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## A CAPITALIST CONTRARIAN

### *Diagnoses and Prescriptions of Jean-Luc Gréau*

**N**EARLY FOUR YEARS after the onset of the worst financial crisis since 1929, a remarkable unanimity as to ‘what is to be done’ appears to prevail among mainstream Anglophone economists. Emergency liquidity supplies to the banks, to keep credit flowing while balance sheets are corrected; a stiff dose of Keynesian public spending, to mitigate the world recession; then a return to deficit-cutting austerity—combined, if possible, with ‘taking advantage of the crisis’ to push through any desirable structural reforms in pensions, retirement age, social provision. The arguments, noisy enough, have been almost entirely tactical, centred on quantities and timings. The strategy itself, aiming to return to business as usual as quickly as possible, has hardly been questioned, despite the fact that the specified measures have shown little sign of working to date—and in sharp contrast to the clash of ideas that followed 1929.

But if mainstream economics has become a depressingly uniform field in the US and UK, across the Channel the landscape remains more variegated. France has a well-deserved reputation for critical economic thought; from the left, there have been important contributions from neo-Marxist and post-Keynesian analysts, as well as the rich and diverse literature produced by the Regulation School. More unusually, there exist powerful critics of neoliberalism on the centre right. Jean-Luc Gréau, a long-time economic advisor at the French employers’ association, is one of the few economists both to have predicted the crisis and to have proposed an alternative set of solutions to those espoused by the G8. Gréau was born in Hadjout, then Marengo, in French Algeria in 1943, and studied economics in Montpellier from 1962. He joined the Conseil

National du Patronat Français, as it then was, in 1969—the CNPF would be rebranded as the Mouvement des Entreprises de France, or MEDEF, in 1998—retiring from a senior post in 2004. Gréau has described himself as ‘a mixture of a Keynesian and a Schumpeterian who recognizes his debts to Marx and, above all, to Adam Smith. Difficult to classify.’<sup>1</sup> A frequent contributor to *Le Débat*, his published work takes the form of extended discussion of the general questions of political economy at stake, rather than analytical number-crunching as such.

Gréau’s most recent book, *La Trahison des économistes* (‘the treason of the economists’) is a scathing attack on the intellectual apologists for neoliberalism. Published in 2008, it has become a best seller in France since the fall of Lehman Brothers. But *La Trahison* builds on two previous works that were published well before the crisis: *Le Capitalisme malade de sa finance* (‘capitalism laid low by its finance’—or, more literally, ‘made ill by its finance’) appeared in 1998. As its title suggests, it concentrates on the economic malfunctions associated with the transformation of the Western financial system since the 1970s. *L’Avenir du capitalisme* (‘the future of capitalism’), published in 2005, extends and deepens the original critique, looking not just at financial change but at the process of globalization as a whole.<sup>2</sup>

Although there must now be a wide gap between Gréau and his former employers—MEDEF itself has embraced many neoliberal positions—and although Gréau seeks interlocutors across the political spectrum, he remains a voice of the centre right. Gréau wants to restore capitalism, not to replace it. His critique embraces not only the contemporary functioning of the financial markets but also the ‘expenditure-driven state’. He has suggested that government spending becomes unproductive when it exceeds a third of GDP—a limit that would imply massive retrenchment in most European countries.<sup>3</sup> Nonetheless, his is a voice worth listening to, for the clear and thorough analysis he articulates and the trenchant critique he offers of the course taken by capitalist development since the late seventies.

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<sup>1</sup> Interview with *El País*, 2 October 2008.

<sup>2</sup> Jean-Luc Gréau, *Le Capitalisme malade de sa finance*, Gallimard: Paris 1998, 383 pp.; *L’Avenir du capitalisme*, Gallimard: Paris 2005, 299 pp.; *La Trahison des économistes*, Gallimard: Paris 2008, 245 pp.

<sup>3</sup> *Le Capitalisme malade de sa finance*, p. 360; henceforth CMF.

*Non-productive finance*

Published in the midst of the 1997–98 Asian crisis, and on the eve of European monetary union, *Le Capitalisme malade de sa finance* kicks off with a ‘simple yet scandalous’ question. If the financial markets really do rule the world, as the mass media suggest, then how and when did they come to assume such a powerful position? What are the limits of their power, and what instruments do the public authorities retain to inflect the advanced economies? As often in critical economic studies, the analysis starts from an account of the long post-war boom, the ‘thirty glorious years’ of Fourastié—although Gréau thinks that twenty-five is a more accurate figure. He argues that there was nothing out of the ordinary about this period: ‘The post-war expansion was not the fruit of exceptional circumstances.’<sup>4</sup> Externally, the international monetary order of the Bretton Woods era stabilized exchange rates but allowed devaluations to correct major imbalances, thus supporting the monetary sovereignty of Western states, which also included control over capital flows. (Gréau perhaps underestimates here the role of international organizations in shielding individual states from foreign-exchange pressures: the European Payments Union, in particular, managed the supply of dollars to European countries throughout the 1950s.) Internally, it was not Keynesian fiscal policy but an accommodating monetary policy and, crucially, an elastic supply of bank credit for industry that were the essential conditions for the economic successes of the ‘glorious’ quarter-century. They permitted a sustained period of growth and innovation, which Gréau regards as the normal outcome of capitalism, provided that competition among industrial enterprises is not impaired.

What went wrong? ‘The foundations of the system were shaken externally, by the fragility of the official exchange-rate system; and internally, by an increasingly lax management of both the private and the public sectors, under the influence of the Keynesian theories that had become dominant’.<sup>5</sup> It is above all in the external factors, however, that Gréau detects ‘the germs of disorder’. Bretton Woods was a system of fixed exchange rates against the dollar, and different analysts have attributed its demise to each of these terms—growing problems in maintaining fixed exchange rates, or the increasing instability of the dollar—in the context of an increasing liberalization of international capital flows.

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<sup>4</sup> CMF, p. 383.

<sup>5</sup> CMF, p. 115.

Gréau follows Robert Triffin by arguing that dollar weakness was the key factor, leading to the final abandonment of their exchange-rate pegs by most European countries in the spring of 1973.

