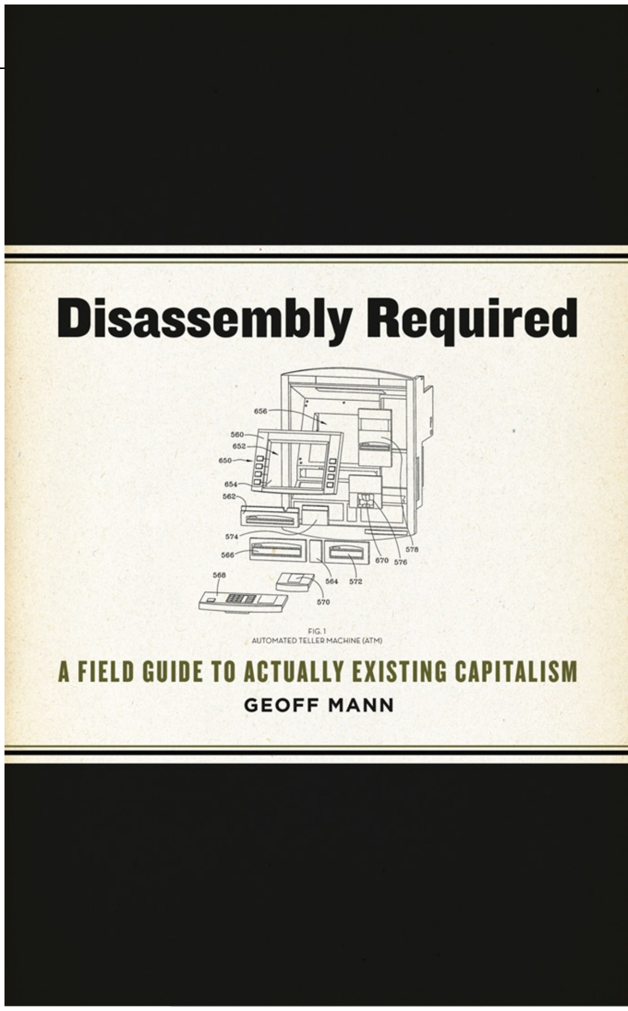

DISASSEMBLY REQUIRED

A FIELD GUIDE TO
ACTUALLY EXISTING CAPITALISM

GEOFF MANN

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Part 1

1. An Introduction to Actually Existing Capitalism

In the chapters that follow, you will find what I hope is an engaging and reasonably detaile explanation of contemporary capitalism. It is not an exhaustive or neutral explanation. While it tri to unfold and explain some of the fundamental claims of modern economics, including a fe "technical" details, it is not an "objective" description of capitalist economies. In that sense, it different from titles like "An Introduction to Capitalism" or "Economics for Beginners" current lining bookstore shelves. Those books can be helpful, in a limited way. At best, they can lay out th "how it works" of capitalism as clearly as any Lego instruction manual. But they almost alwa substitute an account of how capital says the economy works, or ought to work, for an account of ho it actually works. They introduce a whole set of mainstream, "business pages" concepts as if they a unquestionable, the only way to understand capitalism. Those of us driven by a sense that wh capitalism offers is nowhere near good enough, and that we can and must create something better, wi find little if anything to work with.

This book provides lots of facts and explains important concepts and events, but it also provid ideas, challenges, and critique to chew on. It is not another shrill denunciation of capitalism. Tho books often leave one feeling that capitalism is simply a massive class conspiracy, a monolithic for of evil for which only really nasty, cruel people could be responsible. It is as if capitalism happens us, imposed by external trickery. But that is not true. Most of us actively participate in keepin capitalism going every day, and not always unwillingly. Indeed, some of those it seems to serve poorly—much of the working class, for example—are among its most energetic defenders.

This book is written with the conviction that much of the way we organize the "economic" aspec of modern life is ethically and politically indefensible, and ecologically suicidal. It is also writte with the conviction that merely pointing that out, and then waiting for everyone to agree, is a most futile exercise. It simply reproduces slumped-shouldered pessimism or smug radicalism, a chorus self-proclaimed rebels repeating conspiracy stories and sweeping generalizations with which the listeners already agree: "Banks rule the world!" "Capitalism = greed."

Not that all the conspiracies and sweeping generalizations are baseless—but some are definite hollow, and those that are true are often only symptoms of other, more powerful dynamics. Take th two placard slogans above. Both seem to state the obvious. Modern governments are beholden to th banks and bond markets, and it does sometimes seem that capitalism is driven by "greed," but neither case is the problem as straightforward, nor the solution as clear, as the indictment makes seem. Capitalism is much more complex and compelling than that.

This is a fatal flaw in much radical critique of contemporary capitalism. One of my goals is expose this flaw, and suggest a way that critique and politics can move past it. It is not enough to poi fingers, to expose puppet-masters. Doing so may satisfy a sense of fairness, while indulging in th comfort of a black-and-white politics that identifies "the" enemy. But it almost always degenerat into moralizing. High-horse politics, which rely on the claim that "we" are better or more honest more caring than "them," the bad guys, crudely oversimplify the difficult choices most people ma in real life—assuming they have a choice at all. (Not to mention that such moralizing is wh conservatives do best).

Perhaps the CEOs of Shell Oil or Citibank are indeed cruel profiteers and super-ri megalomaniacs. Perhaps they really are bad guys. That is not, and cannot be, the basis of a critique capitalism. Capitalism is neither made nor defended by profiteers and super-rich megalomania alone, nor did they produce the system that requires the structural position they fill. In realit ~~capitalism is produced and reproduced by elaborate, historically embedded, and powerful social~~ ar material relationships in which most us participate. In fact, many of us struggle to maintain tho relationships, sometimes with all our might, because we feel like we have little choice. Are immigra workers who cross a picket line because they need to cover the rent the “bad guys”? What if they a hoping to one day be a boss or factory-owner? Are they merely duped? Are the poor “really anticapitalists at heart, but just don’t know it yet? Would they choose something other than capitalis if given the chance? On what basis could we make that claim?

“We’re good, you’re evil” strategies can easily undermine mass solidarity, precisely because o those tricky everyday decisions people have to make. Barring a “clean slate” political solution, such the revolutionary elimination of the “bad guys” (which history suggests is a risky route), I a convinced that the only basis for solidaristic anticapitalist politics is an analysis that makes sense “complicity.” We need an approach that comprehends the various positions and political dilemmas i which people find themselves, and helps them see that these dilemmas are neither inevitable n necessary—that they can find what they need in different, better ways, through other ways of livi and thinking.

So, while it is partly true, for example, that “banks rule the world” through their control governments, if we want an end to that control, we need to know more than the fact that it exist Recognizing the reality we face is a crucial first step, but on its own it gets us almost nowhere. Wh we really need to know is how banks exercise control: how bond markets work, how the state h come to depend upon them, and what we must undo or fix to alter existing structures of power. If w want to get rid of “greed” (because capitalism is held to be exceptionally greedy), we have an eve bigger problem on our hands. Only by ignoring all of human history can we blame greed o capitalism, and it is not obvious that capitalist greed is necessarily worse than, say, the greed of Hen VIII or Hernán Cortez, of slave-owners or elites in the Communist Party of China.

The problem is not that capitalism is a conspiracy of greedy people. The problem is that capitalis as a way of organizing our collective life, does its best to force us to be greedy—and if that is tru then finger-pointing at nasty CEOs and investment bankers may be morally satisfying, but fails address the problem. We are aiming for more than a world with nicer hedge-fund managers.

