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INTRODUCTION

Introduction to the Symposium on: The Supermultiplier and Endogenous Money

Maria Cristina Barbieri Góes [a], Óscar Dejuán Asenjo [b], Riccardo Pariboni [c] and Ricardo Summa [d]

[a]University of Bergamo, Bergamo, Italy; [b]University of Castilla–La Mancha, Albacete, Spain; [c]University of Siena, Siena, Italy; [d]Universidade Federal do Rio de Janeiro (UFRJ), Rio de Janeiro, Brazil

In recent years, the supermultiplier model has emerged as a widely used analytical tool, capable of trespassing the narrow boundaries of Sraffian scholars to be discussed, adopted and extended (and criticized) by post-Keynesians of various orientations (Dejuán 2023). In hindsight, this comes as no surprise, given the inherently Keynesian main purpose of the model, that is to say the extension to the long run of the principle of effective demand (Serrano 1995; Lavoie 2016). In fact, the defining mechanism behind the supermultiplier framework is the proposition that the trajectories of both output and productive capacity are shaped by effective demand within monetary economies of production.

As it is well-known, at the very heart of this hypothesis there is the idea that a part of aggregate demand is independent from the circular flow of income and is not systematically related to the production requirements. This is what has been labeled as autonomous (or semi-autonomous) demand — comprising components such as government spending, exports, autonomous consumption, private residential investment and modernization investment (aimed at transforming productive capacity instead of enlarging it). Such autonomous elements represent the main engine of growth and capital accumulation within the model.

A relatively less explored (with the notable exceptions of Cesaratto 2017 and Cesaratto and di Bucchianico 2020) feature of the supermultiplier is how these autonomous components of demand are to be financed. If it is true that savings and the pre-existing level of income do not represent a constraint on the spending capacity of the economy, then the very functioning of an autonomous demand-led economy has to rely on the creation and injection of new monetary purchasing power. Hence, it seems uncontroversial to claim that the endogenous credit-money approach is a natural financial counterpart of a real analysis based on the supermultiplier, even in its baseline formulation. At the same time, however, it is also undeniable that the issue has not received a systematic attention so far, in spite of recent contributions that have incorporated credit and debt dynamics related to consumer credit, residential investment, government spending and the external sector (Pariboni 2016; Mandarino, Dos Santos, and e Silva 2020; Hein and Woodgate 2021; Morlin 2022; Pedrosa, Brochier, and Freitas 2023, just to mention some of them) and without forgetting other attempts at integrating financial

CONTACT Maria Cristina Barbieri Góes mariacristina.barbierigoes@unibg.it Department of Economics, University of Bergamo, Via dei Caniana, 2, 24127, Bergamo-BG, Italy

aspects into supermultiplier-like models, such as the role of the interest rate in influencing autonomous demand (Deleidi and Mazzucato 2019; Serrano, Summa, and Moreira 2020; Petrini and Teixeira 2023; Barbieri Góes 2023).

This special issue of the *Review of Political Economy*, hence, can be thought as a first attempt at a systematic exploration of the multifaceted interconnections between a supermultiplier-based explanation of the growth process and endogenous money. The idea to make a special issue came up from discussions with Louis-Philippe Rochon and the guest-editors about how to reconcile the Supermultiplier with endogenous money in 2022. These discussions took place notably during the Fifth Nordic Post-Keynesian Conference, in Aalborg, in the 19th Annual STOREP Conference in Viterbo, and in the occasion of a visit of Louis-Philippe Rochon to Spain.

Hopefully, the fruitfulness of this Special Issue will not be limited to an explicit connection of two naturally complementary strands of post-Keynesian theory, but it can lead to building bridges within the post-Keynesian community. Starting from Keynes' concept of *finance* to the notion of semi-autonomous components used by Kalecki (1967) making reference to Luxemburg's external markets (Luxemburg 1913 [2015]), and arriving at the Monetary Circuit insight that every economic circuit must start with money creation and end with money destruction (Rochon 1999), with the related concepts of initial and final finance, a common thread emerges. Moreover, as the supermultiplier deals with a growing economy, credit creation also plays an important role to finance the growing wage bill necessary for production, which feeds back into the system as induced consumption and the multiplier. The injection of new monetary purchasing power — whether it comes from the creation of credit-money by banks, State money or the external sector — represents the only avenue through which an economy can be demand-led. The articles that comprise this special issue build upon this premise and advance in several directions.

