



Working Paper No. 1102

No More than Double: Can a Single Rule Tame Capitalism?

by

Lorenzo Esposito

Bank of Italy, Milan Branch and Economic Policy Department, Università Cattolica del Sacro Cuore, Milan

and

Giuseppe Mastromatteo

Economic Policy Department, Università Cattolica del Sacro Cuore, Milan

December 2025

We thank the participants to the International Conference “Manifesto and Research Frontiers for a Renaissance in Economics,” held in Perugia the 20 and 21 of June 2024, for comments on a previous version of the paper.

The views expressed are those of the authors and do not involve the responsibility of the Bank of Italy.
Corresponding Author: lorenzo.esposito@unicatt.it

The Levy Economics Institute Working Paper Collection presents research in progress by Levy Institute scholars and conference participants. The purpose of the series is to disseminate ideas to and elicit comments from academics and professionals.

Levy Economics Institute of Bard College, founded in 1986, is a nonprofit, nonpartisan, independently funded research organization devoted to public service. Through scholarship and economic research, it generates viable, effective public policy responses to important economic problems that profoundly affect the quality of life in the United States and abroad.

Levy Economics Institute
P.O. Box 5000
Annandale-on-Hudson, NY 12504-5000
<http://www.levyinstitute.org>
Copyright © Levy Economics Institute 2025 All rights reserved
ISSN 1547-366X

ABSTRACT

Capitalism's defining feature—profit maximization without limits—drives instability, inequality, and environmental degradation. Traditional policies such as taxation and regulation have failed to curb this dynamic because they do not alter firms' core incentives. This paper proposes a simple yet structural solution: a “maximum allowed profitability” (MAP) rule that caps a firm's return on equity at twice the median ROE of its peers. Profits exceeding this threshold would be fully taxed, creating a hard limit on excessive profit-seeking and reducing systemic risk. Using ORBIS data for major European economies (2002–2021), we show that profitability distribution is stable, making MAP feasible and easy to implement. Unlike conventional fiscal or monetary tools, MAP directly addresses the prisoner's dilemma inherent in capitalism, fostering a more balanced economic system. While global coordination is essential, MAP could complement initiatives like the OECD global minimum tax, reshaping incentives toward sustainable growth.

KEYWORDS: profit maximization; income inequality; fiscal policy

JEL CODES: E60, E61, E62

INTRODUCTION

Each age tends to have only a meagre awareness of its own limitations

– Pope Francis

Capitalism revolves around profit maximization. Each good and bad feature of a modern economy derives from this principle. The most important aspect of profit maximization is that it has no limits. Whatever the revenues of a firm, they are not enough; whatever the rate of profit achieved by an investor, they aim higher. This characteristic differentiates modern capitalism from the economic structures of previous societies. For instance, if we compare the old Utilitarianism (as described by Epicurus or Lucretius) and the modern one (Bentham), this difference emerges vividly. At least since Plato and Aristotle, pleasure and utility are acknowledged as important aspects of life but with strong limitations, pointing to a “balanced hedonism” (Kauder 1965, 9). The ideal of unlimited enrichment would have seemed an incomprehensible absurdity to intellectuals of the classical times, in part because accumulation did not occur in liquid instruments such as money or financial assets but, above all, in land or slaves. For these thinkers, wealth being an indeterminate quantity is the antithesis of pleasure, because it has no limitations and is therefore unattainable. After Bentham and the classical school, Utilitarianism was considered the standard description of human behavior: utility became money and profit maximization was placed at the core of economic and social behavior. The development of humankind became a progressive and successful reorientation of all aspects of economic and social life around profit maximization, so that, nowadays, politics, arts, and culture all revolve around profit. An artist who does not produce profits is useless, a politician who is not ready to sacrifice the environment for profit is an enemy of progress.

Profit maximization is the aim of the single investor but, given that every investor has this same goal, overall results can be awful. Financial bubbles, greenwashing behavior, and misery wages, among others, are all consequences of profit maximization that cause further hardships—for instance, mass poverty and environmental degradation. The capitalist economy is a continuous sequence of prisoner’s dilemmas. Although economic policies have long tried to tame the most extreme aspects of profit maximization, they have not been able to solve the issue. Of course,

progressive taxation, minimum wages, or pigouvian taxes are among many tools aimed at this end, but with only partial success. In fact, the point is profit maximization in itself. We need a policy able to break the insatiable hunger for profits, a policy that creates a limit that no investor can bypass, and an end to the prisoner's dilemma. The only way to accomplish this is with a mechanism that internalizes the profitability of all firms into the decisions of each.

