire the conative substratum of the will and harness it to the prioritising directives of our instinct of compassionateness.

Fernando Pessoa, for his part, appears to possess all the distinctive traits of the post-modern avatar: the originality of a gifted wordsmith; the sullen hatred for modern times; the religiously adversarial scorn for Christianity; and the unconcealed pretension to be pouring that scorn from the higher echelons of esoteric, initiatic knowledge. A post-modern, thus, but of the Right. Pessoa’s impatience with the beck of altruism manifests itself in a medley of attitudes that, in fact, compose the mosaic of the dyed-in-the-wool conservative: viz., the devotion to the aristocracy and the concomitant contempt for the masses, the belief in the recourse to military dictatorship to “protect” the social order, and the constant apologia for authoritarian rule, be it guaranteed by the sword as in the lamented past and/or by rentier privilege as it goes in the Economic Age.

A stroll through Pessoa’s poetic garden is an odd experience. At first, one is chiefly occupied with the smell of defeatist introspections on the futility of life; soft truths are spoken: it is a gentle invitation from a poet purportedly so noncommittal that to decline would be a crime; yet soon, a veil of morbid dissatisfaction darkens the field of vision, and concatenations of bitter aphorisms pull the reader into the windowless chambers of inappetent wakefulness; it is there you think you see the poet seated, three paces away, in the penumbra, his despondence turning into desistance — desistance into misanthropy and misanthropy into combative heresy.

<sup>4</sup> For an exploration of the adversarial camps of postmodernism, especially the conservative one, see the work of Shadia B. Drury, in particular Drury (1994).

Formerly an “exception to no rule,” a “stagnater of life” (Pessoa, 1998, p. 226), Pessoa comes to reinvent himself as a “sullen strategist,” who, deep down, is a Knight of Portugal not truly intent on “mapping out the details of his inevitable retreat” (Pessoa, 2001, p. 283), but on leading, instead, the “Paracletian Church” against the Vatican. In the autobiographical sketch of 1935, he conclusively defined his political orientation as that of “an English-style Conservative, that is, a Liberal within conservatism, and absolutely anti-reactionary.” “Anti-Communist and antisocialist,” he saw himself committed to promoting “a mystical nationalism, free from any Roman-Catholic infiltration” (Pessoa, 1994, p. 50).

Splendid.

But what does it all mean?

Let us start from the common ground by reviewing some conventional labels: a “Right-winger” (as a self-proclaimed anti-Communist) and a “villain”? Can we “package” poetic output as iridescent and elusive a Pessoa’s in rubrics as vulgar these? If by “Right-wing villain” we mean an individual who harbours no hope in the redeeming force and powerful redress of benevolence and social justice, and who does not believe in equality, but rather in the un-progressive rehabilitation of traditionalist forms of social equilibrium predicated on a “slave-system” managed by a pecuniary aristocracy, then the question ought to be answered in the affirmative. As I shall argue, save for a number of contradictory assertions, Pessoa’s politics overall conforms to this summary description. This becomes patent through a comprehensive illustration of his sociology, whose interpretative power is in any case remarkable — as shown, for instance, by the most elegant account, it offers of Italy’s political experience over the last fifty years (see the conclusive section, “social dynamics”).

Neo-Gnostics are creatures of modernity — minds prone to over-intellectualise what they perceive as the Cosmos’s imperfection. While all Neo-Gnostics surrender to the inevitable violence of “the law of nature,” they do not all vote alike. As said, they tend to divide themselves into two camps: on one side, a leftist, rebellious phalanx, which reveres transgression and throws its lot with the marginalised souls of society, *yet never in the name of universal values*, and, on the other, a nostalgic formation, which laments the dawn

of the knightly aristocracy and sacred violence, and which, for lack of a valid surrogate, aligns itself with authority more or less earnestly. The authority is that of the Liberal State, which *all of them* deplore as that late social catastrophe that has made a shambles of the ancient “sovereign” kingdoms.

What I designate as “classic” post-modern (Neo-Gnostic) thought has produced some of the most lucid analyses of the contemporary power structure. The respective Left-wing and Right-wing *capiscuola* of “classic” anti-modernism is Georges Bataille (1897–1962) and Ernst Jünger (1897–1998);<sup>5</sup> the twain, in my view, unlike their epigones, have penned genuinely scientific sociology. On the left, Bataille has inspired the whole of France’s (overall valueless) anti-humanist school (the Foucauldians, the French *philosophes*, and their late American acolytes); whereas the luminaries of post-modern conservatism are mostly drawn from the ranks of former Nazi sympathisers such as Martin Heidegger (1889–1976) and Jünger himself,<sup>6</sup> and to a minor degree, Carl Schmitt (1888–1985) (Preparata, 2012). In spirit, the politics of the latter group are affine to Pessoa’s.

Irrespectively of the Spartacist or fascistoid fragrances, it may be scented with so-called post-modern discourse is typically presented as a jaded and jaundiced dressing-down of the modern *Zeitgeist*, which aesthetes-impresarios peddle as the artistic testimonies of enlightened sceptics, and which eventually the intelligentsia disingenuously plugs as a valuable material for constructive insight — when, in fact, the message of all these tracts is unequivocally one of submission to the Law of Violence. This sort of output carries inherently a destructive message, not a constructive one: on the Left, the “rebels” agitate for ceaseless and issueless strife, while the “fascists,” upholding a like veneration for the fire and blood of eternal conflict, intone varying hymns to the sacrosanct impunity of El Jefe (or los jefes of modern “democracies”). Its insidious-

ness ultimately lies in its solemn acquiescence to the law of parasitical bleeding (of the lower castes by the upper one) and to a hypostatisation of (aboriginal) *enmity* as an irreducible principle of evolved living. Why it pays for the System to publicise these authors among its middle ranks is obvious: this literature suggests 1) that living off the (banking) grid is unthinkable: viz., the apparatus of *authority*, however, fashioned, is the placenta, bittersweet as it may taste, and, therefore, everyone must latch onto privilege as far and as pervicaciously as possible; it further intimates 2) that a brutified underclass is an insuppressible fact of Life and, as such, that it should be properly bled and herded in its proper place, either by blandishment, differentiated narcotisation, and/or by channelling whatever residual force of aggression it may possess after a day’s work against domestic rivals (vs sub-proletarian contenders, in the name of antagonistic “diversity”) or foreign foes, in war. In sum, the post-modern digest is a *fascist vademecum* by instalments for the cowering middle-class philistine who is uncertain as to what to do with whatever surplus love s/he may left with after the daily obligation to the family: and the intimation is that this surplus — “rightist” or “Leftist as it may be” — ought to fuel allegiance to the principle of authority, to the principle of Power’s *legitimacy*.

Before delving into Pessoa’s political economy, I must ask the reader to follow the discussion through one last digressive, yet fundamental, lemma on a reformulation of the notion of “fascism” (and “fascist”) — a noun and an epithet whose use thus far is prompted not by vituperative tendentiousness or a careless and indecorous urge to harangue but, rather, by a precise taxonomic intent: *fascism* is here re-defined as default and central concept wherewith to reframe the entirety of the socio-political conundrum.

### **“Fascism” as an All-Embracing, Foundational Politological Category**

With Fascism, the problem is, of course, that, since the end of Mussolini’s and Hitler’s regimes, the term has come to encompass all things that, in the perspective of the (Anglo-American) victors, one must regard as unquestionably bad, ugly, and repulsive, socio-politically speaking especially. The demonisation of Fascism is a central buttress in the Liberal catechesis.

<sup>5</sup> For a systematic framing of this school of thought see Preparata (2007/2011).

<sup>6</sup> Heidegger, in particular, spawned — and his ghost continues to spawn — legions of admirers both on the Left (e.g., Foucault and Derrida) and the Right, of course (Leo Strauss and the Chicago Neocons). For a detailed discussion of Right-wing postmodernism and its symbiotic relationship with the leftist counterpart, see Preparata (2007/2011), Chapter 8, pp. 135–77.



By reflex, it is designed to elicit in all learners the conviction that by espousing the creed and social tenets of those who defeated historical Fascism, they themselves become ipso facto certified, irreproachable “good folk.” To insult someone, tagging him a “fascist” has always been the instantaneous, standard routine to silence a political opponent and (hopefully) pave the way for his complete ostracization; and this, historically, has been the chief prerogative of people who voted “on the Left,” which state of discursive affairs has periodically led a few “moderates” to resent the bullying gratuitousness of the practice and thereby deplore, in retort, the existence of a specular, intransigent “Fascism of the (Liberal) Left.”