The papers by Fiebiger (2024) and Di Domenico, Ciaffi and Romaniello (2024) discuss the difference between saving and credit in the supermultiplier model. Fiebiger (2024) incorporates the circuitist intra-period endogenous money financing relations, and the financial adjustments that increase the elasticity of household portfolio adjustments and firm liability-side management, providing a clear distinction between the concepts of finance and thrift. The author uses this approach to criticize the Neo-Marxian/neo-Harrodian approach (NMNH), in which thrift has a positive effect on the 'equilibrium' warranted growth rate. Di Domenico, Ciaffi and Romaniello (2024) explore how savings are created in the economy as a result of liabilities creation when autonomous spending and investments are financed, and compare different sources of initial financing of investments and autonomous components, showing that the endogenous process of money creation is the only structural mechanism guaranteeing the existence of autonomous components of demand and their independence from current income in the long-run, and the independence of investments from saving.

The papers by De Lucchi (2024) and Fazzari (2024) incorporate monetary elements into the supermultiplier via policy. De Lucchi (2024) integrates the supermultiplier with endogenous money to discuss the dynamics of the quantity of money (M2) and the monetary base in the US economy as a result of fiscal and monetary policy implemented during the great financial crisis of 2008 and the Covid-19 Pandemic. Fazzari (2024) introduces monetary policy via interest rate setting by the Central bank into a

supermultiplier model with a flexible supply side, and shows that Taylor rule-guided monetary policy can prove ineffective in counteracting permanent negative demand shocks, even when the lower bound for interest rates is not a limiting factor.

Dejuán and Dejuán-Bitriá (2022) also introduce endogenous money into the supermultiplier model, by including autonomous banks which are able to change the pace of credit expansion. The authors explore the effect of credit expansion in financing non-output transactions (land, old houses, shares) and its speculative bias to generate financial instability, demand depression and asset inflation.

The two papers by Febrero and Bermejo (2024) and Woodgate, Hein, and Summa (2024) explore the role of state money in financing autonomous demand. Febrero and Bermejo (2024) include consumption out of government transfers — more specifically pensions — into the supermultiplier, to check the impact of pensioners' spending on output and employment in the Spanish economy. Woodgate, Hein, and Summa (2024) integrate the role of another kind of government transfers — interest paid on the public debt — via rentiers' consumption into the supermultiplier model. They show that, under certain conditions, an endogenous stock-flow interaction aligns the growth rates of the autonomous consumption out of interest rate to the exogenous growth rate of government spending, and they explore the consequence of these results to the demand-led growth decomposition analysis. The paper attempts to demonstrate the interdependence of two autonomous demand components, providing a mechanism to tackle the question raised by Allain's (2022) on how two (or more) non-capacity-generating autonomous demand components growing at different rates may coexist in the supermultiplier.

Also as an attempt to address Allain's (2022) question, Di Buchianico, Gallo and Lofaro (2024) propose a solution in which growth is driven by workers' debt accumulation as well as rentier's consumption out of interest. They show that, under specific conditions, there is a steady-state solution in which growth ultimately converges toward that of the fastest-growing component, but the other does not disappear due to the presence of endogenous stock-flow relations, with endogenous money creation surrounding this process of growth driven by credit to households.

Finally, the articles by Dvoskin and Landau (2024) and Vaz (2024) explore the role of monetary elements and capital flows in open economies in supermultiplier models. Dvoskin and Landau (2024) investigate with a supermultiplier model the impact of the balance-of-payments constraint on output, income distribution and policy space, both fiscal and monetary policies. They also examine the effects of the currency denomination of debt, and find that, in case of a depreciation, debt in domestic currency allows for a less contractionary adjustment than foreign currency-denominated debt but does not lead to higher economic growth. In the same vein, Vaz (2024) builds a supermultiplier model to investigate the effects of interest rate hikes abroad that may impact growth and income distribution domestically in developing countries.

Less than 10 years ago, also in a symposium in Review of Political Economy, Freitas and Serrano (2015) stated that a promising research agenda on the supermultiplier 'should focus on the determinants and dynamics (particularly financial) of the trend of growth of the different "unproductive" autonomous components of demand' (Freitas and Serrano 2015, p. 280). We are glad to see that the papers described above provide interesting and creative attempts to tackle this challenge. We hope the result of the advances in this research agenda contained in this symposium will provide questions

and ideas for much further investigation. It is important to remember that this was a result of a collective work which involved more than forty scholars — authors, reviewers and the editor Louis-Philippe Rochon — to whom we would like to thank, as they helped a lot to improve the quality of the final result. Without further ado, we wish all an excellent reading.

Disclosure Statement

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ORCID

Maria Cristina Barbieri Góes http://orcid.org/0000-0001-8953-5412
Óscar Dejuán Asenjo http://orcid.org/0000-0002-9319-6609
Riccardo Pariboni http://orcid.org/0000-0002-5275-9559
Ricardo Summa http://orcid.org/0000-0002-4769-8974

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