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Introduction

We have lost a truly special friend, Alain Parguez, who passed away peacefully on 5 April 2022, in Paris, at the age of 81. Alain was Professor Emeritus of Economics at the University of Franche-Comté, in Besançon, France and an outstanding French intellectual.

Alain obtained his PhD from the Université de Paris I in 1973, and was a distinguished economist who influenced both younger and older generations of heterodox economists alike. Together with Augusto Graziani, he can be considered the founder of the Franco-Italian Circuit School. Indeed, Alain drew his inspiration and was a fierce defender of Marx, Keynes, and Kalecki, although he did not shy away from criticizing them. He was a life-long critic of Hayek and of austerity, a defender and promoter of full employment, and an overall believer in the need to revolutionize economics. For Alain Parguez, economists and policymakers must break away from the ideological stranglehold on the profession by the neoclassical economics of scarcity. This latter is a fictitious 'Real Economics', in Schumpeter's meaning, where all the phenomena of economic life can be described in terms of a barter model. It must be uprooted and substituted by a truly 'Monetary Economics', where the essential features of capitalist evolution strictly depend on money, which is introduced at the foundation of the theoretical edifice. To free ourselves from this intellectual yoke, one must embrace what Keynes had dubbed the monetary 'economics of abundance', especially the abundance of public capital because, unlike the private sector, the state can deliver public capital without hard financial constraints and potentially can play a central role through public investment and social innovation. *Vive la révolution*, which he would say at the end of many

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*By agreeing to sign this article, authors are expressing their personal opinion.

talks, was not only Alain's rallying cry, but it was a fundamental belief. He fiercely warned us all about the 'perils of sound finance' and the need to break away from received theory. He was a true original thinker.

His intellectual interest went well beyond economics. Not only did he defend the need for social justice and was a fierce critic of inequalities and unemployment, emphasizing the role of the state in achieving broad social goals; he also pursued a relentless fight to build anew a perspective bolstering cultural and political change in view of an alternative society. Like Marx, Alain saw the state in its predatory role in favouring the private wealth accumulation of the economically powerful, and like Keynes he also saw the state in its role as a potential source of stability in reducing social anxiety and predation by promoting genuine social progress. But the core of his intellectual and political project went much deeper than this inherited opposition regarding limits and possibilities of state intervention. From the point of view of economic theory, his project is captured in the primary focus not on aggregate demand and income distribution but rather on the key link between money and production, which is rarely seen as the bedrock of investigation. From the point of view of economic policy, his project is embedded in his commitment to a particularly strong version of the 'socialization of investment', shaping first and foremost the allocation of employment and the composition of output, i.e., the structure itself of the economy.

Within his outlook of providing money endowed with real value, the State must play, at once, the role of the employer, of the welfare-source, and of the wage-provider, of first resort. A stance about the contradictory role of the state which led him to be a very harsh critic, even of political movements of the Left, that failed to grasp the importance of his uncompromising vision. Indeed, this is why he had become such an ardent critic of the so-called Mitterrand U-turn in 1981, which was a watershed moment in his political relationship with the French Socialist Party at the time.

The Critical Economics of Alain Parguez

Alain had a long and illustrious career, not only as a writer, but also as editor of the *Monnaie et Production* Series for *Économies et Sociétés*,[1] and as such, played an important role in bringing together French and European economists and U.S. post-Keynesians. The series appeared 10 times, between 1984 and 1996. The first issue, in April 1984, contained articles from Jacques Henry, Marc Lavoie and Mario Seccareccia – the result of a friendship that had begun between the four economists a few years before, when Alain was first invited as a Visiting Professor to the University of Ottawa in the Fall of 1981 (5 years after first meeting Marc Lavoie, in Paris), then became a fixture of sorts as an adjunct professor over many following years. As such, Alain was instrumental in bridging the theory of the monetary circuit with post-Keynesian theory at large, having published in both *Économie Appliquée* and *Économies et Sociétés* such economists as Philip Arestis, Paul Davidson, Gerald Epstein, Augusto Graziani, Joseph Halevi, Jan Kregel, Edward Nell, John Smithin, Randy Wray and many more. Later in life, Alain would further his views and

