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THE REAL AND FINANCIAL–MONETARY SECTOR FROM NEOCLASICISM TO KEYNESIANISM. SOME CONSIDERATIONS REGARDING THEORETICAL PRINCIPLES

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Abstract: The cyclic evolution of world economy in the 19th and 20th centuries and also at the beginning of the 21st century is mirrored by the economic crises of raw materials, finance and currency and it generates serious dysfunctions between the real and financial sector.These dysfunctions form the basis of certain theories that are still largely tackled as a consequence of the fact that they have to solve the contradictions that these crises generate. The present paper aims to advance general considerations regarding the principles which might balance the functionality of the real sector and the financial and monetary sector by establishing similarities between them.

KEYWORDS: real exchange economy, monetary economy, capital demand and supply curves, economic crises, financial crises, Keynesian clasicism and neoclasicism.

Introduction

According to the neoclasic theory, financial markets are the ultimate markets. Walras considers that the stock exchange is an ideal market because it brings demand and supply in the same place and the transaction dealers may rapidly rebalance the market.

However, according to neoclasic theory, currency and finance are more reliable, but not fundamentally important.

In "Elements of Pure Economics" Walras tackles real exchange economy to facilitate modifications.

Keynesian theory (post-keynesian and the clasically Keynesian theories) deal with financial markets in a double manner. On the one hand, currency and finance (banking system and financial markets) are of crucial importance in production

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monetary economy. On the other hand, the financial system may lead to fragile and unstable economies.

This theory of Keynes is mentioned in his book "Theorie Generale" (chapter 12) and it is embraced by a large number of post-keynesian supporters, especially by Hyman Minshy and others.

According to Keynes, money hoarding creates problems for real economy. Naturally, it is the hoarding of large sums of money which creates problems. Consequently, all managers, enterprises, non-profit associations and states must have liquidities to cope with unpredicted events; these liquidities should come from the investments in the financial sectors which should be able to finance a part of their activities.

The paper aims to examine the principles involved in the relation which exist between the real and financial sectors. In other words, we are going to make reference to neoclasicism (1), general Keynesian principles, as well as post and Keynesian clasicism (2). After we have selected similarities which exist between them (3), we can discuss about two social policy problems (4), which occur when we analyse the interaction of the real and financial sectors.

Literature Review

Neoclasics: exchange economy and the Say law

The neoclasic theory is based upon exchange and the Say law which is one of its fundamental axioms. According to its modern version, this law states that financial resources savings are usually invested. Thus, the financial sector is an extremely efficient market since it directs savings towards the most profitable investments.

The rates of stock exchange shares point out the fact that enterprises have a growth potential and that they can also maintain at their disposal the financial means whereby these growths can be accomplished. Savings also generate investments the individuals' rationality is similar to the rationality of the systems.

It is difficult to integrate currency and finance in the walrasian version of the neoclasic theory, which is not the case of the marshalian version. In consequence, Walras considers that real exchange economy (B-B') is a monetarist economy (B-M-B') or an economy in which the currency has an auxiliary role.

On the contrary, Marshall developed an exchange monetary teory in which M-B'…PM… B'-M', where M = M' [M = currency; B = goods: means of production; B' = final goods; PM = mysterious processes which link factors of production for the final products (Piero Sraffa)] (Bortis 2003a, pag. 87/88).

According to the Marshallian system, production is far from the exchange sphere which is placed among the markets for the factors of production which in their turn determine repartition and the level of usage. For each market, the exchange of a good is evaluated in terms of currency versus currency, e.g., marginal costs = price, or marginal monetary work product = rate of salary. at macroeconomic level, transactions are synthesized as quantitative equations.

Since economies basically tend to attract investments, each security is a real counteraparty.

The savings for which depositors expect to be offered an annuity may imply an accretion of securities (shares, bonds) which are available when they are paid.

These securities correspond to the production capacity and they produce the goods demanded by fund holders. At the same time, the (neoclasic) method of converting capital for former annuities.

Keynesian Clasics: production monetary economy

According to Keynesian theory, both post and clasic theories, the link between investments and savings is broken. Moreover, it is contradictory and it generates negative consequences over economic activities and as regards the use of workforce.

In consequence, in a production monetary economy [M-B…P…B'-M'], social production processes P - represented by Leonteef – Sraffa scheme – are of crucial importance. Production-based prices are established within production and repartition processes, by avoiding different institutions (this is a social complex process); the level of European activity (B' - Q) is determined by demand itself (M'). Savings of financial resources are adjusted, in principle, by the quantitative variations of investments, the national product and the use of workforce.