Two premises follow from this. First, we need to understand capitalism in more than just a wish washy, general way. If we want to change it, whether by tweaking or reworking the whole econom fabric of society, we need fairly detailed knowledge of the how, why, what, who, and where. Secon while critical theories (like Marxism) have a lot to offer, it is just as important to seriously enga *capitalist* theories of the capitalist economy, the ideas that make up modern orthodox (“neoclassical economics and political economy. In other words, we have to recognize that as capitalism ha developed, it has done so in tandem with ideas of human society with which it makes sense of itself.

Without some understanding of modern economic thinking, we cannot understand capitalis because we cannot understand the logic and analysis that justifies it, that orders its institutions a gives it the legitimacy that has helped it survive and thrive for so long. Capitalism is organized th way it is because of how capital understands the world—an understanding, we must admit, shared b millions of people all over the world. Capitalism is not maintained by mere violence and deception. it were, it would be far less robust. It is also sustained by a set of institutions, techniques, and ide about human affairs and social goals that, for many people in the wealthy world, are unquestionabl as natural as gravity. Critics of capitalism ignore or dismiss these ideas at their peril.

This is not as dry as it sounds. The “dryness” of orthodox economics is part of what gives it i power. It seems so boring and technical, so coldly mathematical. Its subtle technicalities—intere rate dynamics, firm structure, pricing minutiae—sound like the province of arrogant experts and sel important businessmen. But behind this curtain lie key ideas and institutions, and we need understand them. I wager that, if we put them in their broader political context, you will find a lot of downright fascinating—troubling, certainly, but fascinating.

The book proceeds by laying out the ideas (Part I), and then putting them to critical work in the re world (Part II). In Part I, the rest of this chapter provides the necessary foundations: what exactly this capitalism thing? Chapter 2 turns to some influential theories of capitalism, drawing from bo critical and non-critical or “liberal” political economy. One theme that will emerge is that capitalis is extraordinarily dynamic and robust—arguably more so than any other way of organizing econom life yet realized. Despite a common misconception that it is rigid and unaccommodating, it h changed a lot over time, and continues to change. In reality, there is a range of actually existin capitalisms. This means that despite their persistent influence, some of the older ideas presented Chapter 2 seem quite poor descriptions of capitalism today, especially regarding finance and credi which were not always so central.

With this conceptual frame to help organize our thoughts, the next two chapters in Part I consid the principal features of modern capitalism’s core institutions and processes. Chapter 3 starts with th essential capitalist institution that usually gets either down-played or dismissed: the state. It als examines the form and content of money, maybe the most important way in which the state and th market are bound together in capitalism. Chapter 4 contains an analysis of markets in their varietie and looks at what their “actual” operation can tell us about modern capitalism and the working peop and profit-driven firms that play so crucial a role in its dynamics.

In Part II, we move to a broad-brushstroke examination of the recent history of capitalism, wi particular attention to the origins and consolidation of global processes often called “neoliberalism (Chapter 5), and then to “financialization” and the mechanisms behind the “subprime crisis” of 2007 2008 (Chapter 6). In this case, the devil is definitely in the details—but not exclusively. Chapter 7 partly a reflection, in light of the political and economic crisis in Europe, on what the previou chapters can tell us about the material and ideological challenges facing alternatives to capitalism. also considers the necessarily experimental and unclear ways we might demand not merely the end capitalism, but the emergence of something better. Nothing in these conjectures is definitive guaranteed. But the critic has a responsibility to say where his or her critique might lead. The wisdo and relevance of these propositions will only be visible in retrospect.

Overall, the goal is to understand how and why capitalism works. Only then can we identify leve of change. “How” and “why” are two different questions. The first is a descriptive problem; th second is analytical, and at least partly historical. Ultimately, it is the analytical part that matte politically, because it requires an argument: *these* are the reasons why capitalism operates the way does; it is *these* dynamics that inevitably fail to meet the needs of many; and *these* are the reason there are better, fully realizable ways of organizing our lives. The emphasis throughout is on th analytical side; but we can only get there after getting the descriptive side down as well as possibl We need empirical material to work with, an understanding of the nuts and bolts of capitali dynamics that is not exhaustive, but nonetheless fairly detailed and subtle.

IF CAPITALISM IS SOMETHING, WHAT KIND OF THING IS IT?

The first thing we need to agree upon is that capitalism is something we can name, with distincti features that distinguish it in non-trivial ways both from what came before and from oth contemporary systems of economic organization. Capitalism is one way of arranging human societ of organizing the social relations of production, exchange, consumption, and distribution. We can ca this arrangement, as Karl Marx did, a “mode of production,” but could just as easily call it a “mode organizing economic activity,” or even simply an “economic system.”

All three terms, one might say, get the point across. However, some precision is useful here. Firs in today’s capitalist societies, “the economy” and things “economic” are depoliticized ar oversimplified. For many, the “economic system” refers to specific dynamics associated wi production and exchange in formal (i.e., legally recognized) markets. Rarely does it bring to min things like women’s work in the home, the illicit drug trade, or the education system, even thoug these are significant components of modern capitalism. To understand modern political econom arrangements, we need language that reminds us explicitly of what they involve, and “the economy or “economic system” do not do that work right now.

The second reason we need specific terminology is the popular association of modern capitalis with “human nature.” It is fair to say that many people believe that the capitalist “economic systen is the logical outcome of “natural” human motivations and proclivities. Capitalism is taken not as *a* economic system, but as *the* economic system. Economic questions are taken to be synonymous wi questions about capitalism. Indeed, capitalist political economy has become so dominant in our wa of thinking that any economic relationship that is not capitalist is assumed to be somehow “distortec or “fettered” by the state or some other institution. The assumption is that if an economy is n capitalist, it is either backward or underdeveloped (and thus not capitalist *yet*), or it is being purpose prevented from being capitalist, and would immediately “go capitalist” if left to its own. There is n historical evidence this is even close to true. Markets and states and human communities “g capitalist” when organized to do so.

For these reasons, I think “mode of production” is preferable. It flags the fact that an econom system is always a way of organizing *social* relations. Capitalism, communism, socialism, and ar other mode of production you can think of are all ways of organizing the production and reproductic of the system itself. They produce and maintain the ways we live. Thinking of capitalism as a mode production thus allows us to include in the “economic” conversation the gendered division of labour the household, which produces particular kinds of workers in capitalism. It allows us to recognize th the way we interact with and shape ecological systems is a key part of how we produce and reprodu our societies. It lets us look at the educational system as, in large part, a training in “econom participation.” The mode of production concept flags the fact that capitalism is not defined b factories and financial firms—there are both in non-capitalist societies—but by the societal norms ar institutions in which they operate.

The point is that even though we often think of “economic” things as outside or different fro social things, they are not. Producing, consuming, exchanging and distributing only happen becau people do them—and they do them the way they do for lots of reasons that are not, in themselve “economic.” Producing, consuming, working, and exchanging are social in the “actually existin sense. The people doing all this are not abstract “agents.” They are real living people, vital individua with likes and dislikes and hopes and fears. They are also members of more or less well-defined soci groups and societies based in real times and places. They may be from different groups, societies, places, of course, but no one is from nowhere. And that means that every person and group involved economic activity participates (at least in some way) according to the norms, customs, ar ideologically embedded practices in which they are immersed.[1]

More importantly, calling capitalism a “mode of production” highlights the fact that there are othe different ways of organizing the social relations of economic life. Feudalism, which precede ~~capitalism in much of Europe, was one in which economic activity was organized by coercive~~ lor vassal relations of tribute and protection (and varied widely in the places and times historians ca "feudal"). Another mode of production existed as the authoritarian "state socialism" of the form Soviet Union, a mode that most people erroneously call "communism" (largely because those systen misidentified themselves, of course; few would willingly call themselves "authoritarian sta socialists").[2]

WHAT MAKES CAPITALISM CAPITALIST?

