MONEY, VALUE AND CAPITAL CIRCULATION IN A FINANCE-LED ECONOMIC REGIME

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ABSTRACT

This chapter focuses on the circuit of capital in financialized economic systems, where the role played by financial markets, financial institutions and financial motives is a major factor of systemic crises, so much so that there exists a shadow banking system formed by non-bank financial institutions that are less regulated than traditional banks. The first section explains the circuit of money, emphasizing the seminal role of banks in opening credit lines to any kinds of borrowers. The second section expands on this, pointing out the distinction between productive and non-productive bank loans, as the latter inflate a series of credit bubbles that are problematic for both employment and financial stability on macroeconomic grounds. The third section suggests some policy reforms to avoid an unproductive circuit of capital across the global economy, focusing on monetary as well as fiscal policies to reduce financial instability and unemployment, with a view also to support a 'green' circuit of capital.

Keywords: Credit bubbles; financial circulation; financial crises; money; banking

INTRODUCTION

Contemporary capitalism has evolved into a chaotic and disorderly working economic system, characterized by the frequent bursting of financial crises that have a systemic dimension, thereby negatively affecting the whole economy – also at global level. For example, the US subprime bubble that inflated during

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the early 2000s – which burst in 2007, giving rise to the global financial crisis – is the result of banks' provision of huge volumes of mortgage loans to insolvent people: US banks as well as non-bank financial institutions profited from this bubble in so far as they collected fees and interest income from their borrowers until the subprime market collapsed, showing thereby the financial fragility of capitalist speculation.[1] To be sure, as a matter of fact, in the current finance-led capitalist regime, all types of mortgages can be 'packaged' into securities that have different risk categories, with different prices reflecting the risk associated with their underlying mortgages. Investors can thus choose the risk–return combination that suits them best. Financial institutions can thereby earn sizeable commission fees for issuing securities based on these mortgage loans or for pricing their own risks. Stock market operators can then sell different securities based on these mortgages, fragmented and put together as best suits them to meet the demand of investors seeking the desired combination of risk and return. Thus, instead of excluding the poor and minorities from the lucrative market for mortgage loans, the securitization of these mortgages helped to make the opening of credit lines for homeownership apparently more democratic in the US economy.

Securitization also reflected two further developments related to the financialization of economic activities in the United States and other Western countries. On the one hand, it was an element in the process of financial globalization, as it created financial assets free of any national barriers. For instance, German investors with no connection to real estate owners in the United States could buy a part of these assets on the securitization market. These securities, which were 'packaged' with a degree of risk assigned to them by rating agencies, appeared attractive to investors that were looking for a relevant share of US dollar-denominated financial assets in the global economy. In this way, the US subprime mortgage default problems quickly became global problems, starting with a German bank (IKB) that had to be rescued in July 2007, followed by various problems encountered by BNP Paribas (the largest bank in France) in August of the same year, through to the bank run on Northern Rock in the United Kingdom in September 2007, and the extraordinary write-offs made in Switzerland by both UBS and Credit Suisse for billion-dollar losses in 2007 and also in the years following the bankruptcy of Lehman Brothers, an investment bank in the United States that announced its insolvency on 15 September 2008, thereby triggering a global financial crisis.

This chapter focuses on the structural disorder that originates when banks provide loans for so-called 'non-GDP-based transactions' (Werner, 2011, p. 29), that is to say, for financial market activities that produce no new income for the economy as a whole. For instance, when a bank opens a credit line to a non-bank financial institution (such as an insurance company or a hedge fund) in order for the latter to purchase financial assets, this gives rise to a higher volume of debt in the banking system, without an equivalent amount of newly-produced income, which is necessary to repay all this debt eventually. The circuit of financial capital can thereby expand without any endogenous limit, as the inflating debt bubble does not give rise to any corresponding inflationary

pressure in the market for produced goods and services – where central bankers and national statistical offices do measure inflation (see Rossi, 2001 for a critique of such a monetary policy framework).