After the breakdown of the fixed exchange-rate system, the narrative of *Le Capitalisme malade de sa finance* emphasizes the role of rising state indebtedness in propelling the financial transformation. For Gréau, the policies adopted to deal with 1970s stagflation first in the US, with the dramatic monetary tightening of the 1979 'Volcker shock', and then across the advanced economies, 'threw the baby out with the bath water'. Central banks hardened their policies, using their control over interest rates to deter inflation rather than to promote investment. This destroyed the measured but elastic credit system that had supported growth. The switch in monetary policy made bank credits both more expensive and less secure, leading both firms and governments to place greater reliance on the security markets. An important role was also played by the huge institutional investors, who reinforced the demand for securities and accelerated the retreat of the banks from the direct provision of credit to firms. During the post-war expansion, financial markets had 'followed a straight path of development: the credit market, the money market and the bond market formed a coherent whole'. The new bond-market system 'destroyed both continuity and coherence'.<sup>6</sup>

One consequence of the Volcker shock was the debt crisis in developing countries. These had borrowed extensively in the 1970s but now found three factors working against them: real interest rates on their dollar loans were much higher; the dollar itself appreciated rapidly, raising the burden of indebtedness; and their export markets in the US and in Western Europe were stagnant or in recession. The Third World debt crisis rebounded on the big Western banks that had made the loans; one of the banks' responses was to sell the loans at a discount to other investors. Gréau suggests that this securitization of impaired bank claims on developing countries was an important early example of the shift from banks as intermediaries to their increasing involvement in the security markets. In successive chapters on the 'old' and 'new' equity, foreign-exchange and bond markets, Gréau underlines the fact that the transformation of the financial system has involved not only much greater interdependence between them, but also deep changes in the nature of the financial markets themselves. One of the most

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<sup>6</sup> CMF, p. 253.

fundamental changes is, precisely, this switch from the bank's function as intermediary between the suppliers and users of funds, to an increasing reliance on marketable securities, where the realization of financial claims depends not on the solidity of a deposit-taking bank but on the liquidity of the markets in which such claims are traded.

With financial transformation, according to Gréau, 'capital separated itself from enterprise. It now inhabits the financial sphere.'<sup>7</sup> This happened, firstly, because of the switch from classical bank credit to the issue of marketable securities as the dominant mode of corporate finance; and, secondly, because, within the securities markets themselves, the primary markets—where securities are issued by the actual users of capital—were increasingly subordinated to the secondary markets, where existing securities are bought and sold on what has become a staggering scale. Gréau argues, with some exaggeration, that the tail did not wag the dog in this way in the past. The secondary market for bonds used to be a 'second-hand market'—it offered investors the possibility of liquidating their positions should the need arise. Today, however, 'the leading role of the secondary market cuts off the link which could relate the determination of interest rates to the availability of savings.'

The same thing applies to corporate equities, where the secondary market is in any case strongly influenced by events in the bond markets. Large corporations are no longer shielded from capital-market pressures by the presence of stable long-term majority stakeholders. Today the institutional investors do not necessarily hold more than 2 or 3 per cent of a company's shares, but 'they are able to exercise a determining influence over its top management'.<sup>8</sup> Corporate leaderships were less concerned with fluctuations in their share price when a controlling block of shares was closely held by long-term investors with a strategic interest in the enterprise. Pension funds and investment companies today trade their share-holdings intensively and are usually open to the bids that would permit a takeover. To the extent that they intervene in company policy it is in order to maintain the value of the securities in their portfolios, not primarily to strengthen the enterprise. The upshot is a process of 'pseudo-rational financial accumulation', in which institutional investors buy at high prices in order to increase the worth of their existing holdings. Gréau's critique of shareholder power will be familiar:

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<sup>7</sup> CMF, p. 210.

<sup>8</sup> CMF, p. 208.

During the twenty-five glorious years, company leaderships had to concern themselves above all with their customers, their workers and their competitors, only to a limited extent with their shareholders. In the aftermath of the financial revolution, they had to give all their attention to the shareholders, especially those privileged shareholders who are the pension funds. They still have to respond to the wishes of their customers and to the initiatives of their competitors, but only to a very limited extent to the aspirations of their workers.<sup>9</sup>

The biggest possible reduction in the number of employees and in the wage bill is one way to meet the demands of the shareholders. Of course, employers were always concerned to reduce wage costs; in the past, however, this goal was balanced by the attempt to increase market share and expand their enterprises. Shareholder pressures now tended to subordinate expansion to profitability. The upshot was wage stagnation, leading to depressed demand. Increasingly, and especially in the Anglo-Saxon economies, Gréau argues, household indebtedness became the principal motor for expanding demand. Since much household debt was set at variable rates, the effects of central banks' adjustment of interest rates now had hugely amplified effects. By the mid-90s, Gréau argues, the policies that had been set in place to contain 70s stagflation risked producing a new monstrosity: stag-deflation.

It is noteworthy that *Le Capitalisme malade de sa finance* puts much more emphasis on the spread of securitization than on financial globalization as such. Indeed, Gréau claims that 'the transformation of the financial markets has not, despite proclamations to the contrary, led to their unification. They are still tied to specific financial sectors'. Though open to global investors, 'the bond markets remain within the orbit of national economies', their logic 'dictated by internal inflation prospects and monetary-policy decisions'.<sup>10</sup> Gréau gives some examples of divergence across securities markets, such as the Japanese stock-market bubble in the late 1980s. But the main securities markets are surely increasingly closely interlinked in terms of correlated price movements, with the same institutional investors present in all of them; a trend reinforced through vast transnational mergers, such as that between Euronext and the NYSE. However, the assertion that national financial systems were still autonomous allowed Gréau to argue, in his closing chapter, that effective solutions still existed at the level of the European Union and even, to some extent, the individual country.

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<sup>9</sup> CMF, p. 210.

<sup>10</sup> CMF, pp. 201, 304–5.