Capitalism emerged in Europe from so-called "precapitalist" modes of production (principally feud and mercantilist) over a period of centuries. There are longstanding debates regarding precisely whe where, and why it emerged, how long it took, and who was involved, but there is a general consensu that by the late eighteenth and early nineteenth centuries, what we now call capitalism was fairly we consolidated in England, and to a lesser extent in western Europe. Capitalism has since diffuse unevenly and incompletely, across the globe. Often it has done so through coercive means, includin war and colonialism. In other places and times, it has spread in a less violent manner, either by simp providing people with what they wanted, or because it was embraced by those who believed it was th key to "development." Consequently, capitalism does not look the same everywhere you go. Societi with other modes of production have inevitably adapted to capitalism, and adapted capitalism to f China, for example, has developed a very complicated relationship with capitalism over time, relationship that continues to evolve.

Identifying the essential characteristics of capitalism is not a simple task. Many of the features modern economies that appear to be distinctively capitalist—private exchange markets, for examp —are necessary features of capitalism, but are not found solely in capitalist conditions. Others, lil "fiat" money (money whose value is not based on an underlying commodity like gold), are products capitalist development, but were also commonly taken up in noncapitalist systems like Maoist Chin and the post-Revolutionary Soviet Union. Thus, the range of features that define capitalism capitalism is up for discussion, but I think Geoffrey Ingham has most effectively conceptualized th essentials as: (1) private enterprise for producing commodities, (2) market exchange, (3) a moneta system based on the production of bank-credit money, and (4) a distinctive role for the state relation to these features.[3]

(1) Private Enterprise for Producing Commodities

In capitalism, commodities in virtually all forms (although not all, as we will see with the state) a produced by private enterprises that are institutionally, legally, and often socially separated from th household and the state.[4] These private enterprises organize production around employing labour work on capital to produce profit. Those who operate the enterprise often do not own the physic means or the money used by the enterprise. The way profit is produced, and the nature of th relationship between the worker and the capitalist (and the management, who are often not either) the subject of long and heated debate, as we will see in Chapter 2.

(2) Market Exchange

The exchange of these privately produced commodities is based (more or less) on mark competition between buyers and sellers. In a market, buyers generate demand, and sellers genera supply. If there are many buyers relative to supply, demand is high; if there are many sellers relativ to ~~demand, supply is high. The resolution of this competition between buyers and sellers, betwe~~ sellers and other sellers, and between buyers and other buyers—however temporary or instantaneou —produces what we call a price: the agreed upon amount of money for which a commodity exchanged. In other words, prices are not natural or mechanical products of some abstraction calle "the market." Prices may be "objectively" determined, in the roughest sense, by the cost of input labour, etc., but all market prices are social artifacts, the outcome of conflict and negotiation betwee individual buyers and sellers, and between total demand and total supply—the wage, the price labour, is the clearest example of the social origins of prices.

Another important feature of capitalist market exchange is that all forms of property, labour, good and services, including the enterprise itself and/or its potential revenue, are exchangeab commodities. This means that capitalism, as a mode of production, is characterized by a historical unprecedented breadth of distinct and relatively exclusive markets: money and capital markets, labo markets, intermediate goods markets, consumption goods markets, and financial asset markets.[5]

(3) Monetary System Based on Bank-Credit Money

None of the above would work, especially on a large scale, without a means of exchange ar payment, or money. The money that circulates in money and capital markets—money used fo investment or financial speculation—is produced by banks (loaned) for profit (which takes the form the interest charged on the loan). Financing production and investment with money created via bar loans is unique to capitalism. While enterprises, wage work, and market exchange of the type we ju described all existed in limited form before capitalism, their growth—to the point where they no define how things are done across much of the world—was only possible with the emergence of state-sanctioned private banking system that could provide the necessary capital.

(4) The State

Finally, the state plays a key role—as both help and hindrance—in capitalism. That role is specif to different nation states at different times, but is also generalizable in important ways. The mo obvious is sometimes referred to as the state's "police" or "night-watchman" function: the guarante of the sanctity of private property rights, the fundamental precondition of all market exchange. B there are other roles that will come up often in what lies ahead, if in complex ways, since the state always a site of extraordinary contradiction. It simultaneously appears as one of the most powerf obstacles to a world beyond capitalism and one of the most immediately useful tools for building th world.

Before we turn to a more detailed critique of these fundamental aspects of capitalism, however, w need to consider the concepts that enable us to even think about capitalism, and the theories that hav explained, defended, and criticized it over time. For much of the power of capitalism, and th challenges facing the effort to displace it, are caught up in how it has become "common sense," ho easily the profit imperative has been confused with "human nature."

1 It would be a mistake, for example, to think there is something inside most of us that rejects slavery (as a way of organizi production) as categorically wrong, that "human nature" is genetically coded to prioritize freedom for all. We refuse to sancti slavery for a variety of reasons today, but "natural" opposition is not one of them. The historical record might as easily suggest t opposite: that we are "naturally" prone to slavery-like relations. There is no basis for either position. History and social life, n human DNA, determine the status of slavery and every other mode of social organization. We are against slavery today because it socially condemned, and we have learned, through much struggle and suffering, not to condone it. Slavery, and opposition

slavery, are social relations.

2 The mode of production “box” in which the Soviet Union or today’s China should be put is the subject of considerable deba Some say that both are in fact forms of “state capitalism.” I disagree. This is (perhaps fortunately) not the place to enter into t debate in any detail. Let me just briefly say that given the definition of capitalism laid out above, the political-economic system the USSR clearly cannot be capitalist. Moreover, the state apparatus in the USSR was not dedicated to surplus value maximizatio even in its last stages, but to more “political” goals, the first of which was authoritarian control via the aggrandizement of productive apparatus. “State socialism” would seem to capture this for me. I think even the idea that after Stalin the USSR w capitalist is a red herring meant to lump its failings in with capitalism’s and, for some Marxists, to deflect the critique that its failin were not due to its “capitalism,” but in no small part to its incompetent socialism. In many ways, it was socialist, really socialist, a that might very well have been the problem. Suggestions that the USSR’s failings are capitalist mischaracterize history: the Sov Union was not a different spin on capitalism. It was a totally different beast, in which the capitalist imperative was not necessar primary. This book shows that the term “capitalist” cannot describe it adequately. The closest thing to state capitalism of which have any detailed knowledge is Mussolini’s Italy, and even that is arguably not very close.

3 Geoffrey Ingham, *Capitalism* (London: Polity, 2008).

4 Sometimes specific sets of commodities are produced by institutions other than private enterprise—the state or commun organizations, for example—but rarely, if ever, does this situation preclude private business from supplying those same markets. F instance, the state may produce and sell oil (as it does in Canada via the crown corporation Petro-Canada), but this does not mean monopolizes oil production and supply. For more on this, see Chapter 3.

5 Money and capital markets coordinate the supply and demand for finance capital; labour markets partly determine wag “intermediate” goods markets involve the things used in production, as opposed to “final” consumption; consumption goo markets are for the things consumers buy; and financial asset markets are markets in the titles to ownership of any form of prope which can potentially produce a return: e.g., stocks or bonds.