The next section explains the circuit of money, emphasizing the seminal role of banks in opening credit lines to any kinds of borrowers. The third section expands on this issue, pointing out the distinction between productive and non-productive bank loans, as the latter inflate a series of credit bubbles that are problematic for both employment and financial stability on macroeconomic grounds. The fourth section suggests some policy reforms to avoid an unproductive circuit of capital across the global economy, focusing on monetary as well as fiscal policies to reduce financial instability and unemployment, with a view also to supporting a 'green' circuit of capital. The last section concludes, summarizing the main arguments of this chapter on both theoretical and policy-oriented grounds from a political economy perspective.

THE CIRCUIT OF MONEY AND THE ROLE OF BANKS

The circuit of money begins when a bank opens a credit line to any kind of creditworthy borrowers because banks are special as they can provide loans without disposing of any pre-existent deposits: as Schumpeter (1954, pp. 1110–1117) famously noticed, for banks 'loans make deposits'. This is the fundamental essence of money's endogeneity in the economic system, as monetary circuit theorists have explained cogently (see Graziani, 1990, 1994; Parguez, 1975; Parguez & Seccareccia, 2000; Schmitt, 1959, 1960, for example).

The endogenous nature of money is logical, considering that the first deposit recorded in a bank cannot but be the result of a loan granted by any kind of banks. The circuit of bank deposits has indeed a positive duration in chronological time, from the moment the deposit is created within the banking system to the moment when this deposit is spent, allowing the payee to repay his debt to the bank that granted him a credit line. This amounts to saying that money and income are two different magnitudes: banks create money, but income (which exists in the form of bank deposits) must be produced. Hence, rather than assuming the existence of bank deposits, one must explain how it is possible for bank deposits to exist. This implies the payment of wages, in what Keynes (1933) cogently called a monetary economy of production, that is to say, an economic system where money is essential to produce, not just to consume (as it is assumed in mainstream economics, where money is supposed to intervene in order to avert the double-coincidence-of-wants constraint). In fact, as Lavoie (1984, p. 774) points out, '[m]oney is introduced into the economy through the productive activities of the firms, as these activities generate income. There can be no money without production'. Schumpeter (1954, p. 278) also argued that money must be introduced on the 'very ground floor of our analytic structure', which he labelled a 'monetary economy'.

Since the end of the 1980s, however, a relevant number of bank loans have been granted for 'non-GDP-based transactions' (Werner, 2011, p. 29) as we

explained above. These loans inflate the 'final finance' phase of the monetary circuit as a result of an array of financial speculations that do not produce an income in the whole economic system. To be sure, income is always and everywhere the result of production through the payment of wage bills because only labour is truly a macroeconomic factor of production – as Keynes (1936, pp. 213–214) clearly explained when he also pointed out that output is measured in wage units on economic grounds. As a result, monetary profit (that is, the remuneration of capital) is an income derived from wages, when these wages are spent in the market for produced goods and services, thereby transforming an income into its 'real content'. Nominal wages (to wit, the number of wage units earned by workers, W) are thereby transformed into real wages, w (namely, consumption goods) and profits, π, which exist in both a real and a monetary form, since there is an unsold output as well as an amount of bank deposits that define these two forms of firms' profits (see Cencini & Rossi, 2023 for analytical elaboration on this subject matter). Income distribution in the market for produced goods and services can therefore be written as follows:

$$W = w + \pi$$

In this framework, capital exists either in the form of bank deposits that are saved (this is the financial capital recorded by banks) or in the form of machines and equipment that are the result of firms' investment (this is the fixed capital recorded by firms). The circuit of capital concerns therefore financial capital, since fixed capital is fixed forever into those capital goods that firms use to produce any kind of goods or services. By way of contrast, financial capital can always be transformed back into an income that his/her holder then spends to purchase either produced output, real-estate or financial assets. In so far as financial capital exists in the form of a bank deposit, it can thereby circulate in financial markets, giving rise to asset bubbles that banks can inflate providing any credit lines they consider profitable for them, even though these bank loans do not generate an income for the economy as a whole. Let us turn to this issue in the next section.