The alternative to neoliberal ‘stag-deflation’, Gréau suggests, is ‘to prioritize productive labour’—‘economic, financial, social and moral reasons all point to the same conclusion’. To rely on ‘household debt alone’ to drive demand is clearly imprudent. The mal-distribution of income away from productive activity should be corrected, not by imposing direct controls over the financial sphere, but by re-linking wages to productivity. All employees, regardless of rank, should share in profits.<sup>11</sup> Gréau concedes that globalization—in the form of ‘wage-dumping’—poses a problem of competitiveness. Nevertheless, he thinks that with a minimal protectionist shield at EU level, together with the development of continental-scale industries, remuneration could be re-linked to productivity, as during the ‘glorious twenty-five’. Macro-economic policy should become more expansionary, with the fight against inflation becoming ‘curative rather than preventative’.<sup>12</sup>

In this context, Gréau is particularly scathing about French adherence in the 1990s to the Bundesbank’s conditions for European monetary union: sustaining the over-valuation of the French currency in an effort to ‘keep the franc in the orbit of the deutschmark’ had cost the country a million jobs and a huge public debt. Astonishingly, the French authorities appeared to think that German manufacturing had conquered new markets *because* of the strong deutschmark, not in spite of it. But the German strategy of cost-cutting and subcontracting through ‘organic extension’ into ex-Communist central Europe—a growing part of German value-added comes from goods and services realized in Poland, the Czech Republic, Slovakia, Hungary and Slovenia—was not open to France.<sup>13</sup> Gréau’s critique of the economic basis of European monetary union in *Le Capitalisme malade de sa finance* deservedly won him a reputation for prescience:

The new currency will not be viable unless and until the underlying economies have become so interlinked as to form a single economic entity, or unless a supranational mechanism for redistribution makes it possible to buffer at least some of the shocks which a unified monetary policy will not be able to avoid . . . To a completely wrong conception of the European project must be added the specific constraints resulting from the adoption of the German model of monetary management: serious difficulties can be foreseen and, perhaps, a catastrophic failure of monetary unification.<sup>14</sup>

The work ends with equally prescient warnings of coming instability. The American economy also has an Achilles heel:

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<sup>11</sup> CMF, p. 342.

<sup>12</sup> CMF, pp. 357, 361.

<sup>13</sup> CMF, p. 354.

<sup>14</sup> CMF, p. 362.

American households are once again over-indebted. The American expansion will end when households are no longer willing or able to roll over their debts . . . The moment is unforeseeable, but the brake on US domestic demand will affect Asian exports and share portfolios . . . A US slowdown could be the factor which triggers a new fall of the dollar with totally destabilizing consequences.<sup>15</sup>

### *Globalization's discontents*

In 2005, Gréau's *L'Avenir du capitalisme* offered a more wide-ranging assessment of the structural and institutional changes in contemporary capitalist systems, embracing not only financial processes but changes in the international division of labour and in relations among the main economies. The first chapter recalls Schumpeter's judgement in *Capitalism, Socialism and Democracy*—that, although materially capable of surmounting its crises, capitalism faced moral and social defeat from within, disavowed by the intellectuals, while bureaucrats defeated its entrepreneurs. By contrast, Gréau notes, the 21st century has seen the victory of the entrepreneur on every continent and the twilight of class struggle: 'And yet, the triumph of the system coincides in a strange way with multiple and massive anomalies in its functioning'.<sup>16</sup> Emergent economies had been subject to repeated crises—in the decade before *L'Avenir du capitalisme* was published, these had rocked Mexico, Thailand, Indonesia, South Korea, Russia, Brazil, Argentina. The super-competitive, exporting economies of Germany and Japan had failed to maintain employment. The 'American patient' had been suffering from economic slowdown since the high-tech crisis in 2000; worse, the US Treasury and the Federal Reserve had adopted expansionary policies at a time when household indebtedness and the external deficit would normally have called for restriction, with economists cheering on what looked like a flight forward into uncontrollable debts and deficits. 'The American authorities, as though they had become hostages of the financial markets, turned to a massive stimulus of just the kind that encourages the behaviour leading to bubbles'.<sup>17</sup> The US economy was threatened, it seemed, by risk of a genuine depression—not least due to the risks that had accumulated within its financial and real-estate markets: 'American pensions are invested in the stock market; the

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<sup>15</sup> CMF, p. 382.

<sup>16</sup> *L'Avenir du capitalisme*, p. 18; henceforth, AC.

<sup>17</sup> AC, p. 23.

real-estate market has mutated into a speculative market, parallel to the stock exchange: collapse in these two markets would be synonymous with the ruin of pensioners and the insolvency of home-owners.<sup>18</sup>

The fragility at the heart of the American model was threatening the world economy as a whole. Japan and Germany were the most dependent on the situation in the US—‘the creditors have been captured by the debtor’.<sup>19</sup> The American deficit was the symptom not only of huge quantitative imbalances but of a deliberately instituted qualitative disequilibrium: the displacement of productive activities to China and other emergent economies amounted to deflation on a world scale—driven in this case not by a collapse of demand but by cost reductions. The US stock market, and the other financial markets operating on similar lines, drove these processes forward; the stock markets ‘no longer reinforcing the capital base of the quoted enterprises but methodically eroding it’.<sup>20</sup> Gréau welcomes the corporate scandals at Enron and elsewhere that followed the bursting of the high-tech bubble:

That the investors blessed by the law of shareholder value were on these occasions looted and robbed is, for us, not a source of concern but grounds for celebration and this for two reasons: firstly the satisfaction of seeing that aberrant systems which are based on injustice destroy themselves from within; secondly the pedagogic value of an experiment which shows that, in principle, the relations between capital and the enterprise cannot be those of a proprietor to a piece of property.<sup>21</sup>

Gréau sees the US economy as central to the general economic disorder. In this restatement of his position, he once again identifies the dangers of a reliance on household indebtedness to sustain economic activity. In the US, pressure to correct this internal imbalance is limited, because the reserve role of the dollar makes it possible to finance a widening current-account deficit, as economists increasingly recognized. But the profession usually ignored the role of the US deficit in driving down the cost of labour on a world scale, ‘a reduction directed along the rails of global free trade’.<sup>22</sup> In *L’Avenir du capitalisme* it is the deflation of wages that is the central malfunction of the globalized economy (as distinct from ‘classical’ deflation, which follows a collapse of demand). The ultra-low interest rates maintained by the Fed after the high-tech crash—and closely imitated by the ECB and the Bank of England—kept

<sup>18</sup> AC, p. 23.

<sup>21</sup> AC, pp. 45–6.

<sup>19</sup> AC, p. 31.

<sup>22</sup> AC, p. 73.

