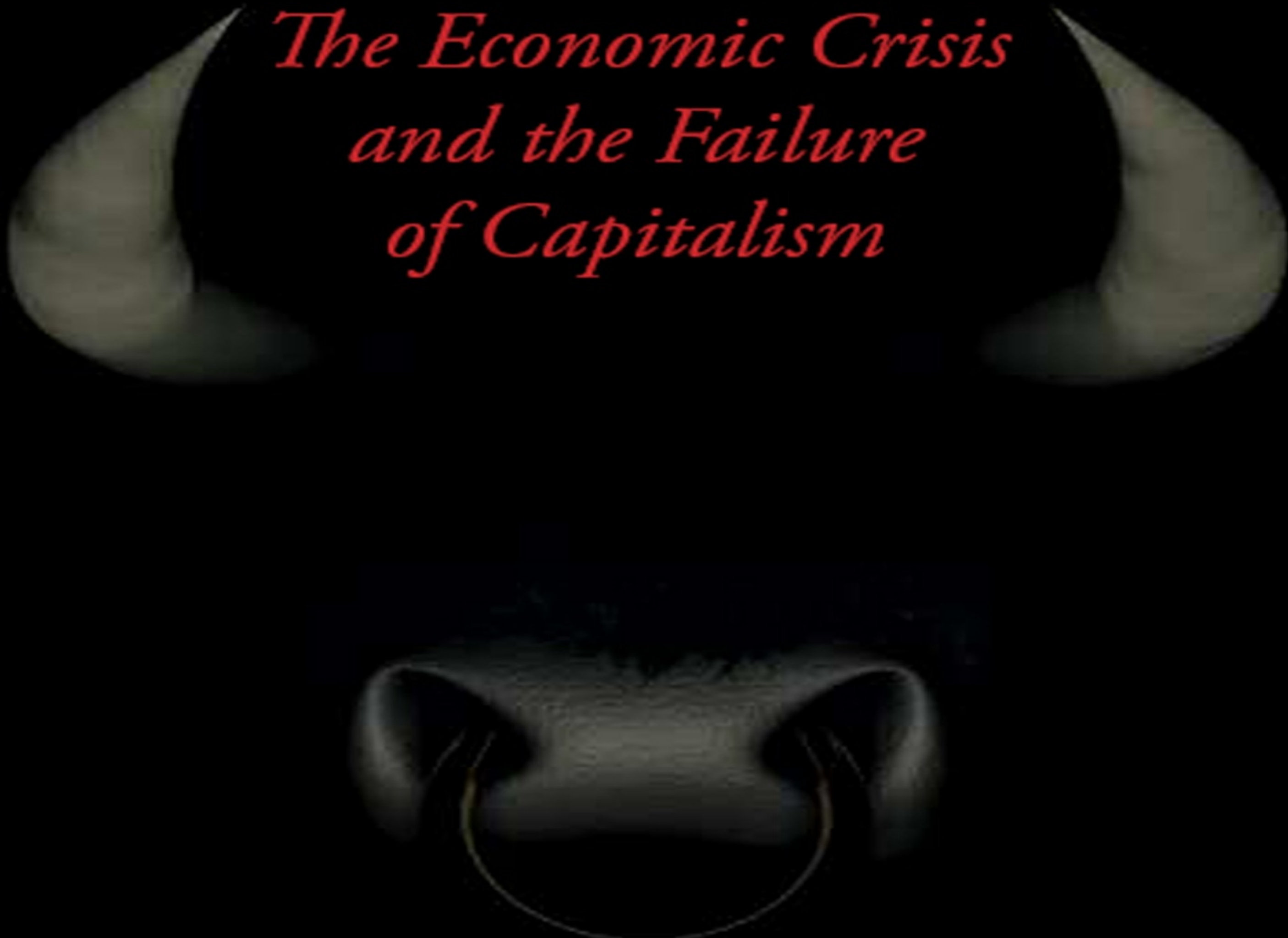
BUSINESS AS USUAL

The Economic Crisis and the Failure of Capitalism



PAUL MATTICK

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The Economic Crisis and the Failure of Capitalism

Paul Mattick

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Contents

Well, it’s not just me
And it’s not just you
This is all around the world.

— PAUL SIMON

Preface

When the American financial system began to unravel in late 2007, sending trillions of dollars up smoke, not only politicians but most experts, from the halls of academe to newspaper financial page agreed that though things might be serious, comparisons to the Great Depression were un-called for. few months later, however, that comparison was everywhere, if only as background for insistence th this time the downward spiral could be controlled – provided that governments did the right thing, ar fast. (Otherwise, as the then leader of the free world put it, 'This sucker's going down.') Three yea later, the worst seems to have been avoided, and what has been dubbed the Great Recession generally supposed to be giving way to recovery. This recovery, however, seems to be of the jobles variety, with banks still reluctant to extend much credit and successive fiscal crises in Europe ar elsewhere doing nothing to counter unease in the world's financial markets.

Only a few years ago, economists who explained the rational, efficient, self-correcting nature of th market system were winning Nobel prizes; those who disagreed with them were sure that prop government policies would make up for whatever limits to growth capitalism might bump up agains Both of these versions of economic orthodoxy have been more difficult to believe since the econom gains of yesteryear melted away like glaciers under the impact of global warming, as fortun vanished from stock markets around the world and the nine largest US banks lost more money in thre weeks of early 2008 than they made in profit during the three years after 2004, while governmen struggled to contain the damage. And yet, despite the surprising readiness of publications like *Th Economist* (which, on 18 October 2008, featured a story on 'Capitalism at Bay') to consider th economic system as truly imperilled by its current disorder, it is still difficult for people to understar that the current crisis is the result of more than greed, corporate irresponsibility and the deregulatio of financial markets. Greed and corporate irresponsibility are hardly novel features of capitali society. And if the dismantling of the regulations put in place in the United States during and after th Great Depression to limit financial hijinks eased the way both to fraud and to the extension speculation beyond sustainable limits, it is also what made possible the exuberant expansion of cred on which the level of well-being achieved over the last two decades depended. Understanding th Great Recession requires looking beyond the contributions made to the debacle by government connivance and the instability inherent in newfangled financial contrivances like the now infamou collateralized debt obligations and credit default swaps, to the long-term dynamic of capitalism itsel

This book attempts to understand the present-day state of affairs by setting it in the context of th long-term dynamic. Doing this, of course, requires making judgements about which aspects of the pa are most relevant to understanding the present and speculating about the future. The failure economic theory to predict or even explain the story so far should, to put it mildly, give us paus before we take the pronouncements of its quarrelling practitioners too seriously. So the approac taken here starts with the conclusion James K. Galbraith recently drew from wide know ledge of h academic profession: that it is ‘pointless to continue with conversations centred on the convention economics’.[1] Instead I draw upon the thinking of Karl Marx, who described himself not as a economist but as a critic of economic theory.