Q1

FINANCIAL CIRCULATION AND CREDIT BUBBLES

Financial circulation and credit bubbles have been investigated to a large extent – even before the global financial crisis burst in 2008 – by a number of heterodox economists (see for instance Epstein, 2005; Forges Davanzati & Tortorella Esposito, 2010; Guttmann, 2008, 2009; Passarella, 2014; Seccareccia, 2012–2013, and more recently Tori et al., 2023). The circuit of financial capital does not and cannot produce any new income within the economic system as a whole: when an economic agent spends a bank deposit across the financial markets, s/he just transfers the property right of this deposit to the seller of any kind of financial assets. Financial transactions are indeed a zero-sum game: the income spent by the purchaser of financial assets is transferred to the seller of these assets,

who obtains thereby a claim on some bank deposits. However, if the purchase of these assets is financed with a credit line granted by a bank to (say) a non-bank financial institution, this ('non-GDP-based') transaction gives rise to a new deposit to which no new output (that is, gross domestic product, GDP) corresponds. As a result, there is a higher volume of bank deposits, but no higher amount of income in the whole economic system. This 'empty money' (Schmitt, 2021, p. 123) is spent across financial markets, giving rise to 'asset price inflation' that central banks have been ignoring before the global financial crisis burst in 2008 (see Colander, 2015), even though this phenomenon can affect final goods prices as a result of commodity price speculation induced by a loose credit policy (see, for instance, Keen, 2015).

In fact, central banks themselves have been contributing to inflate many asset prices and thereby credit bubbles both before and after the bursting of the global financial crisis. In this regard, we identify three important ways. First, this is clearly the result of inflation targeting strategies, as the latter have been focusing on the rate of inflation measured in the market for produced goods and services, thereby neglecting (or even ignoring) asset price inflation, particularly across financial markets as a result of loose credit strategies banks implemented to maximize their profits as explained above. Secondly, policy rates of interest have been allowing banks to lend at very low interest rates huge volumes of money to their peers as well as to different non-bank financial institutions, particularly after the major national central banks intervened to avoid that systemically relevant banks (or so-called 'too big to fail' financial institutions) go bankrupt. In this regard, quantitative easing (QE) is the third way in which central banks have contributed to asset price inflation: by providing enormous amounts of liquidity (in the form of central bank money) to these financial institutions, they have been inducing a mushroom growth of asset prices since banks and non-bank financial institutions have been spending much of this liquidity across financial markets to buy a variety of assets in order to maximize their profits in spite of the financial crisis and its negative effects on the so-called 'real economy'. For sure, the primary effect of QE is a structural change in the composition of banks' balance sheets: their settlement balances (once upon a time called 'reserves') increase while their volume of financial assets (mainly government bills and bonds) decreases. The higher volume of 'reserves' induces banks to purchase more financial assets, whose demand increases therefore considerably as a consequence of the central banks' balance sheet expansion. The latter makes banks more fragile and pushes them to inflate a variety of credit bubbles in light of their central bank's implicit guarantee of a bail-out in case a financial crisis occurs (see Rossi, 2023).

Q2

To be sure, central banks have become independent of governments but are clearly depending on banks, as the latter cannot be left alone when they are close to failure, so that central banks must intervene as a lender of last resort, which is tantamount to 'privatizing the profits and socializing the losses' of any banking institutions – as also the smallest banks follow the leaders' strategies, so much so that all banks are very interconnected across the interbank market: even a failure of a small bank can thereby impact negatively many other banks, giving rise

thereby to a systemic banking crisis that central banks must avoid necessarily (see Rossi, 2022 for analytical elaboration).

Q3

Hence, before 2008 financial circulation inflated because central banks ignored asset price inflation, while after the bursting of the global financial crisis central banks reduced their policy rates of interest at historically very low (if not negative) levels, inducing thereby banks to increase their lending volumes for unproductive transactions (see in this regard Panzera, 2015; Rossi, 2019). In both these cases, the circuit of financial capital has been expanding in a number of so-called 'advanced' economies, creating thereby many problems for a variety of stakeholders, particularly for the low- and middle-class people who are willing and able to work, but who are involuntarily unemployed since firms have been reducing both output and employment levels in light of a lack of demand in the market for produced goods and services. These problems are indeed the result of financialization, that is to say, the prevailing importance of financial motives, financial markets and financial institutions when firms decide and implement their business strategies, thereby centred on satisfying first and foremost the interests of these institutions (namely, banks, pension funds, insurance companies and so forth) and of their major shareholders (see Rochon & Tropeano, 2025).