The issue, though, is not one of apportioning equitably the intense pleasure of calling adversaries “fascists,” but to shift perspective and look upon human societies *entomologically*, viz., as special heaps of social insects subdivided into three castes: (i) a parasitical apparatus (in lieu of the royal procreative couple) drawing from (ii) a mass of slave-termites basic sustenance, which (iii) an intermediary layer of “skilled” worker-bees further refines. It is in the midst of the latter caste — the middle-class — that hangs the fate of the community; the middle-caste is the industrious, inventive conveyor belt that ties the slaves to the parasites: should its fealty and indenture to the upper stratum falter for any reason, the apparatus’s operation is in question. Hence the paramount exigency, from the parasites’ vantage point, of (i) making the lower castes thoroughly dependent upon them (mandatory connection to the banking Grid), and (ii) of conditioning their “belief system,” especially that of the middle one. And this explains the profusion through the ages of so-called theological, political, “morally hortative,” economic, and philosophical tracts. I say “especially” the mindset of middle-class because that of the slaves, spiritually debilitated as they already are by the day’s toil, congenially conforms by mimetic appetite to the barbarous deportment of the parasitical overlords (Veblen).

It is this entire societal configuration, erected for the proprietary exploitation of a parasitical elite, along with its spiritual equipage, that I subsume under the rubric of “fascism.” In this sense, Italo-German Fascism was no “capitalist” aberration, but a peculiar variant of a general template:

its pageantry, mythos, “New Man,” and the Chief’s cult of personality were adventitious traits, peculiar to that epoch, rather than the definitional apurview of what ought to be considered fascism broadly defined. To which definitional moment I now come by affixing my thesis in three consecutive turns.

I. Fascism as a paternalist (and authoritarian) composition of State, Labor, and Business Enterprise, in which “organised churches” intervene to mitigate the amplitude of the (parasitical) exploitation supporting it all.

II. More generally characterised, fascism is a supremacist alliance of militarism, centralised credit, and Big Business, typically acclaimed by a hallucinated swarm of termite-workers fanatically convinced of their intrinsic personal goodness (i.e., “God’s legions,” “*le peuple*” or “The Free”). In its latest geopolitical, “globalising” variant, it assumes the contours of what may be referred to as the “Structure” of “Techno-Fascism” or “Techno-Structure,” in which: (i) a dynastic male-driven elite is exclusively made up of WASPs hiding behind the populist screen of “The Respect for Diversity”; (ii) the vassal nations and ethnicities (of the rest of the world) are indiscriminately sunk into an Anglophone melting cauldron; (iii) ideally, families would be smashed into their basic, sexually polymorphic, and mutually incommunicative units; and (iv) the labour force is streamlined by inducting (into the lower echelons of the Structure) only the gifted, forcing all the others into mortally insipid “services,” and devising birth control and/or euthanising plans to phase out the redundant, useless rest of humanity (“dead-weight”).

III. The majority of organised (human) communities around the globe are all fascisms of one hue or another: parasitical technocracies piloted by variously anointed elites and founded on the Law of Violence (Tolstoy), in which nominally “private” and “public” economic concerns are fused into one coherent Structure psychically glued together by the crowds’ sublimating “awareness” of being the community’s hyper-moral gatekeepers. In fact, this sublimating “awareness,” which is in the nature of hallucinatory (auto-)hypnosis, is what is generically referred to as “democracy” in conventional discourse. And, from the viewpoint of modern-day citizens, this cohesive sentiment of being ethical paragons, when in reality all of

them are potentially monsters of the worst sort, ranges, culturally speaking, from the nauseating self-complacency of “*Italiani brava gente*” (Italians, good folk) to the Americans’ congregational libido for lynching and witch-burning (T. Szasz). On average, all people are fascist. So-called Right-wingers are fascist on account of their definitional attraction to predation, military prowess, and innate awe for State-corporate hierarchy, which inflates their professional swagger and illusory sense of self; Left-wingers even more so, for without the shielding ramparts of the “Opposition Party,” which is an integral buttress of the State, the “bleeding-hearts” and the “*anime belle*” (the beautiful souls) could not climb onto higher moral ground whence they may savagely fustigate and liquidate all political rivals (typically, what is left of the Conservative machos) along the path to higher office. As for the Catholics, either progressive or conservative, they, too, are fascist, for, ultimately, what they worship is not Christ but the structural, corporate might of the Church or, rather, nostalgically, what it once was.

Having thus laid out the definitional ground-plan for our analysis, let us see how Pessoa’s peculiar socio-economic ruminations fall, if they do, within our mould of fascist catechesis. For “a decadent poet” like me, he had noted, “politics is just the most dangerous of useless amusements” (Pessoa, 1996, p. 141). Pessoa’s thoughts and aphorisms are collected under three headings: selfishness, patriotism, and social dynamics.

### Selfishness

Having abdicated from love, “the King of Gaps,” as Pessoa also liked to call himself, had no choice but to write a novel of his *solitude*. For as much as he marked his distance from the mediocre scruples of the equally lonesome *kleiner Mann*, Pessoa could not help losing himself in the utilitarian lucubrations of the typical middle-class nobody so completely that he and the “little man” ended up, again, being one and the same.

Occasionally, what he says of selfishness is reminiscent of treatments found in “heterodox” microeconomics textbooks of the didascalical sort: “Society,” he writes, “is a system of malleable egoisms, of intermittent competitions” (Pessoa, 2000, p. 159). But no matter how pliable the egoisms, affectionate contact has to be studiously uprooted

from the daily realm of human interactions: “close association,” Pessoa admonishes, must be “frozen to its superficialities so that all fraternal and social gestures will slip by and not [...] leave their imprint” (Pessoa, 1988a). Because a person’s stare or word may affect one “like an insult or like some filth,” men should be kept at a distance, which is easily done by not approaching them (Pessoa, 1998, pp. 96, 221). Properly disciplined individuals should therefore be “instinctively selfish like the flowers,” “unwittingly engaged in flowering [...] and no more” (Pessoa, 1972, p. 131).<sup>7</sup> The Golden Rule is silly. “To suppose that people are like us and must feel as we do,” echoes Pessoa is “the principal error of literary imagination” (Pessoa, 1998, p. 400).

If so, why bother helping others? Why bother doing good? For the “ironbound egoist,” to help “is to commit the evil of interfering in the lives of others.” Acts of kindness are the whim’s impromptus: when sick, therefore, we should refuse a friend’s visit as categorically as he should object, in turn, to our violation of the privacy of his illness. “I have a simple morality,” says Pessoa: “not to do good or evil to anyone.” No to do evil, for “all of us in this world are living on board a ship that is sailing from one unknown port to another, and we should treat each other with a traveller’s cordiality. Not to do good because I don’t know what good is [...]. How do I know what evils I generate if I give the beggar money?” (Ibidem, pp. 33, 285, 286). In fact, an individual who abides by the most irreprehensible code of morality is inevitably bound to be swindled at every turn throughout his life. Bitterness and disillusion are the fruits to be reaped from such an obdurate and misguided pursuit of righteousness (Pessoa, 2000, p. 160). Possibly, then, this is the Gnostic’s occasional side-path to goodness; be cordial, not for goodness’s sake, but because there is nothing to be gained by it: “neither money, nor love, nor respect and perhaps peace of mind” (Pessoa, 1998, p. 236). Yet to think, in any event, that we must struggle for the achievement of everyone’s happiness and that a solution may be found to the “ills of society” is an idea — the *utopian’s* very own,

<sup>7</sup> Alberto Caeiro, The Keeper of Flocks, XXIII aka Fernando Pessoa. Retrieved from <https://damadesign.tumblr.com/post/43158594891/the-keeper-of-flocks-by-alberto-caeiro-aka>. Other pseudonyms used by Fernando Pessoa were Álvaro de Campos, Ricardo Reis.

defining idea— whose conception “maddens” Pessoa (Pessoa, 1988a, p. 3). Those pretensions of this kind can arouse in him such enraging frustration is not due, he says, to some inner cruelty of his, but rather to the logical realisation that such ills are here stay and that to them there is no cure.

In me, the pain of others became more than a simple pain: there was the pain of seeing it, the pain of seeing it's incurable, and the pain of knowing that my awareness of its incurableness precludes even the useless noble-mindedness of wishing I felt like doing something to cure it (Pessoa, 2001, p. 305).

So, frustration slowly turns into cynicism — while some political colour is bled into the argument's texture. As when one of Pessoa's magical personas, Alberto Caiero, comes to tell the story of a preacher who once lamented “how unjust it is that some should have money while others go hungry.” Thereupon, Caiero wonders, provocatively, whether the priest meant “hungry for food or only hungry for someone else's dessert?” Doesn't the pastor know that “there is injustice, the same as there is air”? So, there it is again, that stubborn utopian virus that renders men incapable of accepting injustice as they accept that “cork-trees weren't born to be pines and oaks” (Pessoa, 1972, p. 137).<sup>8</sup> And the more anarchists and utopians insist with their “mysticisms” on wanting to convince the others that the truth may be discovered and the world reformed, the more Pessoa is gripped by an outrage that waxes into full-blown “physical nausea” (Pessoa, 1998, p. 286). With these utopian anarchists, there can be no truce.