[1]Louis-Philippe Rochon and Mario Seccareccia are currently working on a book of '*Selected Essays from Monnaie et Production*', to be published by Edward Elgar. The book is due in 2023.

attempt to build bridges with the proponents of Modern Monetary Theory (MMT), by incorporating into his monetary analysis a theory of the State. As such, Alain was a builder and someone who brought people together. These bridges went hand-in-hand with dialogue and confrontation, as we shall remind below, because Alain always wanted to go at the roots of matters under discussion.

Alain's research can be articulated into the following components, which were all connected parts of a broad single vision: (i) the theory of the monetary circuit, where the nature of money is that of being strictly endogenous and non-neutral; (ii) a critic of the Euro and its institutions; (iii) a visceral criticism of mainstream economic policies, especially policies of austerity; and (iv) a theory of the State. In particular, Alain's early writings were devoted to a mostly positive inquiry about the working of the monetary circuit within the actual capitalist developments. The later writings were dedicated to a 'generalisation' of the monetary circuit with a more normative angle. In fact, at the moment of his death, Alain had been working on an important book titled, *Modern Money, State and Society: Towards a General Theory of Transformational Capitalism*, which he believed to be a critical contribution to understanding modern capitalism.

(i) Money

The notion of money appears prominently in Alain's work. In fact, as anticipated, Alain believed that there cannot be a theory of macroeconomics without first understanding the notion of how money is an integral part of a theory of production: a monetary theory of production, indeed. An understanding of capitalism implies first a full exegesis of money. At the heart of this analysis are the notions of the efflux and reflux, what Graziani (1990) had called initial and final finance. Alternatively, it has been referred to as the creation and destruction of money. Early statements can be found in his first book, *Monnaie et Macroéconomie: Théorie de la monnaie en déséquilibre* (Money and Macroeconomics: the theory of money in disequilibrium) published in 1975. Today, Alain would certainly amend the title and avoid using the term 'disequilibrium'. As Rochon and Seccareccia (2013, p. 2) argue, the book 'contains the seeds of his approach to economics that have followed him to this day.' In that early book, he confronted the first attempts to break with the Neoclassical Synthesis and traditional Keynesianism, and laid down an initial representation of the economic process in terms of a circuit.

Alongside the essential temporal dimension within the period of the circuit, Alain asserted two theses. First, that the purchase of new capital goods is at the origin of a specific financing by the banking system, and in this case the question of the monetary realization of gross profit does not arise by definition. Second, that money is not 'scarce', as it is created *ex nihilo* by the banking system: hence, since the very early 1980s, his battle to affirm the principle that wealth creation is deadened by austerity policies. Alain always maintained the idea that, at the opening of the monetary sequence, firms wishing to purchase new capital goods, when issuing their purchase orders to the capital goods enterprises, will also borrow the money needed to do so. Therefore, the necessary identity between the initial inflow and the final outflow of money does not contradict the presence of a profit in monetary terms.

In this approach, there is an entrenched rejection of the notion of loanable funds: commercial banks' initial finance is essential to begin the production process, lending to those firms that banks deem creditworthy, and even shape the real composition of what is produced. This is reminiscent of Keynes who in *The Treatise on Money* argued that 'credit is the pavement along which production travels and the bankers if they knew their duty, would provide the transport facilities to just the extent it is required in order that the productive powers of the community can be employed at full employment.' (John Maynard Keynes - CW VI, page 197). At the same time, Alain is an uncompromising critic of the Keynes of the *General Theory*, whose given money supply he interprets as reducible to exogeneity. Alain, on the contrary, fully embraced a theory of endogenous money, and as Lavoie (2013, p. 13) suggests, Alain was close to the horizontalist view of money as defended by Basil Moore (1988). But his views on the endogeneity was close to what Rochon and Rossi (2013) called the revolutionary theory of endogenous money – that is money is endogenous by nature not as a result of liability management or the evolution of specific institutions (as in Chick, 1986, for instance). In this sense, since money is created *ex nihilo*, Alain rejected the very notion of the scarcity of money.