In a production monetary economy, the currency is by definition closely linked to the produced goods. Bernard-Schmitt used to compare currency with a numerical case which transports the newly produced merchandise (Rossi 2001). This statement is true if the currency circulates in the production and reproduction processes. However, the case will be immediately empty one the currency leaves the productive circuit and enters the financial circuit.

If the currency which is emptied of its content enters the financial sector and is used according to the enterprise policy, this currency will be content-loaded when the new stocks – linked to the investments made – are bought or kept for facilitating the financing of urgent projects which are meant to generate a structural adjustment or a quick turn to higher growth rates.

Securities bought with this money produce an income which increases consumption or contributes, for example, to the functioning of non-profit institutions. On the contrary, the domination of financial speculations may result in groundless fast price increases on the stock exchange which are followed by an unequal income repartition – unfriendly take – overs and restructuring of enterprises for augmenting profit.

Are there similarities between Keynesian neoclasicism and clasicism?

The present dominance of the neoclasic theory does not seem to be inferior to the classical Keynesian economic system which is mainly based on the results of scientific research pursued by Keynes, Sraffa and Pasinetti (Bortis 1997, 230 a and 203b). This theory is theoretically and historically grounded:

- theoretical grounds: debates regarding the capital theory which do not aim at a general balance and are based upon a cause-effect lack of income balance in non – economic institutions and influenced by the demand and supply curb position (Bortis 1997, cap5, pag. 281 -293; Harcourt 1972);
- historical grounds: the major economic crises of the last quarter of the 19th century, the crises which occurred in the 30's and in 2008-2009: according to the great international organizations two thirds of the mankind live in poverty, and a third of the potentially active population is either underused or unemployed.

Two consequences for social and economic policy

If we refer to the classical Keynesian economic theory, we notice that there are two ideas that are worth mentioning and remembering: one refers to the future macroeconomic policy, while the other one refers to the current social security system.

(a) As to **macroeconomic policy**, a repartition policy and a policy designed for the use of workforce are fundamental for a production monetary economy (Bortis 1997, cap. 4 şi 6). In a monetary economy, macroeconomic policy does not regulate itself at the same time if markets are competitive (Harcourt 1972, Bortis 1997, cap.5). Macroeconomic policy does not tend to use workforce in a balanced way. On the contrary, cumulative processes may reinforce an already existing un balance (Kaldor, Myrdal).

(b) In **a monetary economy**, social securities for seniority and pensions for retirement must rely on the repartition system and not on the principle of capital guarantee. Dissociation between savings and investments leads to a contradiction: a more developed economy regulates the guaranteed capital and investments do not increase; in fact, they decrease. On the other hand, more currency enters the financial circuit and market gaps are filled in (Bernard Schmitt).

Most of the currency mass circulates in the financial sector and it encourages speculations, which leads to an increase in the price of stocks; however, the value of the stock is partially emptied of substance and the rate may amount unrealistic levels in relation to the real value of enterprises which are quoted at the stock exchange. Funds which are reinjected in the circuit of production generate a public deficit for statului and they correspond to the following relation: $G - T = S - I$.

The state will be indebted because particular investors may place their extra savings in investments which are necessary for maintining the full use of the workforce. We refer to the massive loans on the financial market which the Ministry of Public Finance made due to the serious financial crisis and the increase of the public deficit during the first eight months in 2009 (Euro 5.5 billions).

Conclusions

In a production monetary economy, the financial sector is very important as finance facilitates transactions in an exchange or monetary economy. Real economy – social production and circulation of goods cannot simplify the functioning of an economy without currency and finance (M - B …. P .. B'-M'): the currency is present at the beginning and at the end of production and circulation processes.

All production calculations concerning rentability and consumption involve the currency; furthermore, consumption processes (of long lasting products), production and capital accumulation processes evolve in time, while the currency is the link between past and future (Keynes).

However, the financial sector is fragile and its relation to the real sector is delicate. In consequence, banks may create the (endogenous) currency for financing investments. In this case, savings may surpass the volume of investments (expected by entrepreneurs) and a part of the currency may become a "currency without material content" (Bernard Schmitt).

This currency which is "contentless (empty of content)" may also circulate in the financial circuit by an excessive speculation which produces financial crises (a "good speculation" which balances economy, e.g., is the example offered by negotiators who buy and stock agricultural products if there is an abundant harvest and, thus, they contribute, at the same time, to the stabilization of prices for agricultural products (Kaldor 1939).

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