<sup>20</sup> AC, p. 37.

classical deflation at bay by permitting over-indebted agents to refinance themselves very cheaply. But the US growth model based on household borrowing continued to undermine wages and employment conditions in the West, gradually creating a 'structural under-payment of labour'.<sup>23</sup>

Gréau sees the rapid growth of Chinese and Indian exports as disastrous for workers in the West: 'China offers to the enterprises of the world the immense reserve army which Marx thought he saw forming in the first industrial countries in Europe'. There is practically no manufactured good whose production cannot be displaced to China, nor any 'intellectual' service activity that cannot be entrusted to India, which offers 'a second reserve army in the field of services that require a high level of technical and scientific competence'. The migration of complex service functions to India reveals the emptiness of that apologia for globalization that would see it recasting the international division of labour, so that the advanced capitalist countries export high-value services in exchange for Chinese manufactures. The adjustment for the West does not take the form of changing specializations but of unemployment, under-employment and falling wages. Meanwhile, the Chinese Communist Party's renunciation of its dogma is insignificant compared to 'the renunciation of American and European labour by its traditional employers'.<sup>24</sup>

The arguments for global free trade are demolished one by one. It does not promote competition: most of the exports from China to the West are produced under the aegis of Western companies. Protection of Western economies would not necessarily reduce competition, provided outside companies were still free to invest and produce within them. Nor does free trade promote the development of the poorest, primary-producing countries; it would rather 'keep them in the undeclared status of colonies, producing cheap cotton to be turned into garments by Chinese or Indonesian helots'.<sup>25</sup> The emergent economies do not need exports to the developed ones to finance their importation of capital goods—they are able to acquire modern producer goods from inward FDI. Cheap, imported consumer goods are not an effective alternative for wage increases in supporting the standard of living of Western workers, because the price reductions are at the same time deflating the value added by the workers themselves. 'China worries me', Madame de Guermantes remarks 'with a serious air', in *À la recherche du temps*

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<sup>23</sup> AC, p. 87.

<sup>24</sup> AC, p. 101–3.

<sup>25</sup> AC, p. 116.

*perdu*. Gently mocking in its original context, the remark today encapsulates 'one of the most crucial questions about the economic future of the world'.<sup>26</sup>

Western corporations' abandonment of their home workforce is seen as part of a broader strategic shift, driven by the financial markets and the US state:

The free-trade project resulted from a collective decision by the ruling elites of the developed countries, taken under the pressure from the financial markets, the big retail chains and the most powerful multinational groups, as well as at the political instigation of an America which included this trivial project for the exploitation of human resources in a wider and perhaps more candid project to bring backward populations into conformity with American economic and cultural norms.<sup>27</sup>

The globalization project cannot be dissociated from 'the assumption of power by the financial markets', Gréau concludes.<sup>28</sup> The moral vacuity of the strategy is revealed in the vision of the 'enterprise without workers': with outsourcing taken to the limit, managers' sole function will be as an interface between the market and the products' suppliers. 'The enterprise without workers will remain a fiction', but the fantasy itself reveals 'an underlying will to separate the firm from labour'.<sup>29</sup>

*Le Capitalisme malade de sa finance* had already described the 1997 Asian debacle as 'a classic over-investment crisis'. *L'Avenir du capitalisme* also stresses the malfunctions brought about by the emergence of untrammelled global finance: Latin American countries becoming debt tributaries; the East Asian economies brought down by capital inflows of which they had no need: 'The Asian crisis demonstrates in retrospect a mindless international finance, carried away by unreasonable hopes for capital gains'.<sup>30</sup> But Gréau denies the need for supranational regulatory measures, such as a Tobin tax:

Let us be careful not to see, in the proposal for general taxation of capital flows, anything other than one of the slogans displayed on an anti-capitalist demonstration. Of course, it feeds the imagination of the opponents of the global economy, but in so doing it gives support to the illusion of global regulation at just the point where it is surely necessary to reaffirm the principle

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<sup>26</sup> AC, p. 97.

<sup>27</sup> AC, p. 101.

<sup>28</sup> AC, p. III.

<sup>29</sup> AC, p. 113.

<sup>30</sup> AC, p. 149.

of the responsibility of nations and the principle, indissolubly linked to it, of national sovereignty.<sup>31</sup>

Gréau sharply distinguishes his critique from that of the alter-globalization movement, which he describes as ‘a mediatized, *ersatz* form of the workers’ movement of the past’—as ‘devoid of theoretical and practical thinking as the political movement behind global free trade is itself devoid of intellectual or moral objectives.’ His own programme, by contrast, is for a ‘rationalization of capitalism’ which would ‘permit the enterprise and competition to work in a more just and more efficient way’. Above all, he argues, there is ‘no example of successful development that is not based on a national will and a national vision’.<sup>32</sup>

The attempt to specify a reform programme that will rescue capitalism from the *cul-de-sac* of globalization begins with the question: what good do stock markets now do? Their classical role was to provide capital for quoted corporations; but with the new practice of share buy-backs, the flow of capital is often in the opposite direction. In an era when most investors were individuals, dispersed ownership of corporations was less of a problem; the rise of institutional investors, however, undermines the autonomy of the enterprise. It was under pressure from these fund managers, ‘paradoxically both powerful and prisoners of the market’, that the American stock exchange began to display the pathological symptoms of a closed system. This goes beyond ‘the practical interests of managers, accountants, analysts and bankers in seeing their forecasts converge to sustain a climate of optimism, favourable to their personal fortunes’. It lies in the more general character of the stock market itself, which does not operate according to the laws of equilibrium: ‘the supply of investment, represented by the purchase of securities, and the demand for investment represented by the issuance of securities, are disconnected’. A share’s value essentially lies in the hopes nourished for it by the psychology of the investors. In practice, it is the buyer, not the seller, who sets its price—and who does so in hopes that it will rise.

The in-built risks of a bull market have been vastly amplified since the bourses fell into the hands of the big investment funds. ‘In contrast to individual shareholders who can enter or leave the market as they please, institutional investors are literally trapped inside it. Their objective

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<sup>31</sup> AC, pp. 153–4.