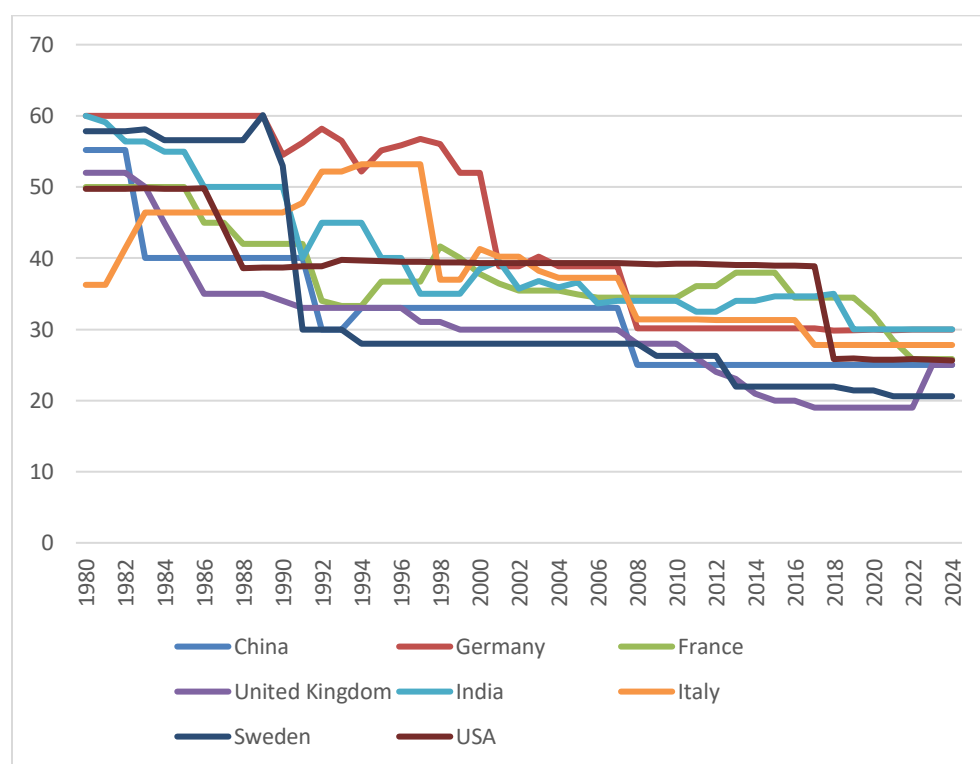
PROFIT AND INSTABILITY

In the mainstream (i.e., neoclassical) world, profits are a non-issue. Markets are based on perfect competition, and therefore, firms are price-takers and profits are simply the marginal remuneration of the capital as a productive factor. If unions or government do not interfere, profits become savings that become investment and everything is fine and stable. No inflation, no unemployment.

Real capitalist economies are radically different from this idealistic picture. Firms compete fiercely using every possible weapon and prices are used strategically as one of these weapons. To be more profitable, firms must invest, and this means finding new finance. Minsky (2008, 327) summed up this situation: "Capitalism is unstable because it is a financial and accumulating system with yesterdays, todays, and tomorrows." Investment cycles are also financial cycles that produce bubbles and instability. In a world where money is created by the banks to fund investment and the magnitude of this creation is paramount to determining economic growth (and thus how viable the money creation is in the first place), stabilizing profits is the key to stabilizing the economy (Whalen 2007). Given that instability is the inevitable consequence of business cycles, counter-cyclical measures are equally inevitable with both fiscal and monetary policies. From one side, deficit spending stabilizes output, employment, and profits, and from the other, the central bank stabilizes asset values and financial markets and therefore, once again, profits. Without profits, the investment cycle stops. As Minsky observed, "Government programs affect the flow of profits, the price level, relative supply prices, and the choice of production techniques" (167). However, to be effective, government deficit must be significant vis à vis the size of the economy, but if it is sufficiently large to stabilize profits, it "will put

upward pressure on prices even as employment falls.” To prevent inflation, governments have to reduce public debt but this means raising taxes, thus reducing the net profitability. Firms need big government to stabilize their profits but do not want to pay the fiscal price. This was already the case before the Reagan era—“corporations have enjoyed a steady decrease in their tax share for the past three decades. In 1960 corporate profit taxes financed approximately 22 percent of all expenditures by the federal government compared to only 7 percent in 1986” (Karier 1990)—but it has worsened since. As the IMF (2019) noted just before the pandemic, “Over the past 30 years, corporate tax rates in all countries have fallen to very low levels,” as is apparent in Figure 1 using different countries, from the US to China, from UK to Sweden (for a thorough analysis of the downtrend see IMF, 2019).

FIGURE 1. Corporate Tax Rate



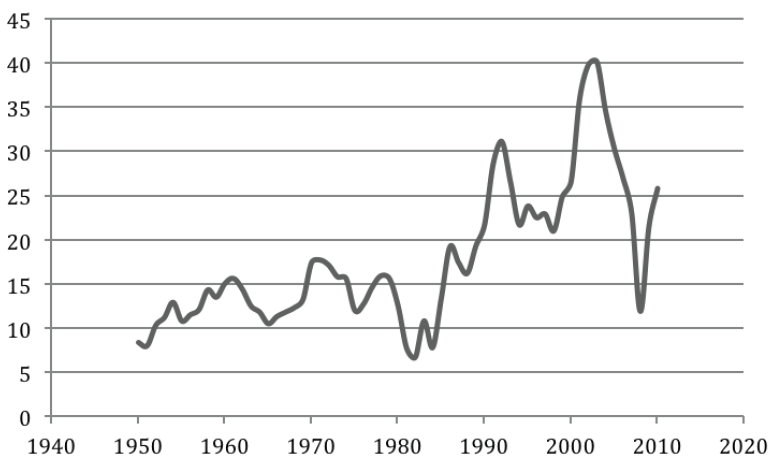
Source: Enache (2024)