Marx lived a long time ago, and capitalism has changed in important ways since he wrote about But his theorizing operated on such a high plane of abstraction that it is still relevant to the econom system we live in today.[2] Marx’s abstractions, moreover, are different from those of convention economics, which claim to apply across history: Marx emphasized those features of modern socie that make capitalism different from other social systems. Hence his focus on the role of money economic affairs, and in particular on the need of businesses to make profit, central both to a gener understanding of the alternation of prosperity and depression and, as we will see, to grasping t limits of economic policy when, as at the present time, governments attempt to move an economy trouble back to recovery. My confidence in this mode of analysis has been strengthened by the fa that since the start of the crisis in 2007 I have correctly anticipated the ways in which it has continu to unfold, in contrast to most professional commentators. This is not because I am smarter than oth people, and it has been true despite my having less access to data than most professional economist it is a matter of knowing how to think about what is going on. This is what I want to share wi readers.

While this book thus does not avoid theory, because reality cannot be understood without it, I hav made an effort to avoid jargon of any sort. I assume neither great acquaintance with economics n much knowledge of economic history on the reader’s part; my wish is to supply just enough of both make sense of ongoing events. I do not spend much time discussing alternative approach (unavoidable or irresistible comments in this vein are for the most part confined to footnotes), beyor discussion of the dominant modes of economic theory insofar as they have influenced econom policy. Historical data is for the most part drawn from official sources. The limits to the accuracy such data are well known, or ought to be; though we have to use them, because they are all there i exact numbers for things like growth rates or unemployment should be taken with a pinch of salt.[3]

1

What Happened?

How are we to describe the events that have convulsed the global economy since 2007? Almo everyone seems to agree that there was a financial crisis, which gave rise to a recession. While t latter is commonly described as the worst since the Great Depression, the widely held view is th swift action by the US government to bail out financial corporations averted the threat of depressio opening the way for the 'green shoots' of recovery discerned already at the end of summer 2009 b Federal Reserve chairman Ben Bernanke.[1] Some economists and journalists did not expect fu economic bloom until another year or two, while almost all agreed that even an improved econon would take the form of a 'jobless recovery'. But the consensus view, when I finished writing this boo in mid-2010, was that we were already on the way out of what had come to be called, ruefully, t Great Recession – a view officially confirmed by the Business Cycle Dating Committee of t National Bureau of Economic Research when it announced in September 2010 that the recession h ended fifteen months earlier.

There was general agreement as well about the causes of the collapse of the American financ industry that set the global downturn in motion: this collapse was an unintended consequence (thoug perhaps an expectable one, even if most economists and financiers did not expect it) of unparallel financial risk-taking, stimulated by the fantastic profits achieved by this sector in the 1990s, help along by lax governmental regulation. This line of thinking points, for example, to the enormou salaries and bonuses reaped by professional speculators working at banks, hedge funds and oth financial enterprises, which gave them an incentive to risk their firms' money, and especially oth people's money borrowed by their firms, to pursue short-term profits to the limits allowed b government regulators (and even beyond). Thus, to cite a particularly simple-minded example, t Nobel-prize-winning economics professor Paul Krugman used his column in the *New York Times* opine that 'reforming bankers' compensation is the single best thing we can do to prevent anoth financial crisis a few years down the road'.[2]

Although over-leveraged, risk-taking speculation was an international phenomenon, the heart of t problem lay in the United States, the world's dominant economy and financial centre. Here t traders' risky behaviour had a home in what is commonly described as a culture of self-indulgent hig living. As individuals, too many Americans borrowed too much money; too many banks made loans unreliable customers. The danger inherent in this situation was magnified by a technical innovati that was supposed to manage risk by spreading it, the 'securitization' of mortgages and other types loan – their grouping together into bundles sold as bonds. In this way the bank that makes the loa doesn't tie up its money in an actual piece of property, waiting for the loan to be repaid, but sells t right to collect the interest on those mortgages (or, for example, credit card accounts) to investors other banks, pension funds and so on – in complexly structured packages called ‘collateralized de obli~~gations’. The investors, of course, can sell these CDOs to others, or use them as collateral~~ to tal out giant loans to buy more securities or to gamble in the rapidly expanding field of derivatives, a typ of investment well described in the *Financial Times* as ‘like putting a mirror in front of anoth mirror, allowing a physical object to be reflected into infinity’; about $62 trillion in credit defau swap derivatives, for example, were floating around when the crisis hit. By January 2007, the mortgage-based bonds on which this inverted pyramid of financial instruments rested, themselv rising far from actual houses and the money to be paid for them, had a total value of $5.8 trillion. O this, 14 per cent represented sub-prime mortgages, entered into by people with poor financi resources. In 2006 these people began to have a hard time making their payments and the pyram fractured.

The foreclosure wave should not have been surprising, as the real wages of non-superviso workers in the US had reached their peak in the early 1970s and stagnated since then (the years aft 2000 saw in particular a rapid decline in employer-financed health insurance), along wi employment. When variable mortgage payments jumped, more and more people couldn’t make them Meanwhile, the Fed raised interest rates starting in 2004. The same institution’s earlier lowering o interest rates had encouraged borrowing, including for speculative purposes. As they went u mortgages became more expensive, houses were harder to sell and house prices stalled or fell. The developments in turn made it difficult or impossible to refinance, as many homebuyers had bee assured by lenders they would be able to do. By Dec ember 2007 nearly a million US households we facing foreclosure. Housing prices began to fall more rapidly; the mortgage market collapsed, takin with it the whole structure of securitized investments, now a massive part of the financial structure the US and around the world.

Alan S. Blinder, former Federal Reserve Bank governor and now Krugman’s fellow professor Princeton University, put it this way: ‘It’s easy to forget amid all the fancy stuff – credit derivative swaps – that the root cause of all this is declining house prices.’ People, from humble homeowners Wall Street Masters of the Universe, imagined that house prices would climb forever. When the started to fall, the institutions that bought mortgages and borrowed against them, treating them as th equivalent of high-valued houses, suddenly found themselves unable to meet their obligation Because so many institutions had become embroiled in the mortgage market by buying securitize mortgages, the effect on the whole financial system was swift and deadly: as more and more paymen could not be met, more collateral was demanded to back up borrowings, which further depressed th institutions’ ability to manoeuvre. Major banks were forced into mergers or bankruptcy, while th insurance giant American International Group, which had insured billions of dollars’ worth of thes transactions, survived only thanks to a massive injection of US government funds. Bank credit becam unavailable – and capitalism lives on credit, required not only by individuals rolling over the monthly credit-card bills but by businesses of all sizes meeting weekly payrolls and other operatin expenses. In short order, therefore, the financial crisis – in this account – produced the Gre Recession.