Thorstein Veblen to the lions!

Had not that anarchist thinker mused that in our era of absentee ownership and assembly lines, “the red cleavage runs not between those who own something and those who own nothing [...], but between those who own more than they personally can use and those who have an urgent need for more than they own”? (Veblen, 1923, p. 9) “Someone else's dessert” symbolises precisely that surplus of “available energy” which the conservative upper classes withdraw from the lower classes, thereby preventing the latter from making “the effort required for the learning and adoption of new habits of thought” (Veblen, 1899, p. 204). Des-

sert is “spiritual development,” in short: the very pearl which British magus Aleister Crowley — and his disciple Pessoa, as shall be seen — would never think of wasting on others who could never hope to become anything beyond their given swinish form. “It is a matter of common notoriety,” Veblen noted, “that when individuals [...] are segregated from a higher industrial culture and exposed to a lower cultural environment [...], they quickly show evidence of reversion toward the spiritual features which characterise the predatory type.” “The outcome of the whole is a strengthening of the general conservative attitude of the community,” in particular if its “life as a collectivity is predominantly a life of hostile competitions with other groups.” In the final analysis, the maldistribution of income that warrants the incumbency of a retrograde aristocracy by depriving the people of “dessert” leads to the “assimilation of the lower classes to the type of human nature [bellicose, parasitical, and superstitious] that belongs primarily to the upper class only.” Thus, is sealed, for Veblen, the spiritual kinship between low-cultured commoners (“the people”) and the aristocrats of the “leisure class” (Ibidem, pp. 197, 204, 205, 226, 238, 244). In these terms, Veblen's *Theory of the Leisure Class* constitutes a theoretical antithesis to Pessoa's sociological model: being at each other's antipodes, the two visions epitomise respectively the communitarian anarchistic and the national-conservative response to the challenge of rethinking social order in a world of pervasive mechanistic and technocratic uniformity (I will tackle Pessoa's model shortly in connection with the call to patriotism).

In sum, Pessoa's philosophising on the virtues of selfishness is at heart an economic exercise directed against the utopian “mysticisms” of anarchist thinkers. The urge to polemise against these “prostitutes of the great Libertarian doctrine,” as he called them, found its most accomplished and famous expression in the novella *The Anarchist Banker*. Its moral may strike as something of a facetious paradox — but it is not so. The tale, in fact, consists of a linear argument in support of opportunistic behaviour. Its narrator is a former anarchist turned banker who explains how he came to see his conversion as the true, practical realisation of anarchism's principles. Pessoa first states the problem by defining what an anarchist is, namely “a rebel against the injustice of being

<sup>8</sup> Alberto Caiero, *Sporadic Poems*.



born *socially* unequal.” As ever, the challenge for this class of rebels has been to devise precepts coherent with their reformist urge. Pessoa makes the first fundamental assumption: if “the law of nature” is the only law we should acknowledge, and if we, therefore, recognise that entities such as the State, matrimony and money are wholly unnatural, it follows that to sacrifice oneself “for humanity” is absurd. Altruism is itself another social myth; nothing worth fighting for. Adverting once more to the centrality of egoism, Pessoa, through the novel’s narrator, thus establishes that man “isn’t born a sharer.” “This idea of duty, of human solidarity,” he insists, “may be only considered natural *if it carries with it some egotistical reward*.” With Sadean accents, Pessoa reiterates that “to give aid to someone is to judge that person a cripple.”<sup>9</sup> And by wanting to save everybody through this “tyranny of aid,” these “syndicalist fellows with the bombs” end up “restricting everybody’s freedom.” The high-minded purpose of the project would be thus entirely defeated.

The second assumption: Consider “a society where only men’s natural qualities operate”; if a group of people drawn therefrom is assembled haphazardly, Pessoa reasons that order can only emerge through a despotic manipulation of the majority by a leading minority. In other words, a collectivity — whatever the orientation of its individual constituents — is by nature incapable of organising itself in a form other than tyranny. “Tyranny for tyranny,” the narrator concludes, “let’s live with the one we’ve got, for at least we are used to it and therefore resent it less than we would a new tyranny [...] that [comes] directly from Nature.”

Prescription. “What is to be done?” For the anarchist banker, the answer is “very simple: it’s all for us to work for the same end, but separately.”

How? Consider money: how is one to divest himself of its “influence and tyranny without avoiding the need to meet it head-on?” There is only one way, he says: “*to acquire it*” (Pessoa, 1988b, pp. 9–54).

So ends the story of the anarchist purist who found the Grail of revolutionary praxis by going into banking. That Pessoa’s demonstration may be confuted on the basis of its questionable assump-

tions is not what ought to drive the discussion here. Let us say, instead, that as a composition, *The Anarchist Banker* is beguilingly clever, which makes its conservative, *patriotic* intimation all the more blatant. This theorem is designed to prove that revolutionary (i.e., radically progressive) aspirations are not congenital and wholesome impulses in any social body; if anything, they are extraneous mispersuasions proper of “traitors” (Pessoa, 1994, p. 144), because for Pessoa there can be no political positioning outside the patriotic confines of the polity (the discussion of the next section will show this clearly). Notice, moreover, that in order to achieve personal, egoistic freedom, the anarchic Pessoa, of all “social perversions,” chooses to embrace money; not marriage or the State: money. In other words, he comes to side with the ruling pecuniary oligarchy. Banking is power (Gerschenkron, 1962) and admittedly an exploitative cartel — the very thing anarchists abhor and live to destroy. So, Pessoa’s pragmatic conclusion operates a reversal of the theoretical premises; he spins a provocative oxymoron (an “anarchist banker”) on idealistic premises (the search for freedom), with a subtle twist, however (in devising a practical way out).

The argumentation is not properly Machiavelian: there is no shameless invocation of violence. The Pessoaan solution, rather, is one more testimony of the Neo-Gnostic retainer, who sees no alternative to “the law of nature”—i.e., violence and tyranny—, but, who, on the other hand, is so loath of dirtying his hands that he chooses to inhabit Kafka’s “Castle” as a mid-level employee cocooned by the erudition of his silence. In other words, he goes into opportunistic, conniving “hiding”; he “embosks” himself. Italians are thoroughly familiar with *imboscamento* as the art of survival, as was also Pessoa’s fellow post-modern Right-winger Ernst Jünger, who wrote outstanding pages on the peculiar typology of this “embosked dissident,” referring to him alternatively as the “brushwood fighter” (*der Waldgänger*) (Jünger, 1951) or the “anarch”—to contradistinguish him, like Pessoa, from the insufferably naive anarchist. The caveat of classics by Jünger such as *The Glass Bees* (Jünger, 1957), or the fantastic *Eumeswil* (Jünger, 1977)—which features the unforgettable anarch, Manuel Venator, the cupbearer and informal councillor of a tyrant named “The Condor”—is the exact same as that of *The Anarchist Banker*, namely that there

<sup>9</sup> For a reflection on the theme of gifting and its associated dilemmas in postmodern thought see Preparata (2008).



can be no opposition to the pressure of power, and that to survive, the initiate has no choice but to compromise by recouping for himself, with flair, an exclusive patch of spiritual privacy out of the quilted intricacies of modern-day despotic apparatuses. This is the poetics of corruptness.

Politically, what thus emerges from Pessoa's quasi-sardonic moral tale is his exquisitely modern assumption of a (conservatively) *Libertarian* stance, in fact. As related above, he did style himself an "English-style Conservative, that is, a Liberal within conservatism, and absolutely anti-reactionary," which is akin to saying that he would nowadays side with (the European sympathisers of) so-called "Libertarians," that diminutive yet influential fringe of the American Right that preconises a fanatical and totalising faith in the unfettered deregulation of "the market," in fact, of any market — in ferocious antagonism, that is, to any form of liberticide "State-meddling."

Doctrinally, Libertarians fervently apperceive "free markets" as a preternatural space of gainful opportunity wherein divine justice *could* providentially work itself out, if only the "self-regulating-magic" were not systematically obstructed by "Socialists," i.e., humanity's legion of unfit mediocrities, who perversely wreak "regulatory" violence on the economic system with a view to appropriate resources they otherwise would not have been able and deserving to earn, entrepreneurially. In this myth, (i) the "market" (hypostasis) is God's Kingdom on earth; (ii) Jesus Christ is the "Walrasian auctioneer," who sees to it that "prices clear the market," aligning everybody's preferences on the bidding platform; (iii) "the poor" are either the institutional victims of Socialist Caesars, who denied them the "American dream," and/or simply the several billion squits who failed to pass the existential test of free-marketeering fitness; and, to return to the *Anarchist Banker*, (iv) money can only be gold: in the dizzying glimmer of the solid metal, they proudly worship a salvific counterpoise to the malevolently inflationary fiat paper of the State.