Governments have also expanded the amount of tax credits and the corporations’ ability to deduct prior losses from current income so that tax paid as a proportion of profits has been falling since the 1980s (Weatherford 2014). Particularly striking is the situation of large

corporations that, due to their ability in exploiting all the possible rules and loopholes, are able to pay negligible taxes or no taxes at all. For instance, in 2023, the General Electric Company earned nearly \$7 billion and paid no taxes (actually on those profits it received a refund of \$423 million), Meta Platforms, Inc. spent four times more on stock buybacks than it paid in taxes, and General Motors spent 40 times as much (ATF 2024). In these same years, large corporations raised prices and, therefore, profits, producing inflation (Nikiforos et al. 2024). All in all, profit maximization at all costs has induced a decline in economic growth, innovation, and standard of living.

This is true, in general, but particularly devastating in the financial system due to financialization. In fact, the proportion of profits going to the financial system is absolutely out of scale as can be seen in the following figure.

Figure 2. US Financial Profits as a Percentage of Total Profits



Source: Carchedi (2012)

The explosion of financial profits led to the Global Financial Crisis in 2007–2009 that forced the government to put trillions of dollars at banks' disposal to prevent a catastrophic slump. Those events have shown, beyond all doubts, that the search for profits can put the global economy at risk, confirming the need for a tool that is able to directly intervene in firms' profitability.

MAP: THE SIMPLEST EFFECTIVE RULE

*Under more far-sighted rulers the wealthy merchants...lived luxuriously as long as their
behavior did not invite disaster*

– K. Wittfoegel

The idea we present in this paper was born in the field of banking regulation. After 2008, it became even more obvious that the banking regulation framework Basel 2 had not been able to tackle the incentives big banks and other financial intermediaries had to accumulate profit and risks altogether. There is a conspicuous number of analyses on this issue, including the authors' contribution (Mastromatteo and Esposito 2016). Banks behave recklessly for many reasons, including the implicit bail-out they know they receive from the governments if the crisis becomes serious enough, but at the core of banks' behavior, once again, is profit maximization. Putting a limit on their profitability would render an overly aggressive and risky business model pointless. This is why we have proposed a prudential rule, based on individual banks' profitability (Esposito and Mastromatteo 2020; Esposito and Mastromatteo 2023). Here we extend the same idea to the whole of the economy.

We propose that the only rule that can force firms to assume a limit in their search for profit is a forced peer comparison. A firm can still be more profitable than its competitors, but this higher profitability will have a limit. In practice, our proposal is to define a maximum allowed profitability as a multiple of the average profitability. In particular, we propose to define a *maximum allowed profit* as follows:

$$(1) \quad map = a\bar{r}$$

(where a is the regulatory coefficient and \bar{r} is the average profitability)

The profit in excess of the map is entirely lost, i.e., it goes to the government, fully taxed.

Possible Objections

The main advantage of the map is that it forces firms to internalize the general dynamics of profitability in a way that puts a limit to the profit maximization of every single firm. The map does create a maximum, thus rendering irrational the aim for any higher profitability. Moreover, it is very simple to understand and to enforce. Later on, we will discuss how to create a map operationally. In the following table, we discuss the more relevant possible objections to our proposal.

Objection	Comments
Competition will eliminate extra profits as profitability tends to be equalized on a sectoral and then on a general level. This is a widely accepted assumption in the economic theory. Classical economists, starting with Smith, Malthus and Ricardo, Marx and most of Marxist economists, neoclassical scholars, Sraffian and more generally non-neoclassical contemporary economists all agree on the equalization dynamic: “The mechanism that ensures this gravitation is described in a similar fashion in the works of Smith, Ricardo, and Marx. More capital is invested where profit rates are larger, and these larger investments expand supply, lower prices, and tend to equalize profit rates” (Duménil and Lévy 2002). Marx ([1894] 1981) was so categorical on the issue as to state: “There is no doubt, however, that in actual fact, ignoring inessential, accidental circumstances that cancel each other out, no such variation in the average rate of profit exists between different branches of industry, and it could not exist without abolishing the entire system of capitalist production” (252). Neoclassical economists are no less resolute on the issue: “There is no more important proposition in economic theory than that, under competition, the rate of return on investment tends towards equality in all industries” (Stigler 1963, 54).	Data show that this trend is nonexistent. There are countless studies that confirm that equalization does not happen. <i>Inter alia</i> : Cubbin and Geroski (1987) find considerable heterogeneities within most UK industries in the 1951-1977 period; in the book edited by Glick and Ehrbar (1990) the same is confirmed for many countries; Goddard et al. (2005) analyze a sample of European firms for the years 1993-2001, confirming that abnormal profits persist. The same is true for specific sectors (Maurin et al. 2011; Goddard et al. 2013). More recent studies still find persistence (for instance: Deutsche Bank, 2017; Eklund and Lappi, 2019; Joffe, 2020). An important factor behind persistence is the growth of concentration in most of industries, normally related to greater market power (OECD 2019; Koltay et al. 2022). Broadly speaking, more profitable firms are bigger or riskier. Often they exploit non-competitive situations due to structural issues (as happens in mining, oil, and gas and in the real estate sector) or network economies (enjoyed by big tech firms), or their brand. This means that competition does not follow the neoclassical model because sectors tend to concentrate by the time.
Profits are a signal of efficiency and innovation, suppressing them could reduce economic progress.	In most of the sectors, higher than average profits are not connected to any particular creativity or recent innovations. Coca-Cola