A more complex version of this story invokes a global dimension: the American econom expansion of recent decades, after all, involved a growing trade and current-accounts deficit relation to the rest of the world. Americans bought more goods from the rest of the world than the produced to sell. And the money they spent flowed back to the USA, invested in stocks, bonds and re estate, but also in the government securities that, in a circle that was vicious or virtuous depending o one’s point of view, financed the persistent outflow of dollars to buy goods from around the worl This inflow helped keep American interest rates low, allowing people to buy foreign-made goods a well as to take out mortgages and purchase houses and apartments. While many nations were involve in this, the Chinese government became the largest holder of US Treasury bonds, thus financing th ~~growing appetite for Chinese-made goods on the part of American consumers and keeping the~~ pric of those goods low (since the massive flow of dollars into China would otherwise have pushed up th value of the Chinese currency, the renminbi,[3] making Chinese goods more expensive on the wor market). Thus China, and the other major dollar-hoarding countries, enabled (as they say in rehab) th American consumption habit, and with it the debt expansion and hypertrophied speculation that led the financial collapse. In the words of a leading columnist for the *Financial Times*, Martin Wolf,

> High-income countries with elastic credit systems and households willing to take on rising debt levels offset the massive surplus savings in the rest of the world. The lax monetary policies facilitated this excess spending, while the housing bubble was the vehicle through which it worked.[4]

Conversely, once the financial system seized up in the United States, it was bound to sprea throughout a world in which national economies are knitted together by financial and trade flows.

All of this makes sense, as far as it goes, and corresponds to phenomena apparent to anyone readi the financial pages of the world's mainstream newspapers. The outstanding issues seem to be those what to do next. What sorts of reforms of the financial system are necessary (and possible)? Is mo stimulus money needed in one nation or another to fully prime the economic pump or has enough bee spent already? What measures should be taken to aid the unemployed and maintain state servic while the economy returns to normal? John E. Silvia, chief economist for Wells Fargo, expressed th most optimistic version of this perspective in a 'research note' published in the *New York Times* on 2 July 2009: 'The recession is over, the economy is recovering – let's look forward and stop th backward-looking focus.'

A Crisis in Economics

In taking this stance, Silvia only affirmed his faith in the currently dominant strain of econom theory. According to the leading economists of the last thirty years, the financial trans actions th played such a central role in the current debacle are an efficient mechanism for allocating resourc among potential uses. The same Martin Wolf who now laments a fundamental imbalance in the worl economy saw a means for stability in global financial flows in 2004, his only caveat being that ' some people (Asians) wish to spend less than they earn today, then others need to be encouraged spend more'.[5] Meanwhile, what was in fact, in historical terms, a relatively stagnant econom moving through recessions of various degrees of severity and undergoing an unending series banking, debt and currency crises, was described as essentially stable. Thus Nobel Prize winner Robe E. Lucas Jr wrote in the *Wall Street Journal* – in late 2007, when realestate finance was alrea disintegrating – that he was

> skeptical about the argument that the subprime mortgage problem will contaminate the whole mortgage market, that housing construction will come to a halt, and that the economy will slip into a recession. Every step in this chain is questionable and none has been quantified. If we have learned anything from the past 20 years it is that there is a lot of stability built into the real economy.[6]

What perturbations there were, according to this vision of capitalism, could originate only fro
out~~side the economic mechanism proper – above all from mistaken government regulative, fis~~cal an
monetary policy.

In this way, at the turn of the twenty-first century economics reaffirmed the rosy view of th private-enterprise system that had characterized the field in its earliest days. Throughout th nineteenth century, economic orthodoxy maintained that the natural state of a capitalist economy wa a healthy full employment of resources to produce the maximum amount of goods for consumptio After all, as Adam Smith had already explained in *The Wealth of Nations* (1776), the whole point of capitalist economy is that each individual owes his or her living to success in meeting the needs others. Only what can be sold will be produced; money will be borrowed, land rented and labour hire only because the resulting production meets a need. Conversely, the money earned by selling one product will be spent, either on consumption or on further production. David Ricardo, the gre systematizer of early nineteenth-century theory, portrayed the economy as tending naturally to balanced state, in which all products found buyers, with goods selling at ‘natural’ prices. Tru Ricardo saw trouble ahead for capitalism, but only because population growth would require th cultivation of increasingly infertile land; the diversion of wealth away from entrepreneurs to landlor that would eventually limit growth was the fault of physical nature, not the economy. As the idea o capitalism’s self-regulation was expressed by Ricardo’s follower J. B. Say, ‘supply creates its ow demand’. Since there’s no way of knowing in advance how much of each kind of product will b consumed, there can be momentary imbalances between supply and demand, but the rise and fall prices will see to it that the necessary adjustments are made.

In the later nineteenth century the ‘classical’ political economy of Smith, Ricardo, and the followers was replaced by a new ‘neoclassical’ mode of theorizing that was in many ways qui different. It emphasized not, like classical theory, the division of income among social classes, but th decision-making of individuals. Borrowing the concept of ‘equilibrium’ from physics, along with th mathematics of static mechanics, the new economics continued to insist that capitalism by its natu tended to settle in a stable state in which each individual is maximally satisfied, given the constrain set by his or her relations to the rest of the system. (How this idea was to be reconciled with th equally basic dogma that capitalism tends to grow as a wealth-producing system was left for futu thinkers to resolve.) From this point of view too, therefore, breakdowns of the market system, opposed to imbalances in particular markets, are out of the question; what general difficulties c occur must be the effects of some non-economic factor, such as the weather, human psychology o mistaken government policies.

The Great Depression that began in 1929 (that name had previously been assigned to the downtu that lasted from 1873 to 1896) finally made it possible for the fiction of natural stability and perpetu growth to be questioned by a figure as institutionally important as John Maynard Keynes, financi representative of the British government at the Versailles conference to end the First World Wa professor of economics at Cambridge and all-round leading light of British intellectual life. In h *General Theory of Employment, Interest, and Money* of 1936 Keynes observed that the insistence orthodox economics on the self-regulated nature of the capitalist economy had failed to recognize th the system could regulate itself into a state of less than full employment. Sharing with orthodoxy th basic assumption that the point of the economy is the utilization of resources, natural and human, produce goods for consumption, Keynes proposed that the state should intervene at such moment borrowing money against future tax receipts to hire workers, thus increasing the number of consume and so calling forth new investment to meet their needs. Like his predecessors, Keynes ascribed th possibility of breakdown to a non-economic factor, human psychology, which limited the ability o the growth of consumption to keep up with the ability to produce, along with a pattern of expectation ideally based on experience, about the profits to be earned from investment. But as humans cause th pro~~blem, humans could repair it, with government policy undoing the psychologically set lim~~its o full employment and prosperity. This is the origin of the concept of the ‘stimulus’ – the idea that th economy need only be nudged to a different supply–demand equilibrium position for its natur tendency to stabilize to operate at a higher level of employment and consumption.