2. Capitalist Political Economy: Smith to Marx to Keynes and Beyond

The most powerful theories developed to understand capitalist political economy have always played significant role in shaping it as well. In general, these theories have three basic and related objective understanding economic change, development, or "growth"; understanding the distribution of th wealth that growth generates; and (especially recently) understanding how market prices a determined. Despite this common ground, we find a vast conceptual diversity. These differences a only partly "normative," i.e., attributable to contrasting views of how the world ought to work. Th more fundamental force behind them is historical conditioning. Depending on their contexts, thinkin humans develop certain ideas and not others; they feel compelled to explain certain elements, othe they consider less worthy of attention. Even as they shift meaning over time, ideas carry their pas with them, pasts with built-in limits and potentials that are hard to see. Once revolutionary ideas ca come to seem reactionary. Things considered *a priori* or obviously true in one time and place are ofte open to debate in another.

Thus, as we turn to the foundational ideas of thinkers like Adam Smith, Karl Marx, or Joh Maynard Keynes, we must remind ourselves that theories of capitalism are attempts to make sense dynamic processes unfolding in the world in specific times and spaces. This sensitivity is essential any effort to uncover what work a theory was meant to do, what work it might or might not be able do today, and the difference between them.

ADAM SMITH

Adam Smith is often called the first "classical" political economist. Why "classical"? Marx coined th term to distinguish this mode of "liberal" political economy from what came before (the "pr classical"). Earlier economics (if we can call it that) primarily concerned the size of, and influenc upon, the king's coffers. Classical political economy, in contrast, developed an analysis of nation wealth as collective or aggregate income, and was interested in the forces affecting the econom activity of the nation as a whole, not merely that of the monarch.

Smith was both extending and breaking with the analysis of the Physiocrats, political economists eighteenth-century France who believed that the natural productivity of the land, set in motion b agriculture, was the origin of all wealth.[6] For them, surplus value—the "additional" value produc between input and output in a production process—was possible only as a gift from nature. The policy conclusion was logical: if agriculture was the source of the surplus upon which the state and a society depended, then anything that hindered it (taxes, trade restrictions, etc.) was bad.

Agriculture was also crucial to Smith, but the physiocratic approach seemed unable to make sen of his context (eighteenth-century Britain). In contrast to the relative conservatism of pr revolutionary, absolutist France, Smith witnessed a period of extraordinary dynamism in Britai which experienced a massive shift in the composition of society and an extraordinary accumulation wealth. Smith's objective was to intervene in a debate about the nature and causes of that chang which was marked by the dwindling success of feudal and especially mercantile systems of weal accumulation and social organization.

Among the internal changes Smith witnessed, the most important were associated with a remarkab expansion in “commerce,” or the pursuit of individual gain via production and exchange by a growin proportion of society. Among the external changes he noted was the collapse of powerful empires an states that had formerly successfully accumulated wealth via the exercise of military powe Mercantilist states organized international economic activity around the “carrying trade,” bringin goods from places of production to places of consumption—via the spice trade between Southea Asia and Europe, for example. Wealth in mercantilism was generated by state-favoured firm enjoying returns from arbitrage—the profits produced by the difference in purchase and sale pric (which was of course augmented by colonial exercise). Trade routes and monopoly powers we sanctioned by the state, and protected by military power, tariffs, and other measures.

When Smith wrote his political economy (*The Wealth of Nations* appeared in 1776), the mercantili system was increasingly crisis-ridden, the most astonishing example being that of Spain—a glob mercantilist imperial power—losing control of the Netherlands, the relatively tiny emerging centre what we might now call “capitalist” finance. Smith wanted to both explain how this new system w working, and determine how the state might help it work even better, to its own and everyone else advantage.

Like all classical economists, Smith was particularly interested in two phenomena: growth (wh caused it) and distribution of income (what determined it). Because he was writing before th explosion of factory production—“industrial” capitalism—he was largely concerned with th expansion in the range and depth of market exchange, and the enormous wealth it seemed to creat His answer to the growth question was that eighteenth-century Britain’s wealth was due extraordinarily productive shifts in the interaction between the “factors of production”: land, labou and capital. These also gave him his answer to the distribution question: landlords, workers, an capitalists receive their respective share of the wealth generated by these interactions, in the form rent, wages, and profit.[7]

These actors, Smith said, were connected in a “circular flow”: capitalists and workers paid ren capitalists paid wages, landlords and workers consumed, and capitalists made profit, starting th process over again. The factors of production—and thus the classes that depended upon them f income—were mutually dependent. They had to exchange with each other, or nobody would win.

Smith thus argued that “freedom” of exchange and price determination (which would allow th system to work smoothly) were essential to the new system’s success. If we all depend upo maximum interaction, then anything that hinders it is by definition bad. And since it appeared that new “liberty” among the population had made these exchanges possible (relative to feudal and sla modes), it seemed likely that the lack of state coordination (which for Smith would have bee synonymous with “monarchical control”) made it possible. Although (by my reading, at least) he onl uses the phrase once, this is what Smith meant by his famous “invisible hand”: the hand that made re wealth possible was neither the king’s nor anyone else’s. The implication, to some, was that it wa God’s.[8]

According to Smith, circular flow engenders increasing market specialization. Producers seek meet identified needs, creating an increasing division of labour, which allows for greater efficiency the production process, which lowers costs and meets the needs of an expanding market. This is als supposed to work at the international scale. David Ricardo’s later elaboration of Smith’s theory led the idea of “comparative advantage,” i.e., nations will specialize in the production of what they a best at (in terms of cost or efficiency).

Smith assumes that in this system, money serves almost entirely as a means of payment or unit account. He doesn't imagine market participants seeing money as a form of wealth they could or should accumulate (as we would today). This leads him to assume that people will not hold money as a store of wealth, but will spend it, keeping the circular flow going. Although Smith didn't say it outright, in this system, price—the temporary resolution of competition between market participan —serves as a *signal*: rising prices tell producers to produce, and falling prices tell them to sto producing, or to produce differently. In addition, when prices are rising, new producers will enter market and purchasers will leave, and when prices are falling, producers will leave and buyers wi enter. Thus, price signals ought to lead automatically to "equilibrium" and the full employment o resources: any leftover resources would clearly be cheap, and would therefore find a price at whic they made sense, eventually allowing the system to put all its productive capacity to work.

With all this working so well on its own, Smith does not see a big role for the state—basically, needs to protect the nation, enforce the law (especially property law), and provide some public goo (i.e., infrastructure like roads and bridges). Still, it is a complete mischaracterization to suggest h saw no need for the state, as one often hears from people who claim to be working in his tradition. Th state remains essential. This kind of thinking played a crucial role in the justification of Britain international role in the nineteenth century, which we might call "free-trade imperialism." Smi himself took his logic to suggest that colonial power was not always what it was cracked up to be, an he supported the American desire for independence, suggesting the North American colonies be give representation in British Parliament, join a "federal union" with Britain, or better, be entire emancipated from colonial rule.

KARL MARX

Smith and his followers are why we use the term "neoclassical" to describe modern economists wh argue that the market is the most efficient and fair way to distribute.[9] They are, or at least se themselves as, the "new" Smithians (but with a couple of important twists, as we will see). But not a Smith's admirers have been market fundamentalists. Marx, for instance, is sometimes thought of a the anti-Smith, but if we look at their ideas, they are not so radically opposed. The most importa difference between them lies not in their explanation of what drives capitalist production, but in th fact that Smith saw increasing harmony and mutual interdependence where Marx saw conflic exploitation, and inequality. In his analysis of capitalism—and remember, unlike Smith, he wro after the rise of the terrible factory system—Marx emphasized the tensions and conflicts endemic capitalism, both in the relations between capitalists, and between capitalists and workers.