	<p>has been selling the very same product for decades, as an example. What normally explains exceptional profits are market power, marketing campaigns, etc. At any rate, the map does not prevent more profitable firms from enjoying the fruit of their innovations but it stops it when this becomes excessive. In a sense, the map works like the rules on patents: they protect R&D on innovation but up to a limit as patents expire after some years.</p>
<p>Every rule can be bypassed or determines a distortion of incentives and thus more risks, although of a different nature than the previous ones.</p>	<p>This objection is very common in the field of banking regulation. For instance, an overly simplistic banking regulation, like Basel 1, has been bypassed using new business models and financial products, while a very complex set-up, like Basel 2, was not able to highlight the true dimension of banks' risks (Mastromatteo and Esposito 2016). However, map is able to overcome the problem. In fact, bypassing a specific norm of banking regulation aims to increasing profits. Our rule prevents profitability to increase above a certain maximum, thus making pointless efforts to this aim. The same is true for other ways of circumventing the rule. Firms delocalize their registered head office to reduce taxes but this makes no sense with the map. Firms aim at minimizing the burden of every rule. However, given how the map works, it does not incentivize firms to change their behavior vis à vis the rules with which firms must already comply (especially fiscal and accounting rules).</p>
<p>A single rule is not enough; map is too difficult to implement.</p>	<p>We are well aware that many other tools are needed, for instance to aid a green transition of the economy, to reduce income inequality and so on. The meaning of the map is not to comprise the entire need for economic change but to put in place a powerful tool to help this change.</p> <p>As for the difficulties of its implementation. On the technical side, it is quite elementary. If we compare it with banking regulation or</p>

	<p>fiscal rules made of hundreds of different norms, it is rather trivial.</p> <p>On the political side, the map requires a different attitude toward how economy works. If this attitude is not there, neither the map nor any other reform will ever be implemented.</p>
The map is similar to a higher tax rate and it produces similar results in terms of a reduction of investment and growth.	<p>We do not enter here in the old and wide debate on tax and growth, although Western countries grew the most when tax rates were the highest (as in the 1950s and the 1960s). However, the map does not work as a tax because it is not an absolute but a relative tool in its application. A firm knows how much it will pay in taxes once its income statement is ready. The map is only enforced when the situation of a firm vis à vis all firms goes beyond a certain threshold.</p>
The map could push to hide profits (for instance using fiscal haven or inflating the costs).	<p>These behaviors are already very common and we cannot see how map could worsen them. Moreover, as a firm cannot know, when it prepares its annual financial statement, how other firms fared, it is impossible to know beforehand if the map will apply to a specific company.</p>
Firms could cooperate to increase their profitability so that map would be more difficult to apply to them.	<p>An increase in overall profitability is the outcome of the increase of profitability in many single firms. The point is to reduce the incentives of single firms to maximize their (individual) profitability beyond a given level. Moreover, there are no incentives for a firm to help its competitors to increase their profits only to prevent more taxes on its own profits.</p>

BUILDING THE MAP

We are searching for a financial ratio capable of synthesizing the structural conditions of firm profitability. Financial analysts use a wide array of ratios, each identifying a specific dimension of profitability. Broadly speaking, “[r]atios provide a standardized method for comparing the firm’s activities, and help define the firm’s performance with respect to its strength or weakness”

(Pandey and Diaz 2019). For our purpose the more useful ratios are the return on equity (ROE) and the return on assets (ROA)—being less pro-cyclical than the ROS, profit margin, ebitda margin, etc. Of course, ratios are different among industries. For instance, if we take the ROA, we find that “ROA variability differs across industries, for example, according to their levels of operating leverage. ROA also differs across industries and through time as products pass through different stages in their life cycle” (Selling and Stickney 1989). Therefore, an industry-specific map is advisable.

In Esposito and Mastromatteo (2023) the map was based on banks’ ROAs. For firms more generally, using the well-known ORBIS dataset, we find that the statistical distribution of ROE and ROA is very similar but ROE is more frequently reported, so we used the ROE instead.