While it is true that money is created out of nothing by banks, this is done by financing the expenditures of some individual who, on the basis of long-term expectations, targets an aggregate expected value of real wealth. Only after these expenditures are realized will real wealth actually be generated, and those who have obtained the loans will be able to return the amount to the banks, destroying (in whole or in part) the money created in the opening phase. Money only has (real) value insofar as wealth is produced, and this is strictly dependent on demand driving production. In the closing phase of the circuit, the real value of money is destroyed, and the same money that might have been held as a liquid reserve no longer has any value in itself: it will only regain it to the extent that it is reintroduced into the expenditure-production cycle.

The key point for Alain was that private investment expenditure is surrounded by absolute uncertainty, hence the crucial role of the State, at all stages. Only State spending has the character of 'autonomy' that can reassure firms, causing them to avoid the anxiety that can trap them in a stationary or decaying condition, and on the contrary push them to grow dynamically. The commercial banks themselves are able to provide credit to the extent that, through the Central Bank, the 'banking arm of the government', they are covered by the power of the state. Household debt for consumption encounters limits sooner or later, unless there is adequate private investment, and the latter in turn depends on public deficit spending. In other words, the long-term horizon of enterprises is too uncertain for them to embark confidently on the acquisition of new capital goods, and, if they do not, the banks would be unable to create bank money, the nature of which is to be driven by the demand for loans. The 'retreat' of the State terrifies businesses, which defend themselves not only by reducing spending, but also by increasing the required profit margin and squeezing the share of wages. Alain maintained that the only challenge facing an economy is the ability to create wealth: the path of austerity and deflation is politically imposed from above.

(ii) A critic of the Euro and its institutions

Alain is known for having been one of the most outspoken critics of the euro. His strong opposition to the euro and the monetary institutional structure within which the euro emerged started very early in the late 1980s with his rejection of the Delors Report that eventually led to the Maastricht Treaty of 1992. His opposition rested both on fundamental theoretical concerns relating to his vision of what is money and also on the historical power relations that had been at the root of the Euro project whose political origin actually went back to the interwar era of the 19th century.

Before going to recall Alain's positions on the euro, it is important to remember the lucidity with which he saw that the monetary unification that was more a French than a German endeavour, embodying a philosophy about money and deficits shared by both the Right and the Left in that country after World War II. '[T]hese elites see sound finance as the central pillar of the stability of the social order. The difference between the two groups is a matter of degree. The 'right' builds its position from a financial equilibrium standpoint where savings lead the investment process and any systemic budget deficit is seen as a drag on capital formation. The 'left's' view, argues Parguez, has been heavily shaped by the fact that '[t]he Marxism of the Marxists was ultra-Ricardian, holding that profits were a gain wrung from the working masses through exploitation and that public deficits created inflation, which impoverished the masses even further' (Parguez 1998, p. 185; quoted in Halevi, 2019, p. 11) This culture of French technocrats, turning choices into technical necessities, goes back to at least the1950s, and partly explains how France was the true centre of austerity policies and of the competitive disinflation policies in the early 1980s. Alain never tired of highlighting the intellectual faults of this culture, and its human and social costs.

Let us now see how Alain conceived the euro architecture. First of all, the euro's foundation, as reflected in the institutional structure of the Eurozone, rested on a Mengerian view of money, as if the latter were a commodity, like the quintessential 'gold', which can be both conceptually and institutionally separated from the State. To him, this was a 'false' money because its institutional separation from the State necessitated a particular constraining structure that would ensure macroeconomic dysfunctionality. Hence, starting with the original Maastricht Treaty and the various binding treaties of the Economic and Monetary Union (EMU) that ensued, according to Alain, this constraining structure imposed on national governments a 'market' discipline that would destroy the 'real' economy. Without some institutional adaptation, as has occurred somewhat clumsily over the last decade, the euro would probably not have survived the post-Great Financial Crisis (GFC) period.