Libertarians are a peculiar lot: they like to think of themselves as a self-standing elitist movement contradistinguished by a finer understanding of economics' deeper matrix. Through this prism, they claim to be able to account for every facet of history and social life. Yet, far from being a self-subsisting, intellectually independent ag-

gregation, the chief function of this sect is rather to assist organically the creedal apparatus of Techno-Fascism; this they do by communing in collegiums of true-believing vestals, whose paramount, the perennial task is to uphold, reinvigorate, and profess the purity of the (Free Markets) creed for the sacramental edification of all Liberal fascists. Theirs is a liturgical and custodial vocation: what they practically propitiate is to deflect man's monarchist instinct (Jünger) away from the old dynasty of the sword to the modern princes of the market: that long line of corporate barons, stemming from the likes of J.P. Morgan down to their contemporary epigones, e.g., Steve Jobs, Bill Gates, etc.

Libertarians are neo-royalist chamberlains in disguise. Organizationally, they consist of bigoted troops comprising a mass of rank-and-file idiots fronted by a disarticulated general staff of guru-partisans, few of whom — unlike Pessoa had he been recruited by them today — seem to be wise to the game.

These maniacs are also (propagandistically) fielded whenever the System needs to "plead" with public opinion for introducing legislation designed to shield, say, giant banking of telecommunications trusts from fiscal encroachment, liquidation and/or supervision; or when it is time to institutionalise a mild narcotisation of the masses, ever invoking the "freedom to choose" (viz., with the 40-year runup to the recent marijuanization of society).

The alcoholic Pessoa would have subscribed to all this in full: he saw prohibition as nugatory and "anti-social"; the production and export of luxuries as untouchable; and "spontaneous monopoly" as the "natural" and perfectly "legal" outcome of "organic" market forces (Pessoa, 2000, pp. 50, 54, 55, and 145). Foreshadowing the "theoretical" fad of "contestable markets," which would be confected by free-marketeering economists in the 1980s to protect certain giant (and powerful) conglomerates from antitrust dismemberment (Baumol et al., 1990), he thought "false" any manoeuvre undertaken by governmental agencies to curtail the dominant position of *efficient* "trusts." Q.E.D.

### Patriotism

The spiritual premise to Pessoa's political proposition is the post-modern conviction that civilisation had presently "broken down." His was

the cohort that had come to this world to find it disfigured by the “destructive work” of past generations — of fathers that had been rushed in their iconoclastic desire to reform, unheeding, as they went, that gone in the wreckage would also be the “supports for those who had both a mind and a heart.” Thus was Pessoa orphaned of those assurances that bespeak of a solid “religious order”; without religious order, there could never be moral order, and without moral order, there could never be political order. We are divine creatures; “all is essentially religion” (Pessoa, 1996, p. 53).

Drunk on alien formulas, on the mere process of reason and science, the generations that preceded us undermined all the foundations of the Christian faith [...]. Out of [the] extreme collision of doctrines, all that remained was that the only certainty there was that there were none [...]. And so it was that we awoke to a world avid for social novelties, a world that joyfully set out on the conquest of a liberty that it did not know, of a progress never defined. But the abortive criticism of our fathers, if it bequeathed to us the impossibility of being Christians, did not leave us any happiness at not being Christian; if it bequeathed to us a disbelief in established moral formulas, it did not leave us an indifference to morality and the rules of living humanly; if it left the political question uncertain, it did not leave our spirit indifferent to the resolution of the problem. Our fathers happily destroyed because they lived in an epoch that still had reflections of the solidity of the past (Pessoa, 1998, pp. 140–41).

“Because what [he valued as] natural and instinctive had failed,” Pessoa thought we all found ourselves “faced with a dilemma”: we could either passively mourn “the death of civilisation,” or subject our sensibility to an “artificial adjustment” to this modern, alien “milieu” (Pessoa, 1988a (“Ultimatum”), p. 73). Alternatively, the dilemma reflected the only two types of “constant moods” with which Pessoa thought life worth living: “with the noble joy of religion, or with the noble sorrow of having lost one” (Pessoa, 2001, p. 208). Ever dwelling in the interstice, the Gnostic Knight of Portugal broke the apathy and laid a wager: he would venture a solution of his own to the political question — possibly succeeding thereby to trade off some sorrow for a sliver of joy. It was going to be the sociology of chiaroscuro.

Suppose the mystery of divine origin surrounding our existence as humans and collectivities is unknowable. In that case, it perforce follows that a discipline devoted to studying the laws of motion of these human aggregates is itself a branch of our religious ignorance. We, therefore, ought to acknowledge that social science is a “mystique”: we clearly *feel* something whose nature, however, we cannot fathom (Pessoa, 1997, p. 201). What little can we, then, say of peoples, of nations? What are they, essentially? “Mysteries” (Pessoa, 1992 [1934], p. 22), says Pessoa in *Mensagem* (“Message”), speaking the language of spiritualists, who also dream of “cultures” in the shape of “archangels”—i.e., folk-spirits, the higher emanations of the sacred myths, deputed at the dawn of humanity to inform the collective makeup of the founding races. The key to the secrets of each nation lies hidden in a riddle: what makes a nation a nation? What action, Pessoa wonders, manifests most purely “that which is hereditary in [a people’s] social instinct?” It is the “action of *speaking*”. Speech is a world unto its own, self-contained, and naturally indicative of a prime reality, not conducive to anything other than its aboriginal force: manifest and poetic (Pessoa, 1994, p. 128). Exhilarated, Pessoa had found the key.

I have no political or social feeling. But in a certain sense I do have a highly patriotic feeling. My country is the Portuguese language (Pessoa, 1998, p. 9).

Speech is the breath of the Motherland (*patria*). But language *is* patriotism, and its custodian is the *people*. Now, since there can be no language without thought, the collective mind that speaks the tongue is what Pessoa enshrines as “*public opinion*,” *vox populi*. And “If public opinion is thus based on the patriotic instinct, and if this last is, in the final analysis, the instinct of national traditions,” Pessoa deduces that “the foundation of public opinion is the national tradition, that there can be no public opinion other than tradition” (Pessoa, 1994, pp. 128–29). Our existence as a group (and as units within the group) has meaning so long as it draws spiritual nutriment from its primordial, unfathomable roots.

Public opinion is a condition of a *tendency*; it is an *atmosphere*, a *pressure*, in no case is it an orientation or an attitude (Ibidem, p. 130).

But there is more. Like all instincts, Pessoa warns that public opinion is “radically *antagonis-*

*tic.*” Veblen would say “clannish” or “barbarous,” in a deprecatory tone that issues from the (anarchistic) persuasion that such a deficient state need not persist if apt educational programs are set in train to correct it; but for the Crowleyite Pessoa, “the populace is not educable because it is populace. If it were possible to transform it into individuals, it would be educable, it would be educated, but then it would no longer be populace” (Pessoa, 1996, p. 187).

A wholesome people is spontaneously prone to exhibiting an aristocratic or monarchic leaning; never ever has a people been inherently liberal or democratic; never ever has a people bothered to defend, as its own, anything but its very own selfish interests, and its own Fatherland collectively [...]. The populace is fundamentally, radically, irremediably reactionary (Pessoa, 1994, p. 139; Pessoa, 1996, p. 187).

Anti-modern conservatives are diehard elitists and populists of the callous sort; Jünger, of course, held the same belief: “Man,” he wrote, “is a monarchist by instinct”; he is innately drawn to the chieftain’s charisma. Congenitally hostile to “science and natural law,” the populace craves “the miracle” instead: it is the only thing it “comprehends,” says Pessoa. “The true distinction,” he adds, “is between people and individuals”; between “supermen” and “common men.”<sup>10</sup> By insisting on distinguishing between “people and the aristocracy, or the governors and those who are governed,” anarchists make a “painful, crass error.” In the eyes of Neo-Gnostic conservatives, idealists are unforgivably oblivious to the sacred dichotomy that sifts the Batailleian splendour of *sovereignty* from the chaff of “humanity”:

On one side, the kings and their prestige, the emperors with their glory, the geniuses with their aura, the saints with their haloes, the leaders of the people with their domination, the prostitutes, and the wealthy [...], on the other, [...] the delivery boy on the corner, [...] the gossiping barber, the shop assistant [...] (Pessoa, 1998, p. 261).