<sup>32</sup> AC, pp. 17, 41, 154.

dependence on the market pushes them to strive for ever-higher prices.’ To take account of negative information would be ‘to saw off the branch on which they are sitting’. *L’Avenir du capitalisme* concludes: ‘The big institutional investors make the market because they are the market. It is this closed system, impatient to achieve its target rates of return and, at bottom, rather indifferent to the economy itself, that is the true image of the stock market today.’<sup>33</sup> Under its pressure, the strategies of the major corporations have become increasingly dysfunctional, as demonstrated by the exorbitant remuneration levels of their senior executives.

Gréau argues for a reconciliation, although not a reintegration, of ownership and control for large corporations, so they may ‘fulfil their social functions’ in a rational, continuous manner.<sup>34</sup> Profits should be seen as the income of the firm, not of capital. The Anglo-Saxon view that corporations are simply the property of the shareholders—displacing the ‘stakeholder’ orientation, previously seen in Japan and continental Europe—eliminates the key distinction between purely opportunistic shareholders and those with ongoing links to the enterprise. Institutional investors, who demand a say over corporate strategy but have no continuing connection to the corporation, represent a form of absentee ownership. The penetration of Anglo-Saxon institutional investors into other economies has destabilized previously existing relations between the firm and a dominant fraction of its capital, whether that took the form of ownership by a family, by a bank, by other industrial enterprises or by the management. The true role of the shareholder is to safeguard the independence of the enterprise: ‘What makes the shareholders necessary is not the risks they run but the risk against which they protect. In the absence of stable shareholders, the enterprise becomes the hostage of its partners’—of its creditors, its employees, its suppliers or its customers.<sup>35</sup> But though Gréau speaks of the enterprise as having a ‘mission’ or an ‘objective in the public interest’, he does not make clear how this would be determined or altered.

Yet the critiques of the stock market and of Anglo-Saxon finance are preliminary to that of the world-trade system that finance has promoted, and which *L’Avenir du capitalisme* sums up in the phrase: ‘globalization crushes employment.’ The policy proposals that Gréau now advances centre on the creation of large-scale—regional or continental—common

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<sup>33</sup> AC, pp. 178–9.

<sup>34</sup> AC, p. 193.

<sup>35</sup> AC, p. 195.

markets, shielded by a novel form of protectionism. Under the aegis of a World Competition Organization, which would replace the WTO, enterprises would be free to establish production facilities in other countries, in order to encourage competition on the basis of efficiency, product quality and innovation, but not to export into those countries, simply on the basis of cheap labour. This is a very unusual position: most advocates of trade protection would also favour rigorous controls over flows of foreign direct investment, on the grounds that it is much more intrusive to establish production facilities or to purchase a company in another country than to export goods to it. FDI leads to a much closer involvement in local employment systems, regulatory practices and tax structures than is implied by cross-border trade. But the originality of Gréau's position does not make it illogical. He wants to protect the wages and conditions of employees, without protecting their employers from competition stemming from greater efficiency or higher product quality. His proposal amounts to a very strong labour clause, restricting the scope of free trade. The actual competitive superiority of an enterprise is to be tested by its ability to employ and remunerate the workers which its competition displaces.

Other proposals are less original. Gréau calls for a decentralization of the international monetary system which would conform to both a reduction of inter-continental trade and a brake on the Americanization of financial systems—a kite first flown in *Le Capitalisme malade de sa finance*. At the level of the corporation, he argues for the removal of voting rights from those shares that are frequently traded. However, he gives some consideration to private equity as a means for stabilizing company strategies, which would seem incompatible with his overall vision. Private-equity investors certainly eliminate dispersed ownership, but the unified control they exercise is completely under the sign of the financial markets: the goal is to bring about, as rapidly as possible, an increase in the market value of the company that has been purchased. During the recent financial bubble, the vast sums poured into private-equity funds in pursuit of leverage finally undermined the financial structure as a whole.

*L'Avenir du capitalisme* opened with Schumpeter; it closes with Polanyi and Braudel, setting the recent 'transformation' of the world capitalist economy in a longer-term perspective. Rejecting a globalization process that would call the role of nation-states into question, Gréau returns to the historical roots of the capitalist economy, which he locates, firstly, in

a transformation of relations between northern European cities and their contiguous rural areas, tending towards relations based on exchange rather than the cities' predatory power. The next step, decisively inaugurating the capitalist era, was the formation of national markets within nation-states. This vision leads to a critique of Braudel, who emphasized the role of long-distance trade:

One cannot imagine a clearer logical opposition than that between the choice of productivity which implies, for the economic agents who strive for it, the hope of seeing their efficiency freely recognized by their customers, and the choice of predation, which amounts to imposing an unjustified advantage, resulting from a position of strength, within economic relations. Yet [the confusion of the two] is the *tour de force* achieved by Fernand Braudel, whose writings have unfortunately contributed to a persistent misunderstanding of the true nature of capitalism and, more unhappily still, to a distortion of the decisive step in the economic transformation of Europe which the formation of national markets represents.<sup>36</sup>

The same emphasis on the role of the nation-state informs Gréau's condemnation of the discourse of globalization, which would subordinate national development programmes to 'a new pseudo-model in the shape of contemporary America'. He recognizes many strengths in the US economy, not least certain social conditions favourable to expansion and employment: 'nowhere else does the launch of a new project receive as favourable a spontaneous reception or such active support from the economic environment'.<sup>37</sup> Other aspects are more debatable, including 'the unconditional support for financial markets by the public authorities' and the 'growing contrast between the wealthy strata and the mass of indebted Americans'. *L'Avenir du capitalisme* concludes:

Although the future belongs to capitalism, on condition that it overcomes the material contradictions which threaten its equilibrium, it belongs also to all those nations which have adopted its essential principles. No nation has the right to impose its future on capitalism.<sup>38</sup>

### *Treachery on high*

Gréau's most recent work, *La Trahison des économistes*, has a narrower focus, being a critique of neoliberal economics, especially in France; but it is particularly useful in that it was written after the outbreak of the sub-prime crisis and therefore summarizes his responses to that event.

<sup>36</sup> AC, p. 282.

<sup>37</sup> AC, p. 291.

<sup>38</sup> AC, p. 299.

The allusion to Julien Benda's great work is justified by the scandalous abandonment of critical responsibilities that Gréau finds among the apologists for neoliberal positions; but his reproach is slightly different to Benda's. *La Trahison des clercs* accused French intellectuals of betraying their 'clerical' function, defined positively as the service of objective truth. Gréau here accuses the economists and economic commentators of *constituting* a clergy—a priesthood, in the service of the neoliberal project.

