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Abstract *This paper formulates and discusses the hypothesis of a long run "Keynesian" imbalance between saving and investment. If this hypothesis should prove well founded, various remedies are proposed in the present economic situation, including the option of a structurally very high ratio between public debt and GDP.*

1. *Introductory remark.* According to new conventional wisdom, public debt, after limits that are not excessive with respect to GDP (60% of GDP according to EU rules), is damaging to the economy, for two main reasons:
a) with higher limits, the maintenance of the Debt/GDP ratio entails a level of public deficit which, at a "normal" average private propensity to save, is likely to conflict with adequate space for financing private investment, so that economic growth may be constrained. For example, in the case of a Debt/GDP ratio of 60%, with a nominal rate of growth of GDP of around 5%, which can be considered a long run acceptable rate if inflation is about 2-3%, the maintenance of such a ratio means that private saving representing about 3% of GDP is absorbed by the public sector through a corresponding deficit of the public administration's budget. If, in the same hypothesis for the nominal rate of growth of GDP, the limit of the Debt/GDP ratio is posited at 100%, its maintenance is compatible with a deficit of the public administration's budget of 5%. It is obvious that in the second hypothesis the likelihood of crowding out of private investment is much higher, and in parallel the risk increases of a reduction in the rate of growth of real GDP, thus giving rise to a vicious circle;
b) higher limits imply that the burden of debt may be very heavy, which means that public expenditure is made up of a larger quota of interest, with possible restrictions of public services for citizens. For example, in the above hypotheses for the Debt/GDP ratio in the context of a nominal rate of growth of GDP of around 5%, if the nominal rate of interest exceeds 5%, real services to citizens in the second case (100% limit) must be lower than in the first case (60% limit), even though the deficit compatible with its maintenance is 5% rather than 3%. It can be shown that this result holds in general: i.e. if the nominal rate of interest is greater than the rate of increase of nominal GDP, for whatever value of the latter, an upward shift in the long run Debt/GDP ratio implies a reduction in the ratio between public services and GDP.

2. *A Keynesian long run situation*. However, the right level of Debt/GDP ratio is an economic and not an ideological issue. Leaving aside short run stabilization questions, which dominated the debate of political economics in the past century, let us consider the possibility that the world economy is now entering a situation which we will call "long run Keynesian disequilibrium", consisting of a *structural gap* between private saving and private investment: i.e., beyond the short term fluctuations of the two magnitudes, their trends tend to diverge, with the trend of the first that greatly exceeds the trend of the second, *even at a rate of interest near to zero*.

Indirect proof of this is that, in spite of all declarations by politicians regarding future containment of the Debt/GDP ratio, this ratio is increasing in all major nations, especially in the large western economies, due to fears that demand and production may fall. A further and more direct and logical demonstration can be outlined as follows.

Although there is still plenty of room for investment in the world (huge multitudes of workers are still unemployed, or work with very poor capital; technical progress is still massive), the globalization of the economy has increased substantially uncertainty. Such a circumstance, together with old problems (difficulties due to the natural and/or social environment in many countries; bottlenecks of various kinds), greatly reduces the amount of effective investment.

On the other hand, such uncertainty drives saving, both by firms and by individuals, in order to increase the stock of "disposable" wealth to withstand negative circumstances.

Moreover, as is well known, the concentration of income and wealth is greatly increasing in almost all countries, which obviously favours a higher average propensity to save. We consider that the main factors which determine such concentration are:

a) the enormous increase in "Ricardian" rents (Ricardo [7]), due to the growing scarcity of many primary goods (oil and gas above all), to the great variance of their unit cost of production or of extraction, and finally to the additional circumstance that on the supply side conditions similar to legal monopoly dominate in many cases (for example Opec);

b) the great expansion of Leijonhuvfud's "joint rents" (Leijonhuvfud [6])[1], which concern both profits and salaries in the markets in which production is carried out in a regime of increasing returns (nowadays very common, especially in the industrial sector);

c) the large diffusion in the new economy of "Hirschian" positional rents (Hirsch [4]), which regard mainly owners and/or users of privileged sites, especially those for building and urban services (both of which nowadays are very important), owners of non reproducible goods in the area of durable consumption (and specifically of very durable consumption, such as valuable paintings or valuable furniture), managers and directors (especially in the field of private economics);

d) the large mass of rents accruing to beneficiaries of royalties, in relation to the ownership of patents, which proliferate in almost all productive sectors;

e) the incredible amount of profit in the new strongly developing countries (whose flagship is China), due to very low salaries and wages in the context of high worker productivity[2];

f) the concentration into few hands of the bulk of interest, dividends and capital gains, due to very bad distribution of income, for the reasons above, of course also leads to very bad distribution of wealth.