Individuals lead, the populace follows: “pleasure is for dogs, material well-being is for slaves, man has honour and power.” Social justice, for

instance, might be legitimate, but it remains a concern of a lesser sort if weighed against the exigencies of the aristocracy (Pessoa, 1996, p. 331). In light of these considerations, the nature of Pessoa’s professed anti-communism acquires relief. Clearly, he could never side with the politicised proletariat of his age, with demonstrating workers whom he used to gaze upon “with ironic sadness.” “What a bad group,” he thought whenever these “sub-people” (Pessoa, 1994, p. 149) happened to file by as if floating “like garbage in a river” (Pessoa, 1998, pp. 162–63). To think that we could relate to one another in terms of perfect equality and democratic suffrage is, for Pessoa, an ideological effect of the Christian intoxication. By affirming that Man is possessed of an immortal soul that is divine and redeemable by the Son of God, Christian dogma has elevated Man above all mundane hierarchies. And by doing so, it has fallen prey to the practical heresy of considering the moral individual *superior* to the political individual (Pessoa, 1996, p. 77); it has made itself blind to the irreducible chasm separating sovereign individuals from a beastly, uneducable, yet folkishly-grounded populace. And, in the same vein, Pessoa deplored the European ashrams of Mme Blavatsky’s fashionable “Hindu theosophy,” which propounded, no less irresponsibly than the Churches themselves, that “impious and repugnant doctrine of the equality of the sexes and the races.” All such parties were guilty in his opinion of insinuating conceptions that are deeply “antagonistic” and detrimental to the natural order of “social existence” (Ibidem, pp. 82, 101).

Why? Because the “most perfect system” we should be aiming at is “the aristocratic republic,” that is, a simple structure made of a “pagan” aristocracy and its people, the two being fused by “an identical substance” (Pessoa, 1994, 25): the national substratum. In this sense, the moral individual is never to rise above the reasons of the State, which should swell him instead with a sentiment of overwhelming fealty. A republic should be preferable to a monarchy, which Pessoa thought “too dependent on one man.” However, in light of the conclusions drawn from his economics, the regime he actually seemed to be envisaging is a modern oligarchy managed –under cover of complete “secrecy”– (Pessoa, 1997, p. 132) by the stewards of old families and diplomatic-military

<sup>10</sup> Pessoa (1996, p. 187). “Between me and the peasant there is a qualitative difference that derives from the abstract thought and disinterested emotion that exist in me; between the peasant and the cat there is nothing more than a difference of degree in terms of spirit” (Pessoa, 1998, p. 263).



(Pessoa, 1994, p. 176) combines, flanked by their financial appendages.

Economically, it is understood that the people must slave for their masters: it has always been so, and nothing will alter the age-old perception that slavery is “logical and legitimate” (Pessoa, 1994, pp. 141, 147; Pessoa, 2000, pp. 133–34; Pessoa, 1996, pp. 320–21). So that we could forever forget the “fundamental stupidity” with which present-day millionaires govern while amassing capital, neo-Pagan leaders would have, instead, to walk the ancient walk by consummating “gigantic continental sins,” such as “prodigious extravagances of building and excavating, [and] romantic wars of oppression and liberation” (Pessoa, 2001, p. 198). In any case, a republic thus conceived would be self-policing: Pessoa trusts that any potential abuse on the part of the oligarchs would be kept in check by the “quasi-corporeal presence” of public opinion, whose body language would at all times communicate to the aristocrats the degree of agreement to their pontifical management of the commonweal (Pessoa, 1994, p. 177).

Abroad, the aristocratic republic should naturally give in to “the human urge to dominate,” preferably not by shedding blood, but by erecting amongst uncultivated and perfectly useless “Zulus” (Pessoa, 1996, p. 321) a long-lasting, cultural empire, “an imperialism of grammarians, of poets” (Ibidem, pp. 328–29). But on this count, Pessoa zigzags a bit: if on the one hand, he recognises that no empire is “worth breaking a child’s doll for,” and that “violence” is “always a wide-eyed form of stupidity” (Pessoa, 1998, pp. 253, 265), he nonetheless deprecates the “infecundity of peace” and the “disadvantages of concord.” It is from *hate*, he says, that all psychic life springs forth. “From the hatred that pits man against man, civilisation is born”; likewise, progress is the child of competition and cultural impetus that of national rivalry: “this is the hard law” (Pessoa, 1994, p. 140). In sum, violence should certainly be countenanced, except for revolutionary violence, which is treason, and the “brutality” of a strictly marauding type of colonialism, which Pessoa censures as “extra-cultural nationalism.”

For this and all other purposes, the masses would have to be regimented by calling them to the colours of the national totem. To Pessoa, the “pagan religion” effects this labour of “political organisation” most effectively precisely because

it resolves itself fully in “the life of a city or state, without aspiring to be universal” (Pessoa, 2001, p. 149). If the fathers had indeed destroyed the religious humus of the nation, one would have to recreate it with some kind of Ersatz. And it was with this intention that Pessoa had imagined a plan for the promotion of a “mystical nationalism.” A divided people can be united anew by infusing it with a “missionary concept” of itself (Pessoa, 1994, p. 175). Public opinion feeds off miracles and myths — and none is more appealing for a community whose bellicose animus the chiefs wish to arouse than the messianic call. What Hegel wished for Prussia, Pessoa wished for his own Fatherland: Portugal, he so thought, was destined to carry out “its great occult destiny” (Pessoa, 1997, p. 92). Theretofore, the world had had four empires: the Greek, the Roman, the Christian and the British; Portugal, then, would be the apex of the fifth. But no empire could aspire to sovereign glory without the banner of a Christic Redeemer; so, enter King Sebastian (Sebastião), *O Encoberto*, “the Hidden One”—Pessoa’s Mahdi of choice,<sup>11</sup> extrapolated from Portuguese history, which narrates of this young monarch that led his troops in a suicidal expedition against the Turks on North-African shores in 1578. The Portuguese contingent was routed, but the King’s body was never found — hence the legend of his return as the herald of a new age. The Hidden One would be the highest emissary of the Fifth Empire: “how can we hope for his return,” pleads Pessoa, “if we do not create beforehand the forces that in turn will give him life?”<sup>12</sup>

Quando virás, ó Encoberto, Sonho das eras potoguez...(Pessoa, 1992 [1934], p. 92).<sup>13</sup>

The myth of the Fifth Empire and its twining to that of Don Sebastian, which was the fantasy of a Jesuit preacher of the XVII<sup>th</sup> century, were recurrent tropes of Portuguese folklore, not Pessoa’s inventions. Pessoa’s originality lay in the “Neocon” re-proposition of these mythologems as tools of nationalist agitprop.<sup>14</sup> Our Portuguese

<sup>11</sup> A choice that is also a manifest homage to Crowley’s “Hidden God” (Pasi, 2001).

<sup>12</sup> Ibidem, p. 159. King Sebastian disappeared in the battle of Al-Ksar el Kebir, in North Africa — modern-day Morocco.

<sup>13</sup> “When will you come, Oh Hidden One, Vision of Portuguese eras...”

<sup>14</sup> “[The rout of 1578] virtually wiped out the aristocratic youth of the reign and the death of Don Sebastian led to a dynastic vacuum that allowed Spain, then under Philip II, to establish its hegemony over Portugal.” (Pasi, 2001, p. 140).



knight also mentioned a sixth empire: “the reign of the Anti-Christ,” whose advent would mark “the dissolution of our civilisation,” the final expunction of all things Christian — an epoch far beyond foreseeable things, on which the poet wished to remain silent.<sup>15</sup>

So, in the end, these were the fabrications that neo-pagan potentates needed to tell the people in order to rule over them. If, indeed, “the world is run by lies,” then whoever wishes to “arouse the world must lie to it deliriously, and the more he is able to lie to himself and convince himself of the truth of his lie, the more successful he will be.” As for “the public,” it will roll with it: ever the spiritual and credulous accomplice of its corrupt and mendacious aristocratic vanguard, “humanity,” says Pessoa, “hates the truth, for it knows that the truth...isn’t attainable” (Pessoa, 2001, p. 163). *Vulgus vult decipi, ergo decipiat.* And so, it goes.