It may seem surprising that it is French economists who are accused of a slavish adhesion to neoliberal orthodoxy. Gréau acknowledges the presence of heterodox positions in the universities: old-style liberals, unrepentant Keynesians, original research projects undertaken in the spirit of Schumpeter or Marx. But 'an undeclared ostracism denies them access to the media and, in consequence, to the microcosm of political decision-makers, because the selection of the best minds depends on the media'.<sup>39</sup> Repeated protests from economists in France attest to the reality of this exclusion. There have been recent movements against 'autistic economics' and the dominance of an economic *pensée unique*. A 70-page manifesto by 'dismayed economists' has been a major success.<sup>40</sup> Yet as Gréau says, only neoliberal economists have the privilege of declaring essential truths to the French political class, 'transfixed—*médusée*—by the accomplishments of the new globalized economy'.<sup>41</sup> His examples of issues effectively blocked from debate by the priesthood will be familiar to Anglosphere readers. Thus: all responsibility for the financial debacle is attributed to individual misdeeds—'in new-age capitalism, certain actors may be fraudulent but the markets themselves are innocent'. Despite the increasing dependence on borrowing by heavily indebted households in the US, no general problem of aggregate demand in the world economy is recognized; and commentators continue to assert the mutual benefits of the new international division of labour, in spite of its predatory effects.<sup>42</sup>

*La Trahison des économistes* consists of five chapters, each identifying a neoliberal position, putting forward a critique and drawing policy conclusions. 'How to be attractive and competitive?' asserts Gréau's central protectionist position: competition from low-wage economies is now

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<sup>39</sup> *La Trahison des économistes*, p. 6; henceforth, TE.

<sup>40</sup> Philippe Askenazy, Thomas Coutrot, André Orléan, Henri Sterdyniak et al, *Manifeste d'économistes atterrés. Crises et dettes en Europe: 10 fausses évidences, 22 mesures en débat pour sortir de l'impasse*, Paris 2010.

<sup>41</sup> TE, p. 7.

<sup>42</sup> TE, p. 11.

so fierce and embraces such a wide range of products that there is no effective way of maintaining the competitiveness of European economies:

The comparative advantage that the developed countries acquired by being the first in history to carry out scientific and economic development is a thing of the past, or is rapidly becoming so. The new economic world presents itself as a world of competition across all goods and services that can be traded internationally. Alas, it is also a world where competition is more and more unequal in that, on the one hand, the former beneficiaries of development are burdened by costs of production and of state activity that cannot be drastically reduced without depressing domestic demand and breaking social cohesion; and on the other, the efficiency gains of the newly promoted economies are not balanced, nor about to be, by a comparable advance in the living standards of their populations.<sup>43</sup>

Gréau again advocates a form of protection that would permit any enterprise to contest European markets via FDI; this would exclude competition on the basis of low wages, while encouraging it when based on genuinely higher productivity. At the same time financial protection for French and European enterprises should be based on the issue of non-voting shares to institutional investors, which would limit shareholder pressure on corporate strategy—pressure which, in Gréau's view, has encouraged the relocation of Western manufacturing to China.

The complacency with which neoliberal orthodoxy regards the decline of manufacturing in Western economies is challenged in the next chapter, 'Post-industrial or hyper-industrial society?'. Although industrial production today provides less direct employment, it remains central to technological advance and is closely tied to many high-value service activities, threatened by its emigration to the emerging economies. The growth of services represents not 'a bifurcation of the competitive economic system', but rather 'a deepening of industrial society', a development that Gréau associates with increasingly active and autonomous consumers.<sup>44</sup> *La Trahison des économistes* then turns to the Hexagon: 'Is France ruined?' The destabilization of French public finance is traced primarily to the preparations for monetary union in the 1990s, involving a long period of currency overvaluation. However, the French public debt is held primarily within France, which remains a net creditor in international terms; there is thus still scope for autonomous policies to correct the situation. Nevertheless, 'we have begun to pay a veritable

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<sup>43</sup> TE, p. 61.

<sup>44</sup> TE, p. 110.

economic tribute to globalization' which will 'expose us to a national bankruptcy, properly so called, if it is aggravated by the failure to establish a commercial policy to protect the whole European economy'.<sup>45</sup>

In a stylized presentation of his analysis, Gréau postulates three economic spheres: the first is the productive economy; the second consists of primary finance, closely tied to the first; the third consists essentially of secondary markets for securities and is a world of speculation. The third sphere has expanded relentlessly with the disintermediation and securitization of bank credits: 'The most left-wing mayor of London will not utter a word against the effervescent activities that occupy the population of the Square Mile. The City of London and its region, perhaps even the whole of England, have become economic tributaries of the third sphere.'<sup>46</sup> Central banks themselves have been 'taken hostage' by the securities markets, not daring to limit the growth of speculation for fear of provoking crisis and collapse. A prescient section, 'Rebirth of capital or triumph of credit?', describes the transformation of US real-estate finance into a field of security-market speculation. As in *L'Avenir du capitalisme*, Gréau sees some possibility that private equity, closely involved in company management, can counteract the influence of absentee shareholders. But here the discussion is more nuanced: private equity can only play a positive role when it engages with productive strategies and avoids burdening its target enterprises with debt.

Finally, a reflection on capitalist competition attempts to present a more concrete and realistic account of the process than that found in economics text-books. A critical account of electricity deregulation in the US suggests that the upshot was not so much effective competition as a series of captive markets. The competition that Gréau sees as essential is between enterprises, whose continual struggle for market share implies the permanent rationalization and reorganization of the production process, under the sanction of autonomous consumers. Chamberlin's monopolistic competition and Schumpeter's account of innovation are better guides than the price competition of standard theory.

*La Trahison des économistes* closes with a call to 'put an end' to neoliberalism, given the exhaustion of the Anglo-American model. Politicians and financiers had intended to put the economy back onto a healthy basis

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<sup>45</sup> TE, p. 134.