We take non-financial firms of the four main European economies (France, Germany, Italy, and the United Kingdom) for the period 2002–21.¹ We excluded firms with negative ROEs because it would have reduced the overall profitability, thus penalizing the more profitable firms. To stabilize the map, we use the median instead of the mean and we define excessive profitability as twice the median of the distribution:

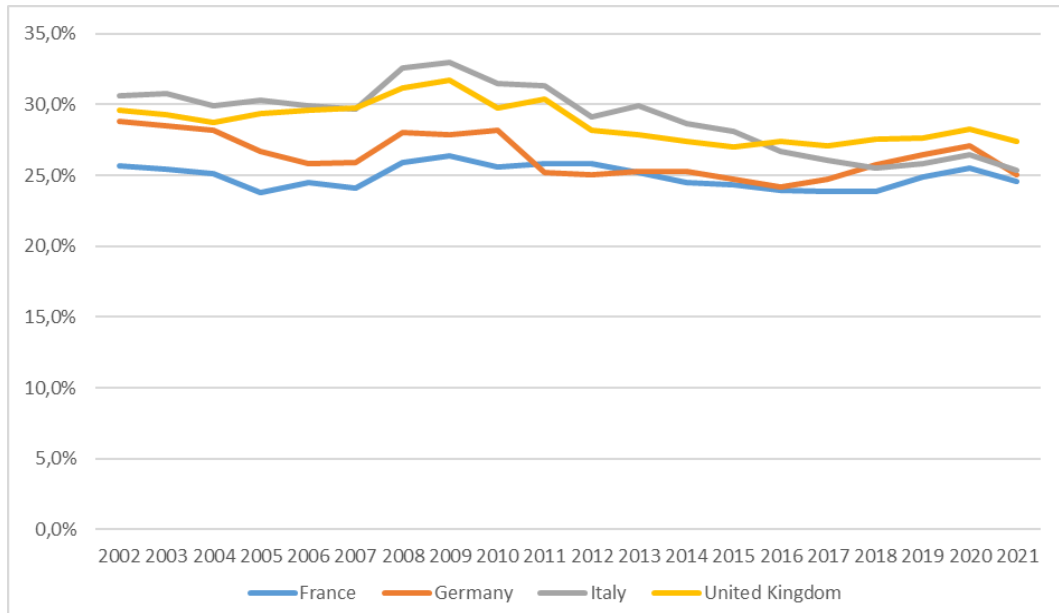
$$(2) \text{ map} = 2\hat{r}$$

(where \hat{r} is the median ROE)

Results show that the statistical distribution of firms around the median (and hence the doubled median) is very stable:

¹ We selected only large and very large companies. The sample increases by the year; the firms were around 17,000 in 2002, surpassed 30,000 in 2010 and they were 150,000 in 2017. In all, we recorded more than 1.7 million single data.

Figure 3. Percentage of Firms Above the Map for 2002–21



Source: ORBIS

Even during dramatic events, like the Global Financial Crisis (2007–2009), the Euro crisis (2011–12) and the pandemic (2020–21), the distribution is quite stable in the 25–30 percent range. How would the map apply to firms above the threshold? By taking out the excess profit from the firm in the form of taxes. We define excess profit as follows:

$$(3) \text{ } ep_i = (ROE_i - \text{map})\pi_i$$

(where π_i represents the profit of the firm i)

Excess profit as defined in equation (3) would be lost for the firm. Consider, firm i has an ROE of 20 percent when the median ROE is 8 percent. This means that i 's ROE is above the double of the median (being $20 > 16$).² If we suppose that, in that year, i 's profits amount to \$20 million, excess profits would be \$4 million and the actual profits of i for that year would be reduced to \$16 million.³

² To scale back excess profit to an absolute number in (3), result should be multiplied by 100 (as the different between the single ROE and the map is in percentage). To keep the formula simple, we left the (3) as it is.

³ Data confirm that using other ratios would not make much difference. To give an example, in 2021 for France the percentage of firms over the map as defined in (2) is 24.5 percent. Using ebitda margin the percentage is 26.3 percent, using the ebit margin it is 26.9 percent and using the profit margin it is 27.5 percent. For Germany the same percentages

The implementation of the map is straightforward. Every firm, when preparing its financial statement for the past year, also measures its ROE, and when all firms' financial statements are ready, the median ROE is also straightforward to calculate. As the rule is meant to prevent aggressive and risky behavior on a large scale, its enforcement for small firms would be ineffective. These are also the firms whose financial statements are, in general, less reliable. The EU definition of a small firm (a company with less than €10 million turnover and 50 employees) would do (EU 2020). Given their peculiar conditions, the map should also be waived for start-up firms.

We already noted that the specific situation of some sectors can create strong profitability vis à vis the size of the balance sheet. To solve the problem of firms that operate on more than one sector, their business line ROE could be used vis à vis the sectoral map. The same can be done for multinational firms using a national map and national ROE.

How the Map Should Fit into an Alternative Set-Up of Economic Policy and the Case of the Global Minimum Tax

Mainstream economics states that market economies are stable and efficient. Actual economies do not reach the optimal situation predicted by the theory because of “imperfections.” Economists use imperfections to explain every problem: unemployment, inflation, financial bubbles, pollution, poverty, and so on. In this theoretical set-up, the role of public policy is to detect the imperfection and to reduce its effects or, ideally, to dispose of it altogether. For instance, trade unions and minimum wages force wages above their “natural rate,” thus determining involuntary unemployment. It would be sufficient to erase laws on minimum wage and marginalize unions to eliminate this imperfection, thus making the labor market efficient again. We give another example: banks follow business models that are too risky because they are heavily regulated. If free banking prevailed, banking crises would disappear. If one objected that banking crises were common during free banking or deregulation eras, a mainstream economist may reply that this was due to the fact that rational agents predicted governments would have imposed heavy rules beforehand. For instance, a US rational investor in 1900 could predict the Glass-Steagall Act and

are: 25.1 percent, 23.7 percent, 26.3 percent and 25.8 percent, for Italy 25.4 percent, 24.5 percent, 27.7 percent and 28.7 percent, for UK: 27.4 percent, 24.4 percent, 30.9 percent and 29.6 percent.

incorporate its effects into their behavior years in advance, thus provoking the banking crisis of 1907 even before a central bank was created in the country. Therefore, broadly speaking, a public policy is only needed as long as the imperfection has not been cured; afterwards, it should be phased out. Gradually all public policies should be abandoned, and markets can be left free to operate with government only caring for the rule of law.