3. *Possible remedies.* The possible remedies derive directly from the above analysis. Starting from point e), the "simplest" way is to introduce at international level the principle that each country is responsible not only for relevant and persistent deficits in the balance of trade with foreign countries, but also for relevant and persistent surpluses. This necessity to manage deficit is natural, except, in part, for the countries whose currency is accepted as a means of payment for international trade. The responsibility for surplus is less obvious, unless it is the "Keynesian" approach accepted whereby the surplus of one country constitutes a *deflationary gap* for all other countries. This implies a strong resurgence of the original Keynesian formulation of multipliers (Keynes [5])[3]. But once such a formulation becomes widely

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[1] In this regard we consider that Leijonhuvfud [6] is Sraffa's [10] true heir, since, unlike Chamberlin [3], and Robinson [8], he applies the author's propositions (concerning the prevalence of the regime of decreasing unit costs in industry), not only to the type of market which is engendered, necessarily different from true perfect competition, but also to the field of income distribution, in my opinion developing Sraffa's thought in a much more correct way.

[2] Naturally in this situation huge excess saving tends to come about, which can be matched by enormous deficits in the public budget, with quick accumulation of a large public debt, or by very large foreign trade surpluses countries (as was the case for Japan in the period of its accelerated growth, and as it is now the case with China, on a much larger scale).

[3] In Italy there have been great Keynesian scholars who in their books – above all Caffè [2], and Steve [12] – have maintained the original Keynes' approach, resisting the "developments" (IS/LM; new Keynesian synthesis; rational expectations etc.) that in the end totally destroyed the basic initial points. It is however well known that Keynes himself succumbed to the first (and decisive) of these hidden attacks, i.e. to the IS/LM frame, which obscures the fundamental point that in the economic system there are no endogenous forces which are sufficient to guarantee the ex-ante equilibrium between saving and investment at the level of full capacity of utilization of existing plants.

accepted again, it would be obvious that if the countries with high and persistent surpluses do not introduce measures which favour economic equilibrium (strong revaluation of the currency; allowances on imports; taxation of exports; public budget deficit , etc.), other countries are justified in introducing measures (customs duties; administrative restrictions; special non deductable Vat, etc.), that aim at impacting imports from the currency areas which show huge surpluses, until these are strongly reduced.

Coming to points a), b), c) and d), the remedies consist of implementing measures capable of reducing the impact of the new types of rents which increase the concentration of income and therefore favour excess saving. Following the list: a) products which generate Ricardian rents can be strongly taxed also in the countries which purchase them, in order to diminish net rents of suppliers and to share a part of their gross value; b) forms of special taxation which have an impact on Leijonhuvfud's "joint net rents" can be introduced: for example strong levies on advertising; the reorganisation of taxation of EBITDA (earnings before interest, taxes, depreciation and amortization) which will be examined afterwards; a special taxation on managerial incomes, applied by employers – which would also contrast the third Hirschian rent as shown above; c) combinations of new forms of regulation and special taxation can be considered in order to cope with the two other Hirschian rents; d) public protection of patents can be reduced, except for strategic sectors.

But the interventions above are difficult to manage, and their introduction requires a cultural climate which is a far cry from the present situation and an international willingness to cooperate that is much greater than what we are witnessing at the moment[4]. Moreover, even if introduced, they could reveal insufficient to cancel the structural difference between the trends of saving and investment which we have hypothesised. The "last resort" possibility is to try to correct the trend of saving by making available to citizens an abundant stock of public debt, whose addition to private wealth (buildings, machinery, immaterial assets, durables) would give them a sufficient feeling of economic safety for the future, so they will consume or invest a larger part of their incomes in new real assets.

The problem is that this amount of public debt could be so large (say, 200% or 300% compared to GDP), that the opposite effect becomes likely (increased preoccupation regarding the future). So a vicious circle could arise, with a probable breakdown in the economy or with its continuous stagnation. The only way to avoid this unpleasant outcome is to make the burden of public debt low in spite of its present magnitude: which means that the interest rate net of taxation must be structurally close to zero. This result can be obtained by minimal taxation on public debt interest when the rate is very low, and on the contrary by taxing it very heavily when its rate is high. Of course, parallel treatment should also be applied on interest paid by banks and on obligations, and on the incomes derived, individually or collectively, from direct investment in private activities. This further, difficult target may be successfully attained by dividing, when calculating tax, the EBITDA of firms into four parts: a) amortization of plant machinerys, which, ensuring to avoid the incorrect methods commonly adopted[5], should be exempted as now; b) interest, effective or figurative, which should be treated fiscally in a similar way to interest on public debt (see above); c) rent, which must represent as closely as possible Leijonhuvfud's share in EBITDA related to such magnitude, and should be taxed permanently and very heavily[6]; d) pure profit, which represents the difference between total

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[4] In Agostini et al. [1] some conditions which favour a positive evolution are however indicated.