Marx called these processes "contradictions": opposing or conflicting forces, whose interplay wou eventually produce new forms, which would themselves contain their own contradictions. He argue that it was the force of these contradictions, the inability of any system to stay put in some stead state, that drove historical change in and through different modes of production. For example, as th technical and organizational forces of production change over time, they become less and le compatible with social relations that developed on the basis of earlier ways of doing things. Th contradictions that emerged mean that eventually the relations must be reconfigured, sometim radically.

Marx explained basic capitalist dynamics in the following manner. First, he adopted from Smith distinction between use value and exchange value. Things that humans use labour to produce virtual all have a value "in use," something you might do with it, like a hat you wear or a loaf of bread yo eat. In any exchange system, things produced by labour also usually have a value "in exchange": yo can get something from someone else by trading them. In a monetary system, capitalist or no ~~producers sell things with use value on the market (if they didn't have use value, no one would bu~~ them) and receive money in return.

The two values do not have to be equal; indeed, they never are, since they represent two complete different phenomena. Use value is qualitative and non-generalizable; how do you measure th "usefulness" of a hat on your head, and if you did, would it be the same measure for everyone Exchange value is clearly quantitative. In fact, that is basically all it is, a quantitative indication of a object's value in exchange. What you can get for it can be very diverse, like in barter. Or it can b socially standardized, as in, say, 1 hat = 10 buttons. In either case, only exchange value is quantifiabl and, according to Marx, money emerges in a society when one commodity becomes the standa quantitative measure of exchange value. He calls that special commodity the "general equivalent because it is seen as quantitatively equivalent to any other commodity. It is the commodity th everyone understands as the one thing that can be accumulated, or piled up, in amounts that, in valu terms, are socially accepted as equivalent to anything tradable. There is no reason money has to tal any particular form; we could use buttons for money if everyone accepted them as money.[10] C course, how we come to accept money as money—do we "decide" democratically, or are we "tolc authoritatively?—is an important question, to which will we turn in Chapter 3.

Marx considered the distinction between use value and exchange value essential, because capitalism, in contrast to many other modes of production, wealth is accumulated in the form exchange value: i.e., money. In other times and places—for example, among pre-conquest Fir Nations of the North American Pacific Northwest, where I live—wealth was accumulated in the for of use-values. To be wealthy meant possessing assets considered valuable, like food and clothing ar slaves. (In some of these First Nations, the powerful demonstrated that wealth by giving it away "f free" in a ceremony called "potlatch.") By Marx's time, only money or assets readily convertible in money counted as wealth in Europe and North America.

One defining feature Marx noted about the world in which he lived was the glaring differen between people's opportunities to accumulate wealth, and hence to enjoy security and a full and happ life. These differences depended on what people had to do to put food on the table. While virtual everyone has some capacity to contribute labour to producing things with use and exchange value few both have the capacity to labour *and* own the stuff labour needs use to produce things—lan natural resources, tools, factories, etc. I might have all the skill and energy in the world, but witho lumber, a hammer, nails and some wire, I cannot build a fence. You might be the most talented chef i the land, but without stoves, ovens, pots, utensils, and food, your hands are idle. These things that he us produce other things (and the money to purchase such "means of production") have a special statu They are the magic things that, mixed with labour, turn raw materials into other materials for use ar exchange. This special relation is what makes them *capital*, and makes the smaller group of peop who own and control them *capitalists*.

What needed explaining, according to Marx, was why there were capitalists at all. Why didn everyone have, or at least have access to, those things that enabled you to produce things for use exchange? How did the capitalists get to be the ones with the tools and resources? In search of a answer, he looked at European and especially English history. In light of those histories, he argue that capitalists and capitalism arose through a series of processes he called "original accumulation" phrase often translated less helpfully as "primitive accumulation"). By forcefully asserting a proper right over what had been collective resources—enclosing common land, appropriating raw materia from colonized peoples, etc.—the means of production became concentrated in the hands of a fev

This left the expropriated many with no means of getting by on their own. To survive, they had n ~~choice but to find a way to get access to the means of production, which are also the means of putti~~ food on the table.

One the most important conclusions Marx drew from this historical analysis is that capital can on exist in relation to its opposite, labour. Original appropriation by the few from the rest not only mea the emergence of capital, but also of wage labour. Once dispossessed, the many can get access to th means of production only by offering their capacity to work to the capitalists, in return for payment some form. Selling one's energy and skills for wages on the "labour market" is the source of one the most important features of capitalism according to Marx: the distinction between labour a labour-power. Labour is the specific or "real" act of working. Labour-power is the abstract "capaci to work": skills, knowledge, energy, etc. specific to each of those without access to means production except through capitalists. Wage workers do not sell "living labour," they sell th commodity labour-power on the labour market. The capitalist, who thus comes to control one mo thing necessary for production (and the most important one at that—human energy and ingenuity) pu that labour-power to work as he or she sees fit, and pays the workers a wage for each unit of time th give up the control of their human energies.

Capitalists use labour-power, in combination with the means of production, to produce commoditi for market exchange. (Commodities are, by definition, things produced for sale on the market—if yo grow carrots to put in your salad, they are not commodities.) By selling commodities for more than costs to produce them, capitalist profit is made possible. This is why Marx emphasizes capitalism social relations, and not merely its technical features, like, say, "advanced industrial machinery." It not technology or the form of firms' "capitalist" organization, but property and other relations th define capitalism as capitalism. Capital is a social relation insofar as it is the nature of somethi (money, land, equipment) which, combined with human energy, has the capacity to expand or increa the amount of exchange value in the context of a particular arrangement of property relations a production systems.

This argument is the source of Marx's well known exchange formulae: C-M-C and M-C-M Basically, his point is that in "pre-capitalist" modes of production, commodities were exchanged order to get other commodities; the goal was not to accumulate money except insofar as it allow you to purchase other commodities or accumulate wealth in another form, like gold or jewels or lan This C-M-C (Commodity-Money-Commodity) exchange made sense if one was a monarch a wanted to hoard precious metals and property, but it also characterized "everyday" transactions.[11] I for example, you were a saddle-maker, and you wanted to eat, you sold saddles for money, and use the money to purchase the commodities you ate, among other things.

With capitalism, Marx says, the fundamental unit of exchange relations changed not ju quantitatively, but qualitatively. Capitalist production and exchange is not a high-powered version its "pre-capitalist" antecedents, as modern orthodox economists tell it, but a different thing altogeth Capitalists start not with a commodity they have produced and seek to trade, but with money, wi which they purchase commodities (including the key commodity, labour-power) to mix together in production process that produces other commodities, that are then sold for *more* money: M-C-M' (M being original-M-plus-something-extra).

Marx thought one of his key insights, if not *the* key insight, was that this process of profit-making- capitalists selling commodities for more than it costs to produce them—shows that the "extra" surplus value created in the production process comes not from capital's contribution, but from th labour power workers contribute to the whole relationship. In other words, the appropriation labour's surplus value—you can pay them less than what they produce is worth—is the source wealth in capitalism.

