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Introduction: welcoming a new editorial board

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With the first issue of the 2014 volume, our *Review* inaugurates its new editorial board. The supervisory board and Economia civile, owner of the journal, wish to thank the following colleagues and friends who have kindly agreed to join us in this new chapter in the history of the *Review*: Piero Alessandrini, Hossein Askari, Rémi Bazillier, Amit Bhaduri, Marcella Corsi, Michele Fratianni, James Galbraith, Jayati Ghosh, Eckhard Hein, Rainer Kattel, Jan Kregel, Frederic S. Lee, Arturo O'Connell, Anthony Thirlwall, Mario Tonveronachi and Alberto Zazzaro. Alessandro Roncaglia (editor) and Carlo D'Ippoliti (assistant editor) complete the new editorial board of the journal.

To assist the board in the transition from the old series (entitled *Banca Nazionale del Lavoro Quarterly Review*) to the new one (*PSL Quarterly Review*), the supervisory board continues its dedicated work, and remains composed of Luigi Abete, Marcello de Cecco, Nerio Nesi, Luigi Pasinetti, Antonio Pedone, Romano Prodi, Alberto Quadrio Curzio, Giorgio Ruffolo and Mario Sarcinelli, joined by the editor and the assistant editor of the *Review*.

Economia civile and the supervisory board of the *Review* are also happy to announce that 2014 will be the year from which the entire current and previous series of the journal – as well as of *Moneta e Credito*, its Italian sister publication – will be freely available online in open-access modality.

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The first article of this issue is by a member of the newly established editorial board, Hossein Askari, in collaboration with Noureddine Krichene (2014). To be followed by a further article in the next issue, the

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contribution summarises and presents Islamic finance as an alternative to the current financial system. In their first article, Askari and Krichene summarise the main economic and ethical principles of Islamic finance, noting that they significantly overlap with the bulk of the reforms advocated by several economists concerned with deflation and depressions.

Askari and Krichene depart from the idea that, due to the institutional set-up of modern financial capitalism, financial capital has decoupled from real capital. Due to, in particular, the banks' ability to create money out of thin air, i.e. the endogenous money approach recently popularised by the Bank of England (McLeay *et al.*, 2014), Askari and Krichene hold that financial bubbles are as likely to develop as they are to burst, with negative consequences both for growth and capital accumulation, and for the distribution of income. Employing a model not too different from the neo-Kaleckian one, recently illustrated in this journal by Minsky (2012) or in *Moneta e Credito* by Lòpez Gallardo (2011), the authors show that among such negative consequences of banks' lending are inflationary cycles and periods of enforced saving. However these two consequences, departing as they do rather significantly from the lessons of Kalecki, crucially depend on the assumption of full employment, which implies that growing demand for investments can only be satisfied by diverting capital and workers from the consumption goods sectors to the production of investment goods. As it is well known, if instead a 'reserve army' of idle resources and unemployed labour were available, increased investment might produce an increase in income and thus an increase rather than a decrease in consumption. Not by chance, those authors that most strongly advocated 100% reserve banking, as implied by the principles of Islamic finance, often belong to or are connected with the so-called Austrian School of economics.

Besides reconnecting real and financial capital thus preventing most phenomena of over and underproduction, Askari and Krichene point to a number of further advantages of Islamic finance. Such a system may facilitate the establishment and development of stock markets (both over the counter and stock exchanges), especially in the developing countries

where they are most needed for the sake of fostering growth and most difficult to establish due to transaction costs and the lack of trust. Islamic finance may boost public-private partnerships and provide alternative ways to finance investments of public utility. In times of public budget austerity in developed countries, and of growing wealth accumulation in emerging and developing countries with large Islamic populations, Sharia-compliant bonds seem a very interesting market segment, as for example UK prime minister David Cameron has explicitly recognised. However, from a theoretical point of view, one of the most interesting features of Islamic finance is the implied greater and more effective role it allows monetary policy. As Askari and Krichene show, without the interest rate and bank credit channels, in an Islamic financial system the central bank mostly operates along similar lines to what is now known as quantitative easing (QE). By buying several forms of financial assets, and by necessity operating on a relatively larger scale (due to the lack of a bank money multiplier), the central bank in an Islamic economy acquires a significant role not only in the management of aggregate demand but in the process of resource allocation too, a role arguably comparable to that taken on by the US Federal Reserve since the crisis, e.g. with the enormous amount of mortgage-backed securities it currently holds.