For instance, a firm listed in a stock-exchange market will have to record an increasing profit (both as a total and as a percentage of its business volume) in order for it to be in a position to obtain more financial capital. If this capital were to be invested to purchase machines and equipment (fixed capital) or to finance some research and development activities, this would not be a problem: indeed, it could support economic growth and induce an increase in the level of employment, thereby reducing unemployment across the whole economic system. However, since the late 1980s, financialization has been increasingly affecting this system, exerting a downward pressure on production costs (particularly on labour costs) in order to maximize profits and thereby attract a further volume of financial capital, which has been parked into financial markets because no profitable investment in fixed capital will occur if there is already an excess capacity, owing to excess supply in the market for produced goods and services resulting from the downward pressure on labour costs (hence on wages for the middle-class people). Such a situation can then originate an overproduction (or underconsumption) crisis that eventually affects a variety of stakeholders, including firms and financial institutions at both national and global level.

Now, if listed firms' strategies are dictated by financialization, then also other firms will have to follow similar business strategies even though the latter firms are not listed in a stock-exchange market. This is so because non-listed firms must be competitive against listed firms in the same market segment: if a small non-listed firm wants to sell its own goods or services at a competitive price, it must reduce its own production costs (hence, it must exert a downward pressure on the wages it pays, if not reduce its labour force) in an attempt to keep its market share and thereby earn its expected profits. This is even so much so that non-listed firms must obtain bank loans to finance their production activity

whereas listed firms can collect funds across the capital market. In this regard, banks – which are a major player in finance-led economic regimes – want also to maximize their own profits by increasing the spread between their lending rates of interest and the rates of interest they pay to depositors. As a result of these two 'exogenous' forces, unlisted firms must compel and follow listed firms' business strategy as well as banks' pressure to be competitive through a reduction of their own productions costs and hence the level of their workers' remuneration and sometimes also the level of employment eventually.

On the other hand, that is, across financial markets, financialization induces a relevant increase in asset prices, namely, the prices of the financial assets that firms issued and sold in order for them to obtain the financial capital they need either to invest (thereby transforming it into fixed capital) or to park on these markets, where they want to earn financial rents according to the short-term expectations of major financial institutions. In this regard, too, firms implement their business strategies first and foremost to sell a volume of produced goods and services that allows them to maximize their profits so as to pay an ever-increasing dividend to their shareholders, including the firms' managers. As a result, the wage share could remain broadly unchanged, but its components can be much affected, in the sense that managers' compensations increase while the bottom of the firms' hierarchy must accept a reduction of their own wages (which is, indeed, what is spent in the market for produced goods and services, as famously noticed by Kalecki; see in this regard Robinson, 1979).

Such a situation also inflates private debt bubbles across those economies (notably the United States) where consumption expenditures are financed by consumers' debt rather than through an income earned by these economic agents. In the US case, for instance, a series of debt bubbles have been inflating since the advent of financialization, notably as regards the real-estate market (recall the so-called subprime crisis that burst in 2007) but also regarding both consumers' and students' loans – even though these two bubbles, to date, have not exploded yet. All this further increases the financial fragility of a number of economic agents (debtors as well as creditors), thereby also affecting the stability of the economic system as a whole eventually.

The discussion above raises important questions about the role of central banks as well as about non-productive bank loans regarding income and wealth inequality across the domestic economy. The next section focuses on these issues with a view to reorient the circuit of capital in the general interest for the common good.

REORIENTING THE CIRCUIT OF CAPITAL FOR THE COMMON GOOD

The analysis presented in the previous sections shows the importance to make sure that the circuit of capital contributes to the common good instead of generating income and wealth inequalities so much so since it has been destabilizing the economic system as a whole through a series of financial crises that

have a systemic dimension. Even though history shows that inequalities and wage earners' exploitation existed also in capitalist economies before their financialization occurred, it is possible to avoid at least that the banking system contributes to these social and economic issues. A political economy approach is necessary in this regard, considering the contribution of a policy mix that focuses on the needs of all stakeholders within contemporary capitalism, particularly wage earners and future generations of economic agents confronted with a series of troublesome climate changes. Let us expand on this in the remainder of this chapter.