We will not discuss the plausibility of this theoretical framework, but only observe that it plays no role in the actual *dimension* of public intervention in the economy but only in its *composition*. Since the Reagan-Thatcher era more than 40 years ago, economists and politicians have argued against public intervention. As President Reagan loved to quip, “The *most* terrifying *words* in the *English* language are: I’m from the government and I’m here to help” (emphasis added). However, this was never meant to indicate a reduction in the general role of government in the economy. This was true even in the ‘90s and in the first decade of the new century. The global financial crisis, the pandemic, and, now, the pending new cold war have enormously increased this role. The reason why states and central banks have been forced to increase their balance sheet size is financialization: the growing importance of the financial system in the global economy (Palley 2007; Whalen 2017). The growth of finance makes the world economy more unstable (Arcand et al. 2012), forcing a growth of the public budget to rebalance the situation. This rebalancing, though, in essence consists of a growth of public debt that increases the size of financial markets as a whole. Financialization is also connected to a decrease of real investment (Orhangazi 2007) with a slowdown of economic growth (Stockhammer 2004; CEPR 2014) and an increase in economic and social inequalities. Thirdly, financialization determines a paradoxical situation: making financial crises more frequent, it forces governments and central banks to intervene to stop the financial collapse, but this means that public finances are used to buy private financial assets, pushing financialization even further. This is why, after 2008, financial markets have grown together with the central banks’ balance sheets and public debts. Financial concentration—and the fact that modern retail investors are irrelevant because they buy financial assets through institutional investors (assets managers, banks, etc.)—makes large financial conglomerates the pillar of financial markets. This gives them an enormous political role. The parallel growth of political influence of big financial conglomerates can be seen in the proliferation of former bankers in key political positions included premiership (for instance, the

present prime minister of France, François Bayrou and the former prime minister of the UK, Rishi Sunak, were both bankers). Without curbing the growth of economic and political influence of finance, no serious change to the world economy is possible. In Mastromatteo and Esposito (2016), we explained why an absolute size limit to banks' assets is the only possible way to achieve this aim. In fact, banks have become even bigger since. Our map proposal goes in the same direction—reducing the profits as a way to reduce the accumulation of money and power—not only in the banking sector but for the economy as a whole. The ordinary aspects of economic policy such as fiscal and monetary policies face different aspects of what we have discussed in this paper; they have different pros and cons, but are not able to address the problem of profit maximization. Let's discuss them in turn.

Fiscal policy aims at funding public services and redistributing wealth and income. These are important goals, but taxes and public investment do not change the firms' incentives to surpass the profitability of other firms, thus producing a prisoner's dilemma. Even if governments increase taxes on rich people or on dividends, firms will still be incentivized to increase profits. Financial markets based on institutional investors worsen the problem by continuously comparing companies' results to rebalance their asset portfolios, thus increasing the management's search for new ways to increase profitability at all costs. Stock options and other tools that connect the top management income to profitability produce the same results.

As for monetary policy, lowering or raising policy rates can increase or slow investment but cannot stop firms from trying to profit more than their competitors. Finally, industrial policies—fashionable again after decades of deregulation—can achieve many goals, but not the one that we explored in this work. We think that the “no more than double” rule is the easiest and the most straightforward way to achieve this: an impassable limit to capitalists' hunger for profits.

To sum up the relationship between economic policy and our proposal: every policy that reduces financialization and income or wealth concentration is welcome but a more structural approach is needed.

An obvious objection to the map is that, in order to be effective, it should be enforced at least at a G7 level and, ideally, by all relevant economies in the world. It is interesting to draw some parallels from the recent debate on the global minimum tax (GMT). Under the aegis of the OECD, the GMT is now a reality. In particular, around 45 jurisdictions are already taking steps to implement the GMT and more than 140 countries have committed to implementing it (Torkington 2024). The GMT fixes a minimum level of taxation for large multinational enterprises, thus preventing profit shifting and base erosion. The deal imposes a minimum effective rate of 15 percent on corporate profits. This not only allows for a level playing field between MNEs and other firms and across every economy, but also raises tax revenues from the firms, thus reducing public deficit. The general idea behind the GMT is not different from the map: to prevent firms from making “too much” profit, although its function is more aligned with the traditional set-up of fiscal policy. From a technical point of view, the GMT would require the same data of the map. In fact, to calculate the tax the starting point would be the financial accounts of the firm with adjustments to ensure that differences in the fiscal framework do not introduce distortions (Hugger et al. 2024). This transparent method of calculating the effective tax rate was agreed upon by all (around 140) countries involved (EC 2024). Although the effects of the GMT are considered slow to materialize, when fully enforced it should halve the profit shifted (OCSE 2024). All in all, the map would not be more difficult to enforce than the GMT. Moreover, as it would affect a by-far smaller group of firms, the lobbying against it should be weaker than against the GMT, although the map would be more concentrated on the more profitable firms that will lobby intensively to prevent the rule.