In the forthcoming article, the same authors will continue the discussion on Islamic finance (one already begun in this journal by Askari and Iqbal, 1995; and Askari and Taghavi, 2005) looking in particular at its intrinsic stability. Indeed, instability as a crucial feature of the current financial system is also a topic touched upon by Alessandro Roncaglia (2014) in his review article of the new (paperback) edition of *The Collected Writings of John Maynard Keynes*. Recognising that most economists should find a middle ground between reading the whole collection and remaining totally ignorant of Keynes' thought, Roncaglia proposes four possible paths to approach the 30-volume strong collection. They correspond to four ideal readers, alternatively interested in the biography of Keynes and his literary works; in Keynes' theory and his academic and editorial role; in Keynes' political activities and essays; or in Keynes' method. Concerning the latter, Roncaglia (2005; 2009) has already underlined the relevance of the notion of uncertainty, as distinct

from risk, as a foundational concept both in Keynes' theory and method. As briefly recalled in the article published below, the degree of (prevailing) perceived uncertainty at any time determines the size of the liquidity premium in financial markets. As it is well known, this is pointed out by Keynes as a cause of financial and economic instability inherent in human society: uncertainty exists in the real economy and thus it produces activity and financial oscillations independent of the Hayekian credit-induced boom-bust cycles to which Askari and Krichene refer (though one form of instability does not necessarily exclude the other).

Next, the contribution by Bassanetti *et al.* (2014) considers the Italian experience in greater detail. In the face of the ongoing European crisis, or rather the 'new normal' of European stagnation, Italy is especially relevant not only due to its sheer size – it is the third largest economy in the eurozone, the fourth largest in the EU – but also because it exemplifies the dual nature of the problems experienced by Eurozone countries exhibiting a balance-of-payments deficit. Several contributors to this *Review* have pointed out the unsustainable institutional setup of the eurozone (concerning both macroeconomic imbalances: e.g. Hein, 2012; and monetary and financial aspects: e.g. Sarcinelli, 2013), which imposes asymmetric balance-of-payments adjustment and austerity policies on deficit countries (while surplus countries embark on such policies due to a distinctly political choice). However, which countries become the 'weak chain links' of the EU depends also on specific national trends, as evidenced clearly in the case of Italy.

As Bassanetti *et al.* show, the Italian economy suffered from a prolonged period of very low GDP growth, which was nonetheless accompanied by a relatively sustained growth in employment: by definition, this trend results in stagnation in labour productivity. It may be argued, as Bassanetti *et al.* do, that such a trend derives from the structure of the Italian economy and its weaknesses in the supply side (e.g. low average firm size, backwards sectorial specialisation, low human capital accumulation, etc.), or as for example Lucidi and Kleinknecht (2010) argue, that it is also the result of deliberate policy choices aimed at creating a low-wage segment of the labour market

through several forms of labour market flexibility. In any case, and contrary to what is held by some Post-Keynesian writers for example, the Italian case shows that, at least for a relatively small open economy in a fixed exchange rates regime (i.e. for non-sovereign currency nations), seeking employment growth as a policy priority on the basis that economic growth will necessarily follow is a dangerous and partially misleading approach. On the contrary, if aggregate demand does not grow more than employment, average productivity is bound to decrease, thus producing an increase in unit labour costs and a deterioration in the country's cost competitiveness too: what D'Ippoliti and Roncaglia (2011) have called "a crisis within the crisis". Once again, the growth of aggregate demand must remain the primary aim of economic policy in Europe.

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