In 1936, when Keynes published his book, the idea that government spending should make up f the shortfall in capital investment and consumer demand had already been put into practice b governments as different as Adolf Hitler’s and Franklin Delano Roosevelt’s. By the end of the Secon World War, the massive military expenditures required had restored high levels of employment an improved the general standard of living, at least in the United States. This gave an enormous boost the fortunes of Keynesianism (if not precisely to Keynes’s own ideas, as many of Keynes’s theoretic disciples pointed out over the decades, without making much political or academic headway[7] Depressions now seemed to be something that could be controlled and even avoided altogether.

Interestingly enough, the loss of faith in Keynesian theory that came with the return of econom stagnation in the 1970s, now accompanied by inflation, led not to a search for new ways to grapp with the nature of the ‘business cycle’ of alternating contractions and expansions, but to a renewe insistence that the market, if only left to itself, would provide the best of all economic worlds. economic practice, government stimulus of the economy reached a postwar high point under Rona Reagan, apostle of the free market and battler against the Evil Empire of the Soviet Union’s state-ru economic system. In economic theory, however, the period since the late 1970s saw the dominance o the field by insistence on various forms of the efficient-market hypo thesis. Originating in nineteent century studies of the probabilistic nature of business decision-making, this is the idea that stoc market prices provide the best available estimates of the real value of shares, and so of the actual sta of business enterprises, because ‘the market’ – that is, the bargaining conducted between all buye and sellers – takes account of all available information in setting the price of an individual stock. Th hypothesis thus extended to asset markets – markets for stocks, real estate, commodity futures an other vehicles for speculative investment (including, for example, CDOs) – the assumptions about th self-equilibrating nature of commodity markets basic to the classical theory of *laissez-faire*.

The degree of dominance that this view achieved within economic discourse in recent decad guaranteed a radical crisis of faith in economic theory when the financial house of cards cam tumbling down. ‘What Good Are Economists Anyway?’ asked *Business Week*’s cover story for 1 April 2009, noting that though the world is ‘simply too complicated’ for ‘exactitude’ in prediction, is distressing that ‘seven decades after the Depression, economists still haven’t reached consensus o its lessons’. An even harsher rebuke came from within the profession when Paul Krugman asked, the pages of the *New York Times Magazine*, ‘How Did Economists Get It So Wrong?’ Despite his titl Krugman did not have all economists in mind, but only those who followed recent neoclassic fashion (he left undiscussed the reasons why Keynesian theory fell into disrepute in the 1970s Locating ‘the central cause of the profession’s failure’ in ‘the desire for an all-encompassin intellectually elegant approach that also gave economists a chance to show off their mathematic prowess’, Krugman dismissed the approaches dominating academic economics over the last 30 yea as fundamentally misguided and called for a return to Keynesian theory as part of a recognition of th fundamental ‘messiness’ of the economy.[8] Writing in the *Financial Times*, Robert Skidelsky (be known for his authoritative biography of Keynes) similarly noted that the efficient-mark hypothesis’s collision with the iceberg of economic reality had ‘led to the discrediting of mainstrea macroeconomics’ and given the lie to economists’ claim to practice a predictive science.[9]

Such shock at the predictive failure of economics is surprising, given the dismal record professional forecasting. The enthusiasm spawned after the Second World War by the apparen success of economists in understanding and managing the economy led many companies to hire i house forecasters in the 1950s and ’60s. But ‘thanks to the poor historical performance of econom forecasting’, today ‘almost none of the Fortune 500 companies directly employ economists. Instea they avoid relying on forecasts altogether . . .’.[10] Clearly, economics is neither a reliable predictiv science nor a body of theory on whose basics practitioners can agree. Yet *Business Week*’s write Peter Coy, Krugman and Skidelsky could think of no alternative to further theoretical heavy lifting b the economics profession.

For the most part, as we have seen, even those attempting to face up to the current debacle economic practice and theory continue to accept the basic dogma of the now discredited approach economics: the idea of an essentially problem-free nature of capitalism, apart from financial excesse In the words of George Cooper – a professional fund manager whose recent book reflecting on th crisis-prone nature of the financial system makes a merciless mockery of the efficient-mark hypothesis – the ‘markets for goods and services’ are characterized by ‘stability’ but this does ‘n hold for asset markets, credit markets, and the capital market system in general’, which onc disequilibrated have no tendency to return to an equilibrium state.[11] The problem, that is, is not th capitalist economy as such, the production and distribution for profit of goods and services – ofte referred to as the ‘real economy’ – but the financial superstructure erected on its basis which, allowe to get out of control, can unravel with consequences for the underlying structure itself. Even som left-wing thinkers, who one might have imagined would be only too happy to proclaim new eviden of capitalism’s obsolescence, chimed in with this strand of the mainstream chorus.[12]

Other leftists explain the recession by combining the generally noted fragility of the financi structure with the Keynesian diagnosis of insufficient effective demand. Thus David Harvey’s rece book on economic crisis explains the current downturn as the outcome of earlier efforts to mainta capitalist prosperity by lowering the high wages earned by workers in the 1960s:

> Moves made to alleviate a crisis of labour supply and to curb the political power of organized labour in the 1970s diminished the effective demand for the product [of industry], which created difficulties for realization of [profit] in the market during the 1990s. Moves to alleviate this last problem by extensions of the credit system among the working classes ultimately led to working-class over-indebtedness relative to income that in turn led to a crisis of confidence in the quality of debt instruments (as began to happen in 2006).[13]

But if the Great Recession developed from a financial crisis, why is the world economy st slowing, even as bailouts to the financial system, together with stimuli administered to the gener economy, are supposedly producing ‘green shoots’ of recovery? Why will this recovery be a joble one, thus requiring (as Keynesians of various ideological stripes, from Krugman to Harvey, maintai government spending to revive demand and increase employment? In the US, when these words we written in spring 2010, big bonuses were back in the financial world, but wages were not going up, put it mildly, while the average work week declined and unemployment continued to rise. Th remaining investment houses were making excellent profits on financial trades, while banks remain unwilling to offer credit to businesses that need it to survive, let alone expand. General Motors, ne bankruptcy in 2008, has been saved, apparently, by government action, at the cost of huge numbers jobs, while those still on the payroll have had to accept lower wage, health and pension terms. But th corporation’s home state of Michigan – along with California, the largest state in the union – w sliding into fiscal collapse, closing universities, schools and libraries while cutting basic services li healthcare. Meanwhile, the European economy continued to slow, with rising unemployment, whi ~~Japan remained mired in stagnation. China, it is true, reported growth, at the spectacular rate~~ of 9 per cent for 2009. This was no doubt due in part to the continuing ability of Chinese industry to tal market share from producers in other countries, thanks to a mixture of government subsidie continued maintenance of a cheap currency and the efficacy of a police state in keeping wages low ar working conditions harsh (despite some limited success of recent workers' protests and strikes). But clearly owed much to the 4 trillion renminbi ($590 billion) pumped into the economy by the stat along with a record 9.6 trillion renminbi ($1.4 trillion) of bank debt, much of it channelled in realestate speculation. The artificial character of this 'growth', in fact, was such as to prompt offici worries 'that the stimulus drove overspending on factories and other facilities, which could lead economic problems if producers were forced to slash prices in glutted markets or could not repay bar loans', not to mention the ripening real-estate development bubble.[14]