Secondly, his opposition to the euro rested on more than just some mere theoretical/institutional criticism of the EMU. Alain was also opposed to the euro because he saw it as a dangerous attempt to revive politically a very conservative 20th-century 'traditionalist' project that was both fundamentally elitist and anti-democratic in which the masses, potentially reflected in the national elected assemblies, would be prevented free political expression by a bureaucratic/technocratic elite, as reflected in the supranational monetary authorities. He argued that this political structure of an unaccountable authority that would be insulated from the desires of national governments was a direct threat to European democracy. This institutional separation of money and the state was, therefore, not only a harbinger of macroeconomic dysfunctionality via long-term austerity, but also a threat to democratic governance.

Since public debt is nothing but a debt of the state to itself, the euro crisis is self-inflicted. This was the inescapable logical conclusion. By seeking to remove the State as the engine of growth, those who designed the euro architecture and dictated its policy rules decided to privatize the state and treat it like any other private company. They also created a European

Central Bank that is forbidden to play the normal role of central banks; national states have been forced to make efforts to balance their accounts since they could only borrow from the financial markets with looming fears of default. Though the euro did not end with a bang, as Alain predicted, the possibilities that, in the long run, it could die with a whimper was still on the table. However, this was before the interlocking three recent crises in a few years – after the GFC, we have witnessed the Covid-19 pandemic and the Ukraine war – that changed somewhat the stage of the unfolding drama. After all, most monetary unions were constructed through similar dramatic events, their limits notwithstanding. The future is open, but less than reassuring.

(iii) A visceral criticism of mainstream economic policies

Through his long career, Alain fiercely opposed austerity policies arguing that they had their place neither in theory nor in practice. This applied to both fiscal policy and, indeed, to monetary policy in terms of high real rates of interest: 'Austerity policies, both monetary and fiscal in nature, impose a tribute on society in order to accumulate, by destroying the foundation of future growth' (Rochon and Seccareccia, 2013, p. 4). In particular, high interest rates favour rentiers at the expense of both households but also the productive economy. For Alain, the ultimate rentier economy that Keynes so much feared in the *General Theory* was one in which the pursuit of balanced budgets together with the 'inflation first' monetary policy of high real interest to quell any inflationary pressures would become the norm. The dominance of these austerity policies together with the removal of the New Deal regulatory structure starting in the 1980s were to him not only the deep underlying causes of the GFC but also these pro-rentier policies led our societies to face vulnerabilities that left us unprepared for the looming health crises beginning in 2020, since they had deprived society of the much-needed public/social investments in the name of austerity.

Government debt since the 1980s is the outcome of what Alain labelled as 'bad deficits' resulting from the shock therapies, such as the one imposed on Greece in terms of spending cuts, with tax revenues falling and deficits rising, or from long-term deflationary policies of attacking public employment and state investment, where the government fails to stop the fall in tax revenues and bring the deficit to zero. Bad deficits do not reflect a growth in society's capital stock. Private agents expect more cuts, more poverty, so they refrain from consuming or investing. This self-defeating process is the ultimate reason of the economic apocalypse diagnosed by Alain.

(iv) A theory of the State

Later in his career, Alain turned his attention to the important role of the State, in particular in criticizing post-Keynesians, notably for failing to recognize the weight of its influence on the economy, a statement that (according to some) would also apply to earlier versions of the monetary circuit. For Alain, the State plays a crucial role since it is both the motor of long-term growth and development through public investment in education and R&D but also in providing the necessary physical and social infrastructures without which a modern society cannot function productively and do without. For this reason, the State cannot be conceived as some exogenous or 'neutral' player that even some post-Keynesian economists assume in their models of the macroeconomy.