First, monetary policy strategies and decisions should consider their distributive effects, as regards, in particular, the policy rates of interest. Rather than just focusing on the rate of measured inflation across the market for produced goods and services, the decisions to increase or decrease the policy rates of interest must take into account their impacts on both debtors and creditors across the banking sector and more generally speaking, within the whole financial system, where also non-bank financial institutions have been increasing their business volumes since the advent of financialization. For instance, any increase in the policy rates of interest – meant to kerb inflationary pressures across the goods market – is likely to give rise to further increases of the price level in this market, as firms will have to pay higher rates of interest when they borrow from banks, thereby transferring this higher cost to their selling prices. This is indeed the so-called 'Gibson paradox' (see Levrero, 2023). Further, increasing the policy rates of interest in different steps (as it occurred across Western economies in 2022 and 2023, in the aftermath of the Russian invasion of Ukraine and the resulting increases in the measured price level) can induce some negative wealth effects within the economic system: homeowners who did obtain a mortgage loan that must be renegotiated could have some troubles in doing so – particularly if meanwhile they have been losing their job – and in any case will have to pay higher rates of interest to renew their mortgage loan, thereby possibly reducing their consumption expenditures, which could have a negative impact on employment across the whole economic system. Moreover, generally speaking, these monetary policy hikes induce a downward pressure on real-estate prices, which further reduces the propensity to consume of homeowners, as they consider to be less rich in this regard, even though they are not going to sell their real-estate object. This monetary policy stance could also induce a number of banks and non-bank financial institutions to increase their lending to carry out 'non-GDP-based transactions' (Werner, 2011, p. 29), notably across financial markets, where lenders (as well as borrowers, in several cases) do expect to earn higher profits compared with the (reduced) expected profitability of investment in fixed capital in the so-called 'real economy'. As a matter of fact, it is well known that the most-risky businesses, like financial speculation, attract a relevant share of bank loans since both banks and financial speculators expect to maximize their own profits thereby. This is so much so when central banks increase their policy rates of interest: banks do increase the lending rates of interest so that an increasing number of small- and medium-sized firms reduce their borrowing volumes in light of the lower

profitability of their investment in fixed capital goods. As a result, a problematic vicious circle inflates credit bubbles and asset prices across the financial system, where the circulation of financial capital can be profitable for financial institutions but problematic for a number of firms as well as for the majority of wage earners, particularly among the middle and lower classes of people willing and able to work, who suffer for both income distribution and capital allocation in a finance-led economic regime (see Rochon & Vallet, 2022).

Now, in light of the distributional impacts of the policy rates of interest (see Kappes et al., 2023), central banks should use the latter instrument in a much more targeted way, considering also that an interest rate policy must contribute to address climate changes in an appropriate way (Rochon, 2022 argues that to date monetary policies are carbon-biased). For instance, policy rates of interest could be differentiated in light of banks' financing 'green' or 'brown' economic activities, that is, climate-friendly or climate-damaging transactions across either the real or the financial sector of the economic system (see Solari et al., 2024). As a matter of fact, this approach has recently gained mainstream acceptance, as an increasing number of central banks (such as the Bank of England) are openly discussing the possibility of committing to environmental targets (see Network of Central Banks and Supervisors for Greening the Financial System, 2021). Indeed, this could easily be implemented by the European Central Bank, which since 2014 has been carrying out several Targeted Long-Term Refinancing Operations (TLTROs) to support real economic activity after the bursting of the euro area crisis in 2009: green TLTROs can induce the banking sector as a whole to increase its lending more for climate-friendly activities than for climate-damaging ones, particularly in a period when interest rates are increasing owing to several geopolitical tensions across the global economy (see van't Klooster & van Tilburg, 2020; Monnet & van't Klooster, 2023). Further, central banks could differentiate their own lending rates of interest according to banks' green investment policies, considering, in particular, the share of climate-friendly assets in the portfolio of the latter to add a 'climate premium' to the policy rates of interest (Kempf, 2020). This premium would increase the rate of interest that banks must pay to borrow from the central bank, when the former need to refinance some credit lines they granted to any economic agent whose activities pollute the environment, and could thus induce banks to provide more credit lines to support more green economic activities. Banks would thereby have an incentive in avoiding a reputational cost and risk that could affect their profits and solvability eventually. Such an instrument, however, depends on a properly defined green taxonomy and a coherent as well as consistent verification of its strict compliance by any banking institutions (see D'Orazio & Popoyan, 2019; Sawyer, 2022).