This idea—the basis of the so-called "labour theory of value" (a phrase Marx never used)—is a ve big deal. Yet it is frequently misconceived, both by those who think they agree with it entirely, an those who think it mistaken. Interestingly, these contrasting views do not sit on one side or the oth of a simple left-right divide. Many on the left reject the labour theory of value, and many on the rig accept it, if unwittingly. But either way, in most cases it is misunderstood. Contrary to what it migl seem to suggest, Marx is definitively *not* arguing that labour produces all wealth in all times ar places. His point is almost the opposite. If Marx has a "labour theory of value," it pertains capitalism alone. Only in capitalism is labour the sole source of *value*.

The misunderstanding is partly due to the fact that "value" in everyday English is general considered to be a "good" thing. In addition to something that has some monetary worth, v frequently describe something "substantive" or "positive" as having "value." Consequently, when v hear that Marx thought labour produced all value, many of us think Marx thought all good and usef things come from labour, and the problem with capitalism is that despite this essential contributio capital rewards labour unfairly. This resonates with many a lefty's "progressive" intuition. But Mar said neither of these things. What he actually said is much more insightful and important.

For Marx, "value" is the form wealth takes in capitalism. Value is precisely that abstrac monetized, everything-has-a-price-if-you-dig-deep-enough quality that many decry. It is th generalized relation of equivalence among all those qualitatively different dimensions of the worl rendered in cold quantitative form and expressed in money. Value is the tacit but astoundingl powerful relation that enables us to make an AK-47, an SUV and a field of grain exchangeable "equivalents": e.g., 100 AK-47s = 10 SUVs = 1 field of wheat. If you think about it, this is remarkabl and somewhat terrifying. My example is in no way absurd; indeed, the political economy underlyi much of the current land-grab in Africa consists in exactly this exchange of equivalents: arms, eli luxury goods, and agricultural land. Capitalism's historical achievement is to create a systematic ar seemingly natural set of social relations that uses labour not to produce useful or beautiful things f the good they provide—if it did, then the "value" of those three things could never be rendere equivalent. Instead, capitalism condemns labour to produce "value" in this specifically capitali sense.

If we work together to plant a community garden that can feed its members and add somethi useful to our lives and relationships, we would very comfortably say our efforts produce somethi valuable. Marx would never deny that, but it has nothing to do with what he meant by value capitalism. Indeed, he would have said it is a good thing precisely because it does *not* produ capitalist value, but instead produces what he sometimes called "real wealth," things that tru contribute to human physical and social well-being. The sources of real wealth are not only human, course: nature, Marx noted, has a big role to play.

Similarly, it is certainly true that capitalism treats workers unfairly, and any improvement worke can realize in their lives is a "good thing." But capitalism is not a bad system just because th numbers are off. For Marx, capitalism is bad because it is a systematic set of social relations in whic humanity is prevented from realizing its capacity for "real wealth," human potential, justice, and non-arbitrary distribution of the means of life. (In fact, capital's defence of arbitrary distribution, kind of Darwinism that says that those who are wealthy are "by nature" the fittest in the econom ecosystem, is one of its main self-justifications.) If higher wages were all that is necessary, Mar would have been no more than a wordy and over-philosophical union activist. The problems, howeve are much bigger: the wage relation and capitalist social relations themselves. The point is not ~~redistribute capitalist value, but to overcome it, to destroy it as the relation that rules the world.~~

The idea that capitalism will persist as long as the rule of value holds is Marx's essential lesso This is not a majority opinion, and is easily taken as dismissive of "reformist" efforts to impro working conditions and the distribution of income. I don't mean to suggest such efforts are usele because they are not "radical" enough. Clearly, any effort on the part of labourers (and unemploye people) to improve the material conditions of their everyday lives is worthwhile. My point is that tl fundamental problem with capitalism as a mode of production is not ultimately addressed by tl redistribution of *capital*.

I suppose it is possible to argue that, while the rule of value is not fundamentally challenged l individual struggles to increase labour's share of wealth, we might yet use such a strategy to senten capitalism to "death by a thousand cuts," as it were. Perhaps redistributing capitalist value mo fairly, i.e., paying workers what they "really" deserve, might somehow undo capitalism as a mode production. Maybe it has some built-in constraint that renders it structurally unable to pay "fai wages to all workers, and if forced to, it would effectively collapse under its own weight.

It is not exactly clear what Marx thought about this strategy. He supported struggles for high wages and better working conditions, but he also thought that no matter how high the wage rate, tl wage relation itself is an essential pillar of capitalism, one that must be knocked down to create post-capitalist world. If nothing else, he would probably have pointed out that there are some tricl contradictions involved in thinking that rewarding people with higher wages will lead them to toss o the very system now paying them "fairly." The whole point of paying workers well is to keep tl system going—in fact, there is a theory in orthodox economics that says this is exactly what "fai wages do. So as a social justice strategy, wage demands are key. As a social transformation strateg they are insufficient.

Yet it must be said that this still does not suggest an obvious reason to reject the idea that if worke were paid "fairly"—presumably at least as much as capitalists—then no one would want to be capitalist anymore, or would have no self-interested incentive to be one, and the whole mode production would fall apart. In other words, we might use the wage relation to overcome the wag relation.[12] This resonates with Marx's belief that capitalism's undoing would come fron inside: the post-capitalist world he felt inevitable—even if he could not tell when it would come– would emerge not through an attack on capital from outside of capitalism, but from the collapse of tl social relations that maintained its internal coherence. Ultimately, the main Marxian lesson is that v cannot reach a post-capitalist world unless we forsake, either willingly or because we must, the ve relations that define capitalism as capitalism: value, capital, and wage-labour.

AFTER MARX: THE NEOCLASSICALS

Marx is sometimes included among classical political economists because he uses the same categori (value, capital, and wage-labour) found in the political economy that came before him. Putting Ma in the classical box might be convenient, but it is more mistaken than helpful. Marx's whole point wa to critique political economy as a way of knowing, not to redo political economy in a "critical" wa He may have used the concepts the classicals developed, but he historicized and destabilized them ways they could never have imagined.

Be that as it may, the distinctions between Marx and his predecessors do not much clarify tl definitively non-Marxian "neoclassical" political economy that came after him. Most of it was large unaffected by his thought, at least directly, and was thus not only different from Marx, but develope in ~~ignorance of his analytical contribution. Instead, it represented a very different, liberal reaction~~ the same classical political economy against which he reacted so strongly. The most importa differences between this liberal or neoclassical political economy and the older work of those lil Smith and Ricardo lie in those "twists" on Smith's classical take that I mentioned above.

The first twist is in the theory of distribution. There is a stark contrast between classical theories political economy that understand prices and exchange as a function of the social relations production and the neoclassical perspective that they are determined by demand. In fact, the wel known neoclassical doctrine that "without interference" markets will function perfectly (or "clear") also known as "demand theory." The second twist is in the theory of value: while the classicals too capitalist value, the relation of general equivalence, to be inherent in some material substance human action, the neoclassicals understand it as "subjective," determined by individual tastes. It worth considering each of these "neo" twists in some detail, because it is almost impossible exaggerate how crucial they are to modern economics' analytical justification for capitalism.

Neoclassical Twist #1: Distribution

For the classicals (in this, at least, we can include Marx), political economic analysis must l founded in society's relations of production, exchange, and consumption. Of course, thinkers lil Smith, Ricardo and Thomas Malthus (perhaps the most famous classical political economists) did n understand their analyses as specific to their historical and geographical context, but assumed the logical universality. They took nineteenth-century England as the historical and geographical centre the world, and thus they thought they were not writing about just any old place, but about a "moderr set of economic relations that was clearly the direction in which history was headed. This is wh Marx meant when he said that classical political economy was formulated as if everyone was, or least acted like, a petit-bourgeois Brit: in one translator's rendition, an "English shopkeeper."