<sup>46</sup> TE, p. 153.

of capital and risk. In reality, the system they established depended on the subordination of monetary and credit policies to the requirements of deregulated finance: 'The monstrous originality of the new capitalist world lies in its being given over to a neoliberal experiment, shaped by a traditional ideology, with the instruments inherited from the Keynesian period.'<sup>47</sup> In spite of his distaste for high levels of public expenditure, Gréau praises the Swedish exception: the Swedes have shielded their enterprises from shareholder pressure and the country trades more with its traditional partners than with the emerging economies. Swedish banks have avoided disintermediation and, above all, the Swedes have stayed out of the Eurozone.

Gréau argues for a programme at EU level to define a new path of economic development. He recognizes that the present European Commission is hardly in a position to undertake this task:

European institutions have been invaded by the representatives and disciplines of the Anglo-American model to the point that some EU functionaries have been trying to outbid the Americans and the English in ideological terms. We have to recognize that the main obstacle to be surmounted lies in this implicit denial by Europe of its own character, its economic and financial traditions and, above all, its political will.<sup>48</sup>

But Gréau suggests that this situation is due to a kind of abdication by the member states, rather than their usurpation by the Commission and the Court of Justice. It remains possible for member states to define a common political project that would have priority over the rules of competition through which, at present, neoliberal strategies are enforced. The programme he invokes is as much social and cultural as economic. Its first principle is demographic—policies aimed at lifting the 'suicidal threat' posed by low levels of fertility in the context of increased life expectancy. The second would be to end the subordination of education to employment. A protectionist commercial policy is the third principle; the promotion of exchange-rate stability, especially vis-à-vis major currencies such as the dollar, the fourth. Next comes a reassertion of the rights of the enterprise against those of the shareholders, with lower taxes on stable long-run shareholdings than those that are frequently traded. The security and autonomy of Europe's food and energy supplies is the sixth proposal and, finally, a

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<sup>47</sup> TE, p. 222–3.

<sup>48</sup> TE, p. 253.

rigorous ecological policy, including carbon and other pollution taxes to help finance common projects.<sup>49</sup>

### *Assessment*

Gréau makes a powerful presentation of his case. Two aspects of his political position should be taken into account. There is firstly his commitment to capitalist competition between enterprises as the source of economic progress: he has nevertheless moved a long way since he was economist to the French employers' association. Secondly, there is his rejection of supranational authorities: like many in France, including economists well to his left such as Jacques Sapir, he is a *souverainiste* and sees the form of the nation state as of primary economic importance. Here too, however, his views are not simplistic. He dismisses for example, De Gaulle's attempts to restore the gold standard as completely contrary to the need for an elastic credit supply both in France itself and more generally. Again, although he rejects the supranational pretensions of the EU, his political programme is laid out, as has been seen, in European rather than narrowly French terms. Apart from a few sallies at the expense of 'ultracritical' opponents of global capitalism, this is in no way a tendentious work. In many respects it coincides with accounts of financialization and globalization from Marxist and other heterodox economists. For this reason the critical remarks which follow are directed not only at Gréau but at certain positions found very widely in current debates. They concern the impact of globalization on Western workforces and the role of finance in current economic developments.

Gréau is surely correct to identify a process of 'wage deflation' in the advanced economies, but he ties this too closely to the emergence of China and other low-wage producers onto world markets. This raises problems of timing: the assault on wages, working conditions and social protection in Western economies had already begun before Deng Xiaoping's reforms could have any effect. The assault had many dimensions but, as Dani Rodrik has argued, one of the most important was simply the new mobility of productive capital. This put workforces into competition with each other even in the absence of big relocations to developing countries. One of the earliest and most destructive capital migrations took place within the US itself: the move to the Sun Belt,

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<sup>49</sup> TE, p. 240–5.

which had devastating consequences for the industrial economies of the Midwest and the Northeast seaboard.

This point of detail relates to one of analysis. Gréau wants to argue that the initiatives leading to globalized economic relations were discontinuous with accumulation processes within Western economies during the 'glorious' post-war decades. The counter-example of capital migration within the US itself suggests that the two phases share a common economic logic. The same is true in Western Europe (where the rapid growth of productivity associated with a catch-up, after decades in which war, depression and instability had held back investment, also needs to be considered). Both the post-war expansion in Northern Europe and the economic restructuring which followed its exhaustion overstepped national boundaries. The expansion was dependent on urbanization processes; by the late 1950s these had become international, as labour was drawn from the Mediterranean, North Africa and further afield.

The drive to contain labour costs that began to dominate German investment patterns from the 1970s had both domestic and international aspects: the rapid automation of many production processes and a move up-market to more specialized industrial products at home were accompanied by the multinationalization of German corporations, with investment flowing first towards its Northern European neighbours, then to Southern Europe and finally on an intercontinental scale. All of these moves, not just the last, posed problems for German workers. In effect, the post-war expansion in Europe depended on an elastic supply of labour. The tightening of labour markets in the late 1960s and into the 70s, and the decline in profitability to which it was linked, triggered a vast, and increasingly radical, restructuring process that worked to undermine the established position of labour. This is not to deny the normative importance of many features of the post-war period, nor the dysfunctional character of many of the so-called 'reforms' which followed. But the stagflation of the 1970s signalled deeper problems than a disordered exchange-rate system or laxity in public finances. The vast over-accumulation that brought the expansion to an end, and the deep restructuring it provoked, can themselves be seen as processes typical of capitalist dynamics, rather than as departures from its normal pattern of development. As to foreign investment, even today the majority of FDI flows are from one advanced economy to another. The consequences for labour can still be severe, simply because of the freedom of manoeuvre

that this mobility confers on capital. This is not to deny the very sharp problems posed by imports from low-wage countries; but one limitation of Gréau's argument for protection is that he considers only the defence of Western employment relations and does not discuss how the interests of Chinese or Indian workers could be secured in such a context.

Like Gréau, many critics of globalization regard the process as the outcome of a conscious political, or political-financial project. Of course, any major economic development today has political preconditions and requires negotiation between legislators and interest groups, the installation of new regulatory structures, the redefinition of property rights and so on. But this very visible political accompaniment does not mean that the processes involved have no economic logic. Globalization is surely, among many other things, a new phase in the socialization of production. One can very reasonably object that this is a very anti-social socialization—but when was that not the case? There is every justification for Gréau's critique of finance, which converges with that of many other commentators.<sup>50</sup> The predation, speculation, deception and irrationality that he depicts are real and have been confirmed, in the most destructive ways, by the sub-prime debacle and its aftermath. But it seems exaggerated to suggest that it was largely pressure from the financial markets that promoted the vast shift of industrial production towards emerging economies: the big Western corporations were heavily involved in international relocations prior to the financial transformations of the last twenty-five years.