In reality, the State can become an instrument of powerful elites that can transform it into a Rentier State via neoliberal policies. However, it can also serve a broader social role through greater democratic control. This is why he was so critical of the euro as we have discussed above, because its political purpose was primarily to tie the hands of national States through the imposed inability to engage in deficit spending, thereby being forced to implement a quasi-permanent austerity This is why Alain was sympathetic to MMT and promoted various political initiatives in several European countries, especially in Italy, to contest the Euro structure, which can beredesigned. At the same time, Alain put into question some positions becoming fashionable even in heterodox quarters, which he found misguided and based on what he described as a 'Robin Hood' view of the public finances. He insisted that money exists before taxes: taxes are paid in money because the capitalist system requires it, and it is wrong to believe that taxes are the *sine qua non* of money. Also, he found preposterous the proposition that everybody may create money, and declared to be against the revival of the Poor Laws.

According to Alain, the rules of a good State management were the following. Full employment should be the unique principle of government intervention. There is no need to constrain the State in its expenditures, since it can issue debt for public investment in its own currency and fix the interest rate of this debt at a very low level. As a consequence, governments can command high enough wages consistent with an equitable distribution of wealth, while at the same time imposing a sufficient ratio of sound public assets over private assets. The big push towards long-run public investments must be financed by planned and 'good deficits', not out of borrowing from savings. The State must not tax to get income to spend but to prevent pernicious animal spirits from engaging in delocalization, speculation, and predatory behaviour. State deficits should not be used to save banks from their accounting losses but to nationalize them, at least for some time. The Central Bank should supply money for public investment at zero interest, so that the State can directly allow the production of real social wealth out of publicly-owned institutions.

The endorsement of good deficits versus the neoliberal bad deficits described above is probably the most authentic incarnation of his policy views. Deficits are good when they are the result of long-term policies aimed at creating a useful and productive stock of capital, both material (all kinds of infrastructure and equipment that will never be created by the private sector, because they are beyond its capacity to bet on an unknowable future) and non-material (hiring in advanced research, health-care, education: sectors where the real capital is labour). Good deficits, thus, reflect a long-term policy of accumulating society's capital stock. Their long-term impact is always positive, and they generate increasingly positive expectations of all private agents, resident and non-resident. They are the ultimate engine for directing growth. Note that good deficits are also self-financing, because national income is generated by previous expenditures, whereas bad deficits rise endlessly as incomes fall and debt services explode.

Concluding Remarks

The writings and interventions of Alain Parguez were distinguished by intellectual rigour and logical coherence, which went hand in hand with the courage of conceptual innovation and intellectual integrity. Despite the conflicts that he had with many, especially in his own country, he wielded great respect among many internationally, especially in the U.S. and Canada and also in Latin America via his beloved friends in Mexico, where many of his important writings were published in Spanish in *Ola Financiera*. These qualities made him such a rare bird among economists, unfortunately a specie on the verge of extinction. He was outstanding also for his tenacious effort not to follow the newer generation of economists, and too many of his own generation, who turned their activity into that of the *bricoleur,* according to Claude Levy Strauss's definition. These *bricoleurs* pursue scientific knowledge by contemporaneously performing various different tasks, none of them subordinated to a project, always ready to do with whatever is at hand. Alain's challenge, theoretically and practically, was on the contrary to construct his own conceptual and political instruments, sticking to his project to build the theory of a monetary production economy, aiming to change the given state of affairs, and in a perpetual revision and improvement of his own results. This is an attitude so distant from the crowd of economists, of whatever persuasion, willing to become *idiots savants* at the service of some Prince, that he always disparaged.

If the word 'Master' as spiritual guide were not so degraded nowadays, this is how he should be remembered: at the same time, as a fundamental *incontournable* reference for the formation of the economist as a critical social scientist, and as an inspiration to move bravely against the stream. Let us quote again Keynes, who wrote: 'Words ought to be a little wild for they are the assaults of thought on the unthinking.' This was the powerful and passionate way Alain struggled with and against reality, and this is how we will remember him.

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