Provided that central banks define and agree on such a taxonomy, they could refer to it also when entering into any repurchase agreements with banks in need of liquidity in so far as the latter institutions dispose of enough eligible assets consistent with ecological targets (see Boneva et al., 2022; Couppey-Soubeyran, 2020; Oustry et al., 2020). As a result, greening the collateral that banks use to borrow liquidity from either the central bank or the interbank market will

support an ecological transition that goes along with an increasing volume of bank loans supporting green economic activities so that the issue of financial instability will become less problematic when the volume of carbon-intensive assets will be irrelevant eventually (see Kedward et al., 2022). This is so much so that central banks could also implement 'green' QE monetary policy interventions, targeting thereby climate-friendly economic activities when banks and non-bank financial institutions need huge volumes of liquidity to avoid bankruptcy in the aftermath of a financial crisis such as it occurred in 2008 at the global level (see Dafermos et al., 2020; van't Klooster & Fontan, 2020; Schoenmaker, 2021). In a period of monetary policy tightening, these interventions could also discard first high-carbon financial assets and orienting any corresponding (partial) reinvestment to low-carbon economic activities (Baer et al., 2021; Claeys, 2023; Thiemann et al., 2023). In the currently highly financialized capitalism, to be sure, central banks have the capacity to steer and shape financial markets, which can and should be used to address social as well as ecological concerns in the general interest for the common good, providing the financial stability framework that is currently lacking (see Valsangiacomo, 2022).

Even though a number of central banks are independent of their country's government, particularly in so-called 'advanced' economies, this does not mean that monetary and fiscal policy should not be coordinated to satisfy the general interest of all those agents that are part of the economic system in the relevant country. This policy coordination is indeed necessary and important to make sure the policy mix is not contradictory – such as in the case of Greece after the bursting of the euro area crisis, where monetary policy interventions by the European Central Bank were meant to support economic activities, while a restrictive fiscal policy (namely, austerity) did exactly the opposite in fact – but also to provide an appropriate policy mix that distributes its costs and benefits correctly across the whole economic system. To be sure, rather than using a supposed 'one-size-fits-all' monetary policy instrument like the central bank's rate of interest as explained above, policymakers should consider using fiscal policy because the latter can operate in a more targeted way, thereby reducing the costs and increasing the benefits of policy interventions across the whole economic system (see Saraceno, 2023). For instance, as Baunsgaard and Vernon (2022) suggest, the general government sector can introduce a tax on 'extra profits', which are those profits that firms earn as a result of their market power (like in the energy sector in the aftermath of the war in Ukraine) or because they benefit from huge expenditures by the public sector (such as in the health sector during the COVID-19 pandemic).

Further, considering the distributive effects of interest rate policies decided by central banks, income and wealth inequalities can be addressed in a more structural way by a return to a more progressive tax system, which also supports economic activities and reduces financial instability, because poor and middle-class people have a propensity to consume much higher than rich people. Such a fiscal policy may be complemented with a variety of instruments, including price controls in all those sectors (like energy, health, education and

foodstuff) where the purchasing power of lower and middle-class people is largely affected negatively at the time of writing. To this end, incomes policies could also contribute to affect the level of wages, profits and public tariffs so that inflationary pressures across the market for produced goods and services are kept under control (see Saraceno, 2023).