[5] A precise method, in truth for the first time in the history of economic thought, can be found in Vitaletti [13]. Such a method was developed by the author in the context of a criticism of the approach for fixed capital adopted in Sraffa [11]. But the result can be applied in practice by every firm by allocating the correct amount of amortization of plant machinery in its balance sheet.

[6] There is a lot of work to do on this, but it has been delayed principally due to the scarcity of empirical analysis on situations of increasing returns. An interesting attempt to tax companies' rent is now being carried out in Italy, with the so called Robin Hood tax, which consists of the application of a higher rate of taxation on companies' income in the sectors where such income presumably mainly derives from rent (energy, banks). But up to now no

EBITDA and the a-b-c components, and should be taxed at a "normal" rate (for example, the same applied on average on wages and salaries), or even at a lower rate than normal, in order to boost investment and therefore economic growth.

4. *The proof is near.* We are not far from demonstrating that the economy has entered a situation of Keynesian long run imbalance. If: a) the main western countries introduce effective policies which lead to the stabilisation of debt, as their political leaders have announced, in order to stop the increase of huge public debts and to reduce their ratio to national GDPs; and: b) this operation is accompanied or followed by an acceleration in the rate of growth of real GDP, as the great majority of modern economists are convinced of; this brief paper could be considered simply as an expression of nostalgia for the times when government intervention using as many effective tools as possible was considered a good opportunity by experts and by prevailing public opinion.

If, on the contrary, after or during such measures against public debt the economy should suffer, or even a new strong recession should occur, things could go differently. Maybe the current attempt to restore in macroeconomics and in political economy the views prevailing in the second half of the nineteenth century, disregarding the main views of the twentieth century almost without debate, will be revealed as nothing more than a great moral hazard. Maybe, as a consequence, it will be easier to discuss ideas, such those presented in the previous paragraphs, which have their base in approaches to economic research which have lost their appeal or have been always considered unorthodox. Maybe, finally, the hope can be cultivated that marginalism, the core theory of the orthodox approach, could start appearing to economists as "a tale told by an idiot…..signifying nothing"[7].

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intention has been disclosed to identify systematically the rent component for each sector of activity (nor *a fortiori* for single firms), in order to tax it separately at a very high rate.

[7] William Shakespeare, *Macbeth*, Act 5. I have omitted from the quotation "full of sound and fury", since in my opinion these words are not appropriate to the "engineer-like" attitude typical of marginalists.

These remarks do not reflect an *a priori* lack of confidence in the optimality of the economic results of the free market forces. The main classical economists – Quesnay in his Tableau Economic; Smith [9]; Ricardo [7] – theorized this outcome, which is perfectly acceptable. The problem is that in their writings the continuous effort to confront statements with reality is fully apparent, and the emergence of a vivid disease when a divorce between theory and facts emerges is evident. No worry of such kind is present for marginalists as regards their approach, where the divorce of theory from reality is total, starting from the very fundamental premises (resources given, from which follows the dominance of decreasing returns in production – where are they in industry and the services sectors?; perfect competition based, besides decreasing returns, on the absurdity of a perfectly elastic demand, etc.). It could happen that this Nothing: a) has obscured Smith's and Ricardo's approaches, as well as Sraffa's book of 1960 [11], in which tries to restore them (as he writes clearly on the first page – Marx is not mentioned, in spite of the interpretation of its content pursued by Sraffa's main "followers"); b) has kept Sraffa 1926 [10] and Leijonhuvfud 1995 [6] at the margin of the economic debate (see also footnote 1); c) has buried Keynes 1936 [5] under immense heaps of garbage (see footnote 3); d) has ignored Hirsch's 1976 great contribution [4], so that an effective criticism of Smith's and Ricardo's approaches for modern economies is silenced. Therefore we no longer need to be polite with marginalists: theory must try to correspond with reality as a matter of personal honesty, not only in the interests of economics and of the credibility of economists.

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