If we disobey John Silvia and allow ourselves a backward-looking look, we are faced with th question of just how the imbalance in the world economy implicated in the financial meltdown cam to pass in the first place. To start with the last-mentioned thread of the story, why did the Chines government (and other East Asian and Middle Eastern nations) facilitate the American housir bubble, with all the financial hijinks it involved, by buying Treasury bonds rather than, say, using the dollars to invest in American industry? Of course, as already noted, this helped solidify their foreig exchange position, protecting the value of their currency. And there would have been little point i financing US production when the basis of developing Chinese capitalism is the replacement of the as a centre of production. But why did the American economy decline as an engine of productic rather than consumption? Why did investment slow in the US, outside of the stock and bond market real estate and derivatives, so that by 2007 so-called financial services earned a historically high 28 per cent of total corporate profits? Between 2000 and 2005, as one commentator emphasizes, 'th increase of both non-residential investment and net exports was *less than zero*, so that person consumption and residential investment' – both based on mortgage-debt expansion – 'were left th drive the economy virtually by themselves'.[15]

And since this is not only an American story, why was the world economy increasingly devoted t speculative pursuits? How did what were once called 'developing countries' turn into 'developin markets', with an emphasis on securities, real estate and commodity futures speculation? Even China, which has been busy turning out everything from steel to teddy bears, vast sums of money hav poured into real-estate development, producing a growing bubble that had experts worried befo more immediate problems distracted them. It was, as we shall see, largely this worldwide growth financial activity after 1980 that appeared both as 'globalization' and as the American prosperi supposedly powering the world economy. Conversely, the crisis appeared as a financial crisis, n because the rest of the economy was healthy, but because finance was the most dynamic sector of th economy, and therefore the one in which the underlying weakness first manifested itself.

Clearly there is something wrong with the mainstream approach to understanding current econom affairs. Part of the problem lies in the terms with which commentators attempt to understand th social system in which we live. These analytic difficulties are inextricably connected with insufficie attention to the actual course of economic events. To understand what happened and what is sti happening in the world economy, we need to take a longer view than that which seemed to support th enthusiasm of recent economic theory. We need to look back at history – the history of capitalism as system, and the history of this system since the Second World War in particular.

2

Ups and Downs

A remarkable feature of the commentary on today's economic troubles is that despite consta
reference to the Great Depression of the 1930s, as well as to the downturns since the Second Wor
War (particularly the relatively severe recession of 1981), there has been little mention of the fact th
business depressions have been a recurrent feature of the capitalist economy. But even the briefe
attention to history makes recent events appear considerably less unusual. Major downturns have be
identified in every decade from the 1820s forward, increasing steadily in seriousness up to the B
One in 1929. In 1835, for instance, the *National Gazette* reported on the speculative boom set off
the United States by the expansion in trade made possible by the westward extension of canals a
railroads (the value of New York City real estate increased 150 per cent between 1830 and 1837
Speculation

> in stocks and real property is more general and extravagant than it has been before . . . in all our principal cities . . . [M]ultitudes are now prominent and desperate dealers in the stock and other speculation markets, of classes and ages, callings and positions in life, that formerly were never seen nor expected, and themselves never thought of acting, in such scenes . . . They chase bubbles not less intently than those who have leisure and money to spare.[1]

By 1837, bank failures had led to a collapse of domestic and external trade. 'Business firms fail
by the hundreds, and workers were turned away from factory doors. In the West and South thousan
of farmers lost their lands. Paper fortunes were wiped out overnight.'[2] The post-Civil War growth
American industrial capitalism led to even more serious downturns. In 1893, notably, 'some 5
banks and 16,000 business firms had been financially ruined', ushering in a deep depression, with a
per cent decline in economic activity and unemployment of 15 to 20 per cent, setting off wide sprea
social unrest.[3]

From the early 1800s to the late 1930s, in fact, capitalism experienced depressions during betwe
a third and a half of its history (depending on how they are dated by different authorities
Sometimes, as in 1847–51, they gave rise to significant social upheavals; at other times, as in 1857–
the disruption of life and the suffering they occasioned awoke little political response. Overall, th
became deeper and longer over this period. In the decades after the recovery from the Gre
Depression of 1929–39,[5] however, the relative shallowness of economic fluctuations encouraged ev
those who did research into the economy's ups and downs to ignore the potential for social disrupti
demonstrated in earlier recessions. Todd Knoop's recent textbook on the subject goes so far as
conclude that 'the study of depressions is a somewhat different topic than the study of business cycl

in general’. It is from this perspective that Knoop, in a striking denial of the facts of history, describ
the depression of the 1930s as ‘unprecedented’,[6] and that so many economists could find the curre
depression so unexpected and difficult to explain.

This is a reversion to the earliest mode of study of depressions, which saw them as isolated event each with its own explanation. By the later nineteenth century, however, it was understood that crise were part of a recurrent cycle of events, which has to be understood as such, rather than as a series unrelated phenomena. In every case the crisis led to a recession, marked by a decline in industri production, rising unemployment, falling wages (and other prices) and failures of financi institutions, preceded or followed by financial panics and credit crunches; in every case, the downtu was eventually followed by a return to greater levels of production (and employment) than befor Thus the idea of economic crisis evolved into recognition of what in English went under the names the ‘trade cycle’ or ‘business cycle’, a pattern of events which, given its constant repetition, w clearly endemic to modern society.

The seventeenth and eighteenth centuries had already experienced financial panics in the Europe cities – London, Paris, Amsterdam – in which the growing importance of money in social life had le to the development of stock markets and other modes of finance. (A notable example was the collap of the market in tulip bulbs in Amsterdam in 1637, the first recorded bubble.) But something ne emerged when an increasingly money-centred economy gave rise to the Industrial Revolution and th establishment of capitalism in wide enough swathes of territory for it to become the dominant soci system: crises of the social system as a whole. Before that, of course, social production an consumption were disrupted by a variety of disturbances: war, plague, bad harvests. But the coming capitalism brought something new: starvation alongside good harvests and mountains of food; id factories and unemployed workers in peacetime des pite need for the goods they produced. Su breakdowns in the normal process of production, distribution and consumption were now due not natural or political causes but to specifically *economic* factors: lack of money to purchase neede goods, profits too low to make production worthwhile.