CONCLUSIONS: WE NEED A DIFFERENT WAY TO LOOK AT THE PLANET

“Anyone who thinks that you can have infinite growth in a finite environment is either a madman
or an economist.”

– D. Attenborough

Capitalism rejects every limit and constraint. Mainstream economics considers profit to be a signal of the efficiency of the firm and it is. However, efficiency can mean very different things.

For instance, if a firm cuts the wages of its employees or cuts the prices paid to its suppliers—hence cutting wages of its indirect employees—it is more efficient and profitable. This, however, is not a sound efficiency, it only shows that workers are weak and cannot resist the cut. If a firm does not care for the environment and pours production waste into rivers, this firm is more efficient and profitable, but once again, in an unsound way. One could reply that laws will prevent this behavior, but laws can be bypassed legally or illegally via lobbying, corruption, and other means. Big firms can be so powerful that they can convince public opinion that the problem is nonexistent, as was done in the financial sector before 2008 and is still the case with climate change. In many sectors, the banking and financial one being the clearest example, more profits are a signal of a riskier business model that will bring a general crisis, forcing a rescue with public funds.

Moreover, Minsky explained that profits are at the core of the economic dynamic, so they are the most important component to explain instability. The key point in Minsky's ([1982] 2016) analysis is the link between profits and investment. Higher profits can encourage investment but also encourage recklessness, and when profitability recedes, the previous debt accumulation can become unsustainable: "Whenever profits decreased hedge finance units became speculative and speculative units became Ponzi" (50). The interesting and counter-intuitive aspect of this theory is that when things go well, they are also preparing the situation for a painful reversal because firms gradually become more aggressive and risky. This translates into financial bubbles. As Minsky put it: "The basic theorem of the financial instability hypothesis is that, over an extended period of prosperous times, the weight of speculative and Ponzi finance increases, so that the economy migrates from being financially robust to be financially fragile" (Minsky 1986).

As we noted, the Global Financial Crisis of 2007–2009 confirmed that stabilizing the economy after a collapse is costly and painful. What is most difficult in such a situation is to reactivate the engine of growth, i.e., the investment–profit connection. If profitability does not recover, it is difficult to stabilize the situation, this is a key lesson Minsky exposed in the 1980s. Given that this collapse comes after a strong increase in profitability, policymakers should aim at smoothing profitability cycles. The proposed map does exactly that. It could be the basis for reshaping public policies around a simple idea: profits should serve humankind, not the other way round.

Minsky (2008) knew that every reform is only temporary, because “after an initial interval, the basic disequilibrating tendencies of capitalist finance will once again push the financial structure to the brink of fragility” (370). However, the map is a rule so simple and easy to enforce as to be effective for quite a long time.

REFERENCES

- Arcand, J., E. Berkes, and U. Panizza. 2012. “Too Much Finance?” IMF Working Paper no. 1527, Washington, DC: International Monetary Fund.
- ATF. 2024. “Big Corporations Paid Shockingly Little in Taxes Last Year.” Americans for Tax Fairness, February 7. Available at: <https://americansfortaxfairness.org/big-corporations-paid-shockingly-little-taxes-last-year/>
- Carchedi, G. 2012. “From the Crisis of Surplus Value to the Crisis of the Euro.” *World Review of Political Economy* 3(3): 288–312.
- Cubbin, J. and P. Geroski. 1987. “The Convergence of Profits in the Long Run: Inter-Firm and Inter-Industry Comparisons.” *The Journal of Industrial Economics* 35(4): 427–42.
- Deutsche Bank. 2017. “Mark-ups of Firms in Selected European Countries.” *Monthly Report*, December, Frankfurt: Deutsche Bank.
- Duménil, G. and D. Lévy. 2002. “The Field of Capital Mobility and the Gravitation of Profit Rates (USA 1948–2000).” *Review of Radical Political Economics* 34(4): 417–36.
- EC. 2024. “Minimum corporate taxation.” Bruxelles: European Commission. Available at: https://taxation-customs.ec.europa.eu/taxation/corporate-taxation/minimum-corporate-taxation_en.
- Eklund, J. E. and E. Lappi. 2019. “Persistence of Profits in the EU: how Competitive are EU Member Countries?” *Empirica* 46: 327–51.
- Enache, C. 2024. “Corporate Tax Rates Around the World, 2024.” Tax Foundation. Available at: <https://taxfoundation.org/data/all/global/corporate-tax-rates-by-country-2024/>. Esposito, L. and G. Mastromatteo. 2020. “Profitti, rischi e capital ratios: come sviluppare una vigilanza prudenziale neutrale al risk-appetite delle banche.” *Moneta e Credito* 73(290): 141–54.
- Esposito, L. and G. Mastromatteo. 2023. “Can It Be Prevented This Time? The Role of Profits in Banking Regulation.” Levy Institute Working Paper No. 1021. Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.
- EU. 2020. “User guide to the SME Definition.” Bruxelles: European Commission. Available at: <https://ec.europa.eu/docsroom/documents/42921>.
- Glick, M. and H. Ehrbar. 1990. “Long-run Equilibrium in the Empirical Study of Monopoly and Competition.” *Economic Inquiry* 28(1): 151–62.