Universalized or not, social relations are the classical basics. Despite the wide range of policy goa classical political economists advocated, all their analysis was oriented toward developing a theory distribution between the various classes involved in production (labour, capital, and landlords). Th point was to explain who gets what and how much, in contrast to "neoclassical" economics. Figurir out what determined prices was a secondary concern.

Perhaps the most important steps in the transition from classical to neoclassical political econom lie in what is sometimes called the "Jevonian revolution." Although named after William Stanle Jevons, the term in fact describes a shift in economic reason to which many contributed. The Jevonia revolution definitively ended the hold of "who gets what," class-based analysis in orthodo economics, and instead consecrated the individual "consumer" as the unit of analysis. Like mo mainstream economists to this day, he treated individuals and their preferences as ultimate dat neither produced by nor dependent upon anything but each person's subjective and autonomou decisions regarding what they needed and what made them happy. This change is crucial, especial because it shifted how "who gets what" was understood. In the classical analysis, the distribution question is answered by what each *class* contributes to production. Labourers get wages, capitalists g profit, and landlords get rent. Even Marx, who felt that capital managed to get its share by "using" th commodity labour-power, understood distribution as determined by socially dominant definitions each factor's relative contribution—the amounts received are relative to the (capitalist) value of the "input."[13]

In contrast, Jevons said the answer to the distribution question is *not* determined in production, b in exchange, by prices that reflect individually “given” preferences. Different individuals (forg ~~about classes) get what they can pay for. And what they can pay for is determined by the price~~ of wh they want, which is in turn a function of how much there is, and how badly they and others want The market, not social relations (like property), determines distribution, and in an entirely objectiv “natural” manner. This is a radical change. On this account, the market “decides” without a “decider it makes no promises, and it cares nothing for “justice” or what a particular contribution “deserves This means distribution is a secondary concern, worked out after price formation, which is a functio of supply and demand (and obviously therefore the ability to pay).

It impossible to underplay how important this change turned out to be for life in modern, capitali societies. The neoclassical doctrine is basically a bald claim that distribution is somehow *not* function of, or really even affected by, social power and property relations. Instead, we are told, wh gets what is determined outside those processes, in the neutral, apolitical, and un-manipulatable fie of the market. This is a critical step toward the idea that “the market” is “natural” ar “disinterested”—the principal, maybe the only, basis upon which the word “market” can be paire with the word “free.”

Neoclassical Twist #2: Value

The shift from classical to neoclassical political economy dramatically reconfigured the domina understanding of value, in a manner very different from Marx’s distinctive critique. Classic economists like Smith and Ricardo held to the labour theory of value we discussed above, the on many people associate with Marx (who granted it a great deal of ideological force, but saw that as wh it was necessary to abolish it). Their theory was that things have value in proportion to the amount labour that goes into producing them. If something takes a lot of time, effort, and skill to produce, if no one wants to do it, it will cost a lot; if it can be cooked up in a jiffy by anyone, it will be chea They did not posit some naïve labour-time price calculation, of course, but argued that labour valu describes something like an average, and it will vary by time and place. They also understood that something is relatively easy to produce, but producing it requires tools that are labour-intensive produce, then the “total” labour involved will be reflected in a higher value.

Beginning with Samuel Bailey in the mid-nineteenth century, and Jevons a little later, politic economists rejected this “substantive” theory of value (i.e., labour is the “stuff” of value). Just Jevons transformed the theory of distribution in an individualized “consumer” manner, they argue instead that value is not determined “objectively” by stuff-amounts, but “subjectively,” b individuals’ tastes and preferences. If people want a lot of it, and want it badly, it has a lot of valu and its price—the expression of value—will be relatively high, and higher still if there is little of it go around. This idea—that abstract, uncoordinated, decentralized forces of supply and deman determine the value or price of a commodity—is the foundation of modern mainstream econom analysis. When modern orthodox economists talk about the theory of value, they mean the theory price determination.[14]

All this depends upon an understanding of the individual, with his or her given tastes and talents, the atomic unit of human life. This idea is the foundation of the common sense that inform contemporary economic understanding, the basis upon which modern economic institutions and polic are considered legitimate and logical. It is no exaggeration, I think, to say that although you don’t he people walking around talking about value and distribution, these theories are the logic behind th form capitalist institutions take. The idea that the distribution of socially valuable assets, resource and so forth is a product of individuals pursuing their subjective self-interest, in combination wi

Smith's "invisible hand," leads easily to the normative proposition that unrestricted individual pursu of self-interest produces, almost despite itself, optimal collective well-being.

These ideas helped justify a social philosophy called utilitarianism, which originated in the mi eighteenth century, and whose last bastion is modern economics, where it continues to exercise mind-numbing stranglehold in the form of "welfare economics." Utilitarianism explains all huma action as a motivated by the quest for pleasure and the flight from pain. Consequently, it propose perhaps the simplest theory of human welfare imaginable for both individual and the community. works like this: people act rationally when they maximize their self-interest or "utility" (given certa constraints, like how much money they have). Since those interests are subjectively determine whatever you are doing, it is probably a utility-maximizing choice. The corollary, of course, is that th community is merely a set of individuals making these calculating choices, and community "welfare is measurable only by the maxim "the more utility, the better." Because utility is experienced entirel at an individual level, no distributional or fairness problem arises. If you add pleasure, even if only f individuals who already have a lot of it, it's all good. You are not "taking away" from someone else In fact, many utilitarians claim that added utility, even if it increases inequality, will eventuall "trickle down" to those who didn't get the extra to begin with.

In combination, these conceptual tools—rational pursuit of self-interest, clearing markets in whic prices are determined by individual tastes, the invisible hand—form the core of modern "economi knowledge, and its assertion that markets can make predictability, calculability, stability, an equilibrium possible.

JOHN MAYNARD KEYNES

From the early 1800s to World War II virtually all orthodox economists and "statesmen" in Europ and North America camped somewhere in the neo/classical range. The Great Depression that began 1929, however, initiated a massive shift in what ideas were considered acceptable. So began th Keynesian era, named for the "revolutionary" work of the British economist John Maynard Keyn (1883–1946). We shouldn't exaggerate the abruptness of the change. There were forerunners Keynes' ideas, and his took some time to become common sense. Classical/neoclassical ideas an policies persisted into and after the Depression. But there is no denying that between 1929 and the en of World War II, the world of political economy was transformed.

The key theoretical break turned on the theory of money. Orthodoxy had come to be associated wi *laissez-faire* liberalism, a commandment to the state to "let them do as they will": "free markets "free trade," and unfettered pursuit of self-interest. Laissez-faire thinking understands mone basically as Smith did: as a convenience for exchange and a way to make accounting easy. Mone exists so that instead of me bringing my piano to market, and finding some combination of bart exchanges that ends with the fishing-net I want, sale and purchase can be separated in time and spac Accordingly, the orthodox economics of Keynes' time assumed money had no utility as wealth, onl as a convenience. It was economically neutral, a "veil" over the "real" economy. It made no sense hold on to it; one would naturally put it back into circulation as soon as possible to enable th Smithian circular flow of wealth generation.[15]

When the Depression hit, Keynes (who had long defended this older thinking), saw that these ide were just plain wrong: people wanted to hold money more than other stuff. They were buying les investing less, and in general keeping the money and money-like things they had (things easy to use exchange, like gold). And that, he said, should never ever happen if classical economics is righ

Money was clearly *not* neutral, but had a very real, and fluctuating, value of its own as a security the ~~face of uncertainty. If money had ever been neutral in the classical sense (something he doubted~~ it was no longer. Modern capitalism, he said, is a “monetary production economy,” and money wa perhaps its central institution, much more complex than a convenient means of payment ar accounting device.