As regards fiscal policy, in particular, the general government sector should introduce a taxation on excessive profits to lower the costs of basic goods and services (such as gas and electricity bills, largely consumed foodstuff, and transport for sustainable mobility) and to collect fiscal revenues that can be used to finance public investment in a series of domains supporting an appropriate ecological transition by both firms and households. The public sector should also collect a micro-tax on all cashless transactions (mostly in financial markets) to finance public investment that support low-income households for childcare and elderly care services as well as training and social integration of the most vulnerable people.

Now, a stronger intervention by the State within the economic system should actually go along with rethinking the organization of contemporary capitalism, notably what, how and for whom to produce in the general interest for the common good. This was already pointed out by Robinson (1972) and implies several distributional conflicts to be solved considering the mutual convenience of all stakeholders in distributing across the whole economic system in a well-balanced form the prosperity resulting from both investment and technological progress aiming at an appropriate ecological transition in a not-too-distant future. The circuit of financial capital must be reoriented in this regard, with a series of policy instruments that we put forward and explained in this section.

CONCLUSION

Money and banking are instrumental for the creation of value in the form of income (a sum of bank deposits). As long as income is not spent in the market for produced goods and services, it exists in the form of financial capital, which their owners usually park in a way or another across financial markets, from which they expect to earn a rent without contributing to produce an income within the economic system as a whole. This chapter – and the analysis presented in it – has shown how it is important to reduce the volume of financial transactions as well as the power of financial institutions in order to affect the circuit of capital, with a view to rebalancing its industrial and financial circulation over the long run so that both distributive and climate-related issues can be addressed for the common good.

A crucial step in this regard consists in implementing a monetary–structural reform of banks' book-keeping system of accounts so that the issuance of money and the credit provided by banks are explicitly separated. As shown in this chapter, banks are in a very powerful situation since they can provide any amount of loans to any kinds of agents – most of the time to other financial

institutions – without the need to respect any budget constraints because 'loans make deposits' within the banking system. This endogenous nature of bank money rises the need to separate in banks' ledgers the loans they provide for 'GDP-based transactions' (Werner, 2011, p. 29) – which produce an income – from those loans that do not increase national income since they just inflate financial capital. As Ricardo (1824/1951, p. 276) already noticed with regard to his national central bank, '[t]he Bank of England performs two operations of banking, which are quite distinct, and have no necessary connection with each other: it issues a paper currency as a substitute for a metallic one; and it advances money in the way of loan, to merchants and others'. This fundamental distinction occurs also for any other bank, as all banks (not just central banks) do issue money and provide loans. Such a monetary–structural reform is key for making sure that money, value and capital circulation in a finance-led economic regime contribute to the common good, instead of continuing inflating credit bubbles that go against the long-run general interest of all stakeholders in contemporary capitalism (see Rossi, 2015; 2025 for analytical elaboration on this monetary–structural reform). Rather than just regulating bankers' behaviour with *ex-post* liquidity as well as reserve requirements, national governments must therefore adopt a monetary–structural reform that provides an ex ante constraint on banks' credit lines. Such a reform is really instrumental in reorienting both bank loans and financial capital away from polluting as well as destabilizing activities, to support green investment in fixed capital, so much so when the fiscal and monetary policy interventions suggested in this chapter will become a reality across the global economy. All this will not just support economic growth for the common good but will also increase the employment level, particularly of lower as well as middle-class people, thereby enhancing social cohesion and possibly reducing several geopolitical tensions that are currently damaging the well-being on social and economic grounds.

NOTE

1. To be sure, China also experienced a housing bubble more recently, but the factors originating it do not result from financial capitalism: this bubble stems from local government incentives for the construction of new residential buildings, limited investment opportunities for households and the Chinese upper-class propensity to expand home-ownership, which increased house prices beyond any reasonable limits.

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[Q1]	Please check the sentence “The circuit” for clarity and correct as necessary.
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[Q3]	Please check the sentence “Hence, before” for clarity and correct as necessary.
[Q4]	The URL address https://www.ngfs.net/sites/default/files/media/2021/06/17/ngfs_monetary_policy_operations_final.pdf given here is invalid or inaccessible. Please verify the address and correct if required.
[Q5]	Please provide the volume number and page range or doi number for the bibliography in Ref. [Rochon and Tropeano, 2025].