Two analytical points will be linked to this observation. The first concerns the distinction between bank credit and security-based finance. Many critical observers of contemporary finance—critical of its hypertrophy, its parasitism, its instability—speak as though the central failure of the financial system relates to the substitution of marketable securities for bank loans in forms of credit provision. They frequently contrast the supposedly patient support for their industrial customers from German *Hausbanken* with the excessive demands and short-term preoccupations of the shareholding funds that scrutinize the quarterly reports of US or British corporations. Too much weight should not be placed

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<sup>50</sup> See, for example, the dramatic account by Robert Fitch of the impact of financialization on New York, 'Explaining New York City's Aberrant Economy', NLR 1/207, September–October 1994.

on this distinction, which concerns, at bottom, two forms of maturity transformation—two types of exit from a financial relationship. If the user of funds wants them for a long period, but the supplier may require them back sooner, then the gap can be closed either by reliance on a strong institution—a bank—which aggregates its credits and deposits, so as to preserve the liquidity of the latter; or by making the investor's claim marketable, so that another investor can take it over and provide an early return of the funds committed.

These two forms have co-existed, in close symbiosis, since the beginnings of industrial capitalism. Early forms of credit were very closely tied to exchange: late payment for a transaction represented a credit from the seller to the buyer, prepayment the reverse. As finance became a separate social function, both modern forms developed simultaneously: trade credits were made negotiable and thus took the form of marketable securities; what became the banks were originally merely the strongest participants in that market. Both forms of credit may work in a stable and efficient way. Both can fail, misallocating investment resources within individual credit transactions or provoking widespread crises. Since banks have always been major players on securities markets, it is hard to argue that a narrower role for the latter and a wider use of classical bank credit would itself make for more stability and rationality in the financial sphere. In the case of the US sub-prime mortgage fiasco, for example, the possibility of issuing marketable securities backed by the mortgages was certainly central to the whole process. But the crisis itself was greatly aggravated by the banks' failure in practice to sell these securities on a large enough scale across the financial system; they often stayed with the issuing banks, trapped in the 'conduits,' and therefore immediately compromising the banks when their value was called into question.

The development of an international financial system in recent decades has involved a great deal of disintermediation and securitization. (These terms are roughly synonymous but, strictly speaking, the first denotes the general replacement of bank credit by security markets; the second, the transformation of a specific set of bank credits into securities.) Many see this as representing in itself a kind of decadence in financial relations, but it is also possible to interpret it in terms of scale: whereas banks may be more effective than security markets in the detailed monitoring of specific credit relationships, the markets are

better able to draw funds from dispersed investors on a continental or global scale and to transmit them to different enterprises, sectors and national economies. Security markets were always more important in the US than in individual European countries, in part due to the continental scale of the US economy.

There is hardly any doubt that one consequence of the recent financial crash will be to accelerate the growth of securities markets—not at the expense of the banks, which will remain the main actors in these markets, but at the expense of classical bank intermediation. Even the limited moves so far agreed to restrain and re-regulate the banks—for example, by requiring them to raise more equity capital or to declare more of their assets on their balance sheets—will tend to make bank credit more expensive relative to security-based finance, which can therefore be expected to continue its growth within a global financial system which, *pace* Gréau and many others, is becoming more integrated and interdependent as a consequence of the crisis.

The second analytical point concerns the nature of finance. Obviously, finance is an *interest*, or a closely coherent set of interests. As such it is extremely powerful and dangerous. But finance is also a *function*. Indeed from the point of view of heterodox economic traditions, whether Keynesian or Marxist, it is an indispensable function. Heterodox economists recognize that markets do not clear. The normal working of commodity exchange distributes surpluses and deficits across the economy in a complex and largely unpredictable way. Only the ceaseless recycling of monetary resources then permits the deficit units to survive, and thus the capitalist economy to continue. Those mainstream economists who believe in the spontaneous equilibration of the market may regard the financial system as merely a lubricant of market exchange; those without this Panglossian assurance have to regard finance as the market's condition of existence.

A highly internationalized and interdependent economy requires a complex international financial system. Long before the neoliberal agenda was promulgated, the first was giving rise to the second: the emergence and development of the Eurodollar banking and security-trading system, the embryo of today's global finance, were essentially consequences of the multinational activities of the big US corporations. The density of the interconnections among financial systems today is still often

underestimated. For example, the Eurozone and US money markets form an integrated whole, in which liquidity flows smoothly across the two currency zones.

The malfunctions of the global financial system and the injustice with which it distributes its massive revenues pose very acute problems of social control, both over financial interest groups—if they are to be subordinated to general, democratically determined interests—and over the financial function, if it is to help fulfil social and environmental priorities. The struggle for such control faces an acute dilemma: the aim must be a deep reform of international structures, but the only feasible starting points seem to be from within national polities, themselves tightly constrained in their external relations. Gréau's more recent writings show increasing awareness of the dilemma. Beyond its analytical interest, the importance of his work lies, precisely, in combining a radical critique of contemporary capitalism with a radical reform agenda. He continues to see political initiatives in France as the necessary starting point, but formulates his programme in European terms. Speaking of his proposals for banking reform he asks:

But on what territory can one envisage the implementation of such measures? The whole world, the Western world, the European Union, the nation? Since I cannot imagine the Chinese or Indian leaderships, nor Barack Obama, nor the British prime minister, present or future, adopting such proposals, because of the nationalism of the first two and the subordination of the second two to their banking sectors; and since the banks operating in France relate firstly to the European Central Bank in Frankfurt, it seems to be the territory of the Eurozone which must be the base of the new organization. But we are subjected to the Treaty of Maastricht, based on a doctrinaire vision of money and banking completely opposed to the one we have advocated . . . To overcome these illusions and build a different banking system will require a revolution in the heads of the political leaders of the Old Continent. A vast programme.<sup>51</sup>

With Gréau's last sentence, one can only concur.

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<sup>51</sup> Jean-Luc Gréau, 'Pour un nouveau système bancaire', *Le Débat*, November–December 2009.