- Goddard, J. et al. 2013. “Do Bank Profits Converge?.” *European Financial Management* 19(2): 345–65.
- Goddard, J., Tavakoli, M. and J.O.S. Wilson. 2005. “Determinants of Profitability in European Manufacturing and Services - Dynamic Panel Model.” *Applied Financial Economics* 15(18): 1269–82.
- Hugger, F. et al. 2024. “The Global Minimum Tax and the Taxation of MNE Profit.” OECD Taxation Working Papers, Paris: Organisation for Economic Co-operation and Development.
- IMF. 2019. “Corporate Tax Rates: How Low Can You Go.” IMF.org, July 15. Available at: <https://www.imf.org/en/Blogs/Articles/2019/07/15/corporate-tax-rates-how-low-can-you-go>.
- Joffe, M. 2020. “Profit Rate Dynamics in US Manufacturing.” Mimeo, London: Imperial College.
- Karier, T. 1990. “What Happened to the Corporate Profit Tax?” Levy Institute Working Paper No. 37. Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.
- Kauder, E. 1965. *A History of Marginal Utility Theory*, Princeton, NJ: Princeton University Press.
- Koltay, G., Lorincz, S. and T. M. Valetti. 2022. “Concentration and Competition: Evidence from Europe and Implications for Policy”, CESifo Working Paper No. 9640, Munich: CESifo.
- Marx, K. [1894] 1981. *Capital, Volume III*, London: Penguin Books.
- Mastromatteo, G. and L. Esposito. 2016. “Minsky at Basel. A Global Cap to Build an Effective Postcrisis Banking Supervision Framework.” Levy Institute Working Paper No. 875, Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.
- Maurin, L., Moreno, R. and I. Vetlov. 2011. “Profit Dynamics Across the Largest Euro Area Countries and Sectors.” ECB Working Paper Series n. 1410, Frankfurt: European Central Bank.
- Minsky, H. P. [1982] 2016. *Can “It” Happen Again? Essays on Instability and Finance*, New York: NY: M.E. Sharpe.
- Minsky, H. P. 1986. *Global Consequences of Financial Deregulation*, Wallenberg Forum, October 2. Hyman P. Minsky Archive, Paper 378.
- Minsky, H. P. [1996] 2008. *Stabilizing an Unstable Economy*, New York: Mc-Graw Hill,

- Nikiforos, M., Grothe, S. and J. D. Weber. 2024. “Markups, Profit Shares, and Cost-Push-Profit-Led Inflation.” Levy Institute Working Paper No. 1037. Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.
- OECD. 2019. “Industry Concentration in Europe and North America.” Paris: Organisation for Economic Co-operation and Development.
- OECD. 2024. “Economic Impact Assessment of the Global Minimum Tax: Summary.” Paris: Organisation for Economic Co-operation and Development.
- Orhangazi, O. 2007. “Financialization and Capital Accumulation in the Non-Financial Corporate Sector.” PERI Working Paper no. 149, Amherst, NJ: Amherst College.
- Palley, T. I. 2007. “Financialization: What It Is and Why It Matters.” Levy Institute Working Paper no. 525, Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.
- Pandey, R. and J. F. Diaz. 2019. “Factor Affecting Return on Assets of US Technology and Financial Corporations.” *Jurnal Manajemen dan Kewirausahaan* 21(2): 134–44.
- Selling, T. I. and C. P. Stickney. 1989. “The Effects of Business Environment and Strategy on a Firm's Rate of Return on Assets.” *Financial Analyst Journal* 45(1): 43–52.
- Stigler, G. 1963. *Capital and Rates of Return in Manufacturing Industries*. Princeton, NJ: Princeton University Press.
- Stockhammer, E. 2000. “Financialization and the Slowdown of Accumulation.” University of Economics and Business Working Paper no. 14, Wien.
- Teulings, C. and R. Baldwin. (eds.). 2014. *Secular Stagnation: Facts, Causes and Cures*, London: CEPR Press.
- Torkington, S. 2024. “What Does the OECD Global Minimum Tax Mean for Global Cooperation?.” Forum Agenda, February 2, World Economic Forum. Available at: <https://www.weforum.org/agenda/2024/02/oecd-minimum-tax-rate/>.
- Weatherford, B. 2014. “Corporation Tax Liability As Percent of Profits Has Declined.” Legislative Analyst’s Office, December 10. Available at: <https://www.lao.ca.gov/LAOEconTax/Article/Detail/23>.
- Whalen, C. J. 2007. “The U.S. Credit Crunch of 2007. A Minsky Moment.” Levy Institute Public Policy Brief No. 92. Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.
- Whalen, C. J. 2017. “Understanding Financialization: Standing on the Shoulders of Minsky.” Levy Economics Institute Working Paper no. 892, Annandale-on-Hudson, NY: Levy Economics Institute of Bard College.