Like most of his ideas, Keynes arrived at this conclusion via what he thought was simple commo sense. Yes, he said, it is true that from a purely utility- or profit-maximizing perspective it make more sense to use one’s cash holdings to consume and invest. But because the future is alway uncertain, it makes sense, in the real world, to hold at least some money most of the time, and a lot money at especially unstable times. Keynes called this propensity to hold assets in money for “liquidity preference,” “liquidity” being the ease with which an asset can be readily monetized, i.e exchanged for money. So if “liquidity preference” is high, it suggests people feel insecure uncertain, and do not want to be holding on to assets they will have trouble selling if things go south.

Keynes argued that the state of liquidity preference among market participants, fluctuating response to everything from weather to war, exercises enormous influence on modern moneta economies. The stock market, for example, enables rapid purchase and sale of highly liquid assets- indeed, the whole point of the stock market is to turn an enterprise, which on its own and as a whole about as “illiquid” as it gets, into a collection of easily exchanged units of property. This is, of cours extremely useful and appealing to stock-holders, but difficult for the firms in question, whose bits ar pieces are picked up and dropped in a flash—often for no apparent reason other than investors’ whim (a volatility only exacerbated in the “information age”). This is only one example of how pro capitalism is to what we might euphemistically call “inefficiencies.” It is one of a whole suite dynamics that make the fundamental assumption of classical and neoclassical economic theory—th markets clear, resources are fully employed, and all engines are running full-bore—a high improbable description of the world. Full employment, if it ever happens, will not hold for lon Keynes was pretty sure that, at least since the beginnings of capitalism, it had *never* happened.

The idea that “free markets” will realize capitalism’s “full potential” is proven wrong by more tha just investors’ uncertainty. Fundamental features of capitalist institutions are also responsible. Keyne showed this, for example, in his demolition of the orthodox theory of unemployment. If we assume (many orthodox economists do) the market economy would run at full capacity were it not f “inefficient” individual or state decisions, then any unemployment is due to the free choice unemployed individuals. Remember utilitarianism? Here is a good example of the role it plays orthodox economic analysis: unemployment represents a “preference” for leisure (that is really th word used) over available jobs at existing wages.[16] But if Keynes was right, and money is kept out circulation due to uncertainty, then much if not most unemployment is involuntary. This hurts bo workers and employers, by reducing consumer demand and investor profit expectations, which mea they will not buy and invest enough to get the economy running busily enough to pull all the worke into jobs. The changing intensity of unavoidable uncertainty regarding the future makes it impossib to expect that somehow everyone will just “get over it” and get the economy going full steam ahead.

The older, Smith-Ricardo-Jevons traditions knew levels of activity could decrease, but they said th if prices, especially wages, decreased too, then firms would start producing, investing, and hirin again, workers would be pulled into jobs, and everything would be hunky-dory. But, Keynes said, loo around at the capitalist world in which we actually live. Prices don’t adjust that easily: workers eith resist wage cuts, or, more likely, even if they are willing to accept them, as many in the Depressio were, they cannot coordinate any economy-wide reduction in labour costs anyway (it’s not like the have that power in capitalism). Investors won't instantly become optimists and throw their capital in ~~production and hiring. For any set of self-interested actors, there is a massive collective~~ actio problem. Often, he said, the only answer is for the state to step in as mediator, regulator, an coordinator of economic relationships: organizing labour and capital so as to manage consum demand, planning investments so they are complementary, and providing stimulus in the form o government spending when consumers and investors start to feel insecure again, as they inevitab will.

According to Keynes, this suboptimal up-and-down, occasionally with really high ups and real low downs, is how capitalism works. Its volatility is not a result of mismanagement or interference workers' demand for "excessive" wages, but a part of how it functions "naturally." And, if th capitalist state does not manage the ups and downs, people might become so disgruntled that all th communism and socialism stuff whispered about in field and factory starts making sense. In th middle of the Depression and then World War II, with the Russian revolution in the background, tha warning made many capitalists sit up and take notice. They may not have been big fans of liber democracy, but it beat the alternative.

More on this later (Chapter 5). But before we turn to the principle institutions of capitalism, it worth noting that Keynesian ideas, in different forms (not all of which Keynes would have endorsed dominated capitalist economic theorizing from World War II until the early 1970s. Explicitl Keynesian theory and policy fell with the rise of a reinvigorated, formally complex ("mathematical" and strident form of neoclassical analysis that was the first step toward the capitalist ways of knowin and doing we live with today. The crisis that began in 2007 has certainly troubled this resurrecte neoclassicism, but, despite their obvious flaws, there is no guarantee that neoclassical economics the neoliberalism it underwrites will go the way of the dodo.

6 Some of the better-known Physiocrats include Francois Quesnay, Richard Cantillon, and Jean-Baptiste Say (of "Say's Law," o which more to come in the section on J. M. Keynes below).

7 "Factors of production" is still a common term in economics today (although one hears much less about land). The term "econon growth" has, however, only been in common usage since World War II.

8 Adam Smith, *The Wealth of Nations* (New York: Modern Library, 2000), 484–85.

9 The term "neoclassical" with respect to economics was coined in 1900 by the American economist Thorstein Veblen, the san person who first discussed "conspicuous consumption."

10 This helps explain some interesting features of monetary history that sometimes confuse us moderns, like the enormous sto "coins" of some ancient cultures. These were not money as we understand it today; rather, in essentially non-monetary soc formations, "monetary" exchange was confined to very specific exchange conditions. These involved, unsurprisingly, significa ceremony—like the movement or change in ownership of a ten-ton "coin."

11 W-G-W, *Ware-Geld-Ware*, in Marx's German.

12 One thing to keep in mind, however, is that it would have to be all workers who enjoyed this transformative wage; histo suggests that if it is just a fraction of workers, then the lucky few who earn "enough" tend to become much less interested transformation.

13 It is interesting to note that Marx argued that the "valuation" of labour's contribution to capitalist production processes could n be called "unjust," since the meaning of justice is determined by the social relations of production in specific historical conditio In capitalist society, "justice" is a capitalist standard. There are no "unjust" wages in capitalism, according to Marx; what was unju (and clearly not by capitalist standards, but by the revolutionary ethics Marx espoused) was the wage relation itself.

14 For those familiar with a little bit of economic terminology, this is the basis of what is now called "general equilibrium" theory, t hallmark of modern neoclassical analysis. The "general" part refers to the entire set (the "vector") of prices within an economy. T idea that those relative prices can find a system-wide equilibrium is the heart of the neoclassical theory of value, a theory oft called "Walrasian," after the seminal contributions of Léon Walras, a nineteenth-century Swiss economist. Walras did more tha perhaps anyone else to reshape economics along the lines of a natural science like physics. If we had to choose one text as t foundation of modern, mathematized, neoclassical economics, it would have to be his *Elements of Pure Economics* (1877). "Pur presumably meant "assuming away all that complicated real-life stuff."

15 As we will see, the end of Keynesianism, and "return" of neoclassical economics in the postwar era, has also involved t reassertion of the theory of monetary neutrality, although it is now dressed up in a range of complex conceptual costumes (e.