But the reasons and motivations behind the necessity to deceive public opinion are not as unscrupulously raw and uninspired as these citations suggest. If it is true that Pessoa’s mystical nationalism was nothing but an imaginative script, there is little doubt, however, that the author’s conviction of its efficacy was not predicated on mere self-delusion. King Sebastian, as shining light of the Fifth Empire, was obviously a copy of the Conquering Christ of the Roman Church. Pessoa conjured it in order to attempt that “artificial adjustment,” which he thought necessary to salvage the salvageable in the face of modernity’s complete spiritual insolvency. Yet, for him, the palingenetic veracity of King Jesus was no more biting than that of King Sebastian. Myth the one and myth the other, both of them “lies,” both of them impossible “truths”—though possibly of very different, if not opposed, moral valence. In essence, the approach to this game of political mythopoeia is one of syncretism and Masonic wisdom: there exists a Secret Doctrine common to all initiates which every nation has fashioned into religion, couching it in its own vernacular and variously drawing to this end the narrative ingredients from indigenous and/or neighbouring lore. Within religious traditions, (fiercely antagonistic) currents abound, of course, and the true polarities thereof may be of extremely difficult

detection because of the tangle of esoteric themes, borrowed and re-elaborated symbolisms, and apocryphal decoys, which altogether enshrouds the realm of dogmatic faith.

The Pessoaan material reviewed up to this point corroborates the overall impression that we are dealing with an intriguing blend of ancient and tested rhapsodic aromas in the tonality of conservative hopelessness: this late Lusitanian elegiac project is an original mix of Epicurean anti-modernism, Nietzschean existentialism, Elizabethan mannerism, detective-style deductive scherzos, surrealism *avant la lettre*, Neo-Gnostic mythography, Crowley’s pagan magic, and Machiavellian, clandestine statecraft. In this last regard, Pessoa’s fascistic proclivity is also anticipatory of Leo Strauss’s Neo-conservative suggestion that, in the cosmic absence of Truth, tyrants should shepherd the unassuming masses by means of a pseudo-religious cult of ancestral gloriousness. Similar prescriptions, of course, litter the texts of Jünger and Bataille, all of whose ideologically compact and germane beliefs, along with Pessoa’s, I have endeavoured to cluster under the comprehensive heading of post-modern (or anti-modern), Neo-Gnostic thought.

To conclude this section, I should like to insist once again on the almost perfectly antipodal opposition existing between Pessoa’s political testimony and Thorstein Veblen’s. Older by a full generation, Veblen (1857–1929), the modernist critic, remained wedded to the faith in progress and in those very machines, which the post-modern Pessoa thought “monstrous,” though nevertheless necessary to relaunch in the early 1900s the nationalist fortunes of Portugal (on its way to becoming, he so wished, the Fifth Empire) (Pessoa, 1994, p. 119). When Pessoa affirms that the national idea resolves itself essentially in the symbiosis of the (benighted) people and its aristocracy — the two having the “same substance”—he enthrones that conservative, and exploitative, the alliance of barbarous interests, which Veblen incessantly denounced as an insufferable holdover from our savage past in the otherwise progressive era of technology.

Pessoa’s politics as a whole; his decadent love for the “marvellously futile” (Pessoa, 1998, p. 228); the incitement to leaders to “lie deliriously” and commit great sins of squandering grandeur; and the overall acrid derision of (Leftist) social ac-

<sup>15</sup> Ibid, pp. 160–61, 167. “When will the Anti-Christ come? Until the day of his advent, there will not be peace in the souls of men, or discipline in their hearts” (Pessoa, 1996, p. 192).

tivism do not just retrace the line dividing uncompromisingly an “anarch” from an anarchist. On a deeper level, the story of this spiritual, and ever significant, the clash is a constant summons to the great challenge faced by the intelligentia — whose exponents, in fact, are drawn for the middle class, i.e., the class standing between the “knight” and the “populace.” When Pessoa affirmed, in a strange turn of phrase, that “only the bourgeoisie, which is the absence of social class, can create the future” (Pessoa, 1994, p. 149), he was in fact conceding that the match is still wide open: precisely because what had gone on before has been irremediably shattered, it need not follow that a Neo-conservative restoration of the dismal kind he was advocating is for us the only viable option. We can still hope for peace and true democracy — we can still dream of the anarchist option. Yet systems of thought such as those of post-modern masters — and especially that of Pessoa, with its insistence on the mystical origin of our sociological curiosities — should not be heeded by individuals with anarchist leanings merely as adversarial warnings but should be recognised instead as sobering intimations that the social problem is far more (religiously) complex than what a fanatically positivistic streak may lead them to presume. Hence, I would be inclined to surmise that Veblen’s analysis and conception of progress — as well as those of the progressive Left as a whole — would have enormously profited from a sharper appreciation of mythology and of the question of evil in strictly theodicean terms.

### Social Dynamics

Pessoan sociology is a reaction to the doctrinal body of Liberalism — or “British constitutionalism,” as he otherwise labelled it. To him, as said, in order to understand social change, one must intuit the underlying spiritual, religious crosscurrents that pull the world’s peoples in given directions. Moreover, no less important is the assumption that national entities are conservative, belligerent aggregates consisting of aristocracy and populace. If these are the premises, British constitutionalism, which in the last century-and-half westerners have all taken for granted as a “scientific discovery” in the art of social engineering, should have been recognised instead for what it truly is. And that is the most up-to-date item in the art of fascist travesty: as

such, so-called “Liberal democracy” perpetuates the tenure of an aristocratic/oligarchic establishment by concealing its machinations behind the choreographed bluster of a grand, simulated enfranchisement.

There are no sincere liberals. Besides, there aren’t any liberals (Pessoa, 2006a, p. 72).

This system’s “praetorian guard” is split into “parties” that battle one another at election time by means of “money and secrecy.” Suffrage amongst pre-selected candidates merely measures the relative strength of the “organised political majority, which, compared to the actual majority of society, is a minority, and generally a small minority.” The reason why this social construct has enjoyed such success is not due to some formulaic “perfection” or “superstitious” advantage, but rather to the social health of Britain’s (today, Anglo-America’s) public opinion (Pessoa, 1994, pp. 178, 138, 180, 182, 132, 179). That is to say that the Anglo-American commonwealth has been able to foist its governmental model on alien constituencies thanks to unparalleled imperialist flair, which is itself enhanced by its people’s undisputed patriotic fitness. Truthfully, then, what has decided the quasi-universal diffusion of parliamentarianism is, for Pessoa, a rather contingent matter of temperamental style. In other terms, *the world now copes with this particular regimen simply because it is the constitutional export of the victorious invader*; because it happens to “adapt” to the “impotent,” i.e., drab, unheroic, and hypocritical soul of “peninsular” and “British individualism” (Pessoa, 1996, p. 223). In this regard, in what is early detection of a pattern now become universally familiar, Pessoa took special care to scoff at Britain’s professed championing of human “rights” and “justice” in light of the country’s genocidal record in China, Ireland and South Africa.<sup>16</sup> “The British spirit,” one of Pessoa’s heteronyms once railed, “is the deification of the lie” (Pessoa, 2006b, p. 469).

<sup>16</sup> Pessoa (1994, p. 139). Vis-à-vis Britain and the members of the Entente, Pessoa’s position is consistently and unabashedly hostile, except for one seriously inconsistent pronouncement: although, at the time of the Great War, he repeatedly recommended a spiritual alliance with the pagan spirit of the Central Powers versus the degenerate Protestantism of the Allies (Pessoa, 1996, pp. 99, 106–7, 109–10); he once declared himself thankful to Free-Masonry for laying the foundation of the Entente Cordiale, which, in fact, secured the Allies’ victory in WWI (Pessoa, 1997, p. 147).

The advent of British constitutionalism was organically accompanied by a theoretical appendage, which is, for the most part, what we have been calling for nearly two centuries “social science” or “political economy.” Pessoa rates the latter the joint construction of French Enlightenment and Europe’s “mystical imperialisms.” In his opinion, the most conspicuous impingement of modern sociology on the observer’s mindset is the complete “obnubilation of the political sense”: egged on by incessant cogitation and an impatient, though sacrosanct urge for realism, Pessoa found Liberalism’s abstract propositions so gratuitously “pointless” and “useless” as to suggest that, by turning these propositions into their exact contrary, one may be fairly certain to hit Truth on the head (Pessoa, 1994, p. 111).

Now, in attempting to articulate the opportunity for *reform* in the shrinking spaces of modern-day power systems — which, as just stated, is the decisive challenge for middle-class intellectuals—, Pessoa jettisons every single piece of Liberal dogma. He casts overboard all abstract suggestions that social phenomena may always be construed as the additive will of sovereign individuals (e.g., the “democratic assembly”), and proceeds to steer on a decidedly *conspiratorial* tack. A society, Pessoa says, may be reformed only by a “non-collective movement,” that is, an organised “*minority*” animated by an awakening sentiment of “national cohesion” and fronted by a charismatic leader, a so-called “genius” (Pessoa, 1996, pp. 214–15). It was, indeed, in these terms that he interpreted the Soviet revolution: in times of upheaval, a mobilised fringe of fanatics — the Bolsheviks — led by their genius, Lenin, and financed by “secret Jewish organisations,” had managed to turn Russia’s catastrophic post-war disorganisation to its extraordinary advantage (Ibidem, pp. 233, 241). The Soviet case is the principal instance cited by Pessoa to illustrate one of two basic scenarios that make up his social change model.