At first only the most capitalistically developed nations were affected (the 1825 crisis took in on Great Britain and the United States). But over the next hundred years, as capitalism spread across th world and countries were increasingly linked by trade and capital movements, the cycle of crisi recession, recovery and prosperity took in ever more areas, although not all experienced these phas in the same way, to the same extent or at the same moment. By the end of the nineteenth century, th alternation of prosperity and depression was disturbing enough to demand attention from soci analysts, even if there was little room for it in the accepted frameworks of theoretical economics.

In 1860, the French Académie des Sciences Morales et Politiques sponsored a competition ‘Inquire into the causes, and indicate the effects of commercial crises that took place in Europe an North America during the XIX Century . . . As commercial relations have expanded, the perturbation crises bring with them are also touching more and more regions.’[7] The prize was won by Cléme Juglar, who demonstrated the regularity of cycles on the basis of extensive statistical research. physician by profession, Juglar mobilized concepts of normality and systemic disturbance demonstrate that crises, despite their individual features, followed a recurrent cycle of phas suggesting that ‘crises, like illnesses’, are ‘one of the conditions of existence of societies in whi commerce and industry dominate’.[8] Seventy years later, despite a voluminous series of article pamphlets and books devoted to the topic, the absence of a generally accepted theory led th Assembly of the League of Nations – in view of ‘the persistence with which depressions occur’ an ‘the gravity of their economic and social effects’ – to sponsor a major study of prosperity an depression,[9] which came out in the midst of the most serious economic collapse in history.

Because both classical and neoclassical thinking had no theoretical room for systemic breakdown it ~~was heterodox thinkers who did the pioneering research into the boom-bust cycle.~~ J.-C.-L. Simon de Sismondi, the initiator of business-cycle theory, wrote his *New Principles of Political Econon* (1819) in response to the doubts raised in his mind about the ideas of Adam Smith by 'the busine crisis Europe had experienced in the last few years; the cruel sufferings of the factory workers witnessed in Italy, Switzerland and France, and which all public accounts showed to be equally seve in England, Germany and Belgium.'[10] Sismondi came up with many of the explanations appealed by other theorists since his time: the unplanned nature of the vast market economy; the fact th consumers' income is less than the value of goods produced; the related idea that more is invested production than is justified by the extent of the market; and the unequal distribution of income.

Some of these ideas were also advanced, at around the same time, by Thomas Malthu unconvinced by Ricardo's insistence that a general crisis of the economic system (as opposed temporary disequilibria) is simply impossible. These thoughts – ancestors of many subseque 'disproportionality', 'under-consumption' and 'overproduction' theories of crisis – draw the plausibility from the fact that in a market economy decisions about where to invest money and abo what is produced, and in what quantities, are made prior to finding out what quantities of particul goods are actually wanted by consumers, and at what price. This seems obviously relevant to recurre fluctuations in economic activity, in which different parts of a complex system adjust to each oth over time. Another basic aspect of capitalism – that in order for profit to exist, the total money valu of goods produced must be greater than the total money paid out in wages – suggests an inhere imbalance between production and eventual consumption. As both of these are constant features this society, however, it is hard to see how they can explain the alternation between periods of grow and collapses serious enough, on occasion, to give large numbers of people the idea that the syste was actually breaking down.

The most important, and most unorthodox, writer to tackle the question of the business cycle w Karl Marx. The nature and causes of economic crisis, and of the relation of crisis to prosperity, a central themes running through the thousands of pages he devoted to the 'critique of politic economy' of which he published a single volume in 1867 under the title *Capital* (materials for th remaining volumes were edited and published by others after his death). Marx argued th capitalism's basic nature produced a tendency to crisis, which was realized in recurring depressio and would eventually bring the downfall of the system. Marx's approach differed so fundamental from the generality of economic theorizing, however, that it proved difficult for others interested the subject (including most of those who called themselves Marxists) even to understand his idea much less find them useful.

The year 1867 saw another attempt at explaining the economic cycle, an article in which Englis economist John Mills found its cause in the changing emotional states of investors, which swin wildly from optimism to pessimism and back. This idea has had a long life, in many different forn (Juglar, for instance, emphasized the over-optimism of investors in a period of prosperity); its mo recent revival, widely hailed as a novel contribution to economic theory, is George Akerlof's ar Robert Schiller's book *Animal Spirits: How Human Psychology Drives the Economy, and Why Matters for Global Capitalism* (2009).[11] Other thinkers found the cause of the cycle in the weather, in William Stanley Jevons's dogged efforts, starting with a publication in 1875, to prove a correlatio between business ups and downs and the sunspot cycle, which he believed influenced agricultur yields and so the general state of the economy.

As these examples suggest, a common theme in business cycle theorizing has been the location the origin of depressions outside the economic system proper; this approach remains basic contemporary cycle theory, which seeks origins in 'exogenous shocks', and particularly in mistake

government policies. Thus Christina Romer, the first head of President Obama's Council of Econom
Advisors, has written that

> there is no reason why cycles have to occur at all. The prevailing view among economists is that there is a level of economic activity, often referred to as full employment [of all inputs to the production process], at which the economy could stay forever . . . If nothing disturbs the economy, the full-employment level of output, which naturally tends to grow as the population increases and new technologies are discovered, can be maintained forever . . . Business cycles do occur, however, because disturbances . . . push the economy above or below full employment.

By 'disturbances' she means such phenomena as substantial rises or falls in government spending ar waves of optimism or pessimism among consumers or firms.[12]

In an earlier day, however, Gottfried von Haberler had concluded from his 1937 survey of busines cycle theories and history for the League of Nations that crises 'cannot be accounted for by suc "external" causes as bad harvests due to weather conditions, general strikes, lock-outs, earthquake the sudden obstruction of international trade channels and the like'. Finding this 'mysterious' because of a presumed 'inherent tendency of the economic system towards equilibrium' that he, lil Professor Romer, accepted as a feature of capitalism – Haberler defined depressions as 'thos prolonged and conspicuous falls in the volume of production, real income and employment which ca only be explained by the operation of factors originating within the economic system itself, and in th first instance by an insufficiency of monetary demand and the absence of a sufficient margin betwe price and cost'.[13] These two factors are obviously related, as a restricted market puts downwa pressure on prices and so limits the price for which goods, whose costs were determined at an earli moment, can be sold.

In the efforts made by researchers to follow Juglar's example by studying quantities of statistic materials, the theoretical biases of the German Historical School and the Institutionalism of Thorste Veblen and his followers in the United States played an important role: both emphasized socia historical facts as a basis for understanding the economy, in contrast to the high level mathematicized abstraction favoured by the neoclassical mainstream. While important work was dor by socially critical thinkers like the Russian Michael von Tugan-Baranowski,[14] the most significa and long-term research project was that initiated by an American student of Veblen's, Wesley C Mitchell, at first independently, and then under the aegis of the National Bureau of Econom Research, founded in 1920. This empirical work produced genuine advances in the understanding business ups and downs.