Essentially, social equilibrium is predicated on the harmonious composition of two main forces: a conservative (“integrating”) and a progressive (“disintegrating”) force. When the (conservative) elite manages to rally the populace to the banner of national solidarity and the intelligentsia as well by harnessing the urge for “progress” (quenched for the most part by more or less aggressive technological advance) to the self-serving programs of

the State, the system is at rest. Pessoa devised a brilliant synopsis of social dynamics by envisioning the consequences prompted by the disruptively disproportionate gravitation of the community toward the conservative pole. In this case, the imbalance triggers a chain reaction consisting of three main steps. 1) An immoderate dose of conservatism should be expected to stultify the nation and cause it to “stagnate.” 2) As the forces of progressivism strive to shake off the pall of lethargy, national cohesion breaks up. Thereupon dissent takes the form of xenomania, which, in its most extreme form, often degenerates into “idiotic mimetism.” 3) The conservative strata react, in turn, to the xenophiles’ modish excess by clinging ever more fiercely to their anachronistic mores. The system thus reaches a perturbed state characterised by a tedious, uneventful and low-intensity scuffle between what Pessoa designates as “organic traditionalism” (i.e., the entrenched conservatism of the Right) and “organic progressivism” (i.e., the xenophile confusedness of the Left).

In the other scenario, that in which the equilibrium is broken instead by a pronounced swerve toward progressivism (“super-progressivism”), the repercussions are as follows. When progressive ambition overly prevails so much so that the “other classes” find themselves unable to step into its stride (“if they could, the equilibrium would not be altered”), the aristocracy rises to counter the force of dissent so aggressively that the country sinks into a state of anarchy. Through civil strife, “super-progressivism” is likely to engender a dis-solutive process of de-nationalisation which only a patriotically binding counterforce can remedy: and that, for Pessoa, is *war*—“any sort of war, preferably a just war, in which to thrust the nation violently” (Pessoa, 1994, pp. 112–13, 191).

Despite its simplicity, the theory is powerful. By way of illustration, I can see how elegantly the two (disequilibrium) scenarios, in reverse sequence, may account for Italy’s recent experience. Super-progressivism fairly depicts the mood prevailing in that country in the mid-sixties when the pendulum had unambiguously swung in favour of progressive aspirations. Factions’ hostile to the Catholic axis sought in two successive waves to leverage these forces with a view to destabilising the Christian-Democrat tenure. The conservative bastion countered the attack at once by embroil-



ing itself and its enemies in sophisticated terrorist tactics that took a severe toll on the nation (1969-early 80s), and in so doing, all clans ended up foiling any attempt at social change. From the Right's viewpoint, the manoeuvre bought it a reprieve until its partial demise in the 90s (Preparata, 2012). Despite the violence of the 70s (some called it a "low-intensity" civil conflict), a full-scale, nation-wide civil confrontation was highly unlikely, and, therefore, a patriotic war would not have been a viable egress also considering that Italy's geopolitical status as an American colony would not have allowed it, and, more importantly, that the average Italian is, for historical reasons, congenitally unpatriotic.

What came after that (1980s-present) is modelled rather accurately by the scenario of the ultra-conservative disequilibrium, which was itself the legacy of more than a decade of the aforementioned Intelligence-directed terrorism, as well as of the imperial incumbency of the United States, which after the *refoulement* of the Catholics, rose to manage things as the exclusive (and somewhat uninterested) landlord of this forsaken "boot." National creativity in the arts and sciences, which had been luxuriant during the three decades following WWII, came to an abrupt halt. MTV, (artfully dubbed) Hollywood shows, and the *New York Times* bestsellers were swiftly summoned to fill the vacated spaces *en masse*. Silvio Berlusconi's private media empire was, in fact, built through the import of industrial quantities of (cheap) American action movies and TV series. (And Italians are extremely proud of having, as they claim, the best dubbers in the world: I cannot think of a sorrier and more despairing testimony of inferiority-plagued provincialism). Meanwhile, in the desperate effort to be at once a parody of the American Democratic Party and that of its old Communist self, the Italian Left gradually transmogrified before sinking into what appears. Indeed, an irreversible condition of complete xenophile idiocy: Italy's former (numerous and stridently anti-US) Communists, once enthusiastic recipients of Muscovite gold and fluent in the Marxist-Leninist mother-tongue, turned into rabid Americanists. The elite, on the other hand, has succeeded without excessive discomfort in patching up for itself a heteroclite existence, traversed as it inevitably is by the foreign accents that have already bamboozled the progressives,

and the hidebound traditionalism of its most provincial electors, who somehow still manage to find, say, Neapolitan folklore exalting and the "invention" of pizza a badge of pride.

Italians have now been living in this sub-optimal ultra-conservative (dis-) equilibrium for the past thirty years, juggling as inauthentically as possible this foreign Liberal regime with their pathological hedonism, food-mania, soccer-stupor, bogus suffrages, neo-feudal maldistribution of wealth, rapacious gerontocracy, and squalid intrigues — as if epochally compelled to win the gold in a frenzied race to lose face faster and more spectacularly than all other contending descendants of peoples that once were "great." Italy's lost glamour aside, Pessoa saw through this sort of sham early on. And, loosely, his theory does not only apply to the other disfigured nations of the Greater or Lesser Wars of the 1900s but also to the self-confident termitaries of the Global Age. For instance, one could also say that in the USA, a mild form of super-progressivism had managed to slip through the meshes of the second Clinton administration (1996–2000), as it were. Domestically, as the semi-belligerent mood propitiated under Bush Sr. (1988–1992) had greatly relented since the days of Gulf One (1991), it seemed as though the late nineties were witnessing the onset of an overall relaxed clime for broad social critique, which was thoroughly shattered, however — violently so and with suspicious timing — by George Bush Jr.'s "patriotically binding" War on Terror (2001-present).

### Concluding Considerations

Yes, admittedly, Pessoa was but a pretext: not that his political economy, little-known and neglected though it may be, is irrelevant in the grander scheme of Pessoaan things; or that all of the above was said "for sport," wanting to annoy Pessoa's stuck-up groupies by labelling their hero a "fascist." The eagerness, after blowing his "cover," to add a name as heavy as Pessoa's to that cohort of Right-wing postmodernists exposed in *The Ideology of Tyranny* simply stems from the need to re-affirm the thesis of the book, which says that, despite the West's grandiloquent commitment to the "good," despite its professed adherence to "ethical ground rules," "Christian values," and whatnot, it truly believes in nothing of the sort — and the authors that are

variously valorised under its watch, above all these Neo-Gnostic postmodernists of one hue or another, provide ample and somewhat candid evidence that it is indeed so. My contention, in this sense, is that our termitary, or, in truth, most of the world's termitaries, but ours to the highest degree, are possessed instead of a devout creed in violence and domination, which their keepers veil, more or less capably, with various forms of hypocritical white-washing, one more repugnant than the next.

What we see as we course through Pessoa's political economy is that all things considered ugly and squalidly petty — indisputably. And, as disappointing as the realisation is — this is Pessoa, after all: the hip conqueror of dreamscapes (!)... —, there is still merit in taking the ride in that it forces us to come to blunt terms with a set of behavioural postures, with an ethos, which, as repulsive as it may appear at first, is, in fact, depressingly *ordinary*; it is prevalent if not universal: viz., mendacity and dissemblance as the default mode of social interaction, cautious selfishness, paroxysmal opportunism; cynicism scaffolded on the derision of all losers, weaklings and gulls; clannish racism, racial/national neurosis, vicarious ravings of supremacism and imperial expansion, privilege bestowed and the consequent rationalisation that it was acquired by right of (ancestral) superiority, monarchist yearning and deep fascination with all things dynastic and aristocratic, and

an overarching culture of contempt for whatever falls short of or opposes in whichever form the ends of the self-seeking “cultured” man of the middle-layer especially.

Such is the behavioural code of a barbarised middle-stratum, everywhere. We may speculate that with human beings such as these, (social) collapse is averted daily only by virtue of the parental bent in us. Perhaps. Thinkers like Pessoa would certainly downplay, if not dismiss entirely this bent's ethological importance by noting that its radius of nurturing agency is not only highly circumscribed, but that, much to the contrary, this affective impulse is ultimately a reinforcing sub-instinct that may be further primed for sublimating our sense of clannish belonging and our sentimental penchant for patriotic grandeur. For Neo-Gnostics, reasoned, poetised violence is the essence of vitality; there is not even dualism (God and the Devil as equals) in this simplified outlook.