It became clear, for one thing, that the idea of a business cycle is a theoretical constructio unifying a complex set of processes. Mitchell began the volume in which he presented the results of statistical investigation into the cycle by observing that 'we have no statistical evidence of busine cycles as whole. What the data show us are the fluctuations of particular processes . . .'. Thus th cycles 'turned out to be complexes, made up of divergent fluctuations in many processes'.[15] To sa that 'the business cycle' is 'a synthetic product of the imagination',[16] however, is to accord it th same status as all scientific constructs. It is not to deny that it names something real, only to say th this reality, statistical in nature, is a matter of the interrelations between a large number of process that produce the alternation of prosperity and depression experienced in the form of such phenome as business slowdowns, unemployment and financial crises at some times, and as investment boom increased trade, increased employment and financial opportunity at others.

It was the large number of factors constituting business cycles that led to the competing explanatio of the phenomenon, each taking one factor as primary. One of Mitchell's great contributions was h emphasis on the fact that what links these processes together is the practice that gives the mode social production system a unified history: the buying and selling of goods for money. Businesses bu goods from other businesses and labour from workers, who buy goods from businesses; the exchanges take the form of flows of money between businesses, individuals and banks or oth financial institutions. Crises involve breakdowns in these flows, as bills can't be paid and investment wage-payments and purchases are cut; the return of prosperity involves an expanded flow of mon through the economy as new investments are made and workers are rehired. This is why, Mitche observed, it 'is not until the uses of money have reached an advanced stage in a country that i economic vicissitudes take on the character of business cycles'.[17]

What makes money so central to modern society is that most goods and services are produced b businesses, and businesses are primarily engaged in the effort to make money. That is what business about: using money to make money. The name for the money made by business is 'profit', th difference (in Mitchell's definition of a commonplace concept) 'between the prices which a enterprise pays for all the things it must buy, and the prices which the enterprise receives for all th things it sells'. Since a business enterprise must regularly turn a profit to continue to prosper, 'th making of profits is of necessity the controlling aim of business management', and decisions abo where to invest and so what to produce are regulated by the quest for profit. Thus, as Mitchell put i 'In business the useful goods produced by an enterprise are not the ends of endeavor, but the mea toward earning profits.'[18] A company that does not turn a profit will soon go out of business; good that cannot be sold at a profit will not be produced. Hence, most generally, 'Economic activity in money-making world . . . depends upon the factors which affect present or prospective profits.'[19]

Investment decisions are not just a matter of the expectations stressed by economic theory, b equally of the actual ability to invest, since the money available for investment is either drawn fro existing profits or borrowed against future profits, which must then come into existence if loans are be repaid and the process is to continue. At some times businesses do better across the economy as whole, earning more profit, on average, than at other times. When average profits are high socie enjoys prosperity, but declining profits can lead to depression. All of this seems so obvious that wh is surprising is the inability of most economists to grasp the mechanics of the process. With th advantage of a concentration on empirical studies of business conditions, together with his bas understanding of capitalism as a system centred on the production of money profits, Mitchell was l by his researches to the same conclusion as Haberler, that depressions are due to 'the absence of sufficient margin between price and cost', that is, to insufficient profitability, while the opposi condition produces prosperity.

The absence of discussion of profitability as determining the state of the economy is as striking feature of current economic writing, outside of a handful of left-wing outsiders, as the refusal recognize the earlier history of depressions. This is probably due to the central place of the concept 'national income' in macroeconomic theorizing (theorizing about the economy as a whole). Th concept of 'growth', for instance, so central to contemporary economic discourse, is conventional variously defined in terms of 'national income', defined as the market value of all goods and servic produced in a country in a given year (GDP), as the total income earned by the sale of those goods a services or as the total amount spent on purchasing these goods and services (these three money tota are assumed to be equivalent).[20] In this total the profits of businesses enter as one sort of price

income alongside others, and thus only as a constituent of, rather than the chief determinant of, th
over~~all state of the economy. In a society whose system of production and consumption is dominate~~
by business, itself dominated by the need to earn a profit, growth – expansion of the system – is, as w
have seen, a function of profitability. The national-income point of view, however, focuses on th
overall change in income (or product value) produced by changes in profit ability, so that consum
spending and investment in means of production seem to be independent contributors to econom
growth.

In this, contemporary theorizing follows the founding example of Keynes himself. This is n
surprising, as Keynes was the modern re-inventor of what is now called macroeconomics,[21] and th
modern system of income accounts was devised to aid in Keynes-inspired policy-making. Since h
was, after all, theorizing about capitalism, Keynes began *The General Theory* with a discussion
profit, also denoted 'entrepreneur's income', understood as what a businessman 'endeavours
maximize when he is deciding what amount of employment to offer'. But Keynes put theoretic
stress on what he called 'the *total income* resulting from the employment given by the entrepreneur
consisting of profit plus factor cost (i.e. the prices of means of production and labour).[22] This was
order to move, a page or so later, to his central interest, the relation of the level of investment, and s
of employment, to consumption and savings as fractions of the 'aggregate real income' of 'th
community' as a whole.[23]

In this way, as Philip Mirowski points out, 'the national-income concept was effectively severe
from capital, permitting the rate of increase of income to be analytically divorced from the rate
profit on capital'[24] (the latter – in Keynes's terminology, the 'marginal efficiency of capital' – no
figures as one of the determinants of investment and so of national income). This is because Keyne
although he did not accept the neoclassical economists' doctrine that economic crisis was impossibl
shared with them the basic idea that the economy is essentially a vast mechanism for allocatin
resources to satisfy consumption needs. On this assumption, the market's allocation of part o
society's product to entrepreneurs as profit is just a way to get them to invest, in the interests o
society as a whole. If the level of profit ability is insufficient, Keynes reasoned, increasin
employment and consumption by other means, specifically by government deficit spending, will lea
to prosperity and continued growth.

Interestingly, as Mirowski has also noted, Keynes's use of the national income concept seems t
have been indebted to W. C. Mitchell's work at the NBER, whose first research report was a statistic
estimate of this quantity for the US. And in fact already in his 1927 study of business cycles, Mitche
moved from an emphasis on profitability as the key to cyclical phenomena, through the description
profits as 'the most variable type of income', to the complex flow of money payments throughout th
economy as a whole, which makes profits 'subject to perturbations from a multitude of unpredictab
causes'.[25] Although he emphasized profits as the factor dominating capitalist dynamics, Mitchell ha
no theoretical explanation for the vagaries of profitability. Thus he was finally left with no more t
say than that 'defects in the system of guiding economic activity [by market-price relations] and th
bewildering complexity of the task itself allow the processes of economic life to fall into tho
recurrent disorders which constitute crises and depressions.'[26]

An apparent counter-example to the neglect of profit ability in contemporary business-cyc
theorizing can be found in the views of the post-Keynesian economist Hyman P. Minsky, who argue
like Mitchell that the 'validation of business debt', which makes possible continued financing and s
ongoing economic activity, 'requires that prices and outputs be such that almost all firms earn larg
enough surpluses over labor and material costs' – profits, in other words – 'either to fulfill the gro
payments required by debt or to induce refinancing'. Profits, in turn, are in his view determined by th

scale of investment, which sets the demand for output and so makes possible (the realization of th ~~possibility is simply assumed, without explanation) the appearance of a surplus above costs.~~ And fo Minsky, as for Keynes, investment is determined by ‘the subjective nature of expectations about th future course of investment, as well as the subjective determination by bankers and their busine clients of the appropriate liability structure for the financing of positions in different types of capit assets’.[27] Thus the rate of profit, a determinant of investors’ expectations, is itself explained as product of the expectation-driven behaviour of entrepreneurs and bankers.