Thorstein Veblen seemed to have implied (though I must confess I do not recall exactly where he might have suggested something along these lines) that, at the basic appetent level, eighty per cent of the world's psyches are more or less wired like Pessoa's. The question, then, is how the remaining twenty per cent of this world's souls are going to proceed in their effort, if such is the plan, to devise ways of rewiring the psyches of their fellow (barbarised) humans?

## REFERENCES

1. Baumol W.J., Panzar J., Willig R. On the Theory of Perfectly-Contestable-Markets. In Oliver Williamson (Ed.), *Industrial Organization*. Cheltenham, UK: Edward Elgar; 1990.
2. Caeiro Alberto. *The Keeper of Flocks*, XXIII aka Fernando Pessoa; 1914–1919. Available at: <https://damadesign.tumblr.com/post/43158594891/the-keeper-of-flocks-by-alberto-caeiro-aka>. Other pseudonyms of Fernando Pessoa were Álvaro de Campos, Ricardo Reis.
3. Drury Shadia B. *Alexandre Kojève. The Roots of Post-modern Politics*. New York: St. Martin's Press; 1994.
4. Gerschenkron Alexander. *Economic Backwardness in Historical Perspective*. Cambridge, MA: Belknap Press; 1962.
5. Jonas Hans. *The Gnostic Religion. The Message of the Alien God and the Beginnings of Christianity*. Boston: Beacon Press; 1963.
6. Jünger Ernst. *Eumeswil*. Stuttgart: Klett-Cotta; 1977.
7. Jünger Ernst. *Gläserne Bienen*. Stuttgart: Klett-Cotta; 1957.
8. Jünger Ernst. *Der Waldgang*. Frankfurt: Vittorio Klostermann; 1951.
9. Pasi Marco. *Aleister Crowley e la tentazione della politica*. Firenze: Franco Angeli; 2001.
10. Pessoa Fernando. *I casi del Dottor Quaresma. Romanzi e racconti polizieschi*. Roma: Cavallo di Ferro; 2009.
11. Pessoa Fernando. *The Selected Prose of Fernando Pessoa*. Edited and translated by Richard Zenith. New York: Grove Press; 2001.
12. Pessoa Fernando. *La divina irrealtà delle cose. Aforismi e dintorni*. Firenze: Passigli Editori; 2006°.

13. Pessoa Fernando. *António Mora et al.: Die Rückkehr der Götter. Erinnerungen and der Meister Caeiro*. Zurich: Ammann Verlag; 2006b.
14. Pessoa Fernando. *Economia & Commercio. Impresa, monopolio, libertà*. Roma: Ideazione Editrice; 2000.
15. Pessoa Fernando. *The Book of Disquiet*. Composed by Bernardo Soares Assistant Bookkeeper in Lisbon. Trans. by Alfred MacAdam. Boston: Exact Change; 1998.
16. Pessoa Fernando. *Pagine esoteriche*. Milano: Adelphi; 1997.
17. Pessoa Fernando. *Politica e Profezia. Appunti e frammenti (1910–1935)*. Roma: Antonio Pellicani; 1996.
18. Pessoa Fernand. *Scritti di sociologia e teoria politica*. Roma: Settimo Sigillo; 1994.
19. Pessoa Fernando. *Message*. Trans. by Jonathan Griffin. King's College, London: The Menard Press; 1992 [1934].
20. Pessoa Fernando. *Always Astonished. Selected Prose*. Edited and translated by Edwin Honig. San Francisco: City Lights Books; 1988a.
21. Pessoa Fernando. *Il banchiere anarchico e altri racconti*. Parma: Ugo Guanda Editore; 1988b.
22. Pessoa Fernando. *Selected Poems*. Austin: University of Texas Press; 1972.
23. Preparata Guido G. A Study in Gray: The Affaire Moro and Notes for a Reinterpretation of the Cold War and the Nature of Terrorism. In Eric Wilson (Ed.), *The Dual State: Parapolitics, Carl Schmitt, and the National Security Complex* (213–272). Farnham, Surrey: Ashgate; 2012.
24. Preparata Guido G. Un(for)giving: Bataille, Derrida and the Post-modern Denial of the Gift. *Catholic Social Science Review*. 2008; XIII:169–200.
25. Preparata Guido G. *The Ideology of Tyranny: The Use of Neo-Gnostic Myth in American Politics*. New York: Palgrave Macmillan; 2007[2011].
26. Veblen Thorstein. *Absentee Ownership, and Business Enterprise in Recent Times (The Case of America)*. New York: B. W. Huebsch; 1923.
27. Veblen Thorstein. *The Theory of the Leisure Class*. New York: Macmillan; 1899.
28. Wilson Eric (Ed.). *The Dual State: Parapolitics, Carl Schmitt, and the National Security Complex* (213–272). Farnham, Surrey: Ashgate; 2012.

## ABOUT THE AUTHOR

**Guido Giacomo Preparata** — D.Sc. in Political Economy, MPhil in Criminology, Senior Lecturer in Political Economy and Social Sciences at the Pontifical Gregorian University in Rome, Italy  
ggprep@yahoo.com

## ОБ АВТОРЕ

**Гвидо Джакомо Препарата** — доктор политических наук, магистр криминологии, старший преподаватель политической экономики и социальных наук Папского Григорианского университета в Риме, Италия  
ggprep@yahoo.com



---

# Contents of the Journal for 2021

---

## No. 1

---

<b>Editorial</b> .....	6
<b>The Macroeconomic Implications of Climate Change on Sub-Saharan Africa: A Case for Sustainable Development</b> <i>Sandalli Aydin</i> .....	8
<b>Renewable Energy Consumption and its Main Drivers in Latin American and Caribbean Countries: A Robust Analysis Between Static and Dynamic Panel Data Models</b> <i>Menéndez-Carbo Sindy</i> .....	37
<b>Practical Vitality of Green Bonds and Economic Benefits</b> <i>Kant Ankita</i> .....	62
<b>The EU ETS and Aviation: Evaluating the Effectiveness of the EU Emission Trading System in Reducing Emissions from Air Travel</b> <i>Heiaas Anne Marit</i> .....	84

---

## No. 2

---

<b>Impact of Raising Tax Rates in GDP Growth: The Case of Nepal</b> <i>Sanjaya Acharya</i> .....	5
<b>Assessing Factors Affecting FDI in Developing Asian Countries</b> <i>Parul Gupta</i> .....	16
<b>IPO, Private Capital? Not! SPAC!</b> <i>Andrey Kovalev</i> .....	29
<b>Why SPACs Are Booming, and Is there the SPAC Bubble?</b> <i>David Erickson, Itamar Drechsler, Nikolai Roussanov, Joao F. Gomes</i> .....	38
<b>World Finance: A Textbook Presentation and Overview</b> <i>Mikhail Zharikov</i> .....	46
<b>Camera Obscura or the Way Things Appear: Some Remarks About Marx's Economic Writings</b> <i>Zbigniew Mierzwa</i> .....	63

---

### No. 3

#### **Option Pricing under Randomised GBM Models**

*Giuseppe Campolieti, Hiromichi Kato, Roman Makarov* .....7

#### **On Approximate Pricing of Spread Options via Conditional Value-at-Risk**

*Chingis Maksimov, Alexander Melnikov* .....27

#### **Proximity of Bachelier and Samuelson Models for Different Metrics**

*Sergey Smirnov, Dmitry Sotnikov* .....52

#### **On Market Completions Approach to Option Pricing**

*Ilia Vasilev, Alexander Melnikov* .....77

#### **About Some Risks Associated with Subjective Factors, and the Methodology for their Assessment**

*Aleksandr Kozlov, Nikolai Noga* .....94

### No. 4

**Editorial** .....5

#### **Banks and Economic Growth: A Basic Disequilibrium Model with Five Rationing Regimes**

*Richard A. Werner* .....9

#### **Lessons from Applying Sanctions and Blockades**

*Thomas Flichy de La Neuville* .....23

#### **Banking on the Underworld. A Strictly Economic Appreciation of the Chinese Practice of Burning (Token) Money**

*Guido Giacomo Preparata* .....32

#### **How Pigou Solved Fundamental Theoretical Problem**

*Kepa Ormazabal* .....46

#### **Infinite Capital Accumulation Through the Endless Harvesting of Limitless Dead Souls. Criminogenic Asymmetries, Structural Inequalities, Mimesis, and Parallel Oligarchies**

*Eric Wilson* .....60

#### **Oneiric Fascism. The Political Economy of Fernando Pessoa**

*Guido Giacomo Preparata* .....77