Recent research into the American economy has confirmed Mitchell’s common-sense focus o profits as central to the explanation of business fluctuations. As one important survey of America statistical material, carried out by economists whom no one could accuse of political radicalism concluded, ‘The effects of profit . . . dominate investment movements.’[28] And since investme determines the amount of money available to hire workers (and so for workers to spend on consum goods) and to buy raw materials and plant and equipment, the growth or decline in investment affec the growth or decline of the economy as a whole. This explains why, as a recent study noted, profi stagnated or even began to decline several quarters before each of the three recessions, startin respectively in 1990, 2001 and 2007. Profit data going back to the last decades of the nineteen century, when they were first collected, shows that something similar occurred in each of th recessions that the US economy has gone through since that time.[29]

Hence we are left with these basic questions: why do profits fall in the course of busine expansions, and rise in the course of depressions? If profit is the difference between costs and sa prices, both measured in money, what determines the size of this difference? Since changes in th production and consumption of goods and services seem to be determined by relations between th money prices of these goods and services, what regulates these relations? These questions lead to th fundamental question: what is money, anyway, in a modern economy, such that business success o failure is determined by monetary gain or loss? These are questions that even a historically oriente economist like Mitchell did not think to ask, because he took for granted the existence of money as means for coordinating social production and distribution activities. Asking them, for an inhabitant o capitalist society, would be like an ancient Egyptian asking why Osiris was in control of the Nile’s eb and flow and so of the rise and fall of agricultural output. Answering them requires sufficie intellectual distance from the conventions of our own society to step outside of everyday econom thinking and the theoretical elaborations of it formulated by economists, to consider money (and s profit) as historically peculiar social institutions, with particular consequences for the way we live.

3

Money, Profit and Cycles

What, actually, is money? The Wikipedia entry is an adequate representation of standard answers t this question: ‘Money is anything that is generally accepted as payment for goods and services an repayment of debts.’ The problem, of course, is that ‘payment’ means ‘giving money in exchange fo something’.[1] The circularity of the definition is no doubt unnoticed in large part just because, Mitchell emphasized, in a modern business economy, ‘most . . . economic activities have taken on th form of making and spending money’.

We are so used to this state of affairs that we hardly notice its historical peculiarity and forget th in the past – in much of the world, even the very recent past – most people made little or no use money, since they produced much or most of their own food, clothing and other necessities of life. S it is worthwhile remembering that while money appears in many types of society, capitalism is th only one in which it plays such a central role in the production and distribution of goods and servic that nearly every object and service that we make use of in the course of a day has to be purchased f money. In such a system, money has a different social significance from that of earlier societies.

Already in 1776 Adam Smith described capitalism as a system in which production processes a so complexly interrelated that each person is dependent on great numbers of others for his or h existence:

> Observe the accommodation of the most common artificer or day-labourer in a civilized and thriving country, and you will perceive that the number of people of whose industry a part, though but a small part, has been employed in producing him this accommodation, exceeds all computation. The woolen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts . . . How many ship-builders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the different drugs used by the dyer, which often come from the remotest corners of the world.[2]

In a society in which most productive enterprises are organized on a business basis, the norm functioning of such a system of interdependent individuals depends on the regular exchange of goo for money. This is because the people who produce goods for a business have no direct relationsh with the people who will consume those goods or services, even though it is ultimately for them th they are producing. The workers in bakeries and automobile factories do not know who will use th bread and the cars they make, or what quantities they want and can afford. The same is true of the ~~employers. Each business only finds out from its success or failure in selling its products~~, sufficiently high prices to make a profit, to what extent it is meeting the needs of customers. Ju because capitalist businesses produce to meet the needs of anyone who can pay, as the property individuals or corporations they are linked to the rest of society only as they buy materials and labo and sell their products.

In talking about all societies we can speak abstractly of 'social productive activity', for in all soci systems work must be done to transform natural resources into forms consumable by human beings. every society, productive activity must be allocated among the different specific kinds of wor necessary to produce the particular things and services that society wants to have available. capitalism, a society in which most production is carried out by businesses, this allocation is carri out by finding out what quantities of what goods can be sold, rather than by some social process deciding in what kinds of production to engage. Hence in capitalism the abstraction 'producti activity' is not only a matter of descriptive vocabulary but has acquired a physical form in money: is the money received for a successfully marketed good that signifies that the labour that produced th good is part of social labour. The interrelations between businesses and individuals constituting th economic system and so allocating its members' productive capacities are established by the use this symbol. The exchange of goods for money, by thus making them inter changeable with each othe erases the differences between the kinds of work necessary to produce them. Baking bread a assembling automobiles are equally represented by sums of money, the amounts paid for the respective products. It is by being exchanged for, and so treated as equal to, a sum of money (its pric that a good or service acquires economic reality – can actually be consumed – in this social syste and that the effort made to produce it is counted as a contribution to economic life. Money th represents the social character of the effort made to produce a good or service.

In modern society, based on the principle of individual ownership (even though the vast majority people don't own very much), money represents the social character of productive activity in a form bits of metal, paper symbols or electronic pulses – possessable by individuals. Business owners, li everyone else, have access to goods only in exchange for money; as Smith put it, 'It is not from th benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their rega to their own interest.'[3] The particular product a business sells is of interest to it only as a means acquire property that in the form of money can be exchanged for any sort of thing. Hence the use money as a symbol for successfully social production does not simply facilitate the productio distribution and consumption of goods and services; money itself is the primary goal of busine activity.

As Thorstein Veblen explained in his *Theory of Business Enterprise*,

> The all-dominating issue in business is the question of gain and loss. Gain and loss is a question of accounting, and the accounts are kept in terms of the money unit, not in terms of livelihood, nor in terms of the serviceability of the goods, nor in terms of the mechanical efficiency of the industrial or commercial plant . . . The business man judges of events from the standpoint of ownership, and ownership runs in terms of money.[4]

Executives move capital from one area of business to another not because they care more abo automobiles than soya beans or stuffed animals, but to make money.

Money is central to our social system because it is the first such system in which most producti activity – apart from the few tasks that people still perform for themselves, like (sometimes) cooki